

February 14, 2020

## PEB Steel Lloyd (India) Limited: Ratings downgraded to [ICRA]BBB(CE) / [ICRA]A3+(CE); Outlook revised to stable from positive; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit Limits	7.00	7.00	[ICRA]BBB(CE); Downgraded from [ICRA]BBB+(CE) Outlook revised to Stable from Positive
Non-fund Based Limits	3.00	8.00	[ICRA]A3+(CE); Downgraded from [ICRA]A2(CE)
<b>Total</b>	<b>10.00</b>	<b>15.00</b>	

\*Instrument details are provided in Annexure-1

### Rating Without Explicit Credit Enhancement

[ICRA]BB+/[ICRA]A4+

\*Instrument details are provided in Annexure 1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

### Rationale

The rating has been revised following the change in ICRA's analytical approach for rating guaranteed bank facilities, based on the revised methodology viz., 'approach for rating debt instruments backed by third-party explicit support'. The rating is based on the strength of the corporate guarantee provided by Lloyd Insulations (India) Limited (LIIL; rated [ICRA]BBB+ (Stable)/[ICRA]A2), for the bank lines of Rs. 15.00 crore. The revision in the outlook is in line with the change in the rating outlook of LIIL.

### Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the guarantee issued by LIIL in favour of the said instrument. While the guarantee is legally enforceable, irrevocable and unconditional and covers the entire amount and tenor of the rated instrument, it does not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has assigned ratings of [ICRA]BBB(CE)/[ICRA]A3+(CE) to the said instrument against the unsupported ratings of [ICRA]BB+/[ICRA]A4+. If the rating of the guarantor, LIIL, were to undergo a change in future, the same would have a bearing on the rating of the aforesaid instrument as well. The rating of this instrument may undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

### Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- In the event of default by PEB Steel Lloyd (India) Limited (PEBS), LIIL shall forthwith pay the bank on demand and without demur all amounts payable by the borrower.
- The lender may act as if LIIL is the principal debtor.
- The guarantee is a continuing security and shall remain in full force till all dues under the rated facilities are met.

## Key rating drivers and their description

### Credit strengths

**Explicit support in form of corporate guarantee for Rs. 15 crore bank lines from JV partner, LIL** - LIL provided support in the form of irrevocable and unconditional corporate guarantee to the Rs. 15-crore debt of PEBS.

**Operational and financial synergies with LIL, which is a JV partner** – PEBS derives operational and financial support in the form of orders from LIL, which accounts for 100% of PEBS' revenues. In addition, liquidity of PEBS is supported by LIL in the form of advances.

**Long track record of operations** – PEBS has an extensive track record of operations of over a decade and executed projects with high degree of complexity.

### Credit challenges

**Modest scale of operations and volatility in operating margins** - The operating income remained modest at Rs. 88.0 crore in FY2019, although the same increased from Rs. 62.3 crore in FY2018. PEBS's operating margins are significantly volatile and are exposed to variations in raw material prices, majorly steel, due to fixed-price orders. In addition, PEBS operates in segments where the entry barriers are low and hence the competitive intensity is high. Consequently, the profitability margins remain modest.

**High TOL/TNW owing to high creditors, mobilisation advances and modest net worth** – PEBS's TOL/TNW is high at 8.9 times as on March 31, 2019 (after adjusting for LIL's financial support of Rs. 30 crore) owing to modest net worth, stretched creditors and high mobilisation advances.

### Liquidity position of the guarantor: Adequate

LIL's liquidity position is adequate and is supported by the high unencumbered cash balances of Rs. 94.7 crore and mobilisation advances of Rs. 134.92 crore as on March 31, 2019. The company does not have any major capex plans over the next two years and has limited debt repayments of around Rs. 2 crore, which can be comfortably met from the fund flow from operations.

### Rating sensitivities

**Positive triggers** – The ratings may be upgraded if there is an improvement in the credit profile of LIL.

**Negative triggers** – The ratings may be downgraded if there is a deterioration in the credit profile of LIL. Further, any weakening of the operational and financial linkages between LIL and PEBS could also trigger a downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Approach for rating debt instruments backed by third-party explicit support</a>
Parent/Group Support	Parent/Group Company: Lloyd Insulations (India) Limited The assigned ratings are based on an unconditional, irrevocable corporate guarantee extended by LIL
Consolidation / Standalone	The rating is based on the company's standalone financials

## About the company

PEBS is a Joint Venture between Lloyd Insulations (India) Limited and PEB Steel Asia Limited. The company has a manufacturing facility with annual capacity of 60000 MT per annum of Pre-Engineered Buildings. The factory is located at Pithampur, Indore and was commissioned in August 2007.

PEB Steel Asia Limited specializes in the design, fabrication and erection of pre-engineered steel buildings (PEBs) in Asian countries. PEB Steel Asia Limited, which is owned by the European based PEB group, started in South East Asia in 1994.

In FY2019, the company reported a net profit of Rs. 6.60 crore on an operating income (OI) of Rs. 87.99 crore, as compared to a net loss of Rs. 2.18 crore on an OI of Rs. 62.32 crore in the previous year.

## Key financial indicators (PEBS)

	FY2018	FY2019
Operating Income (Rs. crore)	62.32	87.99
PAT (Rs. crore)	-2.18	6.60
OPBDIT/ OI (%)	4.04%	4.23%
RoCE (%)	-7.54%	5.06%
Total Outside Liabilities/Tangible Net Worth (times)	-39.84	15.30
Total Debt/ OPBDIT (times)	12.82	8.07
Interest Coverage (times)	3.03	6.63
DSCR	1.15	6.58

## About the guarantor

Incorporated in 1956, LIIL is a turnkey contractor and manufacturer of thermal and acoustic insulation products, refractory linings, pre-engineered & prefabricated buildings, polyurethane-based insulation products and sandwich panels. The company has over six decades of experience in the insulation products segment. Promoted by Mr N.P. Punj, Mr. C.P. Khanna and Mr. P.P. Munjal, the company initially manufactured ceramic fibre insulation products. Subsequently, it ventured into manufacturing of rockwool/mineral wool-based and polyurethane-based thermal insulation products. In 1997, LIIL diversified its area of operations into erection of pre-engineered buildings (PEB) in India. At present, the company manufacturing units are located at Pitampur in the Dhar district of Madhya Pradesh and Cheyyar Taluk in the Thiruvannamalai district of Tamil Nadu.

## Key financial indicators (Guarantor) - Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	836.27	914.65
PAT (Rs. crore)	13.41	5.60
OPBDIT/ OI (%)	6.02%	4.41%
RoCE (%)	9.59%	7.40%
Total Outside Liabilities/Tangible Net Worth (times)	1.06	1.21
Total Debt/ OPBDIT (times)	1.31	2.28
Interest Coverage (times)	2.33	1.93
DSCR	1.84	1.90

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**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017
			(Rs. crore)		14-Feb-2020	5-Apr-2019	-	29-Mar-2018	17-Apr-2017	-
1	Fund Based – Cash Credit Limits	Long term	7.00	-	[ICRA]BBB(CE) (Stable)	[ICRA]BBB+(SO) (Positive)	-	[ICRA]BBB+(SO) (Positive)	[ICRA]BBB+(SO) (Stable)	-
2	Non Fund Based Limits	Short term	8.00	-	[ICRA]A3+(CE)	[ICRA]A2(SO)	-	[ICRA]A2(SO)	[ICRA]A2(SO)	-

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit				7.00	[ICRA]BBB(CE) (Stable)
NA	Non Fund based limits				8.00	[ICRA]A3+(CE)

Source: PEB Steel Lloyd (India) Limited

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## About ICRA Limited:

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