

Pennar cuts slowdown risk with diverse biz

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PENNAR Industries has transformed itself from a pure steel producer into a niche engineering and value-added products company. These segments, which have a high operating margin compared with steel, will fuel the company's next stage of growth.

Pennar, which clocked revenue of ₹945 crore during the trailing 12 months, manufactures cold-rolled steel, pre-engineered building system, engineered components and crash barriers. It has cold-rolled profiles manufacturing facility at Hyderabad, Tarapur and Chennai. The company also has an engineering component manufacturing capacity ranging from 20 metric tonnes to 600 metric tonnes.

In the quarter ended September 2010, the company reported a sales and net profit growth of over 40% over the year-ago period. Higher operating cash flows helped it to reduce its debt-equity ratio from as high as 13 six years ago to less than one. Pennar is gradually enhancing its metallic capacity of heavy engineering and pre-engineering products without stretching its balance sheet since the major expansion is funded by internal accruals.

The company has reported an average annual

growth of 72% in its revenue from Indian Railways. This is expected to be sustained in the coming quarters since the Railways plans to add 18,000 wagons in FY11, nearly two-third more than the previous year. Given its strong ties with coach manufactures, Pennar is expected to benefit from railways' expansion plans.

Pennar has also reported a growth in its pre-engineering building systems division, operated through its subsidiary. It plans to double the division's capacity to 60,000 tonnes by the end of January 2011. The company's order flows have remained strong in the past and it has orders worth ₹270 crore for the half year ended September 30. The only concern of such engineering contracts generally is their timely execution and high cash collection periods; this is applicable to Pennar, too.

Pennar's diverse product portfolio has helped it reduce the risk of a slowdown. In FY09, for instance, the Railways segment compensated for the slowdown in the auto sector. The slowdown in the infrastructure sector in FY10 was set-off by the buoyant revenue from its auto division.

At Thursday's close of ₹47, the stock trades at the trailing 12-month price-earnings ratio of nine, which is at the lower end of the P/E range of 8-23 for mid-cap metal stocks.

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