Fives Combustion Systems Private Limited

March 23, 2022

Ratings

Facilities	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 Fives Combustion Systems Private Limited (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 coupled with custom- build product profile and having 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 also factor in improvement profitability during FY21 (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 FY21 along with susceptibility of profit margins to fluctuation in raw material prices.

Rating Sensitivities

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

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

- 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.

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 and 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 53% of its TOI in FY21 [PY: 58%].

Healthy profitability which improved during FY21

During FY21, FCSPL's PBILDT margin increased by 440 bps y-o-y and continued to remain healthy at 19.45% [PY: 15.05%] with better absorption of fixed cost (mainly employee cost among other) upon significant increase in its TOI. Subsequently, PAT margin of the company also increased by 445 bps y-o-y to 13.60% in FY21 [PY: 9.15%] owing to increase in PBILDT margin.

Comfortable capital structure and debt coverage indicators

The solvency position of FCSPL continued to remain comfortable as it remained debt-free as on March 31, 2021 except negligible lease liability. TOL/TNW of the company decreased marginally owing to decrees in customer advances and continued to remain comfortable at 0.70 times as on March 31, 2021 [PY: 1.04].

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

During FY21, debt coverage indicators of FCSPL improved because of improved profitability and continued to remain comfortable marked by interest coverage ratio of 36.18 times [PY: 16.79 times] and total debt / GCA of 0.03 times [PY: Nil] in the year ended on March 31, 2021.

Key Rating Weaknesses

Moderate albeit growing scale of operations

FCSPL's total operating income (TOI) has significantly increased by around 48% y-o-y, though it continued to remain moderate at Rs.85.37 crore in FY21 [PY: Rs.57.50 crore]. Growth was driven by healthy execution of orders in FY21. Further, TOI of the company remained stable over the previous year at Rs.55.22 crore in 9MFY22 (UA) [Rs.55.00 crore in 9MFY21 (UA)].

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 of Rs.11.31 crore as against negligible repayment obligations towards lease liability coupled with healthy free cash and bank balance, low utilization of its working capital limits as well as moderate cash flow from operations (CFO) and liquidity ratio.

Unencumbered cash and bank balance with the company increased and remained healthy at Rs.24.86 crore as on March 31, 2021 while CFO of the company remained at Rs.4.03 crore in FY21. Current ratio of the company remained at 2.06 times as on March 31, 2021. 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 remained relatively stable at 107 days in FY21 [PY: 114 days]. Average fund-based working capital limit utilization remained negligible in last twelve months ended in January, 2022 while non-fund-based limit utilization remained at 60-65% during same period.

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.

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; 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 (in Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	57.50	85.37	55.22
PBILDT	8.65	16.61	NA
PAT	5.26	11.61	NA
Overall gearing (times)	0.00	0.01	NA
PBILDT Interest coverage (times)	16.79	36.18	NA

A: Audited; UA: Unaudited; NA: Not 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

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	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 Guarantee	-	-	-	-	20.00	CARE A2

Annexure-2: Rating History of 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-Cash Credit	LT/ST*	1.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (19-Mar-21) 2)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 Guarantee	ST	20.00	CARE A2	-	1)CARE A2 (19-Mar-21) 2)CARE A2 (06-Apr-20)	-	1)CARE A2 (SO) (26-Feb-19) 2)CARE A2 (SO) (07-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities:

Bank Facilities	Detailed explanation
A. Financial covenants	**FCSPL to maintain followings:**
	Covenant: Debt/Equity Ratio — Threshold: <=0.03 Covenant: Current Ratio — Threshold: >=1.80 Covenant: Net Sales — Threshold: >=Rs.55.55 crore Covenant: TOL/TNW — Threshold: <=1.04
B. Non financial covenants	
	1. Effect any drastic change in their management setup. 2. Corporate guarantee from Fives Group

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

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

Annexure 5: Bank Lender Details for this Company

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

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.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.*

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