

October 22, 2021

Forbes & Company Limited: Rating placed on Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	71.50	19.50	[ICRA]BB+&, placed on Watch with Developing Implications
Short-term Fund-based Limits	16.00	16.00	[ICRA]A4+&; placed on Watch with Developing Implications
Short-term Non-fund Based Limits	38.50	23.50	[ICRA]A4+&; placed on Watch with Developing Implications
Unallocated Limits	25.99	0.00	-
Total	151.99	59.00	

*Instrument details are provided in Annexure-1, & Rating on Watch with Developing Implications

Rationale

The rating has been placed on 'Watch with Developing Implications' considering that the exact impact of the composite scheme of arrangement of merger and simultaneous demerger of Eureka Forbes Limited on Forbes & Company Limited (FCL) on a consolidated basis is yet to be ascertained and is also subject to regulatory clearances. Under the scheme, Eureka Forbes Limited (EFL) along with its subsidiaries will initially be merged into FCL and then simultaneously the business of EFL with few subsidiaries would be demerged from FCL, leading to mirror shareholding of FCL for the resultant entity. The major shareholding of the resultant entity is expected to be acquire by Lunolux Limited, an Advent International entity.

The company is in the process of selling approximately 3.804 acres at Chandivali in Mumbai for a consideration of Rs. 200 crore to GPX India Private Limited/ Equinix India Private Limited. The agreement to sale is already signed and FCL has received an initial advance of Rs. 25 crore for the land sale, while the remaining Rs. 175 crore is expected to be received in FY2022, subject to pending condition precedents of the agreement. The company is likely to use the funds for deleveraging at a consolidated level. Accordingly, timeliness of the receipt of funds and their usage related to actual deleveraging will also be a key rating monitorable.

Considering both the events will have material impact on the credit quality of FCL at a consolidated level, and since consummation of the same is still underway, the ratings have been placed on 'Watch with Developing Implications'. ICRA will continue to monitor the developments and take suitable rating action upon the closure of the transactions and upon ascertaining the impact on the credit quality.

ICRA notes that FCL has witnessed healthy progress/ bookings in its ongoing real estate residential project, Vicinia, which has supported its cash flows and liquidity profile. During FY2021, the company reported improved operating margins of 6.6% against operating margins of 1.2% at consolidated level in FY2020 owing to healthy bookings from its relatively high margin real estate project (phase I) and improvement in its engineering business.

The ratings, however, continued to remain constrained by the weak performance of its subsidiaries, EFL and Forbes Technosys Limited (FTL). Weak operating performance of EFL's international health and hygiene business (under EFL's subsidiaries) has continued to impact FCL's overall consolidated risk profile. Further, the performance of its other subsidiary, FTL, has remained weak, exacerbated by the pandemic related lockdown. Owing to weak financials, FTL had also undergone one-time restructuring (OTR) in FY2021. A meaningful turnaround in the operating performance of its subsidiaries would be crucial to improve FCL's overall credit profile. Despite initiatives taken to improve FTL's performances, it would still be dependent on

refinancing/support from FCL for its debt repayments and managing its operations. On a consolidated basis, FCL also reported an exceptional loss of Rs. 121.5 crore in FY2021 due to impairment of investment/ intangible assets and goodwill in FTL and EFL, and loss on sale of vessels to Shapoorji Pallonji Forbes Shipping Limited (SPFSL), which resulted in net losses and negative net worth base in FY2021. Further, the real estate segment was also disrupted by the lockdown leading to delay in project completion. Timely project completion as per the revised date remains critical for sales velocity as well as meeting the regulatory timeline as per Real Estate Regulatory Authority (RERA).

It is also to be noted that while assigning ratings to FCL, ICRA drew comfort from the parentage of Shapoorji Pallonji and Company Private Limited (SPCPL, rated [ICRA]BBB+@/ [ICRA]A2@; ratings on 'Watch with Negative Implications'), which holds 72.56% of the paid-up share capital of FCL. However, given that SPCPL is itself undergoing a restructuring process, ICRA has not built in any support in the near to medium term at present and has, hence, revised its analytical approach for rating FCL by discounting any parent support. Though the parent support is not factored in currently, there have been favourable developments relating to standalone operations, specifically for the engineering and the real estate businesses. ICRA will resolve the watch on the consummation of merger and demerger of EFL, while assessing the impact of the funds from its land sale and their usage.

Key rating drivers and their description

Credit strengths

Stable rental inflows and receipt from land sale to support debt reduction in near term – The company's significant real estate holdings provides a steady stream of rental income (Rs. 16.8 crore in FY2021 and Rs. 19.2 crore in FY2020), which remains a high margin accretive business. Further the company had entered into a Memorandum of Understanding (MoU) for the sale of approximately 3.804 acres of land at Chandivali for a consideration of Rs. 200 crore in December 2020. The company has already received Rs. 25.0 crore as advance payment towards this, while the remaining Rs. 175.0 crore is expected in FY2022. The amount is likely to be used for deleveraging at a consolidated level, and in turn is expected to support the credit metrics, going forward.

Healthy sales velocity in Vicinia project, phase I, lends cash flow visibility – The company has received healthy bookings in its Mumbai housing project, Vicinia, with ~165 apartments sold, out of the total 167 units from phase I and ~73 apartments sold, out of the total 127 units from phase II till September 30, 2021. The operating margin also posted a rise in FY2021, supported by significant sales booking for phase I of the project and its subsequent impact on the profitability. While ICRA notes the healthy response, timely project completion and ability to maintain high collection efficiency for the remaining units will be critical to support the company's cash flows and liquidity profile.

Credit challenges

Stretched consolidated credit profile due to underperformance of key subsidiaries; large impairment losses booked in last two fiscal – The continued weak performance of its key subsidiaries (EFL and FTL) has impacted the company's overall financial performance at the consolidated level, as reflected by stretched debt coverage indicators. The company reported exceptional loss of Rs. 121.5 crore (Rs. 214.7 crore in FY2020) at the consolidated level due to impairment of investment, intangible assets of FTL, impairment of goodwill primarily due to continued underperformance of the overseas subsidiaries of EFL (Lux Group) and loss on sale of shipping vessels resulting in net losses and negative net worth base in FY2021. The consolidated debt levels is reduced to Rs. 842.1 crore (including lease liabilities) as on March 31, 2021 over Rs. 1,137.4 crore (including lease liabilities) as on March 31, 2020.

FTL continues to be drag on the financial profile of FCL at Consolidated level – The performance of its subsidiary, FTL, has remained weak, exacerbated by the pandemic related lockdown. The company has been reporting losses since the last two fiscals. In last fiscal, during October 2020, owing to financial difficulties arising from operational losses, the company

underwent a one-time restructuring (OTR) exercise for its outstanding term loans, cash credit, debentures and other non-fund based facilities. As part of the OTR, the repayments of term loan and debentures were deferred to June 30, 2021 and were payable in six equal quarterly instalments out of which 2 instalment is already paid. Despite initiatives taken to improve FTL's performances, it would still be dependent on refinancing/ support from FCL for its debt repayments.

Delay in completion of Vicinia phase II due to Covid-19 related disruption – The real estate segment has been disrupted by the lockdown leading to delay in project completion as the project was supposed to be completed by June 2021 as per RERA's initial timeline. However, the project completion date was extended by one year by RERA to June 2022 owing to the pandemic. Timely project completion as per the revised date remains critical for sales velocity as well as for meeting the regulatory timeline as per RERA.

Liquidity position: Stretched

The liquidity position of the company at the consolidated level remains **stretched** due to weak capital structure at consolidated level and slowdown in FTL business and high impending repayments in the near to medium term. Two of the key subsidiaries, FTL and SPFSL, underwent Covid-19 related restructuring given the impact of Covid-19 related disruption on the businesses and as well as on cash generation thereon. However, SPFSL sold its three vessels during the financial year and the sales proceeds were utilised for full repayment of the ECB-I loan outstanding. The liquidity profile was supported by cash flow from the Vicinia project at FCL's standalone level, which was also used for supporting repayments at FTL, given its loss-making operations. In the near to medium term, FCL is expected to continue to support FTL for its debt repayments, impacting the liquidity profile at a consolidated level. Meaningful turnaround in the operating performance of its loss-making subsidiaries and timely receipt of land sale amount for deleveraging at the consolidated level, remain key for improvement in FCL's liquidity profile.

Rating sensitivities

Positive factors - The ratings could be upgraded if the company is able to materially improve its credit metrics and liquidity position by reducing the debt levels on a consolidated basis, along with turnaround in loss making businesses/subsidiaries.

Negative factors - Negative pressure on FCL's rating could arise in case of significant decline in its profitability and if performance of its subsidiaries remains weak, or if there is any delay in the progress of the ongoing real estate project and/or any delay in receipt of the land sale amount, adversely impacting its financial risk profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Rating Methodology for Entities in the Shipping Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of FCL. The subsidiaries/ joint ventures of FCL, as on March 31, 2021, are enlisted in Annexure-2.

About the company

FCL traces its origins to 1767 when John Forbes from Scotland started his business in India. Over the years, the company's management moved from the Forbes family, to the Campbells, to the Tata Group, and finally to the SP Group. During this period, the company went through a series of mergers and demergers, and had to disengage from different businesses. Initially

known as Forbes Gokak Limited, the company was renamed as Forbes & Company Limited with effect from October 25, 2007. The SP Group holds ~73.85% of the paid-up share capital of FCL.

Post various divestments and business discontinuations, FCL's standalone operations currently include engineering business (precision tools and coding) and residential project development (Vicinia in Chandivali, Mumbai). In addition, FCL earns substantial income from its treasury operations and real estate holdings. Further, FCL has many subsidiary companies, JVs and associate companies. In terms of revenue contribution, on a consolidated basis, EFL (100% subsidiary of FCL) contributes more than 75% to its total operating income. The EFL business is expected to be demerged from FCL's consolidated business in Q4 FY2022 as part of the on-going composite scheme of arrangement. The other major Group companies, which contribute to the overall revenues of the consolidated entity, include FTL (100% subsidiary of FCL) and SPFSL (JV with Sterling Investment Corporation Limited and GS Enterprises, an SP Group company, with FCL holding a 25% stake).

Key financial indicators (Consolidated)

	FY2020	FY2021
Operating Income (Rs. crore)	2730.8	2856.8
PAT (Rs. crore)	-344.6	-124.9
OPBDIT/OI (%)	1.2%	6.6%
PAT/OI (%)	-12.6%	-4.4%
Total Outside Liabilities/Tangible Net Worth (times)	256.9	NM
Total Debt/OPBDIT (times)	34.0	4.5
Interest Coverage (times)	0.3	2.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations, NM: Not meaningful

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 (Rs. crore)	Date & Rating in		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
					22-Oct-2021	28-Sept-2021	31-Dec-2020	23-Oct-20	9-Dec-19	1-Jul-19	26-Oct-18
1	Fund-based Limits	Long-term	19.50	-	[ICRA]BB+ &	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)
2	Fund-based Limits	Short-term	16.00	-	[ICRA]A4+ &	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A2	[ICRA]A1	[ICRA]A1+
3	Non-fund Based Limits	Short-term	23.50	-	[ICRA]A4+ &	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A2	[ICRA]A1	[ICRA]A1+
4	Unallocated Limits	Long-term/ Short-term	0.00	-	-	[ICRA]BB+ (Negative) / [ICRA]A4+	[ICRA]BB+ (Negative) / [ICRA]A4+	[ICRA]BB+ (Negative) / [ICRA]A4+	[ICRA]BBB+ (Negative) / [ICRA]A2	[ICRA]A (Negative) / [ICRA]A1	[ICRA]A+ (Negative) / [ICRA]A1+
5	Commercial Paper	Short-term	-	-	-	-	-	[ICRA]A4+, withdrawn	[ICRA]A2	[ICRA]A1	[ICRA]A1+
6	Non-convertible Debenture Programme	Long-term	-	-	-	-	-	-	[ICRA]A (Negative) Withdrawn	[ICRA]A (Negative)	[ICRA]A+ (Negative)
7	Term Loans	Long-term	-	-	-	-	-	-	-	-	-
8	Non-convertible Debenture Programme	Long-term	-	-	-	-	-	-	-	-	[ICRA]AA- (Negative) Withdrawn

& Rating on Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Limits	Simple
Short-term Fund-based Limits	Simple
Short-term Non-fund Based Limits	Very Simple

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.ins

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	Long-term Fund-based Limits	NA	NA	NA	19.50	[ICRA]BB+&
NA	Short-term Fund-based Limits	NA	NA	NA	16.00	[ICRA]A4+&
NA	Short-term Non-fund Based Limits	NA	NA	NA	23.50	[ICRA]A4+&

Source: Company, & Rating on Watch with Developing Implications

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Subsidiary Companies		
Eureka Forbes Limited and its Subsidiaries	100.0%	Full Consolidation
Aqualgnis Technologies Private Limited	100.0%	Full Consolidation
Forbes Lux International AG Baar	100.0%	Full Consolidation
Lux International AG	100.0%	Full Consolidation
Lux del Paraguay S.A.	80.0%	Full Consolidation
Lux Italia srl (ceased to be subsidiary from January 1, 2021)	-	-
Lux Schweiz AG	100.0%	Full Consolidation
Lux (Deutschland) GmbH (ceased to be subsidiary from May 8, 2020)	-	-
Lux International Services and Logistics GmbH	100.0%	Full Consolidation
Lux Norge A/S (ceased to be subsidiary from January 1, 2021)	-	-
Lux Osterreich GmbH	100.0%	Full Consolidation
Lux Hungária Kereskedelmi Kft.	100.0%	Full Consolidation
LIAG Trading & Investment Ltd.	100.0%	Full Consolidation
Lux Welity Polska Sp z o o	100.0%	Full Consolidation
Lux Professional Paraguay S.A. (formerly Lux Aqua Paraguay S.A)	100.0%	Full Consolidation
EFL Mauritius Limited	100.0%	Full Consolidation
Euro Forbes Financial Services Limited	100.0%	Full Consolidation
Euro Forbes Limited, UAE	100.0%	Full Consolidation
Forbes Lux FZCO	99.4%	Full Consolidation
Forbes Facility Services Private Limited	100.0%	Full Consolidation
Forbes Enviro Solutions Limited	100.0%	Full Consolidation
Forbes Aquatech Limited (subsidiary w.e.f. August 28, 2020)	66.67%	Full Consolidation
Infinite Water Solution Private Limited (subsidiary w.e.f. March 31, 2021)	100.0%	Full Consolidation
Forbes Campbell Finance Limited and its Subsidiaries	100.0%	Full Consolidation
Forbes Campbell Services Limited	98.0%	Full Consolidation
Forbes Technosys Limited	100.0%	Full Consolidation
Volkart Fleming Shipping and Services Limited	100.0%	Full Consolidation
Shapoorji Pallonji Forbes Shipping Limited	25.0%	Full Consolidation
Campbell Properties & Hospitality Services Limited	100.0%	Full Consolidation
Joint Ventures		
Forbes Concept Hospitality Services Private Limited	50.0%	Equity Method
AMC Cookware Limited	50.0%	Equity Method
Forbes Bumi Armada Limited	51.0%	Equity Method
Associates		
Euro P2P Direct (Thailand) Co. Limited	49.0%	Equity Method

Company Name	Ownership*	Consolidation Approach
Nuevo Consultancy Services Private Limited	49.0%	Equity Method
Dhan Gaming Solution (India) Private Limited	49.0%	Equity Method

Source: Annual report, *As on March 31, 2021

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Karan Gupta
+91 22 6114 3421
karan.gupta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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