

Pennar Industries sizing up engineering firm for buy

Could Be In Talks With Bangalore-Based Geodesic, A Steel Structures Expert

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HYDERABAD-based engineering company Pennar Industries (PIL) is actively scouting to buy out an engineering firm with design capabilities.

A source familiar with the development said KPMG is helping the firm to evaluate potential targets. Pennar, hit hard by the downturn, is aggressively expanding into value-added engineering products, including pre-engineering building systems (PBS). In fact, this acquisition would be routed through its subsidiary PEBS Pennar along with its US PII. Reported ₹800-crore sales for the year-ended March 2010 and plans to touch ₹1,200 crore during the current fiscal. With earnings margin at 14%, the company is planning to expand its engineering business, primarily into niche areas like heavy fabrication and engineering solutions for the defence sector, the source added.

PIL's recent diversification into the PBS business has helped the firm reposition itself as a value-added engineering products player dealing with engineering components, road safety systems and rail wagon components as against its earlier cold-rolled steel-maker profile.

Four years ago, Pennar had sold off its aluminium business to Hindalco Industries and has since then pared down its exposure to metal-making and chemicals, implemented a VRS scheme and raised funds from two private equity funds. It derived 74% of revenues from value-added products last year and plans to scale it up to 80% this year.

A banker said Bangalore-based Geodesic Techniques, backed by private equity investors Mayfield and SVB, was planning to tap



US partner keen on stake in PEBS

PEBS Pennar, the subsidiary unit 74% owner by PIL, kicked off its operations early this year through technology support from Texas-based NCI Building Systems. The \$2-billion, world's largest PBS firm has recently shown interest to pick up equity in the JV firm, a Pennar source said, adding that no decision has been taken yet on that front. A Big Four consultant has done an internal valuation of PEBS in this regard, the source said. Pennar Industries, the parent, had two PE investors on board, Eight Capital of New York and Spinnaker Capital of London, after getting ₹122 crore in 2006. Currently, only Eight Capital has a minority stake in the company.

the public equity market sometime ago and could be in discussions with PEBS. Both had invested \$11 million into the steel structures expert in 2008. A source familiar with Geodesic said it had IPO plans earlier, but was unaware of any stake sale plans now. The source added that Geodesic has revenues in the range of ₹250-₹300 crore.

A source familiar with Pennar indicated that the two parties had initial rounds of discussions but declined to divulge details. He said PEBS, known for popularising the green-building

concept, has been expanding rapidly ever since it started its operations in January and currently has an orderbook worth ₹270 crore for the next two years. The subsidiary firm also has plans to double its existing capacity from 300,000 metric tonnes to 600,000 metric tonnes which will be over and above any planned capacity additions through acquisitions. The PIL stock closed at ₹47.95 on the BSE on Thursday, up from ₹45.70 on Wednesday.

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