

September 28, 2021

## B Fouress (P) Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	4.00	4.00	[ICRA]BBB-(Stable); reaffirmed
Non-fund based limits	103.00	103.00	[ICRA]A3; reaffirmed
Unallocated limits	35.00	35.00	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
<b>Total</b>	<b>142.00</b>	<b>142.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of the ratings considers the established position and the two-decade long track record of B Fouress (P) Limited (BFL) in executing electro-mechanical contracts for small hydro power projects in the domestic as well as the overseas markets. The ratings further take into account the company's moving orderbook position of Rs. 348 crore as on June 30, 2021 (2.6x Operating Income of FY2021), which provides revenue visibility in the near to medium term. Furthermore, the absence of long-term debt obligations on the company's books provides comfort from the credit perspective.

The ratings, however, are constrained by the exposure of BFL's operations to execution and permitting risks associated with the implementation of small hydro power projects, which coupled with Covid restriction, has eroded revenues in the last two years. ICRA notes that 21% of the company's outstanding order book constitutes of non-moving orders and will remain a drag on its revenue growth prospects. However, a sizeable proportion of the outstanding orders are from export markets such as Vietnam and Nepal, which are mostly LC backed. The ratings are further tempered by the built-up of retention money (Rs. 28.38 crore as on March 31, 2021) over the last few years, amid the slow moving/halted projects, which have put pressure on the company's cashflows. Furthermore, the company's profitability remains low because of high overhead costs and intense competitive pressure both in the domestic and the overseas markets. In addition, the ratings are affected by the exposure of the company's profitability to volatility in steel prices, moderated to a certain extent by the back-to-back contracts signed with its suppliers.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that BFL's credit profile is expected to remain stable, backed by the expected improvement in execution of the moving order book and the timely recovery of receivables.

### Key rating drivers and their description

#### Credit strengths

**Established presence as turnkey contractor in small hydro power industry** - The company has demonstrated long track record in executing electro mechanical contracts in small hydro power sector in the domestic and the overseas markets. The key overseas markets of the company include Vietnam, Nepal, and Albania. Around ~60% of the company's revenue was from Vietnam in FY2021.

**Reasonable order book position provides revenue visibility** – The company's order book stood at Rs. 438 crore as on June 30, 2021. The moving orderbook was strong at Rs. 343.38 crore (2.6x Operating Income of FY2021) as on June 30, 2021, providing revenue visibility in the near to medium term.

## Credit challenges

**Exposure to execution risks associated with small hydro projects** - The revenue prospects are linked to the pace of execution in small hydro industry, which faces challenges owing to delay in approvals, operations in difficult terrain, delay in completion of civil works and funding issues. This is also evident from the sizeable non-moving projects in the company's order book (21% of the outstanding order book as on June 30, 2021). Furthermore, the pace of order execution has been impacted since FY2020, FY2021 and the current fiscal due to the Covid-19 pandemic and has resulted in delays in revenue booking. ICRA expects that most of the larger projects in the company's order book to witness traction with relaxations in lockdown-related restrictions. Nevertheless, any significant delays in progress of execution might impact its accruals and liquidity position.

**High competitive intensity and associated pricing pressures**- Intense competition at both domestic and international level can be a drag on the company's performance to secure large orders and improve profit margins due to pricing pressure.

**Moderate return indicators** – The financial risk profile of BFL remains modest, given the moderate scale of operations and net worth. Furthermore, the intense competition and the raw material fluctuation have led to low profitability levels over the years, which weakened further to 1.14% in FY2020 at the operating levels vis-à-vis 5.72% in FY2019 owing to delays in revenue booking because of the Covid-19 pandemic-induced lockdown, resulting in high fixed overheads. However, the revenue improved to 4.07% in FY2021 with cost rationalisation measures. In line with the operating profitability, the net margin declined to 0.43% in FY2020 from 1.14% in FY2019 and further improved to 2.01% in FY2021 (provisional).

**Vulnerability of profitability to adverse fluctuations in steel prices** – Given the fixed-price contracts signed with the customers, BFL's margins remain exposed to adverse fluctuations in key input prices, used for manufacturing turbines. Nonetheless, the risk is mitigated to some extent as the company secures back-to-back orders with suppliers based on firm orders received from customers along with advances. However, the risk remains heightened for the delayed contracts.

## Liquidity position: Adequate

The liquidity position of BFL is adequate, given the absence of any long-term debt obligations and free cash and bank balances (un-encumbered FDs) of Rs. 11.92 crore as on March 2021 end). Liquidity is also supported to a certain extent by the receipt of customer advances for orders. ICRA notes that timely realisation of receivables and retention money would ease the liquidity position further.

## Rating sensitivities

### Positive factors:

Rating could be upgraded in case of sustained revenue and profitability growth, along with improvement in receivables cycle and liquidity position. Specific trigger for upgrade would be interest coverage >3.5 times on a sustained basis.

### Negative factors:

Negative pressure on BFL's rating could arise in case of deterioration of the company's sales, profitability and debt protection metrics owing to a slowdown in order execution. Further, any stretch in the working capital cycle that weakens the liquidity cycle may result in a rating downgrade. Specific trigger for downgrade would be interest coverage <2.8 times.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of B Fouress (P) Limited

## About the company

B Fouress (P) Limited (BFL) was formed in 1983 as 62:38 joint venture between the Fouress Group and Boving & Company limited, the UK, to operate in a small hydro industry. Later, the share of Boving & Company Limited was acquired by GE Energy, Norway. BFL bought-out the share of GE in September 2008 and also changed its name to present B Fouress (P) Limited (from Boving Fouress Private Limited). BFL provides “water to wire” equipment. Additionally, it provides complete service to small hydroelectric power stations from selecting of machines to commissioning of the power plant on a turnkey basis. The scope of turnkey contracts taken by the company includes design & engineering of small hydro plants, installation & commissioning of small hydro plants, modernisation & refurbishment of small hydro plants and service support for the operating plants. BFL has a full-fledged turbine manufacturing facility in Hoskote near Bangalore. Its product range includes small hydro turbines of both configurations (i.e. horizontal and vertical) of all kinds that include Kaplan, Semi-Kaplan, Propeller, Francis and Pelton turbines. The unit turbine capacity ranges from 250 KW to 20,000 KW.

## Key financial indicators

WASL	FY2019	FY2020
Operating Income (Rs. crore)	209.37	153.58
PAT (Rs. crore)	5.35	0.67
OPBDIT/OI (%)	5.72%	1.14%
RoCE (%)	32.91%	11.96%
Total Outside Liabilities/Tangible Net Worth (times)	3.62	3.04
Total Debt/OPBDIT (times)	0.15	2.15
Interest Coverage (times)	3.86	0.51
DSCR (times)	3.12	1.43

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year).

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					September 28, 2021	May 13, 2020	-	March 22, 2019
1	Cash Credit	Long-term	4.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB(Stable)
2	Non-fund based	Short-term	103.00	-	[ICRA]A3	[ICRA]A3	-	[ICRA]A2
3	Unallocated	Long and Short Term	35.00	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	-	[ICRA]BBB(Stable)/[ICRA]A2

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Non-fund based limits	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	4.00	[ICRA]BBB-(Stable)
NA	Non-fund based	NA	NA	NA	103.00	[ICRA]A3
NA	Unallocated	NA	NA	NA	35.00	[ICRA]BBB-(Stable)/[ICRA]A3

**Annexure-2: List of entities considered for consolidated analysis- Not applicable**

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For more information, visit [www.icra.in](http://www.icra.in)

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### Branches



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