The Making, Unmaking and Remaking of Pennar Group: Engineering Excellence Through Leadership[1]

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Introduction

It was Monday, 9th May 2011 – a day that Nrupender Rao, founder of Pennar Group, will count as another milestone in his journey. The day started ordinarily enough. Rao woke up at 4 am and started his brisk routine of walking, meditation and yoga that belied his 63 years of age. He arrived at work at 8 am with the familiar sense of purpose and conviction with which he had nurtured his company through thick and thin. Having greeted his employees and settled into his office, Rao saw an e-mail from the Head of Marketing of Pennar Industries Ltd., the flagship company of Pennar Group. It was titled 'We are Ready to Roll!" Rao opened it eagerly. Pennar had clinched a prestigious order from L&T for the first phase of construction of pre-engineered steel buildings for Chennai Metro, to be completed within the next two years. The order was for the design and construction of the workshop buildings, stabling yard and the infrastructure shed all amounting to 2,000 metric tons of capacity demand in the Chennai plant.

For Rao, the email represented a reaffirmation of the credentials of the team he had put together and that had helped his company find the light at the end of a very dark and tumultuous tunnel it had been though at the turn of the century. In the late 1990s, Pennar Group enjoyed the status of being the highest taxpayer in the state of Andhra Pradesh. Subsequently, the company had descended into the doldrums. In 2002, it was listed as the second largest defaulter on bank loans in the state, owing more than Rs 1.7 billion to 18 banks. Just a few years of losses had wiped off the net worth of the company, and pushed that into negative. Importantly, throughout this ordeal, the company retained its most important asset; loyalty of a large and diverse customer base, and loyalty of many high-performing employees who had weathered the storms despite several rounds of downsizing.

The prestigious Chennai metro order that Pennar had just received was a testament to Rao's engineering excellence by providing complex products, customized business solutions, environment-friendly unconventional innovations, robust financial foundations, humane leadership, and most of all, remarkable show of patience, persistence and resilience.

The Making of an Entrepreneur

From the beginning, Rao showed a feisty entrepreneurial spirit. At the core of his values were three unflinching desires. Firstly, Rao wanted to create new and different things. Secondly, Rao wanted the sense of accountability of "knowing clearly that the buck stops with you." Thirdly, Rao wanted to create jobs. He once remarked at a press conference that "My dream would be to create 50,000 jobs before I die." Truly, his professional upbringing had groomed him to be an entrepreneur and achieve his three desires.

Rao was born and brought up in Hyderabad, where he finished school and his first two years of college in a Science program. In 1961, he enrolled at the Indian Institute of Technology at Kharagpur in the prestigious program in Mechanical Engineering. In 1966, he enrolled at Ohio State University in the Master's program in Industrial Engineering and Operations Research. Upon graduation, Rao worked as an Operations Research Analyst at the National Cash Register (NCR) Company in Dayton, Ohio. In 1969, Rao returned to India and worked as an Industrial Engineer at Union Carbide India Ltd in Madras (now Chennai). Rao then transferred to the Hyderabad factory and was soon promoted to the position of the Head of Personnel and Production Departments. In that position, Rao was exposed to the world-class management practices of Union Carbide.

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Rao has acknowledged that he learnt about management largely during his eight years at Union Carbide. One of his mentors was KVK. Raju, who had managed Rao before leaving Union Carbide to promote a new company called Nagarjuna Steel Co. In 1976, Rao followed suit. Under Raju's tutelage, Rao experienced the challenges of managing a smaller company that did not have the same resources as multinationals typically did. In 1979, Rao and Raju co-launched Nagarjuna Signode Ltd., a joint venture between Nagarjuna Steel Co. and US-based Signode Corporation. Rao and his family members took 12% equity in this venture. Rao served as its Managing Director (CEO) while continuing his role at Nagarjuna Steel. As a result of this new role, Rao got first-hand experience of launching and sustaining a start-up.

Birth of Pennar Group

In 1985, Rao's entrepreneurial ambitions and desire to lead a company independently and in totality lured him to take over Pennar Steels Ltd, which had a license to manufacture steel products. Pennar Steels Ltd was commissioned in 1988-1989, with an initial production capacity of 36,000 tons of cold rolled steel strips. The commercial performance of Pennar Steels Ltd. was so favorable that full capacity utilization was achieved in the second year of operation, with significant profits and dividends. The capacity was eventually increased to 60,000 tons in 1995 to cope with increased sales.

While spearheading the success of Pennar Steel Ltd., Rao also laid the foundations for Pennar Group. He diversified its portfolio by launching several new companies- Pennar Securities Ltd., Pennar Aluminium Company Ltd., Pennar Profiles Ltd., Pennar Chemicals Ltd., Pennar Refinery Ltd., Pennar Infotech Ltd., and Pennar Aquaculture Exports Ltd. ISO 9000 certification was obtained for all of these companies, consistent with Rao's desire to offer products and services to a global customer base.

As the visionary of Pennar Group, Rao wanted "to make good products, and sell them to the customers as a good price." Customer loyalty was important to Rao, and he sought to earn that through his products, and also through good management practices. In terms of management practices, Rao's core objectives were (a) profitability, (b) growth and diversification, (c) talent development and (d) social responsibility. He wanted to manage his companies "so well that people say that here is a group which is well managed". He wanted his companies to be perceived as good corporate citizens of India capable of both commercial success and social relevance. He also wanted to create jobs. His actions at Pennar Group would soon come to prove that his frequently-quoted desire to raise 50,000 jobs before he died was not merely a sound-bite.

Phase 1: The Launch of Pennar Group

As honorable as Rao's management ideals were, they were subjected to growing pains. Rao did not anticipate his entrepreneurial journey to be a bed of roses, but his motivation and commitment were sorely tested as he tried to get Pennar Group off the ground. Rao had to summon much of his strength and resilience to deal with whatever roadblocks came his way. One of the initial challenges that Rao had to surmount was the apparent lack of credibility. This was unfortunate, because even though Rao's venture was not part of a large business enterprise, Rao had the technological background, strong management acumen, and most importantly, the indomitable fire in his belly.

Gaining Support

The first audience that questioned Rao's capability were financial institutions. Rao had to extol his strengths and aggressively convey the commercial potential of his venture. A glimmer of hope was the fact that in the 1980s, the government, banks and institutions such as the Andhra Pradesh Industrial Development Corporation (APIDC) were actively encouraging technocrat entrepreneurs in order to broaden the entrepreneurial base in India. After he won over the financial institutions, Rao's next difficult audience was the public. When Rao decided to take Pennar Steel and the other companies in Pennar Group public through Initial Public Offerings (IPO) on the stock market, the public issues did not go well. Evidently, the public felt that Rao was an inexperienced entrepreneur who lacked credentials and a proven record of success.

As a result of the public's lukewarm reception to Pennar Group's IPO issues, the underwriters had to put up a considerable amount of money. Yet another audience Rao had to win over was the pool of potential employees. The prevailing work culture was life-long employment and growth at one company. Therefore, people had reservations about joining a new company that had not yet established its viability. Rao took a lot of time to find talented people at various levels and convince them of the benefits of joining a smaller organization such as his. He explained that his company offered a greater scope for personal and professional growth, and that larger organizations would not offer as broad of an exposure as his company would. For those that joined his organization, Rao offered challenges, opportunities and freedom. Eventually, he had a solid network of bright, loyal and committed employees supporting his group of companies.

Rising to the Challenge

In 1997, as part of a broader strategic agreement, Pennar Steel acquired Nagarjuna Steels Ltd. and became Pennar Industries Ltd. The primary objective of this acquisition was to achieve higher economies of scale and to diversify the product mix, and thereby be in a better position to compete with larger players and cheaper steel imports. The merger augmented the resources of Pennar Industries and increased its capacity to 142,000 tons. Pennar's portfolio also became more diverse as a result, with a product mix comprising rolled steel, formed profiles, and pressed components. Pennar Industries rose to the ranks of the top ten producers of cold rolled strips in India.

The new company had more than 650 unionized workers and about 600 non-unionized staff, including 100 managers and 100 senior managers. About 175 of the workers had been with Pennar Steel Ltd, but most of them were from Nagarjuna Steel and had been hired by Rao himself during his tenure there as the General Manager. A workforce surplus of 125 workers and 100 staff was identified. A generous Voluntary Retirement Scheme, with six times the statutory minimum retrenchment compensation, was offered to workers to get the workforce down to manageable and sustainable levels. Regardless of their corporate origin, the workers generally regarded Rao as a kind and caring leader. They remained cooperative and productive.

In addition to being a compassionate and influential leader of his people, Rao also advanced his commercial vision for Pennar Industries Ltd. Rao's next commercial focus after the merger was to develop value-added products such as automobile components, compressor shells, pre-engineered building systems, prefabricated shelters, space frames, and highway safety systems. These products were expected to have double the price of cold rolled strips and 60% higher margin. To accomplish this foray into new ground, Rao instituted a quality initiative. Roles and work methods were redesigned to make them more cost-effective and robust. Workers were organized into multi-skilled, multi-task groups, and given full responsibility for the production quality and routine maintenance. Strong marketing teams were formed, well supported by technical personnel at the factory in developing customized and new products. There were even some teams with technical and marketing personnel exclusively assigned to certain customers for personalized products and services. The vision and mission of Pennar Industries Ltd. charted in the early 2000s encompassed all of Rao's change initiatives.

Pennar Group's Vision was as follows:
"To achieve excellence in the quality of the services that we provide to our customers. It is our endeavor to create a working environment where motivates employees communicate freely and where innovation is encouraged."

Accordingly, the Pennar Group's Mission Statement was as follows:
"To achieve market leadership through excellence in the quality of product and services by adopting state of the art technologies and innovative management approaches aimed towards complete customer satisfaction."

With this vision and mission, Pennar Group was finally off the ground.

Phase 2: The Struggle

The advent of liberalization and globalization drastically changed the business scenario, the demand pattern, and supply chain behavior. On one hand, liberalization removed many of the entry level barriers and encouraged competition. On the other hand, globalization enabled foreign competitors to compete in the Indian market. Thus, the Pennar Group of companies faced stiff competition both locally and internationally. Moreover, the business climate at that time bred an unstable pricing system and an unpredictable supply-demand balance. The situation worsened for Pennar Industries in December 1998 when the Indian government imposed a 36% duty on hot rolled strips, which were a key ingredient in the production of cold rolled strips. As a result of the duty, the vendors of hot rolled strips increased their prices.

Meanwhile, the import competition for cold rolled strips intensified from Russian, Ukrainian and South

Korean companies. The imports were priced very low. Even though 40% of the imported cold rolled strips were reportedly defective and second hand, they posed stiff competition because of their attractive price. Another company that began to compete with Pennar Industries in the low-end cold rolled steel strips market was Tata Iron & Steel Company, the largest steel producer in India. Tata commissioned a large integrated steel mill and was therefore able to offer prices 6-8% lower than Pennar. Moreover, Tata offered a more liberal credit policy of sixty days, compared to the forty five day policy offered by Pennar. Another competitor in this space was Bhushan Steel Strips. Bhushan offered a very liberal 120 day credit policy, which attracted many customers despite the fact that its prices were 2% higher than Pennar's.

In the mid-1990s, the steel industry as a whole suffered when two groups of major customers- automotive and white goods- were hit with recession. Demand took a nosedive, and very few new projects were being chartered. In this difficult environment, some smaller steel companies were forced to shut down. This prompted creditors to be more cautious in their exposure to the steel industry. Rao found it very difficult to secure funds on competitive credit terms.

In 1999, in an attempt to encourage growth even in these adverse conditions, Pennar Industries Ltd. acquired the facilities of Tube Investments India Ltd. at Tarapur (near Mumbai) and at Chennai. The acquisition added 14,000 tons per annum capacity for value added products. This helped some, but Pennar Industries Ltd. as a whole was still in struggling, since more than two thirds of its product mix still comprised the basic cold rolled steel strips. The sales of Pennar Industries Ltd. fell during 1998-1999 to Rs 2.7 billion, down from the previous year's sales of Rs 3.2 billion. By 1999-2000, the sales had slid further to Rs 2.4 billion. At this point, profits had diminished to zero. In 2000, it became evident that most of the accounts receivable were actually bad debts and had to be written off. Other companies in Pennar Group had similar troubles.

The years 1998-99 proved to be a nadir for the Pennar Group, and for its industry as a whole. Several companies in the industry were either declared bankrupt, closed, or under liquidation. Within Pennar Group, the troubles of its flagship company Pennar Industries Ltd. aside, Pennar Securities Ltd. was shut down in 1998 because of unrecoverable losses. Another company in the group, Pennar Aluminum Ltd., was declared bankrupt in 1998, and thereby referred to the Board for Industrial and Financial Reconstruction (BIFR). BIFR was a government institution intended to help rehabilitate bankrupt companies in which the public sector had significant debt pending.

Pennar Aluminum was ranked third largest in the aluminum sheets business after Birlas' Hindalco and Indal. However, with a paltry 5.8% market share, a total debt of Rs 4.8 billion and accumulated losses of Rs 2.8 billion with equity of just Rs 1.2 billion, Pennar Aluminum Ltd. was hardly sustainable. Similarly, Pennar Profiles was also floundering with accumulated losses of Rs 305 million with an equity base of Rs 55 million. The company was struggling to entice Indian customers, and was therefore depending on exports to stay afloat. Pennar Profiles too was referred to the BIFR.

In 2000, the Pennar Group commissioned the consulting firm, Deloitte, Haskins and Sells for guidance on business profile, management and control systems, and financial restructuring. Deloitte recommended that Pennar Group stop producing basic products, and instead, focus on value-added and specialized products. Rao, however, was adamantly against this strategy, as it would result in a reduction in workforce and thousands of employees would lose their jobs. Rao's well intentioned refusal to cut the company's production portfolio in order to retain workers backfired. During 2000-2001, losses escalated to Rs 350 million and production fell by 75%. Loans rose to a daunting Rs 1.8 billion. At this time, Rao finally came to the bitter realization that he had no choice but the restructure, reorient and transform his companies, even if it came at the price of letting workers go.

In April 2001, Rao reluctantly offered a VRS for another 200 workers. In the spirit of caring for his people, Rao offered twice the legal minimum retrenchment compensation. In order to preserve the talent pool at Pennar as much as possible, Rao did not allow the high performing workers to leave under VRS. Some of those high performing workers resigned despite not being entitled to VRS compensation. The most loyal of them stayed on at Pennar. Despite all this, Pennar Industries' financials were still spiraling out of control. In 2001-2002, the annual sales had dropped to Rs 760 million. By June 30, 2001, Pennar Industries had an accumulated loss of Rs 732 million, on an equity base of Rs 217 million. Pennar Industries Ltd. joined the other companies in the Pennar Group in the dreaded state of being under BIFR.

Phase 3: The Recovery

Amid all this tumult, Rao found that the credibility that he had fought so hard to build was slowly slipping away. He did some soul searching to figure out who exactly he was as a leader.

Rao, the Leader

Rao had always been a strong adherent of humane leadership. This trait had shaped his business decisions thus far, especially those related to human resources. Rao's humanistic reputation had helped him retain the loyalty of much of his workforce despite the tough, unpopular decisions that he had made. Rao's kind and gentle nature had its drawbacks. Rao was a firm believer in McGregor's Theory Y, an assumption that people were inherently well motivated to do their best. This belief influenced Rao's management style greatly. He would give his employees a lot of freedom and empowerment. Rao observed that he would "sometimes even abdicate" responsibility. He acknowledged that this was not always prudent. He believed that the leader must have firmness of resolve. A good entrepreneur and top manager, he reasoned, must also be a good taskmaster, and must not tolerate inefficiency or ineffectiveness.

Upon further reflection, Rao also conceded to being a technocrat who did not always have a clear gut feeling and sense for numbers and finance. His experiences taught him that if a CEO did not look after the hard numbers and watch the bottom line meticulously, and instead, focused on futuristic technical growth and development, the growth would not be sustainable. Rao realized that he had pursued "growth for growth's sake". This attitude had stretched his organizations beyond their practical limits. Especially since the business environment itself was changing so rapidly, "growth for growth's sake" had put the viability of Pennar Group at stake. After the soul searching exercise, Rao and his management team adopted a three-pronged turnaround strategy. The three prongs were business transformation, financial restructuring and productivity improvements.

Business Transformation

Rao was convinced that the business world was changing, and Pennar's organizational systems inevitably needed to be changed. According to him, "You may act locally, but you have to think globally and understand what is happening in the rest of the world." Rao's philosophy of "global" extended beyond the geographical definition of "global". To Rao, the word "global" also meant a sprawling market with many emerging industries. In abiding by Deloitte's recommendation to focus on value-added products, Pennar was also able to take advantage of the continued growth in demand for value-added products from the automotive and the white goods sector. Pennar also expanded its value-added offerings to construction and infrastructure sectors.

Hence, a new Vision was set for Pennar Group as follows:
"To emerge as a globally reputed engineering company with strong and enduring customer relationships based on quality and service."

Accordingly, the Mission Statement was revised as follows:
"To leverage our modern infrastructure, technical expertise and decades of experience to provide high quality and cost-effective metal products to our customers. We work closely with shareholders, suppliers, customers and employees to ensure attractive returns for all the stakeholders."

In alignment with this vision and mission, new business segments were developed, including steel profiles for electrostatic precipitators, which were pollution control products. Other new business segments included pre-engineered business systems, tube products, road safety systems and railway coach profiles. Special efforts were made to develop and manufacture components for the automotive and white goods sector. The fast-growing auto sector, in particular, was seen as a significant opportunity. Large scale investments in infrastructure offered substantial growth prospects in pre-engineering building systems. New fabrication facilities were set up for electrostatic precipitators and pre-engineering building systems. The Press Metal Profiles division of the Tube Investments Group was acquired for tube products. Its plant was near Mumbai, and therefore, strategically situated to serve two major customers- Tata Motors and Eicher Motors. Another new plant was set up in Chennai to serve the automotive and rail segments.

With these business transformations, Pennar Industries Ltd. was still primarily focused on its core competency- cold rolled strips. However, it now leveraged its supply of hot rolled coil and press to make value-added steel products like cold formed profiles and pressed engineering components. By 2006, Pennar's engineering components including precision tubes, auto components, and metal crash barriers were flying off the shelves. The new segments also opened the first export opportunities. Pennar was selected as the primary source of the steel profiles for electrostatic precipitators by global cement manufacturing companies like the Belgian company Hammon Research & Cotrell, and the Danish company FL Smidth. In addition, focused relationships were forged with prestigious domestic customers in the automotive industry like Tata Motors, Ashok Leyland, Larson & Toubro, and Asea Brown Boveri. With such a large and diverse client base, business at Pennar was continuous.

Productivity Improvements

Although the business transformation was the lion's share of the strategy to turn the Pennar Group around, productivity improvements were necessary to sustain this huge influx of incoming business. In November 2004, Rao announced a new quality policy that focused on both customers and employees. The policy underlined that all Pennar employees work together to achieve "complete customer satisfaction through total quality management." Rao was committed in his endeavor to create a work environment where motivated employees would be able to communicate freely. He recognized that motivation needed to be actively encouraged, so that the company could pursue continuous improvement in all areas. This would be instrumental for the new vision and mission to be successfully upheld, and for Pennar to thereby achieve excellence and quality of manufactured products and services, and to serve customers from all over the world.

A large part of productivity lies in the workforce. This was Rao's specialty. After all, his success in restructuring his organization with the full support and cooperation of the workforce had been featured in several scholarly works. Rao's ambition was to transform his company into not just the best in the state, or the country. He had set his sights on being the best in the world. Under Rao's leadership, manpower motivation and commitment remained very high. Rao took great pride in noting that there had never been a strike or lockout on his watch at either Nagarjuna or Pennar. There were two main reasons for this. The first reason was Rao's reputation as a humane leader. His employees always came first, and his actions always spoke louder than words. Rao termed this trait "sincerity of purpose". He strongly believed that if one works to develop and support the organization, one will automatically gain the support of the employees, customers and lenders.

Rao believed that on the other hand, a selfish leader that makes decisions solely for his own benefit would not enjoy long term support from his employees, customers or lenders, and would therefore be doomed to fail in the long run. The second reason for Rao's ability to sustain a highly motivated and commitment workforce was his strong work ethic and willingness to lead by example. In his words, "To transform the companies, I have to transform the people. To transform the people, I have to transform myself." Rao was known in the industry as an honest and straightforward leader who followed good business practices, resulting in good products and eventually earning a good relationship with customers. One of his well known quotes is "Work hard, work blood hard, work the hardest." This was the work culture he embodied and spread throughout Pennar. Given the caliber of the people at Pennar, and the professional management systems and policies, even the banks and institutions were helpful to the Pennar Group.

Financial Restructuring

In December 2002, as part of a rehabilitation agreement, the lenders of Pennar Industries Ltd. agreed to cut the interest rate on loans from 18% to 12% annually, with a 2 year moratorium on interest payment. On the debt of Rs 2 billion, this yielded an annual savings of Rs 100 million in interest. This, coupled with the reduction in workforce through VRS, set Pennar Industries on a path of slow recovery. Production rose 75% by mid 2003. Sales revenues that year were Rs 1.1 billion. Operating losses amounted to Rs 107 million and net loss after interest and depreciation amounted to Rs 209 million. Due to the paradigm shift in focusing on value-added products, more than half of the equity capital was written off, but additional equity of Rs 150 million was infused in 2005. Moreover, in early 2004, the Corporate Debt Restructuring Forum approved a restructuring plan. This reduced debt from Rs 2.45 billion in 2003 to Rs 1.95 billion in 2004 through settlements with banks, and reduced interest rates, while allowing for the induction of additional equity. Pennar was back in black from the second quarter of 2005.

Rao's tenacity, solid work ethic, and tireless commitment to the three-pronged turnaround strategy gradually started paying off. The promising financial metrics in 2006 for the performance of Pennar Group in 2005-2006 brought a smile to Rao's face. The sales for the financial year 2005-2006, ending March 31, were Rs 4.36 billion, exceeding the planned target. Last year, the sales had been only Rs 3.48 billion, though more than doubling from Rs 1.67 billion in 2003-2004. In 2005-2006, profit after tax had turned positive to Rs 120 million, compared to losses of Rs 48 million the previous year, and of Rs 31 million the year before.

2006-10: Sustaining

Pennar Industries, Pennar Aluminum and Pennar Profiles were once the three largest companies within Pennar Group. What a difference a few years had made. Of the three, only Pennar Industries remained under Rao's leadership, and continued to be the flagship company of Pennar Group. In 2006, Rao considered Pennar's dark years to be behind him, but he knew that his work was far from over. Rao's next challenge was to sustain success and growth in the long term. Rao was quoted as saying "After a three pronged restructuring process, which included business, operating and financial restructuring, we have entered a new phase of growth." Even in this new phase of growth, the basic principles of the three prongs came into play. This time, the focus was not on recovering from troubled times, but on sustaining business success and growth.

Sustaining Success

In order to sustain Pennar's position as a major force in the automotive industry, Rao invested Rs 150 million in a new plant in Chennai, which was to be completely dedicated to the automobile industry. This plant was commercialized in April 2008, equipped with state-of-the-art CNC machines, as well as powerful machines for laser cutting, turret punching, rolling, forming, and bending. It produced value-added profiles and components to serve the automobile sector. In 2009, the automotive industry encountered a slight slowdown, but new opportunities emerged with Indian Railways announcing a plan to modernize its fleet of rail-cars with high strength steel profiles and use rail coaches made of stainless steel.

To capitalize on the emerging opportunities, Pennar created new divisions to serve comprehensive engineering products for the railways, and pre-engineered building segments. In order to adapt to the new market conditions, the Chennai plant previously dedicated to automotive parts was refocused to serve Indian Railways, the largest mass transportation entity in India. That allowed Pennar to win orders for supplying stainless steel profiles to Indian Railways, and for building the steel floors for the coaches. The new Chennai plant generated Rs 925 million in revenues in 2008-2009 by serving the needs of Indian Railways and reputed Indian automakers.

Pennar was also committed to grow to be more competitive in the pre-engineered building sector. This sector represented a Rs 50 billion opportunity in India, with the sector growing at 20% per year. Pennar expected to initially capture a 5% share of this market and grow steadily from there. The global market for environmentally conservative, or "green" buildings, was particularly lucrative. To exploit these opportunities, the pre-engineered buildings division was soon spun off into a new subsidiary that operated in partnership with NCI Building Systems, an American company that was the world's leading pre-engineered building solution provider. This partnership allowed Pennar to offer world-class weather-proof buildings.

The Pennar Engineered Building Systems plant was commissioned in January 2010. This division offered turnkey pre-engineered green building solutions encompassing design, manufacturing, raw material procurements, erection and commissioning. Its solutions were cost-effective and could be erected in a quarter of the time- i.e. within 3-6 months- compared to conventional construction time frames. The building structures could be customized to the needs of the customers. An exclusive automated software platform allowed it to provide customer-specific building designs in less than 30 minutes. Most of all, as Rao noted, one of the aspects of Pennar's competitive advantage was the fact that "each of the building components will have properties for efficient use of water, power and other resources, reduced pollution effects and prevention of ecological degradation." Eager clients included industries, warehouses, commercial centers, multi-storied buildings, aircraft hangars, malls and stadia. Pennar Engineered Building Systems was positioned as one of the largest Indian pre-engineered building players, with a capacity of 50,000 metric tons per annum.

Paradigm Shift

At a philosophical level, a new profile of Pennar had emerged by early 2010. A paradigm shift was occurring. Pennar was rapidly changing from:

- Community to Niche
- Generic to Specific
- Basic to Engineered
- Market-driven to Market-driving
- Transactions to Relationships
- Standalone to Integrated
- Cyclicality to Sustainability
- India-focused to Global-focused

Rao had always valued socially responsible corporate citizenship. At this point in Pennar's life, the company was sustainable and could finally afford to give back to the community. In 2009, Pennar set up a waste water recycling plant to conserve water resources. Pennar also began supporting underprivileged villages in the areas of sanitation, drinking water, and education. Rao already had a reputation for doing the right thing for his customers and employees alike. Pennar's efforts to contribute to the social progress of developing communities cemented Rao's virtuous reputation, and also added some extra shine to the Pennar brand.

Pennar established itself among the lowest cost converters of steel into value-added engineered products. As of 2008-09, it had a diversified base of over 300 customers, with the top 5 clients contributing 20% to revenues. It was among the few in the industry to possess intellectual capital worth a million person days, making it a preferred partner. It manufactured over 1,000 products used by several industries. All its plants had specialized design facilities, and were equipped with modern manufacturing technologies, facilitating customization. In 2008-2010, even as the global market was generally very precarious, Pennar managed to achieve astonishing growth. Its market capitalization rose from Rs 2 billion in 2007 to Rs 2.75 billion in 2009, and then to Rs 4.54 billion in 2010.

Beyond 2010: Thriving

In the Annual report for 2010, Rao was quoted as saying, "At Pennar, we find ourselves at an inflexion point: Go with the usual flow of growth or attempt the daring. We are opting for the latter. The result is that we expect to add Rs 10 billion to our topline by 2016. This implies that we are planning to replicate what we have achieved in 32 years in only five years." In the Annual report for 2010, Rao upped the target to consolidated sales of Rs 22 billion or US$0.5 billion by 2016.

In the spirit of Rao's words and under his leadership, Pennar's formula for thriving is similar to the strategies from the point where it launched, through the point where it pulled itself out of the doldrums and got to the state of sustained success and stability. The three prongs-business strategy, productivity, and financial strategy-continue to play a large role in Pennar's management paradigm. Pennar continues to focus on increasing sales, adopting new technologies and developing new products to continuously enrich its product portfolio. In addition, it also continues to focus on tactical and operational success factors like optimizing production cost, upgrading human resources, and providing complete customer satisfaction.

To this day, Rao remains committed to leverage Pennar's engineering strengths and customer relationships to penetrate deeper into the precision engineering space and to make strategic investments to bridge any gaps between Pennar's core competencies, its product mix, and the market. In order to further diversify its portfolio, Pennar has been scouting for acquisitions in the energy and precision engineering segment to cater to customers in the defense and nuclear industries. It plans to add these two divisions to its existing four. The near-term goal is to acquire and engineering company particularly with skills in sheet metal works. At this point, Pennar does not have significant debt, so raising funds through loans for the acquisitions is a feasible option. Rao, however, is cautious. He wants to limit his acquisitions to smaller ones that range between Rs 200 million to Rs 1 billion in each segment. These actions would enhance Pennar's dominance in South India, but Rao has now set his sights on expanding to North and East India as well. Rao wishes to acquire companies in those regions to augment Pennar's influence in India as a whole.

Rao says he is clear that to be valuable Pennar needs to possess a relatively niche business presence, the brand of a specialist, a specialization "that would require an increasing interplay of knowledge and customization; this would separate us from the crowd on the one hand and protect our margins on the other. Besides, this would evolve us from a mere provider of material to a trusted partner, extending into repeat engagement and ongoing revenue flows." He is proud that unlike most engineered product companies who choose "to focus on the growth emerging from one sector, Pennar has successfully widened its product mix to address the growth coming out of four different business segments, de-risking itself from an excessive dependence on any one segment."

In each segment, Pennar's personnel understood the specific needs of customers, and gained deep insights into each of the customers' businesses, making it possible for Pennar "to offer holistic solutions, and take the customers' businesses ahead." As a result, 70% of Pennar's business in the financial year 2010-11 was from repeat orders, and the rest 30% was from new order wins. The five leading customers accounted for

25% of revenues. Pennar had over 1,000 products across diverse sectors, and a cumulative experience of over one million person days resulting in significant domain expertise. The proportion of value-added products had reached over 75%.

On 9th May 2011, it was now Rao's turn to send an e-mail to the stock exchange with good news about the Chennai metro order. He also articulated a plan to set up a wagon assembly line at Chennai plant for outsourced wagon manufacture by 2011. As he hit the send button, Rao sat back on his seat smiling. Pennar was spreading a million smiles – thriving not only in human and social, but also in market and financial terms with a market capitalization of Rs 5.63 billion!

Conclusion

The case of Pennar Group, particularly the evolution of Pennar Industries Ltd., raises many interesting questions about entrepreneurship and management. The following is just a sample of the many scintillating debates that pertain to Nrupender Rao and the Pennar Group:

- In a generally cut-throat technological arena, the concept of 'humane leadership' is novel. Did humane leadership accentuate the pains suffered by Pennar, or did it help Pennar emerge strong from once a no-hope situation?
- Pennar's launch, struggles, recovery, and eventual sustained success and thriving can be attributed to two things - the actions of Rao as a leader, and the market climate. Which of these two factors was had a more direct impact on Pennar's performance? What can be learned from understanding the extent of the influence of these two factors?
- The Pennar Group had it up and downs. On hindsight, what clues might a market observer have had to predict the direction in which Pennar Group was heading towards at the various points in time?
- For the Pennar Group, diversification was initially a curse, as it took the company beyond viable levels. Eventually, diversification was the strategy that brought the Pennar Group back on track. What was the difference between the two instances?
- Is the 'three-pronged turnaround strategy' transferrable to other businesses?

Exhibits

Exhibit 1: Percentage of Pennar's Business by Industry

	2006-07	2008-09	2009-10	2010-11
Engineering segment	69%	53%	46%	46%
Auto (profiles, components)	20%	4%	7%	12%
Auto (rolled steel)	18%	7%	13%	12%
Bearings	6%	8%	1%	1%
Packaging	2%	8%	2%	2%
Electrical	9%	7%	7%	6%
White goods	6%	6%	4%	3%
General engineering	8%	13%	12%	10%
Heavy engineering segment	8%	24%	26%	22%
Railways	8%	24%	26%	22%
Infrastructure	23%	23%	28%	32%
Building	11%	14%	11%	7%
ESP and fabricated products	10%	5%	5%	12%
Road Safety	2%	4%	3%	1%
Transport / Pre-engineered	-	-	9%	12%

Exhibit 2: Pennar Group's Consolidated Financials - Profit and Loss Account

Delta	16 months	8 months	12 months	12 months	12 months	12 months
All figures are in Rs Million	**31.07.2006**	**31.03.2007**	**31.03.2008**	**31.03.2009**	**31.03.2010**	**31.03.2011**
Total Revenues	5421.57	3221.68	5381.69	6295.63	7979.71	12108.49
Gross sales	6469.02	3845.96	6412	7305.17	8901.17	13708.05
Domestic	6428.48	3797.1	6225.13	7301.53	8822.69	13631.84
export	40.54	48.86	186.87	3.64	78.48	76.21
less excise duty	829.17	490.68	809.81	772.44	651.15	1209.14
Sales tax	222.42	135.65	226.46	240.28	275.3	417.37
Net sales	5417.43	3219.63	5375.73	6292.45	7974.72	12081.54
Other income	4.14	2.05	5.96	3.18	4.99	26.95
Expenditure	4921.16	2868.12	4718.53	5537.43	6861.98	10581.11
Raw material consumed	4082.94	2432.21	3963.96	4693.45	5603.74	8552.87
Personnel cost	130.73	75.66	147.33	209.87	310.8	417.85
Stores and spares	258.7	113.09	182.76	191.05	315.45	593.38
Subcontract expenses	55.22	28.44	75.85	92.94	134.73	266.43
Other manufacturing costs	133.06	71.56	87.61	69.65	105.93	141.48
Outbound freight	132.4	89.57	117.84	123.7	151.56	269.43
Other admn and selling costs	128.11	57.59	143.18	156.77	239.77	339.67
PBIDT	500.41	353.56	663.16	758.2	1117.73	1527.38
Financing costs	139.96	113.84	179.24	141.45	129.91	170.8
Depreciation	91.07	48.82	80.48	84.99	128.51	131.64
Preliminary expenditure written off	9.56	2.46	3.69	3.66	3.66	4.69
Remission of funded interest term loans	233.62					
PBT	493.44	188.44	399.75	528.1	855.65	1220.25
Minority interest					0.06	16.91
Net Profit (net of minority interest)	416.72	148.71	308.07	380.89	497.75	739.25

Exhibit 3: Pennar Group's Consolidated Financials: Balance Sheet (In Rs Million)

	31-Jul-06	31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11
Liabilities	**3344.44**	**3398.03**	**3489.51**	**3663.82**	**5195.63**	**5656.61**
Share capital	533.06	549.55	720.16	720.16	697.89	697.89
Reserves and surplus	840.61	836.86	1161.7	1261.6	1452.55	1989.3
Minority interest					65.56	82.47
Secured loans	1676.87	1689.86	1015.21	1067.87	1688.74	1502.18
Unsecured loans	89.06	126.33	180.16	204.14	235.42	251.06
Deferred tax					41.44	118.38
Current liabilities	203.14	194.23	380.2	169.92	583.86	877.61
Provisions	1.7	1.2	32.08	240.13	430.17	137.72
Assets	**3344.44**	**3398.03**	**3489.51**	**3663.82**	**5195.63**	**5656.61**
Fixed Assets	1149.67	1294.43	1279.86	1345.22	1891.27	2101.43
Gross Block	2138.22	2348.68	2439.91	2615.56	3315.42	3520.93
Less depreciation	988.55	1054.25	1160.05	1270.34	1424.15	1419.50
Investments	1.47	1.47	1.1	0.03	0.03	0.03
Current Assets	**1357.73**	**1456.27**	**1916.56**	**2223.69**	**3299.64**	**3555.15**
Inventories	459.99	474.04	729.4	726.82	1329.63	1480.85
Debtors	732.16	793.17	806.95	958.6	1223.95	1660.96
Cash and Bank balances	88.55	45.78	111.93	73.52	178.73	168.65
Loans and advances	77.03	143.28	268.28	464.75	567.33	244.69
Deferred items						
Deferred expenditure	18.16	15.69	12	8.35	4.69	0
Deferred tax	378.12	339.59	279.99	86.53	0	0
Deferred loss	439.29	290.58	0	0	0	0

Exhibit 4: Annualized Comparable Data

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Operating revenues (net of excise) Rs Million	4229.9	5032.8	5602.2	6532.7	7980	12082
EBIDTA – Rs Million	375.3	530.4	663.2	758.3	1098	1496
EBIDTA margin %	8.87	10.54	11.84	11.61	13.76	12.40
Cash Profit – Rs Million	269.1	357.8	451.8	555.3	755.4	953.0
Profit after tax – Rs Million	137.3	223.1	308.1	380.9	500.7	739.0
Profit after tax margin %	3.25	4.43	5.5	5.83	6.27	6.10
Earnings per share, basic Rs.	1.88	2.31	3.09	3.01	4.00	6.10
Return on capital employed %	19.89	24.97	30.27	29.16	25.20	32.20
Return on gross block %	6.42	9.5	12.63	14.56	17.21	21.41

Exhibit 5: Value-Added Products Profile

	16 months	8 months	12 months	12 months	12 months	12 months
	31.07.2006	31.03.2007	31.03.2008	31.03.2009	31.03.2010	31.03.2011
Cold Rolled Steel Strips						
Gross Sales in Rs million	3268.05	1755.78	2757.07	1913.74	2154.68	2976.91
Quantity in tons	83165	41003	60923	34183	50035	64916
Cold Formed Metal Profiles and Pressed Components						
Gross Sales in Rs million	2857.74	1898.48	3307.65	5033.75	6414.58	8752.35
Quantity in tons	56861	34680	52766	62817	88290	114261

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Dhruva Consulting Group(DCG) is a mix of Industry and Academia which undertakes consulting projects. Global Leadership and Organizational Behavior Effectiveness (GLOBE) is a multi-phase, multi-method research project in which investigators spanning over 72 countries in the world are examining the inter-relationship between societal culture, organizational culture and organizational leadership. This project is envisaged by Robert J House of Wharton School along with Dr Vipin Gupta. DCG has been retained as the sole Principal co-investigator for the state of Andhra Pradesh, India. DCG has managed the daunting task of profiling the case studies of about top 50 CEOs. DHRUVA retains the right over these case studies including that of Pennar Group. DHRUVA eventually will publish these GLOBE case studies under the title – 'Models of Organizational Excellence in AP.'