

Press Release

PEB Techno

July 18, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (**read as ACUITE B**) on the Rs. 9.50 crore bank facilities of PEB Techno. The outlook is '**Stable**'.

Established in 2016, PEB Techno is partnership entity engaged in manufacture of pre-engineered buildings, roofing structures (pre-fab) and C & Z purlins. The entity's manufacturing unit is located in Hubballi (Karnataka) with an installed capacity of 1,800 tons per annum. The unit is setup at a project cost of about Rs.6.40 crore funded out of term loan of Rs.4.50 crore and rest out of promoters' funds. The commercial operations started in September 2017.

Key Rating Drivers

Strengths

- **Experienced Promoters**

The Partners, Mr. Vijay Kumar S Shetty and Mr. Bhavani Shankar, have around two decades of experience in civil construction business. Mr. Vijay Kumar S Shetty also has business experience since 1998 in a partnership firm 'Techno Fab', which is into manufacture of pre-fab. The promoters' experience in pre-fab and the construction industry motivated the team to setup the pre-fab unit. In the first year of its operations in FY2018, the firm has reported revenues of about Rs.4.20 crore (Provisional). It has got an unexecuted order book of about Rs.5.40 crore as on May 31, 2018; majorly from JMC Projects India Limited of Rs.4.70 crore to be executed by around September 2018. Acuité believes that the firm expects to enjoy the promoters' presence in the industry to improve its business risk profile over the mediumterm.

Weaknesses

- **Below-average financial risk profile**

The financial risk profile is marked by low net worth, high total outside liabilities to total net worth (TOL/TNW), average gearing (debt-to-equity) and below-average debt protection metrics. TOL/TNW is high at 2.5 times (Provisional) as on March 31, 2018; high attributed to first year of manufacturing operations. The gearing is average at about 1.9 times (Provisional) as on March 31, 2018 with a modest net worth of Rs.2.70 crore. It is driven by debt-funded project of Rs.6.40 crore funded out of term loan of Rs.4.50 crore, and balance out of promoters' contribution of Rs.1.90 crore. Gearing is likely to improve to about 1.3 times over the medium term supported by accretion to reserves. Its debt protection metrics are weak with interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 1.13 times and 0.01 times respectively for FY2018 (Provisional). The firm's cash accruals are estimated in the range of about Rs.1.00 crore to Rs.1.30 crore over the medium term, against which its repayment obligations are about Rs.0.90 crore which is just sufficient. Acuité believes that the financial risk profile is expected to improve marginally over the medium term supported by accretions and no debt-funded capex plans over the medium term.

- **Limited operational track record and highly fragmented industry**

The entity commenced commercial operations in September 2017 and registered operating income of Rs.4.22 crore from September 2017 to March 2018. It has modest order book of about Rs.5.40 crore as on May 31, 2018. With this order book position, the revenues are expected to be modest in the range of Rs.15.00 crore to Rs.17.00 crore over the medium term which is modest in the industry. There are large players in the industry such as Tata Bluescope Steel Limited and Kirby Building Systems India Private Limited, among others constraining the business risk profile.

- **Volatile raw material prices**

The firm's major cost component is steel constituting about 60 percent of the operating income. The firm's orders are on fixed contract basis leaving no space for cost escalation, thus, impacting the profitability.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the PEB Techno to arrive at this rating

Outlook: Stable

Acuité believes that the outlook on the rated facilities of PEB Techno will remain 'Stable' over the medium term supported by promoter's experience in the construction industry. The outlook may be revised to 'Positive' in case of better-than-expected improvement in revenues and profitability while efficiently managing the working capital. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its liquidity owing to more-than-expected working capital requirement or less-than-expected revenues due to project delays.

About the Rated Entity - Key Financials

Not Applicable as the firm has recently commenced operations.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE B / Stable

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About Acuité Ratings & Research:

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