January 31, 2023

Forbes & Company Limited: Ratings Continue 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 – Cash credit	19.50	19.50	[ICRA]BB+; continue on rating watch with developing implications
Short-term fund based – Cash credit	16.00	16.00	[ICRA]A4+; continue on rating watch with developing implications
Short-term non-fund based facilities	23.50	13.50	[ICRA]A4+; continue on rating watch with developing implications
Long-term/Short-term unallocated limits	-	10.00	[ICRA]BB+ continue on rating watch with developing implications/[ICRA]A4+ continue on rating watch with developing implications
Total	**59.00**	**59.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings of Forbes & Company Limited (FCL) favourably factors in the completion of the demerger of its domestic health & hygiene business under Eureka Forbes Limited (EFL), apart from the successful monetisation of the Chandivali land parcel (for a consideration of ~Rs. 235 crore) and the sale of its stakes in Shapoorji Pallonji Forbes Shipping Ltd (SPFSL; ~Rs. 29 crore) and Forbes Facility Services Pvt Ltd (FFSPL; ~Rs. 42 crore) in H1 FY2023. All these transactions resulted in a significant improvement in the leverage and liquidity position of the Group (viz. FCL and its subsidiaries and associates). While EFL's demerger also resulted in a significant reduction in the consolidated scale of operations (~Rs. 515 crore in FY2022 from ~Rs. 2,857 crore in FY2021), the Group's consolidated debt level[1] declined to Rs. 156 crore as of FY2022 and further to Rs. 94 crore as on September 30, 2022 from Rs. 691 crore in FY2021, supporting its credit metrics.

Steady rental income from the real estate business supports FCL's liquidity profile. Despite some delays in the completion of its sole ongoing residential project – Vicinia (Phase 2), ICRA notes that the project has witnessed healthy bookings (87% of the area sold as on September 30, 2022). The project is expected to be completed by June 2023 and FCL is expected to report a significant improvement in its revenue and profitability in FY2024e (estimates). However, timely project completion, as per the revised date, remains critical to sustain sales velocity and to meet the regulatory timeline as per Real Estate Regulatory Authority (RERA).

The ratings remain constrained by the weak performance of the subsidiaries, Forbes Technosys Limited (FTL) and Lux International AG (LUX Group), which continues to impact FCL's consolidated financial profile. Further, the standalone operations (mainly engineering business) witnessed a sharp moderation in the profitability in H1 FY2023, impacted by commodity price inflation. While the Group has significantly downsized FTL's operations over the past 1-1.5 years (and is currently undertaking only profitable projects) and LUX Group incurred lower losses in H1 FY2023, a meaningful and sustained turnaround in the operating performance of its standalone businesses and the businesses under its subsidiaries would be crucial to improve FCL's overall credit profile.

ICRA notes that SP Group holds a 73.85% equity stake in the company as on December 31, 2022, of which 98.25% was pledged. This position remains unchanged on a year-on-year (YoY) basis and would remain a monitorable.

[1] *External debt net of lease liabilities*

The ratings remain on watch pending approvals/implementation of a proposed scheme of arrangement for the demerger of the precision tools business (within the engineering segment) from FCL. As per the management, the scheme is expected to be implemented in Q1 FY2024 (w.e.f. April 1, 2023). This scheme will result in a further reduction in FCL's scale of operations and profitability.

Key rating drivers and their description

Credit strengths

Significant real estate holdings and steady stream of rental income support cashflows – The company's significant real estate holdings, which provide a steady stream of rental income (~Rs. 16-17 crore per annum), could lead to an increase in its cashflows if monetised. FCL concluded the sale of some land in Chandivali in Q1 FY2023 for Rs. 235 crore, of which Rs. 40 crore was received in FY2022 and the balance in Q1 FY2023. The funds supported FCL's deleveraging initiatives and strengthened the liquidity position of the Group.

Improved capital structure, following sizeable debt reduction in FY2023; financial flexibility supported by Group linkages – Apart from the land sale in Q1 FY2023, the company divested its stake in SPFSL and FFSPL for Rs. 29 crore and Rs. 42 crore, respectively, in Q2 FY2023. This amount was largely utilised towards deleveraging at the consolidated level, which will result in an improvement in the credit metrics, going forward. Apart from the demerger of EFL's debt, FCL's consolidated debt levels[2] reduced to Rs. 94 crore as on September 30, 2022 (Rs. 691 crore in FY2021 and Rs. 156 crore in FY2022) and its Total Debt/TNW stood at 0.9 times as on September 30, 2022 (compared to 3.5 times as on March 31, 2022). Moreover, the Group had ~Rs. 70 crore of free cash and liquid investments as on September 30, 2022, apart from investments in property holdings and EFL's shares, which can be monetised if required.

Credit challenges

Proposed demerger of precision tools business to moderate scale and profitability levels – The Group announced the demerger of its precision tools business (part of engineering business) into Forbes Precision Tools & Machine Parts Ltd (FPTMPL) on September 26, 2022 with the objective of unlocking shareholder value and expanding the high-margin precision tools business. This segment generated revenues of ~Rs. 179 crore in FY2022, viz. ~85% of the overall engineering business revenues, and estimated EBDITA margins of ~15-20%. With the implementation of the scheme, FPTMPL will be listed as a standalone entity and will cease to be a part of FCL, resulting in a significant moderation in FCL's scale and profitability in the near term.

Underperformance of key subsidiaries remains a drag on consolidated financial performance – The weak performance of its key subsidiaries (LUX Group and FTL) has impacted FCL's financial performance at the consolidated level. The company reported exceptional losses in the past due to the impairment of investments, intangible assets, and goodwill amid the continued underperformance of FTL and the overseas subsidiaries (LUX Group). While the Group has seen a significant turnaround in its operations, FTL and LUX Group are expected to remain a drag on its overall performance.

Delay in completion of Vicinia residential project – The real estate segment was disrupted by the Covid-19 pandemic-related lockdown, leading to a delay in project completion (project completion date was extended by RERA to June 2023 from June 2021). Nonetheless, ICRA notes the healthy response with Phase 1 of the project fully sold as on date and healthy bookings of ~111 apartments (out of the total 127 units) till September 2022 for Phase 2 in Mumbai. Thus, timely project completion and ability to maintain high collection efficiency will be critical to support the company's cashflows and liquidity profile, in addition to meeting the regulatory timeline as per RERA.

[2] *External debt net of lease liabilities*

Environmental and social risks

Environmental risk – FCL's real estate business is exposed to the risk of increasing environmental norms impacting operating costs, including higher costs of raw materials such as building materials and cost of compliance with pollution control regulations. Environmental clearances are required for real estate projects and lack of timely approvals can impact its business operations. The impact of changing environmental regulations for the licences taken for property development could also create credit risks. Moreover, even though FCL's engineering segment is not directly exposed to climate transition risks emanating from the likelihood of tightening emission control requirements, its products that are used by different categories of original equipment manufacturers (OEMs) and automotive manufacturing customers remain highly exposed to the same.

Social risk – In terms of social risks, the post-pandemic trend has been favourable for real estate developers as demand for quality homes with good social infrastructure has increased. Moreover, with FCL being dependent on human capital, retaining human capital and maintaining healthy employee relations and supplier ecosystems remain essential for disruption-free operations.

Liquidity position: Adequate

FCL's liquidity position is expected to remain adequate, supported by free cash and liquid investments of Rs. 70 crore (as of September 2022). Moreover, it does not have any material impending debt obligations and capex/investment plans for the near to medium term. Nonetheless, significant organic or inorganic investments or funding requirements of the subsidiaries (FTL/LUX Group) will remain a key monitorable.

Rating sensitivities

Positive factors – The rating watch will be resolved upon the consummation of the precision tools demerger transaction. Further, the ratings could be upgraded if the company is able to materially improve its revenues and profitability, with a turnaround in the loss-making businesses/subsidiaries, while maintaining its capital structure on a sustained basis.

Negative factors – The rating watch will be resolved upon the consummation of the precision tools demerger transaction. Pressure on FCL's ratings could arise in case of a significant decline in its revenues or profitability or the underperformance of its subsidiaries or a delay in the progress of the ongoing real estate project, which would impact its financial risk profile. Further, any significant debt-funded capex/investment plans, which adversely impact its credit metrics, would lead to pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Real Estate
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of FCL. As on September 30, 2022, FCL had 15 subsidiaries/step-down subsidiaries and 5 associates/joint ventures (JVs), which are all enlisted in Annexure II.

About the company

FCL traces its origins back to 1767 when John Forbes of 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 Shapoorji Pallonji (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, its name was changed to Forbes & Company Limited with effect from October 25, 2007. The SP Group holds 73.85% of the paid-up share capital of FCL.

FCL's standalone operations include the engineering business (comprising precision tools and industrial automation & coding) and residential project development (Vicinia in Chandivali, Mumbai). In addition, FCL earns substantial income from its real estate holdings. It also has many subsidiaries, JVs, and associate companies. However, the company has undertaken various divestments and business discontinuations over the years. Currently, Group companies mainly include FTL and Lux International AG (100% subsidiary of FCL).

Key financial indicators (audited)

	Standalone			Consolidated		
	FY2021	FY2022	H1 FY2023*	FY2021	FY2022	H1 FY2023*
Operating income	563.1	236.1	127.1	932.4	514.7	236.6
PAT	(31.0)	4,132.9	226.2	(121.4)	4,212.8	182.9
OPBDIT/OI	25.4%	14.5%	4.5%	14.8%	9.6%	-3.8%
PAT/OI	-5.5%	1750.7%	178.0%	-13.0%	818.4%	77.3%
Total outside liabilities/Tangible net worth (times)	2.0	10.2	1.6	(27.4)	8.2	2.4
Total debt/OPBDIT (times)	1.1	3.0	5.2	3.8	5.9	(10.8)
Interest coverage (times)	8.1	2.8	1.4	2.7	1.2	(0.8)

*Source: ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Limited review*
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	
					Jan 31, 2023	Oct 22, 2021	Sep 28, 2021	Dec 31, 2020 Oct 23, 2020	Dec 9, 2019	Jul 1, 2019
1	**Fund based cash credit**	Long term	19.50	-	**[ICRA]BB+ &**	**[ICRA]BB+ &**	**[ICRA]BB+ (Negative)**	**[ICRA]BB+ (Negative)**	**[ICRA]BBB+ (Negative)**	**[ICRA]A (Negative)**
2	**Fund based cash credit**	Short term	16.00	-	**[ICRA]A4+ &**	**[ICRA]A4+ &**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A2**	**[ICRA]A1**
3	**Non-fund based facilities**	Short term	13.50	-	**[ICRA]A4+ &**	**[ICRA]A4+ &**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A2**	**[ICRA]A1**
4	**Unallocated limits**	Long term/ Short term	10.00	-	**[ICRA]BB+ &/ [ICRA]A4+ &**	**[ICRA]BB+ &/ [ICRA]A4+ &**	**[ICRA]BB+ (Negative)/ [ICRA]A4+**	**[ICRA]BB+ (Negative)/ [ICRA]A4+**	**[ICRA]BBB+ (Negative)/ [ICRA]A2**	**[ICRA]A (Negative)/ [ICRA]A1**
5	**Commercial paper**	Short term	-	-	-	-	-	**[ICRA]A4+ withdrawn**	**[ICRA]A2**	**[ICRA]A1**
6	**NCD**	Long term	-	-	-	-	-	-	**[ICRA]A (Negative) withdrawn**	**[ICRA]A (Negative)**

& - Rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Cash credit	Simple
Short-term fund based – Cash credit	Simple
Short-term non-fund based facilities	Very Simple
Long-term/Short-term unallocated limits	Not applicable

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – Cash credit	Multiple	-	-	19.50	[ICRA]BB+; Rating watch with developing implications
NA	Fund based – Cash credit	Multiple	-	-	16.00	[ICRA]A4+; Rating watch with developing implications
NA	Non-fund based facilities	Multiple	-	-	13.50	[ICRA]A4+; Rating watch with developing implications
NA	Unallocated limits	-	-	-	10.00	[ICRA]BB+ rating watch with developing implications/[ICRA]A4+ rating watch with developing implications

Source: Forbes & Company Limited

Annexure II: List of entities considered for consolidated analysis

Company	Ownership	Consolidation Approach
Forbes Lux International AG	100%	Full Consolidation
Lux International AG	100%	Full Consolidation
Lux del Paraguay S.A.	80%	Full Consolidation
Lux Schweiz AG	100%	Full Consolidation
Lux International Services and Logistics GmbH	100%	Full Consolidation
Lux Osterreich GmbH	100%	Full Consolidation
Lux Welity Polska Sp z o o	100%	Full Consolidation
Lux Professional Paraguay S.A.	100%	Full Consolidation
EFL Mauritius Limited	100%	Full Consolidation
Forbes Facility Services Pvt Ltd*	100%	Full Consolidation
Forbes Campbell Finance Limited	100%	Full Consolidation
Forbes Campbell Services Limited	98%	Full Consolidation
Forbes Technosys Limited	100%	Full Consolidation
Volkart Fleming Shipping and Services Limited	100%	Full Consolidation
Campbell Properties & Hospitality Services Limited	100%	Full Consolidation
Forbes Concept Hospitality Services Private Limited	50%	Limited Consolidation
Forbes Bumi Armada Limited	51%	Limited Consolidation
Nuevo Consultancy Services Private Limited	49%	Limited Consolidation
Dhan Gaming Solution (India) Private Limited	49%	Limited Consolidation
Shapoorji Pallonji Forbes Shipping Ltd#	25%	Limited Consolidation

** FCL sold its stake in FFSPL in H1 FY2023*

 # SPFSPL was classified as an associate w.e.f. March 1, 2022 and FCL subsequently sold its stake in SPFSPL in H1 FY2023

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