Fives Combustion Systems Private Limited

February 26, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term / Short-term Bank Facilities	1.00	**CARE BBB+ (SO); Stable/ CARE A2 (SO) [Triple B Plus (Structured Obligation); Outlook : Stable/ A Two (Structured Obligation)]**	Reaffirmed
Short-term Bank Facilities	12.00	**CARE A2 (SO) [A Two (Structured Obligation)]**	Reaffirmed
Total Facilities	**13.00 [Rupees Thirteen crore only]**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Fives Combustion Systems Private Limited (FCSPL) are based on the credit enhancement in the form unconditional and irrevocable corporate guarantee extended by the ultimate holding company, Fives, France.

The ratings assigned to the bank facilities of FCSPL continue to derive comfort from Fives, France's long standing track record of global operations and strong financial flexibility marked by favorable capital structure and comfortable debt coverage indicators. The ratings also continue take into account FCSPL's comfortable financial risk profile marked by healthy profitability margins, comfortable leverage as well as debt coverage indicators and comfortable liquidity position supported by healthy free cash & bank balance.

The ratings of FCSPL however, continue to remain constrained on account of moderate albeit growing scale of operations of FCSPL and susceptibility of its profit margins to the volatility in the raw material prices.

Any significant change in credit profile of Fives, France (the guarantor) would be the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy profit margins of FCSPL

During FY18 (refers to a period of April 1 to March 31), the profit margins of FCSPL continued to remain healthy marked by the PBILDT margin of 16.02% as against 16.67% during FY17 on account of increase in other manufacturing expense as a percentage of TOI during FY18. Consequently, FSCPL continued to report healthy PAT margin of 10.12% in FY18 as compared to PAT margin of 11.36% in FY17.

Further, during CY17 (refers to a period of January 1 to December 31), Fives, France reported stable PBILDT margin of 6.47% on TOI of Rs.14137.59 crore (€1922.26 million) as compared to 6.40% on TOI of Rs.13306.30 crroe (€1789.17 million) in CY16. Further, the PAT margin remained at 0.11% in CY17 as compared to PAT of margin of 0.22% in CY16.

Comfortable capital structure and debt coverage indicators

The solvency position of FCSPL continued to remain comfortable as it remained debt-free as on balance sheet date as the company has not utilized its fund based limits during the year. During FY18, the interest coverage ratio has improved and remained comfortable at 28.51x as against 25.10x in FY17 due to increase in PBILDT coupled with marginal decrease in interest & financial charges during FY18. Further, in absence of external borrowings, total debt to GCA continued to remain nil as on March 31, 2018 in line with previous year. Further, capital structure and debt coverage indicators continued to remain comfortable during 9MFY19 in absence of debt.

Further, as on December 31, 2017, the capital structure of Fives, France has remained stable marked by its overall gearing ratio of 0.30x which is similar as previous year. The debt coverage indicators of Fives, France remained comfortable in CY17. During CY17, although the interest coverage ratio reduced, continued to remain comfortable at 3.00x. The total debt to GCA remained at a comfortable level of 2.49 years in CY17 as against 2.29 years in CY16. The marginal increase in total debt to GCA level during CY17 is mainly because of decrease in GCA along with increase in interest expense during the year.

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

Comfortable liquidity position

As on March 31, 2018, the current ratio of FCSPL had further improved and continued to remain comfortable at 1.96x as against 1.77x as on March 31, 2017 on account of increase in total inventory level to support higher pending order for execution as on balance sheet date. During FY18, the working capital cycle of FCSPL has remained stable at 81 days as against 83 days during FY17. Further, the average working capital utilization remained nil for the past 12 months ended January, 2019. While unencumbered cash and bank balance of the company have continued to remain healthy at Rs.9.41 crore as on March 31, 2018 as against Rs.9.39 crore as on March 31, 2017. Furthermore, the free cash and bank balance of Fives, France remained healthy at €129.97 million as on December 31, 2017 and the working capital cycle continued to remain comfortable at 30 days in CY17 as compared to 37 days in CY16.

Key Rating Weaknesses

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.

Moderate albeit growing scale of operations of FCSPL

Total Operating Income (TOI) of FCSPL grew by 15.31% during FY18, however, continued to remain moderate at Rs.44.06 crore as against Rs.38.21 crore during FY17. During 9MFY19 (Provisional), FCSPL reported PBLIDT and PAT margin of 12.52% and 9.20% respectively on TOI of Rs.49.62 crore, reflects about 50% growth in TOI during 9MFY19 over FY18 on annualized basis. The growth in scale of operations during FY18 and 9MFY19 was on account of increase in number of execution of orders received from its existing as well as new customers.

Furthermore, during CY17, the TOI of Fives, France has grew by 7.44% and remained healthy at €1922.26 million as against €1789.17 million in CY16.

Analytical approach:

Guarantor's Assessment. The rating assigned to bank facilities of FCSPL are backed by the unconditional and irrevocable corporate guarantee extended by the ultimate holding company, Fives, France.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Rating Methodology: Factoring Linkages in Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

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.

The Fives Group continues to provide support in terms of technology, finance and new product line to expand business of FCSPL. FCSPL has also entered into a Manufacturing and License Agreement with Fives Pillard (a Fives Group company specialized in manufacturing of combustion equipment) providing technological support.

Brief Financials of FCSPL (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	38.21	44.06
PBILDT	6.37	7.06
PAT	4.34	4.46
Overall gearing (times)	0.00	0.00
Interest coverage (times)	25.10	28.51

A: Audited

In 9MFY19 (Provisional), FCSPL reported total operating income of Rs.49.62 crore with PBLIDT margin of 12.52% and PAT margin of 9.20%.

About the Guarantor (Fives, France)

Fives is an industrial engineering group with an extensive multi-sector expertise. Fives designs and supplies machines, process equipment and production lines for the world's largest industrial players in Aerospace, Aluminum, Automotive, Cement and Minerals, Energy, Glass, Logistics and Steel sectors. Located in nearly thirty countries and with almost 8,300 employees across six continents, the Group is known for its technological expertise and competence in executing large-scale international projects. Fives' regional offices are located in: Brazil, China, India, Indonesia, Japan, Mexico, Middle-East, Russia & CIS, South Africa, Thailand and Turkey. Fives also has 4 operational subsidiaries which give support to local contracts in Brazil, China, India and Russia.

During CY17 (period refers to January 1 to December 31), Fives reported (on a consolidation basis) reported turnover of €1922.26 million with a profit after tax (PAT) of €1.88 million as against consolidated turnover of €1789.17 million with a profit after tax (PAT) of €3.96 million during CY16.

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

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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
Non-fund-based - ST-Bank Guarantees	-	-	-	12.00	CARE A2 (SO)
Fund-based - LT/ ST-Cash Credit	-	-	-	1.00	CARE BBB+ (SO); Stable / CARE A2 (SO)

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.	Fund-based - LT/ ST-Cash Credit	LT/ST	1.00	CARE BBB+ (SO); Stable / CARE A2 (SO)	1)CARE BBB+ (SO); Stable / CARE A2 (SO) (6-Apr-18)	-	1)CARE BBB+ (SO); Stable / CARE A3+ (SO) (23-Mar-17)	1)CARE BBB+ (SO) / CARE A3+ (SO) (28-Mar-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	12.00	CARE A2 (SO)	1)CARE A2 (SO) (6-Apr-18)	-	1)CARE A3+ (SO) (23-Mar-17)	1)CARE A3+ (SO) (28-Mar-16)

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