Forbes & Company Limited

October 07, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**126.20 (Reduced from 126.48)**	**CARE BBB- (CWD) (Triple B Minus) (Under Credit watch with Developing Implications)**	**Placed on Credit watch with Developing Implications**
Short Term Bank Facilities	**23.50**	**CARE A3 (CWD) (A Three) (Under Credit watch with Developing Implications)**	**Placed on Credit watch with Developing Implications**
Total Facilities	**149.70 (₹ One Hundred Forty-Nine Crore and Seventy Lakhs Only)**		

Details of facilities in Annexure-1

CARE has placed the ratings of Forbes & Company Limited (FCL) on "Credit watch with Developing implications" on account of proposed demerger of its precision tools business to newly formed wholly owned subsidiary, Forbes Precision Tools and Machine Parts Limited (FTPL). As per the scheme of arrangement between FCL & FTPL, FTPL will issue shares to the shareholders of FCL in the ratio of 4:1 and the shares held by FCL in FPTL upon completion of demerger scheme shall be cancelled. Hence, FTPL shareholding pattern will mirror the shareholding pattern of FCL post completion of demerger scheme and will be listed on BSE Ltd. The transaction is subject to receipt of relevant statutory and regulatory approvals. The demerger of precision tools business is expected to reduce the overall revenue with precision tools business contributing about 76% and 34% to standalone and consolidated revenue respectively for FY22. However, it is also expected to result in reduction in overall debt at FCL standalone level. CARE is monitoring developments in this regard and shall review the rating when greater clarity emerges.

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Forbes & Company Limited (FCL) continue to derive strength from the experienced promoter group i.e. Shapoorji Pallonji and Company Private Limited (SPCPL), satisfactory performance of ongoing real estate project and satisfactory financial performance during FY22 (refers to period April 01 to March 31) and Q1FY23. The ratings also factor in completion of monetization of its land parcel at Chandivali with realization of sale proceeds in H1FY23 thereby enabling reduction in debt at consolidated level and aiding liquidity position.

The rating strengths are however, tempered by the relatively moderate size and scale of operation, profitability susceptible to fluctuation in input prices, performance of engineering division likely to be impacted by the cyclicality in the auto industry and subdued performance of the IT business.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Scaling up of the residual business operation and improvement in profitability

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Weakening of credit profile of the European subsidiary; LIAG necessitating higher than envisaged financial support
- Any large debt addition impacting the liquidity/financial position
- Adverse impact on the financial position of the company with demerger of the precision tool business

[1]*Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.*

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter group: FCL is a part of the Shapoorji Pallonji group and benefits from the legacy of more than 154 years of operations in various businesses of the group. The flagship company of the group i.e. Shapoorji Pallonji and Company Private Limited (SPCPL, rated CARE A-; Stable/CARE A2) is one of the leading construction companies of India.
The Shapoorji Pallonji group is an extensive conglomerate with business interests in several sectors such as real estate, coal mining, power, ports, roads, biofuels & agriculture, shipping & logistics, consumer products, textiles etc. Most of Shapoorji Pallonji groups' businesses are held by SPCPL as subsidiaries.

Improvement in financial and liquidity position: The demerger of EFL from FCL, prepayment of foreign debt under Lux International AG (LIAG) and reduction in debt in the subsidiaries of FCL viz. Forbes Technosys Limited (FTL) and Shapoorji Pallonji Forbes Shipping Limited (SPFSL- ceased to subsidiary effective from March 31, 2022) has resulted in significant external debt reduction by about Rs.540 crore in FY22 at consolidated level. Furthermore, during H1FY23, there has been prepayment of entire external term debt (from banks) in FTL and part prepayment of FCL standalone term debt leading to further improvement in the financial position of FCL.
FCL has completed monetization of its land parcel at Chandivali and realized sales proceeds in H1FY23 which has enabled the debt reduction. The company has also utilized the proceeds to pay dividend of Rs.83.84 crore. Balance proceeds have been deployed in business for working capital requirement.

Satisfactory performance of ongoing real estate project: The company has undertaken development of residential real estate project by the name of 'Vicnia'. The project is undertaken along with another group entity; Paikar Real Estate Limited with share of each at 50%. The development under FCL comprises 294 units under Phase I & II. Phase I has been almost completed with Occupancy Certificate received and flats handed over to customers. The Phase II is under development with 79% flats sold as on June 30, 2022 and the entire project is expected to be completed by June 2023. Overall the real estate project is completed to an extent of more than 90% with overall sales at 91%.

Satisfactory financial performance in FY22 and Q1FY23: The company reported satisfactory performance during FY22 despite envisaged decline in revenue due to demerger of Eureka Forbes Ltd (EFL) which contributed to more than 70% to the consolidated revenue earlier. Post demerger, the revenue has been majorly contributed by the engineering division and the European health and hygiene business under LIAG. The company continued to report satisfactory performance in Q1FY23 with Lux group of entities reporting turnaround in performance and stable performance of engineering business.

Key Rating Weaknesses

Restricted size and scale, post proposed demerger of precision tools business: The business profile of FCL has undergone change with demerger of EFL and is likely to further change with proposed demerger of the precision tool business. The materialization of the transaction is likely to result in revenue contraction with the precision tools business contributing about 76% and 34% of the revenue to standalone and consolidated revenue respectively for FY22. The business operations of FCL is expected to continue with the laser/coding division of engineering business, IT business, real estate and health and hygiene business under LIAG. There are plans to scale up the laser/coding engineering business along with real estate development potential going forward. However, the plans are not firmed up. CARE Ratings understands that majority of term debt outstanding as on August 31, 2022 would move along with the demerged entity thereby resulting in no material impact on the financial position of the company. Any deviation from same result thereby impacting the debt coverage metrics would be a key monitorable.

Subdued performance of IT segment: The IT segment of the FCL is operated under subsidiary Forbes Technosys Limited (FTL) and has been facing liquidity issues due to muted demand for the past few years.
During the period FY19-22, the revenue of IT segment of FCL decreased significantly by about 90% from Rs.124.00 crore in FY19 to Rs.13 crore in FY22 along with cash loss during FY22. The subdued performance of FTL has been dragging the overall

performance of the FCL at standalone level due to continued impairment of investment & loans in FTL for the past few years. However, the entire investment in FTL has been impaired and going further there is no impairment envisaged. Furthermore, the entire term debt in FTL has been prepaid during H1FY23 which is a credit positive.

Profitability susceptible to cyclicity in auto segment: The engineering business derives majority of revenue from the automobile companies as end users. Hence the business and profitability would be susceptible to cyclicality in the auto segment and also availability/fluctuation in input prices.

Liquidity: Adequate

The liquidity profile of FCL at consolidated level is adequate with cash accruals sufficient to cover the debt repayment. As on August 31, 2022, FCL had cash & bank balance of Rs.37 crore and Rs.43 crore at standalone and consolidated level respectively. Furthermore, the average working capital utilization stood at 61% for the last 12 months ended August 2022.

Analytical approach: Consolidated as there exists business, financial and management linkage with the subsidiaries. The list of companies consolidated is attached as Annexure 6.

Applicable Criteria

Rating Outlook and Credit Watch
Policy on default recognition
Rating Methodology: Consolidation
Rating Methodology - Manufacturing Companies
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Financial Ratios – Non-Financial Sector

About the Company

Forbes and Company Limited (FCL) is a public listed entity and a subsidiary of Shapoorji Pallonji's flagship company Shapoorji Pallonji and Company Private Limited, the holding-cum-operating company of the SP group. Forbes & Company Limited was established in India in 1767 by John Forbes. Over the years, the management of the company moved to various business houses like the Forbes, Campbells, the Tata Group. In FY02, the company's shareholding underwent a restructuring and Shapoorji Pallonji (SP) group acquired a majority stake of 72.56% of the share capital of the company and it became a subsidiary of SPCPL. 1.29% of shares of FCL are held by Forbes Campbell Finance Limited (subsidiary of FCL) and the remaining is held by Public.

FCL on a standalone basis operates under two divisions: engineering and real estate, with other business verticals i.e. IT and health & hygiene business under subsidiaries. The domestic health & hygiene business operated under erstwhile subsidiary EFL has been demerged w.e.f. February 01, 2022.

Brief Financials - Consolidated (₹ crore)	31-03-2021 (A)*	31-03-2022 (A)	Q1FY23 (U/A)
Total operating income	954.09	530.09	123.58
PBILDT	162.91	65.32	1.82
PAT	(116.60)	4224.80	145.65
Overall gearing (times)	NM	4.29	NA
Interest coverage (times)	2.95	1.54	0.28

A: Audited, U/A: Unaudited, NM: Not meaningful, NA: Not Available
*restated for demerger of EFL
Note: Financials classified as per CARE's internal standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	April 2024	90.70	CARE BBB- (CWD)
Fund-based - LT-EPC/PSC	-	-	-	-	35.50	CARE BBB- (CWD)
Non-fund-based - ST-BG/LC	-	-	-	-	23.50	CARE A3 (CWD)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	90.70	CARE BBB- (CWD)	-	1)CARE BBB-; Stable (10-Mar-22) 2)CARE BB+ (CWP) (28-Sep-21)	1)CARE BB+; Negative (10-Nov-20) 2)CARE A- (CWN) (12-May-20)	1)CARE A; Stable (26-Nov-19) 2)CARE A+; Negative (09-Oct-19) 3)CARE A+; Stable (05-Apr-19)
2	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (10-Mar-22) 2)CARE BB+ (CWP) (28-Sep-21)	1)CARE BB+; Negative (10-Nov-20) 2)CARE A- (CWN) (12-May-20)	1)CARE A; Stable (26-Nov-19) 2)CARE A+; Negative (09-Oct-19) 3)CARE A+; Stable (05-Apr-19)
3	Fund-based - LT-EPC/PSC	LT	35.50	CARE BBB- (CWD)	-	1)CARE BBB-; Stable (10-Mar-22) 2)CARE BB+ (CWP) (28-Sep-21)	1)CARE BB+; Negative (10-Nov-20) 2)CARE A- (CWN) (12-May-20)	1)CARE A; Stable (26-Nov-19)
4	Non-fund-based - ST-BG/LC	ST	23.50	CARE A3 (CWD)	-	1)CARE A3 (10-Mar-22) 2)CARE A4+ (CWP) (28-Sep-21)	1)CARE A4+ (10-Nov-20) 2)CARE A2+ (CWN) (12-May-20)	1)CARE A1 (26-Nov-19)

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-EPC/PSC	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Annexure 6: List of subsidiaries consolidated

Name of companies	% of holding as on March 31, 2022
Subsidiaries	
1. Forbes Lux International AG$	100.00
- Lux International AG$	100.00
- Lux del Paraguay S.A.$	80.00
- Lux Schweiz AG$	100.00
- Lux International Services and Logistics GmbH$ (formerly Lux Service GmbH)	100.00
- Lux Osterreich GmbH$	100.00
- Lux Hungária Kereskedelmi Kft.$	100.00
- Lux Welity Polska Sp zoo$ (w.e.f. July 29, 2019)	100.00
- Lux Professional Aqua Paraguay S. A.$ (formerly Lux Aqua Paraguay S.A)	100.00
2. EFL Mauritius Limited	100.00
3. Euro Forbes Financial Services Limited	100.00
4. Forbes Facility Services Private Limited	100.00
5. Forbes Campbell Finance Limited and its subsidiaries:	100.00
- Forbes Campbell Services Limited	98.00
6. Forbes Technosys Limited	100.00
7. Volkart Fleming Shipping and Services Limited	100.00
8. Campbell Properties & Hospitality Services Limited	100.00
Joint Ventures	
1. Forbes Concept Hospitality Services Private Limited	50.00
2. Forbes Bumi Armada Limited (JV of Forbes Campbell Finance Limited)	51.00
Associates	
1. Nuevo Consultancy Services Private Limited	49.00
2. Dhan Gaming Solution (India) Private Limited	49.00
3. Shapoorji Pallonji Forbes Shipping Limited	25.00

$Reporting date is December 31, 2021

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Puja Jalan
Contact no.: +91-91600 01511
Email ID: puja.jalan@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**