Fives Combustion Systems Private Limited

February 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	31.00	CARE BBB+; Stable / CARE A2	Reaffirmed

Details of facilities in Annexure -1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Fives Combustion Systems Private Limited (FCSPL) continue to derive strength from strong parentage of its well-established and experienced promoter Fives Group. Being its wholly owned subsidiary, FCSPL derives continual support for technology and new product line, custom-build product profile, and reputed clientele. Ratings further derive strength from the company's financial risk profile marked by healthy profitability, comfortable capital structure, strong debt coverage indicators, and adequate liquidity.

However, ratings continue to remain constrained from FCSPL's moderate scale of operations and profit margins susceptibility to fluctuating raw material prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors:

- Significantly growth in scale of operations with TOI of over ₹250 crore while maintaining healthy profitability and comfortable capital structure.
- Managing working capital efficiently, improvement in working capital cycle to less than 60 days.

Negative Factors:

- Change in parentage, impacting operations of the company.
- Higher-than-envisaged debt, leading to deterioration in capital structure with above unity overall gearing.
- Elongation in operating cycle to more than 130 days impacting liquidity.

Analytical approach: Standalone

An unconditional and irrevocable corporate guarantee was extended by FCSPL's ultimate parent Fives Group, which subsequently, withdrawn in December, 2022.

Outlook: Stable

A 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings) expectation that the entity will continue benefiting from stable demand of its products with long track record and established presence of the parent group, which provides support from technical know-how and orders to enable the company to sustain its operational performance over the medium term.

Detailed description of the key rating drivers

Key strengths

Continual support from well-established and experienced promoter

FCSPL is part of the Fives group, France (established in 1812), engaged in industrial engineering with network of more than 100 operational units engaged in segments such as aerospace, aluminium, automotive, cement & minerals, chemicals & petrochemicals, energy, general machining, glass, logistics, oil & gas, steel and sugar in 30 countries across six continents. The Fives Group continues to provide support in technology, and new product line to expand business. FCSPL has also entered a manufacturing and license agreement with Fives Pillard (a Fives Group company specialised in manufacturing combustion equipment) for receiving technological support.

Reputed clientele

FCSPL is essentially engaged manufacturing customised industrial burners and combustion systems for industries, which are critical. The company caters to reputed customers from diverse industry segments including cement, oil & gas, steel, other metals, chemicals, and other engineering. Customer concentration remained moderate marked by top five customers contributed around 44% of its total operating income (TOI) in FY23 [PY: 44%; FY refers to April 1 to March 31].

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

Customised product portfolio leading to healthy profitability

Owing to presence in a niche and critical segment, FCSPL commands healthy profitability. Since it caters to reputed customers from diverse industry segments, it fetches better sales realisation. Its PBILDT margin increased significantly by 684 bps y-o-y to 23.26% in FY23 from better absorbed overheads with growth in scale of operations. PAT margin increased significantly by 532 bps y-o-y to 17.57% [PY: 12.25%]. Going forward, CARE Ratings expects PBILDT margins to remain healthy due to its industry positioning.

Comfortable capital structure and strong debt coverage indicators

FCSPL's solvency continued to remain comfortable with negligible outstanding debt as on March 31, 2023, comprising lease liability of ₹0.18 crore and working capital borrowings of ₹0.12 crore. Tangible net worth (TNW) augmented on accretion of profits into reserves and remained moderate at ₹66.51 crore as on March 31, 2023. Total outside liabilities (TOL) / TNW of the company also remained comfortable at 0.51x (PY: 0.64x).

With minimal reliance on debt, FCSPL's debt coverage indicators remained strong marked by PBILDT interest coverage of 45.32x [PY: 23.96x] and total debt / gross cash accruals (TDGCA) of 0.02x [PY: 0.11x] in FY23.

Key Weaknesses

Moderate scale of operations

In FY23, FCSPL's scale of operations as marked by its total operating income (TOI) increased significantly by ~50% y-o-y from higher availability and order execution and remained moderate at ₹96.12 crore. This growth was supported by a one-time order of ₹30 crore. In 9MFY24, FCSPL's TOI moderated to ₹58.49 crore (PY: ₹65.86 crore). In FY24, CARE Ratings expects FCSPL's TOI to normalise to ₹75-80 crore with moderate order execution.

FCSPL's order book increased significantly to ₹120.84 crore as on January 29, 2024 [PY: 57.53 as on February 28, 2023] with major orders expected to be executed in the next financial year.

Susceptibility of profit margins to fluctuation in raw material prices

Steel is the primary raw material for FCSPL and the company does not enter long-term contract with suppliers for its procurement. As a result, FCSPL is exposed to raw material price fluctuation, as orders are fixed-price contracts, while steel prices fluctuate. Adverse price fluctuation may affect the profitability in the long run.

Liquidity: Adequate

FCSPL's liquidity remained adequate marked by moderate cash accruals against negligible repayment obligations towards lease liability, healthy unencumbered cash and bank balance, low working capital limit utilisation and moderate cash flow from operations (CFO).

Unencumbered cash and bank balance with the company increased over the previous year and remained healthy at ₹46.34 crore as on March 31, 2023. FSCPL continued to have positive CFO of ₹6.72 crore in FY23 [PY: 12.78 crore]. Average fund-based working capital limit utilisation remained negligible in the last twelve months ended in December 2023, while non-fund-based limit utilisation remained at ~59% [PY: ~59%] in same period. FCSPL reported GCA of ₹16.46 crore in FY23 as against negligible lease obligations of ₹0.07 crore in FY24. Inherent to the industry's nature, operating cycle improved but remained elongated at 113 days in FY23 as against 145 days in FY22.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

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

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Other industrial products

Fives Combustion Systems Private Limited (FCSPL; CIN: U74999GJ1981PTC079214) is engaged in manufacturing 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 supplying process equipment, production lines and turnkey plants catering to sectors including aluminum, steel, glass, automobile, cement, and energy among others.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	64.18	96.12	58.49
PBILDT	10.54	22.36	NA
PAT	7.86	16.89	NA
Overall gearing (times)	0.02	0.00	NA
Interest coverage (times)	23.96	45.32	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 for last three years: Please refer to Annexure-2

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of 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 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 2023-2024	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
1	Fund-based - LT/ ST-Cash Credit	LT/ST	1.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (05-Apr-23)	-	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 BBB+; Stable / CARE A2 (05-Apr-23)	-	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 covenants of the rated facilities

Not applicable

Annexure-4: Complexity level of 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 the 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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About us:

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