

November 24, 2023

## Federal Engineers: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund-based limits	6.00	6.00	[ICRA]BBB+(Stable)/ [ICRA]A2+; reaffirmed
Short term – Non-fund based limits	7.00	7.00	[ICRA]A2+; reaffirmed
<b>Total</b>	<b>13.00</b>	<b>13.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation considers Federal Engineers' healthy financial profile, characterised by healthy return metrics and strong capitalisation and debt coverage indicators because of minimal borrowings. The ratings also draw comfort from the firm's strong liquidity position, supported by healthy free cash and bank balance of Rs. 72.7 crore as on September 30, 2023. The ratings also continue to factor in the extensive experience of the promoters in the electrical overhead travelling crane manufacturing business and a geographically-diversified reputed customer base.

The ratings, however, remain constrained by the firm's modest scale of operations over the years and its susceptibility to the cyclicity in investments in the steel sector, which drives majority of its total revenues. Further, the firm's profitability is susceptible to raw material price fluctuations, given its long operating cycle and fixed-price contracts. FE also remains susceptible to foreign exchange risk.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's expectation that the firm will continue to maintain a comfortable financial profile, supported by a healthy liquidity buffer, absence of any aggressive debt-funded capex plans and adequate profitability levels, given the customised product profile.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in crane manufacturing** – FE has an established track record of close to five decades in the crane manufacturing business. At present, the operations are managed by Mr. Zubein Buhariwalla, the son of founder promoter, Mr. Dhun Buhariwalla. Mr. Zubein has been associated with the firm for the last two decades.

**Healthy financial profile** – The firm's profitability has remained healthy, reflected in an RoCE in the range of 13.3%-47.6% over the last three fiscals. This, coupled with negligible borrowing levels, has resulted in robust interest coverage of 69.5 times for FY2023). Going forward, ICRA expects the firm to continue to maintain a comfortable capital structure and debt coverage metrics, supported by healthy profitability and absence of any aggressive debt-funded capex plans.

**Reputed customer profile and geographical diversification** - FE has a reputed customer profile in the steel and engineering sectors. Additionally, it caters to the export market, which provides geographical diversification to the company's revenues. Export sales contributed to 50% of the revenue in FY2022 and 56% in FY2023. A reputed customer profile and geographical diversification helps to mitigate the firm's counterparty credit risk and the risk of slowdown in any particular geography.

### Credit challenges

**Moderate scale and operations exposed to cyclicity in investment in steel industry** – The firm's scale of operations has remained modest, with an operating income of Rs. 121 crore in FY2023, though the same is expected to improve in FY2024, supported by its healthy order book position. The company had an order book position of Rs. 200 crore as on September 30, 2023 (1.65 times of FY2023 OI), which provides revenue visibility in the near term. The firm's ability to scale up its operations by ensuring a healthy inflow of orders and execute them in a timely manner while sustaining robust profitability levels would remain a key rating monitorable.

FE derives approximately 95% of its revenues from the steel sector. Thus, its operations are vulnerable to the cyclicity in investments in the steel industry as well as to the slowdown in the global market. Due to the cyclicity in the business, the revenues have been fluctuating over the years.

**Exposure to fluctuation in steel prices and foreign exchange rates** – The operating cycle/inventory conversion period for manufacturing cranes (including designing) is around 3-12 months. A lengthy operating cycle keeps the margins vulnerable to fluctuations in steel prices due to the fixed-price contracts with customers. The margins also remain susceptible to fluctuations in currency markets as the firm derives a significant proportion of its revenues from exports.

**Risks of capital withdrawal due to status as a partnership firm** – FE remains susceptible to the risks associated with its status as a partnership firm, including the risk of capital withdrawal. However, ICRA takes comfort from the firm's comfortable liquidity profile.

### Liquidity position: Strong

Federal Engineers' liquidity remains strong, supported by healthy cash flows and absence of any long-term debt. The average working capital utilisation has remained low at 26% for the past 13 months. The liquidity is further supported by timely collection of receivables and healthy cash and bank balance of Rs. 72.7 crore as on September 30, 2023.

### Rating sensitivities

**Positive factors** – The ratings could be upgraded if the firm is able to significantly scale up its revenues while maintaining healthy profitability levels and diversifying the user industry. A strengthening of the tangible net worth owing to healthy accruals will also remain critical for an upgrade.

**Negative factors** – Pressure on the ratings could emerge if a sustained slowdown in demand from the end-user industries erodes the scale of operations and profitability. Any large capex or stretch in the working capital cycle that deteriorates the liquidity and credit metrics on a sustained basis will also be a trigger for a downgrade.

### 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 company's standalone financial statements

## About the company

Federal Engineers, established in 1973, manufactures electrical overhead travelling (EOT) cranes for industrial use with holding capacities ranging from 5 metric tonnes (MT) to 150 MT. The firm's registered office is in Navi Mumbai and its manufacturing units are in Navi Mumbai and Ambernath (Thane district, Maharashtra).

## Key financial indicators (audited)

	FY2022	FY2023
Operating income	89.78	121.38
PAT	7.11	23.93
OPBDIT/OI	12.35%	26.29%
PAT/OI	7.92%	19.71%
Total outside liabilities/Tangible net worth (times)	0.92	1.21
Total debt/OPBDIT (times)	0.45	0.00
Interest coverage (times)	26.31	69.48

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 24, 2023	Oct 25, 2022	Oct 06, 2021	Oct 07, 2020
1 Packing credit/Post-shipment credit	Long term and short term	6.00	--	[ICRA]BBB+ (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2+	[ICRA]BBB (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A2
2 Bank guarantee	Short term	6.00	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
3 Letter of credit	Short term	1.00	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Packing credit/Post-shipment credit	Simple
Bank guarantee	Very Simple
Letter of credit	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 are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Packing credit/Post-shipment credit	NA	NA	NA	6.00	[ICRA]BBB+(Stable)/ [ICRA]A2+
NA	Bank guarantee	NA	NA	NA	6.00	[ICRA]A2+
NA	Letter of credit	NA	NA	NA	1.00	[ICRA]A2+

Source: Company

#### Annexure II: List of entities considered for consolidated analysis – Not Applicable

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