Fives Combustion Systems Private Limited

March 19, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term / Short Term Bank Facilities	1.00	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable/ A Two)	Reaffirmed
Short Term Bank Facilities	20.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**21.00 (Rs. Twenty-One Crore Only)**		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of FCSPL continue to derive comfort from strong parentage of well-established and experienced promoter Fives Group, being its wholly-owned ultimate subsidiary, with continual support in terms of technology, finance and new product line to expand business. The ratings further derive comfort from its comfortable financial risk profile marked by healthy profitability margins coupled with comfortable capital structure as well as debt coverage indicators and adequate liquidity position during FY20 (period refers to April 1 to March 31).

The ratings, however, continue to remain constraint on account of FCSPL's growing albeit moderate scale of operations during FY20 along with susceptibility of profit margins to fluctuation in raw material prices.

Key rating sensitivities:

Positive Factors

- Significant growth in its scale of operations with a similar increase in profitability on sustained basis
- Sustaining its comfortable capital structure and debt coverage indicators
- Managing its working capital efficiently with improvement in working capital cycle to less than 60 days

Negative Factors

- Decline in scale of operations by more than 25% in comparison to envisaged level along with decline in PBILDT margin to below 10%
- Higher than envisaged debt leading to deterioration in capital structure with above unity overall gearing
- Elongation of operating cycle to more than 130 days leading to high reliance on working capital borrowings.

Detailed description of the key rating drivers

Key Rating Strengths

Continual support from well-established and experienced promoter (Fives Group)

FCSPL is part of the Fives group, France (established in 1812) which is engaged into industrial engineering with network of more than 100 operational units engaged into fields of Aerospace, Aluminium, Automotive, Cement & Minerals, Chemicals & Petrochemicals, Energy, General Machining, Glass, Logistics, Oil & Gas, Steel, Sugar etc. in 30 countries across six continents. The Fives Group continues to provide support in terms of technology, finance and new product line to expand business. FCSPL has also entered into a Manufacturing and License Agreement with Fives Pillard (a Fives Group company specialized in manufacturing of combustion equipment) for receiving technological support.

Healthy profit margins during FY20

Operating margin of FCSPL marked by PBILDT margin improved marginally and remained healthy at 15.05% during FY20 as compared to 14.64% during FY19 owing to decrease in procurement cost of raw materials as well as other miscellaneous expenses during FY20. However, PAT margin of FCSPL remained stable at 9.15% during FY20 as compared to 9.25% in FY19 on account of marginal increase in interest and depreciation expense during FY20. On other hand, the Gross Cash Accruals increased by 16.40% y-o-y basis and remained at Rs.5.94 crore during FY20 as compared to Rs.5.10 crore during FY19 on the back of marginal increase in PAT and depreciation during FY20.

Comfortable capital structure and debt coverage indicators

The capital structure of FCSPL remained comfortable as the company is debt free as on March 31, 2020 as well on March 31, 2019. Debt coverage indicators of FCSPL continued to remain comfortable during FY20 in absence of any debt. Interest coverage ratio of the company also continued to remain comfortable at 16.79x during FY20 as compared to 23.75x during FY19

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

due to increase in bank charges on the back of enhanced non-fund based bank facilities during FY20. Further, total debt of FCSPL remained nil as on December 31, 2020 (Unaudited) as well.

Key Rating Weaknesses

Moderate albeit growing scale of operations of FCSPL

The scale of operations of FCSPL have been growing and increased at a Compounded Annual Growth Rate (CAGR) of 14% for the period FY18-FY20. FCSPL reported stable TOI of Rs.57.50 crore during FY20 as compared to Rs.55.70 crore during FY19 as FCSPL was not able to deliver few orders towards the end of Q4FY20 owing to COVID-19 induced lockdown. The said orders were subsequently delivered during Q1FY21. During 9MFY21 (Unaudited), FCSPL has registered TOI of Rs.55.00 crore. Further, the company has outstanding orders on hand of Rs.32.77 crore as on December 31, 2020, which are expected to be executed till December, 2021.

Susceptibility of profit margins to fluctuation in raw material prices

The primary raw-material used by FCSPL is steel and the company does not enter into any long-term contracts with the suppliers for procurement of raw-material. As a result, FCSPL is exposed to raw-material price fluctuation as the orders are fixed-price contracts whereas prices of steel are fluctuating and hence, in case of adverse fluctuation in raw material prices may affect profitability of the company.

Impact of COVID-19 on business operations of FCSPL

Due to lockdown announced by the Government, the operations of FCSPL had been shut-off w.e.f. March 25, 2020 and the same had subsequently resumed from April 21, 2020 after getting required permission from respective authority. The trade receivables have also paid in a timely manner.

Liquidity: Adequate

Liquidity position of FCSPL remained adequate as marked by cash flow from operating activity which improved significantly over the previous year and remained at Rs.11.80 crore during FY20 as compared to Rs.4.72 crore during FY19 on the back of increase in customer advances, largely from undelivered orders of Q4FY21 along with improved realization from debtors during FY20 as against last year. Resultantly, unencumbered cash and bank balance remained at Rs.22.70 crore as on March 31, 2020. However, the operating cycle elongated to 114 days during FY20 as against 83 days during FY19 owing to increase in inventory period during FY20 due to significant increase in work in process, owing to pending deliveries of orders received towards the end of Q4FY20. The current ratio remained at 1.80x as on March 31, 2020. Overall working capital utilization remained negligible for the past 12 months ended February, 2021. Furthermore, FCSPL has not availed any moratorium for its bank facilities as a COVID-19 relief measure.

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Criteria for short term instruments
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Fives Combustion Systems Private Limited (FCSPL) is engaged in the manufacturing of industrial burners and combustion equipment. On January 10, 2012, Fives Group, France (Fives) acquired 100% stake in FSCPL through its wholly owned subsidiary Fives India Engineering & Projects Pvt. Ltd. (FIEPL). Fives has a proven track record of more than 200 years in designing and supply of process equipment, production lines and turnkey plants that caters to the requirements of sectors like aluminum, steel, glass, automobile, cement, energy etc.

Brief Financials of FCSPL (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	55.70	57.50
PBILDT	8.16	8.65
PAT	5.15	5.26
Overall gearing (times)	0.00	0.00
Interest coverage (times)	23.75	16.79

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure 1: Details of Instruments/Facilities:-

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	1.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Bank Guarantees	-	-	-	20.00	CARE A2

Annexure 2: Rating History for last three years:-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	1.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (06-Apr-20)	-	1)CARE BBB+ (SO); Stable / CARE A2 (SO) (26-Feb-19) 2)CARE BBB+ (SO); Stable / CARE A2 (SO) (07-Apr-18)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	20.00	CARE A2	1)CARE A2 (06-Apr-20)	-	1)CARE A2 (SO) (26-Feb-19) 2)CARE A2 (SO) (07-Apr-18)	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Cash Credit	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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