Fives Combustion Systems Private Limited

April 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term / Short-term Bank Facilities	1	**CARE BBB+; Stable/ CARE A2 [Triple B Plus; Outlook : Stable / A Two]**	Revised from CARE BBB+ (CE) / CARE A2 (CE) [Triple B Plus Outlook: Stable (Credit Enhancement) / A Two (Credit Enhancement)]
Short-term Bank Facilities	20 (increased from 13)	**CARE A2 [A Two]**	Revised from CARE A2 (CE) [A Two (Credit Enhancement)]
Total Facilities	**21 [Rupees Twenty One crore only]**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of FCSPL are 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. The ratings further derive comfort from FCSPL's comfortable financial risk profile marked by its healthy profitability margins coupled with comfortable capital structure as well as debt coverage indicators and adequate liquidity position during FY19 (period refers to April 1 to March 31).

The ratings, however, remained constraint on account of FCSPL's growing albeit moderate scale of operations during FY19 along with susceptibility of profit margins to fluctuation in raw material prices.

Key rating sensitivities:

Positive Factors

- Growth in FCSPL's scale of operations by more than 30% on sustained basis with maintenance of prevailing profitability margins
- Managing its working capital efficiently with improvement in working capital cycle of less than 60 days

Negative Factors

- Decline in scale of operations by more than 25% in comparison to envisaged level along with decline in operating profit margins below 10% on sustained basis
- Higher than envisaged debt leading to deterioration in capital structure with above unity overall gearing
- Elongation of operating cycle to more than 120 days on a sustained basis leading to high reliance on working capital borrowings and stretched liquidity position of FCSPL.

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) providing technological support. During CY18 (CY refers to period from January 1 to December 31), the total operating income (TOI) of Fives remained at €1934 million (Approx. Rs.15,447 crore) as against €1922 million (Approx. Rs.14,138 crore) during CY17.

Healthy profit margins during FY19

During FY19, operating margins of FCSPL marked by PBILDT margin had deteriorated marginally, however, continued to remain healthy at 14.59% as compared to 16.02% during FY18 on account of increase in raw material cost and selling expense as a percentage of TOI during FY19. Consequently, FSCPL's PAT margin also dipped marginally, but remained healthy

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

at 9.25% during FY19 as compared to PAT margin of 10.12% during FY18 on the back of decrease in operating margin during FY19. Further, during 9MFY20, the PBILDT margin of FCSPL continued to remain healthy at 16.02%.

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. Further during FY19, the interest coverage ratio of FCSPL has continued to remain comfortable at 25.30x as compared to 28.51x during FY18 owing to marginal increase in finance charges towards non-fund based bank facilities during FY19. Further, in absence of external borrowings, total debt to GCA continued to remain nil as on March 31, 2019 in line with previous year. Further, capital structure and debt coverage indicators continued to remain comfortable during 9MFY20 in absence of any debt as on December 31, 2019.

Key Rating Weaknesses

Moderate albeit growing scale of operations of FCSPL

Total Operating Income (TOI) of FCSPL grew by 26.39% during FY19, however, continued to remain moderate at Rs.55.69 crore as compared to Rs.44.06 crore during FY18. The growth in its scale of operations was on account of higher number of orders received from its existing as well as new customers and timely execution of the same.

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

Liquidity position of FCSPL remained adequate marked by comfortable level of unencumbered cash and bank balance of Rs.11.78 crore as on March 31, 2019 as compared to Rs.9.41 crore as on March 31, 2018. Further, during FY19, cash flow from operating activities of the company improved to Rs.4.69 crore as compared to Rs.1.77 crore during FY18 on the back of increase in operating profit coupled with increase in current liabilities. Average working capital utilization remained negligible for the past 12 months ended February, 2020. Further, company has sufficient cash accruals of Rs.5.10 crore during FY19 as against nil repayment obligations during FY20. Furthermore, the current ratio of FCSPL continued to remain adequate at 1.87x As on March 31, 2019 as against 1.96x as on March 31, 2018. During FY19, the working capital cycle of FCSPL has continued to remain moderate at 86 days as against 81 days during FY18.

Analytical approach: Standalone along with factoring operational, managerial and financial support from Fives Group. The ratings assigned to the above-said bank facilities of FCSPL were previously based on explicit credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by its ultimate parent Fives Group. However, CARE has now assessed the ratings of the bank facilities of FCSPL on a standalone basis since existing standalone overall financial risk profile of FCSPL stands better and the corporate guarantee does not provide any additional credit enhancement. However, as part of the credit risk assessment, CARE continues to factor the strong implicit group support enjoyed by FCSPL by virtue of it being part of the Fives Group.

Applicable Criteria

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

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.

Brief Financials of FCSPL (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	44.06	55.69
PBILDT	7.06	8.12
PAT	4.46	5.15
Overall gearing (times)	0.00	0.00
Interest coverage (times)	28.51	25.30

A: Audited

During 9MFY20 (Provisional), FCSPL reported total operating income of Rs.53.17 crore with PBLIDT and PAT of Rs.8.52 crore and Rs.5.54 crore respectively.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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
Fund-based - LT/ ST-Cash Credit	-	-	-	1.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Bank Guarantees	-	-	-	20.00	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	1.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+ (SO); Stable / CARE A2 (SO) (26-Feb-19) 2)CARE BBB+ (SO); Stable / CARE A2 (SO) (07-Apr-18)	-	1)CARE BBB+ (SO); Stable / CARE A3+ (SO) (23-Mar-17)
2.	Non-fund-based - ST-Bank Guarantees	ST	20.00	CARE A2	-	1)CARE A2 (SO) (26-Feb-19) 2)CARE A2 (SO) (07-Apr-18)	-	1)CARE A3+ (SO) (23-Mar-17)

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.*

Contact us

Media Contact

Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – Ms. Shreeda Shah
Group Head Contact no.- +91-79-4026 5636
Group Head Email ID- shreeda.shah@careratings.com

Business Development Contact

Name: Mr. Deepak Prajapati
Contact no. : +91-79-4026 5656
Email ID : deepak.prajapati@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 the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**