Forbes and Company Limited

November 10, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[2]	Rating Action
Long term Bank Facilities	171.99	**CARE BB+; Negative (Double B Plus; Outlook: Negative)**	**Revised from CARE A- (Single A Minus) and removed from Under Credit watch with Negative Implications; Negative outlook assigned**
Short term Non fund based limits	38.50	**CARE A4+ (A Four Plus)**	**Revised from CARE A2+ (A Two Plus) and removed from Under Credit watch with Negative Implications**
Total Facilities	**210.49 (Rupees Two hundred and ten crore and forty nine lakh only)**		
Proposed Non-Convertible Debentures	100.00 (Rupees One hundred crore only)	**CARE BB+; Negative (Double B Plus; Outlook: Negative)**	**Revised from CARE A- (Single A Minus) and removed from Under Credit watch with Negative Implications; Negative outlook assigned**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the long term and short term bank facilities and proposed Non-Convertible Debentures (NCDs) of Forbes and Company Limited (FCL) take into account, the losses reported at consolidated level for the period ended March 31, 2020 and June 30, 2020, emanating from impairment of goodwill by Rs.216.46 crore at subsidiary Eureka Forbes Ltd level (during FY2020) and decline in revenues for the engineering, Information technology (IT) and shipping businesses as compared to previous year.

Besides, recent moderation in the credit profile of the promoter group, as evinced by the decline in ratings of the holding-cum-operating company, Shapoorji Pallonji and Company Private Limited (SPCPL) from 'CARE A+/A1+; under Credit Watch with Developing Implications' to 'CARE A-/A2+; under Credit Watch with Negative Implications' in September 2020, moderation in the liquidity profile of FCL (consolidated) on account of COVID-19 outbreak, poor financial risk profile with weak debt coverage indicators and a subdued operational performance at consolidated and standalone levels are other rating weaknesses. Further, the turnaround expected in H2FY2020 for overseas subsidiaries of EFL, has not been achieved and is now expected to be further elongated, given the prolonged disruption in operations due to Covid-19 crisis.

The ratings however, continue to derive strength from the experienced and resourceful promoters, combined with the leadership position in electric water purifier and vacuum cleaner segment of key subsidiary Eureka Forbes Ltd which account for around 84% of total operating income for FCL on consolidated basis and adequate sales of inventory and application for Occupancy Certificate (OC) of its real estate venture – 'Vicinia'. The ratings also factor the credit enhancement from SPCPL on part of the outstanding debt of one of its subsidiary Shapoorji Pallonji Forbes Shipping Limited.

The timely realization of envisaged revenue from FCL's real estate project and receipt of its OC, quick recovery in operating and financial performance of its key subsidiaries and timely completion of refinancing operations for meeting the large debt repayments due in H2FY2021 continue to remain key rating sensitivities. Any major financial support provided to the subsidiaries, sourced from external debt is also a rating monitorable.

Rating Sensitivities

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

- Increase in total consolidated income of FCL by 40%
- Improvement in consolidated gearing ratio below unity

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

- Negative variation in the credit profile of the parent, SPCPL
- Inability to infuse capital at EFL level and/or complete asset monetisation within envisaged timelines
- Higher than expected support to the underlying subsidiaries by way of debt

Outlook: Negative

The removal of 'Credit Watch' and assignment of negative outlook reflects the weak demand outlook in the near to medium term attributable to Covid-19 and the continued headwinds in macro-environment due to which CARE expects further moderation in revenue growth and profitability in FY21. The outlook may be revised to stable if the demand prospects improves and the group is able to successfully strengthen its financial profile.

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

Detailed description of the key rating drivers
Key Rating Weaknesses
Moderation in liquidity profile of FCL: The unencumbered cash and bank balances for FCL on a consolidated level has seen a steady decline from Rs.190.34 crore as on March 31, 2017 to Rs.34.52 crore as on March 31, 2020. The decline in last two years i.e FY19 and FY20 was mainly on account of debt repayment of a subsidiary in February 2019 followed by capex undertaken in FY2020.
At a standalone level, during FY20, FCL infused ~Rs.13 crore in the form of deposits and equity in Forbes Technosys Limited. As on March 31, 2020, liquidity in the form of cash balances/liquid investments was negligible at Rs.1.91 crore. However, liquidity in the form of unutilized fund based working capital limits amounting to ~Rs.21 crore (average of last 12 months ending September 30, 2020) is available providing for limited back-up.
FCL had availed an extension of six months in the repayment schedule of debt taken from Federal Bank, however, One Time Resolution (OTR) facility has not been availed. Based on management discussion, there are enough funds available to meet the debt repayments of FCL on a standalone level. Further, EFL group has also not availed any moratorium/OTR facility. However, subsidiaries SPFSL (for loan guaranteed by SPCPL) and FTL had availed moratorium and have also applied under the OTR facility towards which, lenders approval is awaited.

Subdued operating performance at standalone and consolidated level: The operating performance of FCL was subdued in FY20, as estimated, due to lack-lustre performance of all its subsidiaries during the year, mainly the health and hygiene and IT segments. As a result, the group witnessed a y-o-y de-growth of 3% in revenues from Rs.2,866.18 crore during FY19 to Rs.2,775.52 crore during FY20 and of 152% in PBILDT from a profit of Rs.83.53 crore during FY19 to a loss of Rs.43.16 crore during FY20. The substantial decline in profitability is on account of non-cash expenses viz. impairment of goodwill of Rs.216.45 crore during FY2020, as reflected in the improvement in cash flows from operating activities from Rs.207.46 crore during FY19 to Rs.229.41 crore during FY20. There was further q-o-q decline of 32% and y-o-y decline of 41% in the consolidated revenues of FCL. However, there was a reduction in losses from Rs.145.47 crore during Q4FY2020 to Rs.41.09 crore during Q1FY21, on account of goodwill impairment recorded during Q4FY2020.
At standalone level, the revenue for FCL declined by 14% on y-o-y basis on account of decline in earnings from the engineering division resulting from the slowdown in the automobile sector and on account of adoption of modified retrospective approach under Ind AS 115 as on April 1, 2018 for recognition of revenue from real estate contracts; wherein real estate revenues can be recognized only upon completion of the project. However, real estate development costs are accounted as and when incurred and hence, the PBILDT declined by 90% to Rs.2.98 crore in FY20 from Rs.31.19 crore in FY19. The PAT has declined by 339% to a loss of Rs.24.16 crore in FY20 from a profit of Rs.10.27 crore in FY19.
For detailed rating rationale on EFL and SPFSL, please refer to our website www.careratings.com

Average financial risk profile with weak debt coverage indicators at consolidated level: At consolidated level, FCL's debt profile predominantly comprises of subsidiaries' borrowings. The major amount is acquisition debt by EFL group for LIAG and loans availed by SPFSL for acquisition of vessels. Owing to subdued operating performance of FCL standalone and erosion of net worth (reduced to Rs 10 crore at the end of FY20) due to provision for impairment of investments in loss making subsidiaries, overall gearing deteriorated substantially to 109.87 times as on March 31, 2020. Total Debt to GCA deteriorated to -4.66 times as on March 31, 2020 from 17.20 times as on March 31, 2019 and PBILDT Interest coverage declined to 0.53 times during FY20 from 1.70 times during FY19.
On standalone basis, as on March 31, 2020, capital structure and debt coverage indicators deteriorated following decline in income, profitability and consolidated net worth. As on March 31, 2020, the overall gearing including corporate guarantees deteriorated to 1.66 times from 1.32 times as on March 31, 2018. FCL is exposed through corporate guarantees issued to FTL (Rs.129.62 crore), Shapoorji Pallonji Forbes Shipping Limited (Rs.69.36 crore) and Shapoorji Pallonji Bumi Armada Offshore Limited (SPBAOL) (Rs.33.47 crore) coupled with investments of Rs.76.50 crore made in FTL.

Key Rating Strengths
Experienced and resourceful promoters, albeit recent moderation in credit profile: FCL is a subsidiary of Shapoorji Pallonji and Company Limited (SPCPL) which is the flagship company of SP Group. The SP group is a multibillion dollar conglomerate with business interests in several sectors such as real estate, coal mining, power, ports, roads, biofuels & agriculture, shipping & logistics, consumer products, textiles etc. By virtue of being part of the SP Group, FCL draws strength from the experience, management team and resourcefulness of the group. With 72.56% equity shareholding in FCL by SPCPL, CARE believes promoter support shall continue while it is crucial for FCL to also improve its operational and financial performance at consolidated level. However, the credit profile of the SP group has deteriorated recently, as evinced by the revision in the ratings of Shapoorji Pallonji and Company Private Limited (SPCPL, the holding-cum-operating company of the group) to 'CARE A-/A2+; under Credit Watch with Negative Implications' from 'CARE A+/A1+; under Credit Watch with Developing Implications' in September 2020.

Well-established distribution network of FCL's key subsidiary EFL, which possesses strong brand recall and leadership position in domestic water purification and vacuum cleaners in India: EFL is one of the leading direct sales companies having strong distribution network of more than 4,000 strong direct sales force on payroll and additional 750 plus through channel partners. The company has presence in 14,700 stores across 800 towns through distributors, dealers and retail partners. Company has wide service network of over 1,500 service partner with 7,000 service engineers across 21,000 postal codes of India. Though, direct selling is the unique selling point (USP) of the company, EFL is widening its reach by tapping online shopping portals, tie up with retailers. EFL's Direct Sales channel saw the introduction of new products (such as Aquaguard with Active Copper), the workforce was reduced with prime focus on high value product sales. EFL's Retail arm also achieved incremental business from over 8,000 new outlets, recorded in November 2019. EFL has been able to retain its leadership presence with brands like Aquaguard, Euroclean and Aquasure.
However, as a result of the world-wide COVID-19 pandemic, all stores and operations of EFL were shut down during March-June 2020. As per management estimates, no revenue was earned during April and May 2020, leading to liquidity stress in the foreign subsidiaries. Various action plans and cost reduction measures are being explored and undertaken at the group level to deal with the liquidity crisis in European subsidiaries. However, timely implementation and achievement of envisaged results from these measures are crucial from rating perspective.

Satisfactory performance of the existing real estate venture – 'Vicinia': In FY16, FCL initiated a real estate venture along with Videocon Realty and Infrastructure Ltd. (Videocon Group) to jointly develop a land parcel of 6.7 acres at Chandivali, Mumbai. During March 2019, FCL terminated the contract with Videocon Group which has been since taken over by a group company of SPCPL, Paikar Real Estate Private Limited. Share of FCL in the project is 50% (294 flats) of which 203 flats have been sold as on June 30, 2020. Cash inflows from the monetized inventory of Vicinia majorly meet its construction requirement with moderate dependence on working capital borrowings by the company. Phase 1 was completed during March 2020 and application for Occupancy Certificate has been submitted to the municipal authorities. However, due to the lockdown, the certificate is pending receipt and expected by December 2020.

Liquidity:

Liquidity – Stretched: On a standalone level, repayments of Rs.11 crore due during Q3FY21 shall be met out of undrawn working capital limits approximately Rs.21 crore and cash flow expected from Vicinia on receipt of Occupancy certificate.
However, on consolidated level, a subsidiary Shapoorji Pallonji Forbes Shipping Limited had repayments of Rs.147 crore due in October 2020 (on account of a 3 month moratorium from July 2020), however, the company has applied for OTR facility for the redemption of ECB 1. EFL group has around Rs.87 crore (principal including lease liabilities) due in FY21, which can be largely met through combination of internal accruals/refinancing/government relief and/or infusion from the promoters.
Furthermore, liquidity as on March 31, 2020, on standalone and consolidated FCL level was ~ Rs.2 crore and ~ Rs.72 crore, respectively. As on September 30, 2020, liquidity available with EFL was Rs.125 crore at a consolidated level. Further, FCL had FD deposits of Rs.5 crore as on September 30, 2020 at a standalone level. Details of liquidity of FCL at consolidated level is not available.

Analytical approach: Consolidated approach is adopted as the major contribution comes from subsidiaries under the FCL group and there are financial linkages with the subsidiaries for supporting operations. Standalone contribution to revenue stands at 8% as on March 31, 2020. List of companies consolidated is attached as Annexure 5.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation
Rating Methodology: Factoring linkages Parent Sub JV Group
Rating Methodology – Manufacturing Companies
Financial Ratios – Non financial sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments

About the Company

Forbes and Company Limited (FCL), a public listed entity is a subsidiary of Shapoorji Pallonji's flagship company Shapoorji Pallonji and Company Private Limited (SPCPL, rated CARE A-/CARE A2+; Credit Watch with Negative Implications), the holding-cum-operating company of the SP group. Forbes & Company Ltd was established in India in 1767 by John Forbes. Over the years, the management of the company moved to various business houses like the Forbes, Campbells, the Tata Group. In FY02, the company's shareholding underwent a restructuring and Shapoorji Pallonji (SP) group acquired a majority stake of 72.56% of the share capital of the company and it became a subsidiary of SPCPL. 1.29% of shares of FCL are held by Forbes Campbell Finance Limited, subsidiary of FCL. Forbes & Company along with its subsidiaries are known as Forbes and Company Group (FCG).

FCL currently operates under two divisions Engineering and Real Estate. FCL had its two manufacturing facilities located at Waluj, Aurangabad and one in Chandivali Mumbai, Maharashtra, however, the operations at Chandivali have been successfully shifted to the factory at Waluj as on January 31, 2020.

Forbes and Company Ltd. Group (FCG) consist of FCL and its subsidiaries which are involved in various business verticals. Given below are the key subsidiaries of FCG –

1. **Eureka Forbes Ltd (EFL) (CARE BB+/BB+(Is); Negative/A4+) - and its subsidiaries**: EFL is a wholly owned company of FCL, it is a leading manufacturer and service provider in the water purification and vacuum cleaners with presence in India, south-east Asia and Europe.
2. **Shapoorji Pallonji Forbes Shipping Ltd (SPFSL):** the company owns and operates five vessels (chemical tankers) which are placed with a pool based out of Singapore.
3. **Forbes Technosys Ltd. (FTL):** sale of different types of kiosks, multifunction ATMs, Micro ATMs, provides IT solutions in transaction processing, services and networks that help organizations handle large transaction volumes efficiently.

Brief Consolidated Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2,866.18	2,775.52
PBILDT	160.58	56.00
PAT	-2.98	-338.27
Overall gearing (times)	2.87	109.87
Interest coverage (times)	1.70	0.53

A: Audited; Note: Financials have been classified as per CARE's internal standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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-Term Loan	-	-	-	136.49	CARE BB+; Negative
Fund-based - LT-EPC/PSC	-	-	-	35.50	CARE BB+; Negative
Non-fund-based - ST-BG/LC	-	-	-	38.50	CARE A4+
Debentures-Non Convertible Debentures	-	-	-	100.00	CARE BB+; Negative

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	136.49	CARE BB+; Negative	1)CARE A- (Under Credit watch with Negative Implications) (12-May-20)	1)CARE A; Stable (26-Nov-19) 2)CARE A+; Negative (09-Oct-19) 3)CARE A+; Stable (05-Apr-19)	1)CARE AA-; Stable (19-Sep-18)	1)CARE AA-; Stable (16-Mar-18) 2)CARE AA-; Stable (04-May-17)
2.	Debentures-Non Convertible Debentures	LT	100.00	CARE BB+; Negative	1)CARE A- (Under Credit watch with Negative Implications) (12-May-20)	1)CARE A; Stable (26-Nov-19) 2)CARE A+; Negative (09-Oct-19) 3)CARE A+; Stable (05-Apr-19)	1)CARE AA-; Stable (19-Sep-18)	1)CARE AA-; Stable (16-Mar-18) 2)CARE AA-; Stable (04-May-17)
3.	Fund-based - LT-EPC/PSC	LT	35.50	CARE BB+; Negative	1)CARE A- (Under Credit watch with Negative Implications) (12-May-20)	1)CARE A; Stable (26-Nov-19)	-	-
4.	Non-fund-based - ST-BG/LC	ST	38.50	CARE A4+	1)CARE A2+ (Under Credit watch with Negative Implications) (12-May-20)	1)CARE A1 (26-Nov-19)	-	-

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

Bank facilities	Detailed explanation
A. Financial covenants	
I. TOL/TNW	Shall not exceed 3 times
II. Management Control	To remain within SP group until closure of the loan
III. Asset Cover	Minimum asset cover of 1.25 times has to be maintained at all times during the currency of the loan (subject to bank's valuation)
B. Non-financial covenants	
I. Guarantees	To be executed in a format acceptable to the bank and with quantum and duration of the liability clearly specified in unequivocal terms
II. Bills discounted	- Bills having usance period more than 90 days not eligible for bank finance - Bills discounted with one bank will not be discounted with any other bank/FIs

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-EPC/PSC	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-BG/LC	Simple

Annexure-5: List of subsidiaries consolidated

Name of companies	% of holding
Subsidiaries	
1. Eureka Forbes Limited and its subsidiaries:	100
- Aquaignis Technologies Private Limited (w. e. f. June 13, 2018)	100
- Forbes Lux International AG $	100
- Lux International AG $	100
- Lux del Paraguay S.A. $ (Shareholding increased from October 31, 2019)	80
- Lux Italia srl $ (under voluntary liquidation)	100
- Lux Schweiz AG $	100
- Lux (Deutschland) GmbH $ (Filed for winding up)	100
- Lux International Services and Logistics GmbH $ (formerly Lux Service GmbH)	100
- Lux Norge A/S $	100
- Lux Osterreich GmbH $	100
- Lux Hungária Kereskedelmi Kft.$	100
- LIAG Trading & Investment Ltd. $	100
- Lux Welity Polska Sp zoo (w.e.f. July 29, 2019)	100
- Lux Professional Aqua Paraguay S. A. (formerly Lux Aqua Paraguay S.A)	100
- EFL Mauritius Limited	100
- Euro Forbes Financial Services Limited	100
- Euro Forbes Limited $	100
- Forbes Lux FZCO $	100
- Forbes Facility Services Private Limited	100
- Forbes Enviro Solutions Limited	100
2. Forbes Campbell Finance Limited and its subsidiaries:	100
- Forbes Campbell Services Limited	98
3. Forbes Technosys Limited	100
4. Volkart Fleming Shipping and Services Limited	100
5. Shapoorji Pallonji Forbes Shipping Limited	25
6. Campbell Properties & Hospitality Services Limited	100
Joint Ventures	
1. Forbes Aquatech Limited (JV of EFL)	50
2. Forbes Concept Hospitality Services Private Limited (JV of EFL)	50
3. Infinite Water Solutions Private Limited (JV of EFL)	50
4. AMC Cookware (Proprietary) Limited (JV of Lux International AG) $	50
5. Forbes Bumi Armada Limited (JV of Forbes Campbell Finance Limited)	51
Associates	
Euro P2P Direct (Thailand) Co. Limited (Investment fully provided)	49
Nuevo Consultancy Services Private Limited	49
Dhan Gaming Solution (India) Private Limited	49

$Reporting date is December 31, 2019

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:
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