



Press Release
Placebo Fabtech Private Limited
May 26, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	22.17	ACUITE B+ Stable Assigned	-
Bank Loan Ratings	4.00	ACUITE B+ Stable Reaffirmed	-
Bank Loan Ratings	2.50	-	ACUITE A4 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	28.67	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and its short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on Rs 6.50 crore bank facilities of Placebo Fabtech Private limited (PFPL).

Also, Acuite has assigned its long term rating of **ACUITE B+** (read as **ACUITE B plus**) on Rs 22.17 crore bank facilities of Placebo Fabtech Private limited (PFPL).

The outlook is '**Stable**'.

Rationale for the rating

The rating takes into account the extensive experience of the promoters of the company along with its reputed clientele base. However, the rating remains constrained by its below average financial risk profile, working capital intensive nature of operations along with stretched liquidity position. Further the rating is constrained by the fragmented and competitive nature of the industry.

About the Company

Placebo Fabtech Private Limited (PFPL), is a Hyderabad based company incorporated in 2018. PFPL commenced its operations in December, 2018. The company is promoted by Mr. Ch. Chandra Shekar Reddy and is engaged in steel fabrications of steel girders, pre engineering structures for Railway bridges, Flyovers, high rise buildings and industries. There are three divisions mainly fabrications of Steel girders, Pre Engineered structures and Technological structures.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of Placebo Fabtech Private Limited (PFPL) to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management with reputed clientele profile

PFPL is engaged in steel fabrications of steel girders, pre-engineering structures. The company is promoted by Mr. Ch. Chandra Shekar Reddy, who has almost four decades of experience in the engineering and construction domain. Before incorporating PFPL, the promoter was

associated with firms Placebo Gears and Transmission and Placebo Engineering Corporation. Also, the company has established relationship with the customers, including Ramky Group, Indian railways, Jindal Steel Works, among others. The revenue of the company stood modest at Rs.33.28 crore in FY2022 as compared to Rs.22.67 crore in the previous year. The increase in revenue is mainly due to the better execution of the orders and also repeated orders from its renowned clients. However, the revenue stood at Rs. 25.09 Cr in FY23 (prov). The company has unexecuted order of Rs. 14.49 Cr as on March, 2023.

Acuité believes that the company will continue to benefit from the promoters' experience and established relationship with reputed clients.

Weaknesses

Below Average Financial Risk profile

The company's financial risk profile is below average marked by low networth, high gearing and moderate debt protection metrics. The tangible net worth of the company increased to Rs.3.50 Cr as on March 31, 2022, from Rs.2.75 Cr as on March 31, 2021, due to accretion of profits to the reserves. The company has undertaken a large debt funded capex of Rs. 13.67 Cr to set up a new factory building to increase its scale of operations. Gearing of the company stood at 2.89 times as on March 31, 2022 as against 2.10 times as on March 31, 2021. The Total Outside Liability/Tangible Net Worth (TOL/TNW) stood at 5.76 times as on March 31, 2022 as compared to 5.52 times in the previous year and continue to remain at the same level. The Interest Coverage Ratio stood at 2.71 times as on March 31, 2022 as compared to 2.23 times as on March 31, 2021. Debt Service Coverage Ratio at 1.37 times as on March 31, 2022 as compared to 1.25 times as on March 31, 2021. The metrics would continue to remain at moderate levels even though there might be a slight moderation in earnings profile going forward. Net Cash Accruals/Total Debt (NCA/TD) stood at 1.34 times as on March 31, 2022 as against 1.13 times as on March 31, 2021. Acuite believes the coverage and leverage ratios of the company may witness moderation over the medium term due to the increase in the level of debt.

Working capital intensive nature of operations

The working capital management of the company is intensive marked by high GCA days of 221 days as on March 31, 2022 as compared to 238 days as on March 31, 2021. The high GCA days are primarily on account of a high debtor days due to stretched receivables. The debtor days stood at 98 days as on March, 2022 as compared to 73 days as on March, 2021. The average credit period allowed to customers' ranges from 60-90 days. Further, the inventory period stood at 112 days as on March 31, 2022 as compared to 160 days in previous year. The high inventory days is on account of stock pile up of inventory due to surge in raw material prices. The working capital intensive nature of operations has led to higher reliance on short term borrowings with an average utilization of more than 99% for last 6 months ended April 2023. Acuite believes that going forward, the working capital operations of the company may continue to remain at similar level considering the nature of business.

Competitive and fragmented industry

The company operates in a highly competitive and fragmented industry having characterised by large number of unorganised players mainly on account of low entry barriers. This can have an impact on the profitability margins of the company.

Rating Sensitivities

- Scaling up of operations while maintaining their profitability margin
- Working capital management along with improvement in financial risk profile

Material covenants

None

Liquidity Position

Stretched

The company's liquidity position is stretched marked by higher reliance on short term bank finance with an average utilization of more than 99% for last 6 months ended April 2023. The net cash accruals stood at Rs.1.34 Cr in FY2022 as against nominal debt obligation for the same period. The cash and bank balances stood at Rs 0.02 Cr as on March 31, 2022 as compared to Rs. 0.03 Cr as on March 31, 2021. The current ratio stood at 1.22 times as on March 31, 2022. PFPL's operations are working capital intensive marked by Gross Current assets(GCA) of 221 days for FY22 as compared to 238 days for FY21. Acuité believes that going forward the liquidity position of the company may continue to remain at same level with additional debt funding and moderate cash accruals.

Outlook: Stable

Acuité believes the company will maintain a 'stable' outlook over the medium term backed by its experienced management. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	33.28	22.67
PAT	Rs. Cr.	0.75	0.43
PAT Margin	(%)	2.25	1.90
Total Debt/Tangible Net Worth	Times	2.89	2.10
PBDIT/Interest	Times	2.71	2.23

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Apr 2022	Term Loan	Long Term	2.00	ACUITE B+ (Issuer not co-operating*)
	Cash Credit	Long Term	2.00	ACUITE B+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	2.50	ACUITE A4 (Issuer not co-operating*)
04 Feb 2021	Cash Credit	Long Term	2.00	ACUITE B+ Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE B+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.50	ACUITE A4 (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A4 Reaffirmed
Canara Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.15	ACUITE B+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	4.46	ACUITE B+ Stable Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	2.11	ACUITE B+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	11.56	ACUITE B+ Stable Assigned
Canara Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE B+ Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.89	ACUITE B+ Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Swagata Bhattacharjee Analyst-Rating Operations Tel: 022-49294065 swagata.bhattacharjee@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.