Profiling growth

After successfully engineering a turnaround, this steel company is looking at broader and brighter horizons

PHOTOS: T.S. RAMESH

Rao: pulled his company up by the bootstraps

Customers have been loyal for two decades, says Reddy

Nrupender Rao, chairman of the Hyderabad-based Pennar Industries Ltd, is extremely proud of the fact that people didn't leave him during the bad times his company went through. "Everyone stuck with me! And though we have 1,500 people, we've had no labour trouble for the past 25 to 30 years," says Rao, who seems more satisfied about this than the turnaround through which he led Pennar, to a Rs730 crore company that has grown quarter on quarter for the past 20 consecutive quarters, in terms of both volume and profits.

True enough, people at various levels in the hierarchy appear to have been there for decades: R. Padmaraju, general manager – operations at the Isnapur plant, is a 25-year Pennar veteran. "This was my first job!" he grins. "There's a family culture – most of us are still in our first jobs!" Executive director Ch. Anantha Reddy, who has also been with the group since 1986 adds, "Even most of our customers have been with us for 30 years. We have a large customer base of some 300-odd companies, including Larsen & Toubro, TVS, Godrej and Telco (now Tata Motors Ltd).

In the quarter ending 30 June 2009, the focus on engineering, heavy engineering and infrastructure helped Pennar chalk up a net profit of Rs10.8 crore, up 11.34 per cent from the Rs9.7 crore it made in the first quarter of 2007-08, despite a fall in gross revenue from Rs200 crore to Rs195.5 crore – which it ascribes to the reduction in excise duty rates and the fall in steel prices.

Pennar has come a long way on its 21-year journey through the good times and the doldrums. Beginning in 1988 with a 30,000-tonnes-per-annum (tpa) plant to manufacture cold-rolled (CR) steel strips at Isnapur, 45 km from Hyderabad, it made profits in the first year of operation and declared a dividend in the second year. In 1997, it increased its capacity to 50,000 tpa. With liberalisation and globalisation came more growth: it acquired Nagarjuna Steel Ltd at Patancheru, 32 km from Hyderabad, and Press Metal, a unit of major competitor Tube Investment (TI) at Tarapur near Mumbai. In recognition of the importance of the automotive industry and the Indian Railways as customer, Pennar has set up its fourth facility in Chennai to make profiles and components for the auto sector, as well as railway coach and wagon components. It also has a plant at Hosur in Tamil Nadu mainly to service TVS. All told, it manufactures a wide range of steel sections and components, including specialised items like electro-static precipitators (ESPS) for the boiler industry, with a total capacity of 184,000 tpa.

But it has been far from smooth sailing all the way. When Rao finalised the Nagarjuna merger he didn't know what was around the corner: a recession in the Indian economy in general, and the steel sector in particular, from 1998 to 2002. Meanwhile, every player in the industry had increased capacity – so the competition in commodity CR rocketed. So 2001-02 saw Pennar's sales falling from a high of Rs320 crore in 1997-98 to Rs76 crore in 2001-02.

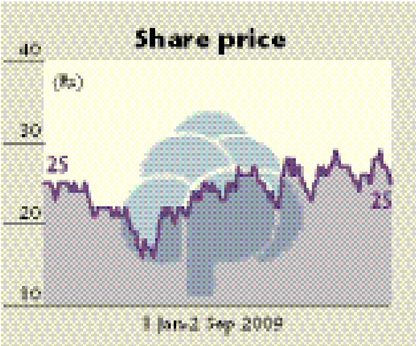
Rao, however, got going and pulled his company up by the bootstraps: in the following four years, he led it through a turnaround. He and his team began by restructuring the business, shifting its focus from commodity CR to value-added steel products to reduce the risk. Pennar also developed new business segments including ESPS, tube products, road safety systems – the barriers installed along expressways and highways – and railway coach profiles. It also forayed into the export market, becoming a global source for F.L. Smidth of Denmark, and Hammon Research and Cotrell of Belgium for steel profiles used in ESPS.

Streamlining the manufacturing operations led to productivity increases; machine utilisation became better, yield went up, power consumption fell – and quality improved. While Pennar 'rationalised' its manpower after the merger, Rao is proud of the company's high levels of manpower motivation and commitment. "IIM-Ahmedabad has done a case study of how we restructured with the full cooperation of the workforce," he points out.

A corporate debt restructuring (CDR) scheme, approved in early 2004, helped cut interest rates as well as debt through a one-time settlement with some bank. But Pennar still had a huge long-term debt – so it initiated a second CDR exercise with the induction of Rs122.4 crore from foreign investors. This amount was used to not only retire the debt but also for setting up its new plant near Chennai.

Zoom in sales

The turnaround began with a modest profit in the first quarter of 2005-06 – a year that went on to see sales zoom to Rs647 crore for the 16-month accounting period (annualised: Rs485 crore). Last year, with an annualised earning



per share (EPS) of Rs3.74, the company paid a dividend of 20 per cent. Its five-rupee share is currently traded at around Rs27 on the bourses.

However, analysts are still not convinced. "Short-term investors will like things like this, but long-term investors will definitely look at the company's track record," says M.S. Anand, president of the Investor Relations Society in Mumbai. "Pennar was a great group till the late 1990s, but then it went into oblivion after its companies ran into losses one by one."

That doesn't stop the customers from continuing to use Pennar steel for their own products. Satish Sekhri, managing director of Bosch Chassis Systems Ltd (earlier Kalyani Brakes), says his company used to be a regular customer, "The quality and service are excellent. But they have raised prices so much that we can't afford it!"

At Thermax, a 10-year Pennar loyalist which bought about 4,000 tonnes worth Rs8 crore in 2008-09, managing director M.S. Unnikrishnan continues to be a patron. "They've always supported us very well," he says. "Their conversion time is the best in the industry. And they are financially very sound – so we can bank on them for higher volumes whenever we need them."

Battery manufacturer Amara Raja too is a dedicated client. "Pennar's Nagarjuna Steels has been one of the best CR producers in India over the past 20 years," says L. Venkat Madhav, group head – supply chain management. "We procure hot rolled and CR mild steel (MS) sheets from their Hyderabad and Hosur facilities for our group company Mangal Precision Products Ltd (which supplies components to the parent company). Over the past year, according to his

Building blocks

There is a billion-dollar market for pre-engineered steel buildings, according to Aditya Rao, PIL's director – projects. "This industry is growing by about 15 per cent a year; there is also a 4 per cent shift from conventional construction to pre-engineered buildings," says Aditya, who is in charge of the company's latest subsidiary Pennar Engineered Building Systems (PEBSL). "Together, these will take the market size to nearly 1.6 million tpa."

PEBSL will design, manufacture, supply and erect pre-engineered steel buildings and building components for industries, warehouses, commercial centres, multi-storeyed buildings, aircraft hangars and sports complexes. The 60,000 tpa project, being set up at an investment of Rs105 crore on an 11-hectare site at Sadishivpet in Medak district, about 45 km from Hyderabad, is all set to commence commercial production by October 2009. Once it gets going, it hopes to take on the might of industry leader Kirby Building Solutions as well as Tata

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Aditya Rao plans to contribute a good chunk of business next year

Bluescope – whose former chief executive officer, P.V. Rao, is now its president.

The great advantage of the technology, Aditya points out, is a saving of around 30 per cent in construction time, besides the fact that the structures are easy to relocate. Pennar has a tie-up with the US-based NCI group, Inc. – which called off an earlier proposal to invest in PEBSL but has provided the technology. "We will also source products like their Double Lok, a guaranteed leak-proof standing seam," he says. With an order book of Rs13 crore already, the company "will hit the ground running". Sales are expected to cross Rs30 crore in the first year, and hit Rs200 crore in 2010-11, which will be the first full year of production.

Another group company, Pennar Chemicals Ltd, is more modest. Manufacturing additives that improve combustion in furnaces and boilers, as well as reducing pollution, through a collaboration from the erstwhile Elf – now Total – it has a turnover of under Rs10 crore. "But we sell to nearly 300 companies all over India though the quantities are very small – at levels like 300 gm," says company executive director R.S. Sampath. Clients include Hindustan Unilever and Kalyani Steel.

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The ones that fell

Liberalisation of the Indian economy also took its toll on Pennar Aluminium, set up in 1993-94, as cheap imports took it from a profit of nearly Rs200 crore in its very first year to a stage where it suffered cash losses and defaulted with the lenders. "We had set up a state-of-the-art plant near Nagpur to produce aluminium rolled products in collaboration with Pechiney of France," Rao recalls. "We continued to run it at a loss for more than a decade, but couldn't meet our interest and other commitments – so we went into default." In 2006, the company's assets were sold to the Aditya Birla group's Hindalco for Rs185 crore by the lenders through Asset Reconstruction Co. (India) Ltd, leaving a shell company that has no operations but continues to be quoted at under Rs2.50 on the bourse.

Pennar Finance – later rechristened Pennar Paterson — shot into prominence in 1994 as the highest bidder in an auction for a Hyderabad Stock Exchange card, according to Anand, "They paid Rs65 lakh – a figure that was never reached before or after." Rao, however, says it wasn't that high, "We paid a few lakhs – not that much." A non-banking finance company (NBFC), it had leasing and hire-purchase activities. During the recession of 1999, the company experienced cash flow problems due to a mismatch of assets and liabilities, and by the end of that year was put under provisional liquidation by the Andhra Pradesh High Court.

"Like all NBFCs in those days, it issued too many loans with not much collateral security," says Anand. Rao demurs, "We lent only to very good companies, that too outside Andhra Pradesh, to which leading lenders like ICICI, IDBI and HDFC had advanced large amounts – like Patheja Forgings and Kedia Distilleries. When these landed in trouble, the big lenders had first priority on their assets and we got nothing for our second charge."

A third group company, Pennar Profiles, is still in operation – as Alumeco India Extrusions, after the German collaborator took up a majority stake. This is also a listed company, quoted at around Rs12.

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predecessor Vijay Naidu, Mangal has bought an average of 200 tonnes a month, worth nearly Rs1 crore.

Custom fit

"The major advantage with Pennar is that they provide cut-length sheets or made to size, where there is saving on wastage of approximately 6 per cent as compared to their major competitors like Bhushan Steels, Jindal, Tata Steel, SAIL and Ispat," Madhav says. "Their QCDS (quality, cost, delivery, service) approach, too, is far better than the other suppliers: in our quarterly vendor rating, they rate above 90 per cent all the time. They also have state-of-art manufacturing facilities that produce skin-processed MS sheets which are 100 per cent flat surface. This is a major advantage to customers working on CNC machines, resulting in better production uptime as well as longer tool life."

Steeling up

(Rs crore)	Turnover	Net profit
2006-07*	35.52	14.87
2007-08	560.22	30.81
2008-09	653.27	38.10

*8 months

For the future, Rao is looking at major growth from the railways, which he describes as "a big business, growing bigger and bigger". With the demand for new wagons and coaches growing, and old ones being refurbished, the segment has already grown from Rs180 crore to Rs300 crore over the previous year, he says. Having broadened its product profile by producing sub-assemblies for wagons and coaches including chassis members, assembled side bodies, roof and under-carriage parts, Pennar expects to improve its sales and profits during the current year.

Railway carriages and coaches are big business – and growing

The growing awareness of industrial pollution and the need to combat it with ESPs augurs good for that product line, too. "We are also India's largest manufacturer of compressor shells for the air-conditioning and refrigeration industry: both the compressor manufacturers, Emerson (earlier Kirloskar Copeland), and Tecumseh are very big customers," he points out.

The expected improvement in the Indian economy, thanks to the revival in domestic demand and government investment in infrastructure, also augur well for the company's 200,000 tpa capacity. One of the new focus areas is pre-engineered steel buildings, which have high potential (*see box: Building blocks*). Pennar now plans to diversify further in domestic markets while forging international linkages, too. The overall strategy to increase turnover as well as profitability includes raising the proportion of value-added niche products, manufacturing auto components, increasing exports and looking at inorganic growth through acquisitions of companies in allied fields. Small wonder that Rao is looking at big growth.

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