

October 09, 2024

Fives Cail KCP Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash Credit	16.00	16.00	[ICRA]BBB- (Stable); reaffirmed
Short Term – Non-Fund Based – Others	111.25	111.25	[ICRA]A3; reaffirmed
Long Term – Interchangeable Limits– Others**	(15.0)	(25.0)	[ICRA]BBB- (Stable); reaffirmed
Short Term – Interchangeable Limits– Others***	(32.50)	(32.50)	[ICRA]A3; reaffirmed
Total	127.25	127.25	

*Instrument details are provided in Annexure-I; **- Interchangeable with fund-based limits; ***- Interchangeable with non-fund-based limits

Rationale

The reaffirmation of the ratings considers Fives Cail KCP Limited's (FCKL) established track record in the sugar machinery industry and its strong parentage, being a joint venture (JV) of The KCP Limited and Fives Cail (France). FCKL benefits from the access to the technology and brand recall of its parent entities that are present in the engineering capital goods product segment, besides other businesses.

The ratings also factor in the asset-light nature of FCKL's business, with its debt comprising only working capital borrowings, resulting in a comfortable capital structure. ICRA notes that increasing demand for ethanol production has created additional demand for boilers in the domestic sugar industry. Moreover, the capex cycle in the economy has recovered, which in turn has improved the company's current order book position as it has developed a wide and reputed customer base consisting of major sugar companies.

The revenues witnessed significant improvement to Rs. 354.2 crore in FY2024 largely on the back of a robust opening orderbook. However, the revenues are expected to moderate to Rs. 200-220 crore in FY2025. The company had a healthy order backlog of Rs. 110.9 crore as on April 01, 2024, which provides revenue visibility in the near term.

The ratings are, however, constrained by the working capital intensive nature of the business as is common in the heavy engineering industry, with occasional bad debt write-offs adversely impacting the margins. Moreover, the ratings are also constrained by intense competition and the cyclic nature of business in the sugar industry. ICRA notes that though the company's operating profit margin improved in FY2024, supported by improved revenue, however, its profit margins have remained moderate in the past years with increased competition limiting the pricing flexibility.

FCKL mainly caters to sugar companies and, thus, remains exposed to the cyclicity inherent in the industry as sugar prices have a direct bearing on the firm's prospects and order flows. However, the company's growing geographical diversification in the last few years has mitigated the impact to some extent. FCKL also remains exposed to forex risks in the absence of a formal hedging policy.

The Stable outlook on the rating reflects ICRA's opinion that FCKL will continue to benefit from the track record of its promoters coupled with the favourable demand prospects, resulting in a healthy order inflow and growth in the scale of operations in the near to medium term.

Key rating drivers and their description

Credit strengths

Strong parentage - FCKL is a JV between The KCP Limited and Fives Cail. The KCP Group has diverse interests in sectors such as heavy engineering, sugar, cement and power generation. The Fives Group is one of the leading suppliers of process equipment and complete plants for the sugar sector. FCKL benefits from the technology transfer from Fives Cail and the track record of the parent entities in the sugar machinery sector, which helps the company in getting orders from the domestic and international markets.

Comfortable capital structure due to asset-light nature of business - FCKL does not own any major manufacturing facility and majorly sources from third parties and its parent, leading to an asset-light nature of the business. The company has a comfortable capital structure with its debt comprising only working capital borrowings. FCKL had a gearing of 0.6 times and TD/OPBDITA of 0.9 times as on March 31, 2024, improving from 1.8 times and 3.9 times, respectively, as on March 31, 2023, on account of the lower working capital borrowing in FY2024. Moreover, the improved profitability resulted in comfortable coverage indicators with an interest coverage ratio of 5.3 times in FY2024 against 2.4 times in FY2023. FCKL is expected to generate stable cash flow in the coming years and its capitalisation and coverage metrics are likely to remain comfortable.

Credit challenges

Moderate working capital intensity - The company generally offers a credit period of 30 days to its customers. However, the receivable levels are on higher side owing to the retention money held by the customers which constitutes nearly 5-10% of the order value and is received after 12 months of commissioning of a project. However, the advances from customers for project execution and the favourable credit period offered by the suppliers help the company manage its working capital intensity to some extent.

Exposure to cyclicity in sugar industry and customer concentration - FCKL majorly caters to the sugar industry and is thus exposed to the cyclicity in the industry. The company's revenues have fluctuated over the years, primarily mirroring the domestic sugar industry, though FCKL's diversification into different geographies partly mitigates this risk. Further, the growing demand for ethanol production has created additional demand for boilers in the domestic market recently. However, in FY2024, the company derived ~60% of its revenues from its top 5 customers in the sugar industry, exhibiting high client concentration risk.

Profitability exposed to intense competition and forex risk - The company faces intense competition in the domestic and export markets. This, coupled with the fixed price nature of majority of the contracts, limits its pricing flexibility. Though some of the contracts have a price variation clause at present, the realisation happens with a lag. Hence, the margins are vulnerable to the adverse movements in raw material prices. Further, the company is exposed to forex rate volatilities on its export sales in the absence of a formal hedging policy.

Liquidity position: Adequate

FCKL's liquidity position remains adequate, supported by buffer in the working capital limits and unencumbered cash of Rs 7.1 crore as on March 31, 2024. The average utilisation of the working capital limits remained at around 61% for the 12-month period ended March 2024. The company's liquidity position is expected to remain adequate in the near to medium term with modest capex plans and nil debt repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company exhibits a sustained improvement in revenue and profitability while maintaining healthy coverage metrics.

Negative factors – ICRA could downgrade the ratings if the operational or financial linkage with the parent (The KCP Limited) weakens. Also, a sustained decline in revenue and profitability or a stretch in the working capital cycle may weaken the company's liquidity profile and affect the ratings. An interest coverage ratio of less than 2.0 times may also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent company: The KCP Limited (40% stake) FCKL benefits from the access to technology and brand recall from its parentage. ICRA also expects KCP to be willing to extend financial support to FCKL, should there be a need, given the strategic importance it holds for the Group
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Fives Cail KCP Limited (FCKL) was established in October 1995 as a JV between The KCP Limited and Fives Cail. The JV partners hold a 40% stake each in FCKL, while the promoters of the KCP Group hold the remaining stake. The company does not own any manufacturing facility, apart from a fabrication and assembly unit at Tiruvottiyur, Chennai, and it mostly subcontracts the manufacturing to third parties and the parent - KCP Limited. It takes orders to manufacture centrifugals, cogeneration boilers, vacuum pans, clarifiers and other process equipment used in the sugar industry. The KCP Limited is the flagship company of the KCP Group, which has a footprint in diverse businesses such as heavy engineering, cement, sugar and power generation. Fives Cail, a part of the Fives Group, is a major global player in the designing and manufacturing of process equipment and plants for the sugar sector.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	176.3	354.2
PAT	3.4	10.5
OPBDIT/OI	4.9%	5.3%
PAT/OI	2.0%	3.0%
Total outside liabilities/Tangible net worth (times)	7.0	2.9
Total debt/OPBDIT (times)	3.9	0.9
Interest coverage (times)	2.4	5.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long-Term	16.00	Oct 09, 2024	[ICRA]BBB-(Stable)	Jul 28, 2023	[ICRA]BBB-(Stable)	Jun 24, 2022	[ICRA]BBB-(Stable)	Apr 19, 2021	[ICRA]BBB-(Stable)
Non-Fund Based – Others	Short-Term	111.25	Oct 09, 2024	[ICRA]A3	Jul 28, 2023	[ICRA]A3	Jun 24, 2022	[ICRA]A3	Apr 19, 2021	[ICRA]A3
Interchangeable Limits– Others	Long-Term	(25.0)	Oct 09, 2024	[ICRA]BBB-(Stable)	Jul 28, 2023	[ICRA]BBB-(Stable)	Jun 24, 2022	[ICRA]BBB-(Stable)	Apr 19, 2021	[ICRA]BBB-(Stable)
Interchangeable Limits– Others	Short-Term	(32.50)	Oct 09, 2024	[ICRA]A3	Jul 28, 2023	[ICRA]A3	Jun 24, 2022	[ICRA]A3	Apr 19, 2021	[ICRA]A3
Unallocated Limits	Long-Term/Short-Term	-	Oct 09, 2024	-	Jul 28, 2023	-	Jun 24, 2022	[ICRA]BBB-(Stable)/[ICRA]A3	Apr 19, 2021	[ICRA]BBB-(Stable)/[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash Credit	Simple
Short Term – Non-Fund Based – Others	Very Simple
Long Term – Interchangeable Limits– Others	Very Simple
Short Term – Interchangeable Limits– Others	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	Long Term – Fund Based – Cash Credit	NA	NA	NA	16.00	[ICRA]BBB- (Stable)
NA	Short Term – Non-Fund Based – Others	NA	NA	NA	111.25	[ICRA]A3
NA	Long Term – Interchangeable Limits– Others	NA	NA	NA	(25.0)	[ICRA]BBB- (Stable)
NA	Short Term – Interchangeable Limits– Others	NA	NA	NA	(32.50)	[ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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