Fives Combustion Systems Private Limited

April 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	1.00	CARE BBB+; Stable / CARE A2	Reaffirmed
Long Term / Short Term Bank Facilities	30.00 (Enhanced from 20.00)	CARE BBB+; Stable / CARE A2	Revised from CARE A2

Details of facilities in Annexure -1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Fives Combustion Systems Private Limited (FCSPL) continue to derive comfort from strong parentage of well-established and experienced promoter i.e. Fives Group and FCSPL being its wholly-owned subsidiary which derives continual support in terms of technology and new product line, its custom- build product profile and reputed clientele base. The ratings further derive comfort from its financial risk profile marked by healthy profitability, comfortable capital structure and debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constraint on account of FCSPL's moderate scale of operations and susceptibility of its profit margins to fluctuation in raw material prices.

Key Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors:

- Significant growth in its scale of operations with a similar increase in profitability on sustained basis while 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.

Analytical Approach: Standalone

Ratings does not take into account credit enhancement based on unconditional and irrevocable corporate guarantee extended by its ultimate parent Fives Group as standalone overall financial risk profile of FCSPL stands better and details of the corporate guarantee provider was also not available. Also, said guarantee was withdrawn in December, 2022.

Outlook: Stable

The outlook on the long-term rating of FCSPL is "Stable" considering the stable demand of its products with long track record and established presence of the parent group which provide support in form of technical know-how and orders which would enable the company to sustain its operational performance over the medium term

Key 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, 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.

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

Reputed clientele with customized product requirement

FCSPL is essentially into manufacturing of customized industrial burners and combustion systems for various industries which are critical in nature and hence commands a healthy profitability on the same. In addition to that since the company caters to reputed customers from diverse industry segments including Cement, Oil & Gas, Steel, Other Metals, Chemicals and Other Engineering etc. which results in better sales realization. Customer concentration remained moderate marked by top five customers contributed around 44% of its TOI in FY22 [PY: 53%; FY refers to the period from April 1 to March 31].

Customized product resulting in healthy profitability

The company is essentially into manufacturing of combustion systems and industrial burners for various industries which are critical in nature, and hence, commands a healthy profit margins on the same. During FY22, PBILDT margin of FCSPL decreased marginally by 149 bps Y-o-Y, however, continued to remain healthy at 16.42% with relatively inferior absorption of fixed cost (mainly employee cost among other) upon decline in TOI. Subsequently, PAT margin of the company also decreased marginally by 161 bps Y-o-Y, though continued to remain healthy at 12.25% in FY22.

Comfortable capital structure and debt coverage indicators

The solvency position of FCSPL continued to remain comfortable as it has negligible debt comprising negligible lease liability worth Rs.0.24 crore and working capital borrowings of Rs.0.79 crore as on March 31, 2022. Further, tangible net worth of the company augmented upon accretion of profits into reserves, though it continued to remain moderate at Rs.49.60 crore as on March 31, 2022 [Rs.41.70 crore as on March 31, 2021]. TOL/TNW remained comfortable at 0.64 times [PY: 0.70].

During FY22, debt coverage indicators of FCSPL continued to remain comfortable marked by interest coverage ratio of 23.96 times and total debt / GCA of 0.02 times in the year ended on March 31, 2022.

Key Weaknesses

Moderate scale of operations

FCSPL's total operating income (TOI) has decreased by ~23% Y-o-Y on the back of lower execution of orders during Q4FY22 and continued to remain moderate at Rs.64.18 crore during FY22 as compared to Rs.83.76 crore in FY21, though it remained higher by 12% as compared to FY20 level of Rs.57.50 crore. Further, TOI of the company grew to Rs.65.86 crore during 9MFY23 (UA) and is expected to reach Rs.90-95 crore in FY23.

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.

Liquidity: Adequate

FCSPL's liquidity position remained adequate marked by its moderate cash accruals against negligible repayment obligations towards lease liability, healthy free cash and bank balance, low utilization of its working capital limits, moderate cash flow from operations (CFO) and liquidity ratio.

Unencumbered cash and bank balance with the company increased and remained healthy at Rs.39.23 crore [PY: Rs.24.86 crore] as on March 31, 2022 which further increased to Rs.52.79 crore as on December 31, 2022 (UA). CFO of the company increased owing to decrease in inventory and receivables against increase in customer advances as on March 31, 2022 and remained moderate at Rs.12.78 crore in FY22 as against Rs.2.43 crore in FY21. Current ratio of the company remained moderate 2.22 times as on March 31, 2022. Furthermore, operating cycle of the company continued to remain elongated owing to high collection period [on the back of high order execution in FY end] and high inventory period [on the back of high work in process in FY end pertained to orders which subsequently dispatched in Q1FY23] and remained at 145 days in FY22 as against 107 days in FY21 owing to averaging effect on declined TOI in FY22. Average fund-based working capital limit utilization remained negligible in last twelve months ended in February, 2023 while non-fund-based limit utilization remained at ~59% during same period. The company does not utilize external debt while the operations are largely funded by creditors, advances from customers and internal accruals.

Applicable Criteria:
[Policy on default recognition]
[Financial Ratios – Non financial Sector]
[Factoring Linkages Parent Sub JV Group]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Manufacturing Companies]
[Policy on Withdrawal of Ratings]

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Other Industrial Products

About the company

Fives Combustion Systems Private Limited (FCSPL; CIN: U74999GJ1981PTC079214) 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 (Rs. crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	83.76	64.18	65.86
PBILDT	15.00	10.54	NA
PAT	11.61	7.86	NA
Overall gearing (times)	0.01	0.02	NA
Interest coverage (times)	32.68	23.96	NA

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

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

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	-	1.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	30.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating history for the 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/ ST-Cash Credit	LT/ST*	1.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (23-Mar-22)	1)CARE BBB+; Stable / CARE A2 (19-Mar-21) 2)CARE BBB+; Stable / CARE A2 (06-Apr-20)	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	30.00	CARE BBB+; Stable / CARE A2	-	1)CARE A2 (23-Mar-22)	1)CARE A2 (19-Mar-21) 2)CARE A2 (06-Apr-20)	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

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

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