

## Fedders Electric & Engineering Ltd

December 14, 2018

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	460.00	<b>CARE D; ISSUER NOT COOPERATING*</b> (Single D; ISSUER NOT COOPERATING*)	Issuer not cooperating; Based on best available information
Short term Bank Facilities	762.00	<b>CARE D; ISSUER NOT COOPERATING*</b> (Single D; ISSUER NOT COOPERATING*)	Issuer not cooperating; Based on best available information
<b>Total</b>	<b>1222.00</b> (Rs. One Thousand Twelve Hundred and Twenty Two crore only)		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Fedders Electric & Engineering Ltd (FEEL) to monitor the rating vide e-mail communications dated October 29, 2018, November 27, 2018, November 28, 2018, November 30, 2018 and December 04, 2018 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, Fedders Electric & Engineering Ltd (FEEL) has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Fedders Electric & Engineering Ltd (FEEL) bank facilities will now be denoted as **CARE D/CARE D; ISSUER NOT COOPERATING\***.

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.***

The ratings take into account the stressed liquidity due to certain cash flow mismatches primarily on account of long pending receivables from its offshore debtors and deterioration in the financial risk profile of the company as reflected in its declining profitability margins & further write off of certain bad debts in the 9months ending Dec 31, 2017 (refers to period from April 01 to Dec 31). The ratings revision also factors in high working capital intensity of operations with elongated receivables, ineligibility of the company for participating in World Bank funded projects and exposure of the company towards raw material price volatility and susceptibility to forex fluctuation risk.

Going forward, efficient management of working capital cycle, settlement of pending claims with clients and the ability of the company to scale up its operations along with enhancement in its profitability margins would be the key rating sensitivities.

### Detailed description of the key rating drivers

*At the time of last rating on June 22, 2018 the following were the rating strengths and weaknesses*

#### Key Rating Weaknesses

***Stressed liquidity:*** The liquidity of the company has been under stress due to certain cash flow mismatches primarily on account of long pending receivables from its offshore debtors and also on account of deterioration in the financial risk profile of the company in 9MFY18. As a result of the stress on liquidity there are ongoing devolvments in the letter of credit (LC) & also Overdues in the working capital facility assigned by various banks. Going forward, the ability of the company to improve its liquidity position shall remain critical.

***Deterioration in financial profile:*** FEEL derives majority of the revenue from the structural steel segment (which accounts for around 80% of the revenue in FY17) while power projects and Environmental Control System form the remaining portion of the revenue. The PBILDT Margin of the company declined from 9.66% in FY16 to 8.47% in FY17 (refers to period from April 01 to March 31) and further to 7% in 9MFY18. The moderation in margins is on account of declining international orders which provides higher profitability and also due to aggressive bidding by the company at

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

\*Issuer did not cooperate; Based on best available information

comparatively lesser margins to secure regular domestic orders. Due to declining profitability & long pending receivables from its debtors, the liquidity position of the company got stressed in the short term on account of certain cash flow mismatches. Going forward, the ability of the company to manage its overall cash flows shall remain critical.

**Elongated working capital cycle:** Working capital intensity continues to remain high for FEEL owing to a high collection period and high inventory period to meet the customer requirement. Furthermore, due to ongoing litigations in certain projects in Ethiopia and Nigeria, the receivables outstanding more than 6 months have been increasing y-o-y and stood at Rs.82.32 crore as on March 31, 2017. The same has led to long collection period of 118 days as on March 31, 2017.

**Ineligibility for participation in the World Bank funded projects:** In April 2016, FEEL and related entities have been debarred to participate in WB financed projects for a period of 4 years (April 06, 2016 to April 05, 2020). The same has impacted the financial profile of the company by causing decline in margins as international orders have better margins in comparison with the domestic orders.

**Susceptible to volatility in raw material prices and forex risk:** Over the past few years, raw material, primarily copper, aluminium foil and steel, cost has constituted about 90% of total cost of sales. This exposes the company to the effects of adverse movement in their prices. FEEL also has foreign currency borrowings of Rs. 38.69 crore as on March 31, 2017 (Rs.65.02 cr as on March 31, 2016), exposing it to risk of adverse movement in forex. However, the company is naturally hedged to certain extent with exports sales accounting for around Rs.54.63 crore in FY17 which partially limits the risk from foreign currency fluctuation.

**Analytical approach:** Standalone

#### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)  
[CARE's Criteria on assigning Outlook to Credit Ratings](#)  
[CARE's Policy on Default Recognition](#)  
[CARE's Methodology for Short-term Instruments](#)  
[CARE's Methodology for manufacturing companies](#)  
[Financial Ratios – Non Financial Sector](#)

#### About the Company

FEEL, a public limited company, was incorporated by the Punj group in 1957. The company provides customized solutions on a turnkey basis in the areas of infrastructure, involving manufacturing, engineering, designing of Steel Structures, Engineering, Procurement & Construction (EPC) for transmission of power, manufacture and supply of towers for wind turbines, and environment control systems for industrial and customized applications. Further, the Company has concluded the transaction with respect to the sale of the brand name, logo, trademark or any other intellectual property rights associated with "LLOYD" and/or "Lloyd" to Havells India Limited for a consideration of Rs 50.00 Crores on 8th May, 2017. Subsequently, after approval from the Registrar of Companies, the name of the Company has been changed from Fedders Lloyd Corporation Limited to Fedders Electric and Engineering Limited.

Brief Financials (Rs. crore)	FY16 (A) 9M	FY17 (A) 12M	9M FY18 (UA)
Total operating income	1031.65	1354.11	917.77
PBILDT	99.65	114.76	64.20
PAT	21.58	20.57	19.63
Overall gearing (times)	1.55	1.41	NA
Interest coverage (times)	2.03	1.77	1.34

A: Audited, UA: Un-Audited, M: Months, NA: Not Available

#### Status of non-cooperation with previous CRA:

Not Applicable

#### Any other information:

Not Applicable

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Mr Gaurav Dixit

Tel: 011- 45333235

Mobile: +91 9717070079

Email: [gaurav.dixit@careratings.com](mailto:gaurav.dixit@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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
Term Loan-Long Term	-	-	Sep 2018	20.00	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based-Short Term	-	-	-	762.00	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based-Long Term	-	-	-	440.00	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

*\*Issuer did not cooperate; Based on best available information*

## 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	20.00	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE D (22-Jun-18) 2)CARE BB; Stable (14-May-18)	1)CARE BBB; Stable (09-Feb-18)	1)CARE BBB+; Negative (11-Jan-17) 2)CARE BBB+ (01-Sep-16)	1)CARE A- (11-Feb-16)
2.	Non-fund-based-Short Term	ST	762.00	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE D (22-Jun-18) 2)CARE A4 (14-May-18)	1)CARE A3 (09-Feb-18)	1)CARE A3+ (11-Jan-17) 2)CARE A3+ (01-Sep-16)	1)CARE A2 (11-Feb-16)
3.	Fund-based-Long Term	LT	440.00	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE D (22-Jun-18) 2)CARE BB; Stable (14-May-18)	1)CARE BBB; Stable (09-Feb-18)	1)CARE BBB+; Negative (11-Jan-17) 2)CARE BBB+ (01-Sep-16)	1)CARE A- (11-Feb-16)
4.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (01-Sep-16)	1)CARE A2 (11-Feb-16)

\*Issuer did not cooperate; Based on best available information

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015  
Cell: +91-9099028864  
Tel: +91-79-4026 5656  
E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.  
Cell: +91 98407 54521  
Tel: +91-80-4115 0445, 4165 4529  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 85111-53511/99251-42264  
Tel: +91- 0172-490-4000/01  
Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.  
Cell: +91 98407 54521  
Tel: +91-44-2849 7812 / 0811  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.  
Tel: +91-422-4332399 / 4502399  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**HYDERABAD**

**Mr. Ramesh Bob**  
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.  
Cell : + 91 90520 00521  
Tel: +91-40-4010 2030  
E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.  
Cell: +91 – 95490 33222  
Tel: +91-141-402 0213 / 14  
E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.  
Cell: +91-98319 67110  
Tel: +91-33- 4018 1600  
E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.  
Cell: +91-98117 45677  
Tel: +91-11-4533 3200  
E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.  
Cell: +91-98361 07331  
Tel: +91-20- 4000 9000  
E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

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