

February 27, 2025

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
Total	13.00	13.00	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation considers Federal Engineers' healthy financial profile, characterised by strong return metrics and capitalisation and debt coverage indicators with sufficient liquid investments owing to healthy cash flow from operations and minimal borrowings. The ratings also draw comfort from the firm's strong liquidity position, supported by healthy free cash and bank balance of around Rs. 100 crore as on December 31, 2024. 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. ICRA also notes the healthy revenue growth demonstrated by the firm over the last two years.

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. ICRA also notes the high client concentration risks as majority of the revenues are derived from a small set of customers as of now.

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 17.5%-54% over the last three fiscals. This, coupled with negligible borrowing levels, has resulted in robust interest coverage of 122.7 times for FY2024). 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 56% of the revenue in FY2023 and 30% in FY2024. 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

Operations exposed to cyclicalities in investment in steel industry - FE derives approximately 95% of its revenues from the steel sector. Thus, its operations are vulnerable to the cyclicalities in investments in the steel industry as well as to the slowdown in the global market. Due to the cyclicalities 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.

Moderate scale of operations - The firm's scale of operations has remained modest, with an operating income of Rs. 191 crore in FY2024, though the same is expected to improve in FY2025 to more than Rs. 220 crore, supported by its healthy order book position. The company had an order book position of Rs. 200 crore as on December 31, 2024 (1.00 times of FY2024's 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.

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 profit levels and absence of any long-term debt. As of March 31, 2024, the company had healthy free cash and bank balance of Rs. 73 crore which has gone upto Rs. 100 crore as on date and is being kept in FDs making the liquidity healthy. The utilization of fund-based working capital limits has remained low, at 7% in the past 13 months, offering a healthy liquidity cushion.

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 as well as client base, amid maintaining a healthy liquidity profile. Strengthening of the tangible net worth owing to healthy accruals will also remain critical for a rating upgrade.

Negative factors - Pressure on the ratings could emerge if a slowdown in demand from the end-user industries materially impacts the scale of operations and profitability on a sustained basis. Any large debt funded 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 downgrade.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial statements

About the company

Established in 1973, Federal Engineers (FE) is a partnership firm engaged in the manufacturing of Electrical Overhead Travelling (EOT) cranes and other industrial cranes. The firm has its registered office and two manufacturing units at Navi Mumbai and Ambarnath MIDC, Mumbai spread over an area of 4,000 sq. meters and 17,000 sq. meters respectively. The manufacturing units were set-up in Mahape and Ambarnath in December 1993 and August 2010, respectively.

FE manufactures various types of cranes i.e. EOT cranes, transfer trolley and rotating trolley cranes that provide lifting solutions to various industries like steel, power, heavy engineering and automobile industries. Around 70-80% of the total sales are to the steel manufacturing units and the rest are to the heavy machinery manufacturing units.

The cranes manufactured by FE for the steel industry are used for hot metal handling, ingot/billet handling, coil yards, cut-to-length lines, steel stock yards, forge shops and foundries.

The primary raw material comprises mild steel (MS) plates, which are mainly procured from Mumbai and nearby regions. Apart from that, firm also requires electric motors, forgings (wheels, gear pinion & shafts) and electric wires & cables that are procured from their fixed set of suppliers.

Federal Engineers sells cranes in the domestic as well as overseas market i.e. Saudi Arabia, Pakistan, Bangladesh, Iran, Ghana etc. Exports typically account for approximately 50% of the firm's revenues.

Key financial indicators (audited)

Federal Engineers	FY2023	FY2024	10M FY2025*
Operating income	121.4	190.9	200.2
PAT	23.9	33.2	53.6
OPBDIT/OI	26.3%	26.6%	26.0%
PAT/OI	19.7%	17.4%	26.8%
Total outside liabilities/Tangible net worth (times)	1.2	0.8	0.5
Total debt/OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	69.5	122.7	-

Source: Company, ICRA Research; * Provisional numbers; 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

Current (FY2025)			Chronology of rating history for the past 3 years						
			FY2024		FY2023		FY2022		
Instrument	Type	Amount rated (Rs. crore)	Feb 27, 2025	Date	Rating	Date	Rating	Date	Rating
Packing credit/Post-shipment credit	Long term and short term	6.00	[ICRA]BBB+ (Stable)/[ICRA]A2+	Nov 24, 2023	[ICRA]BBB+ (Stable)/[ICRA]A2+	Oct 25, 2022	[ICRA]BBB+ (Stable)/[ICRA]A2+	Oct 06, 2021	[ICRA]BBB (Stable)/[ICRA]A2
Bank guarantee	Short term	6.00	[ICRA]A2+	Nov 24, 2023	[ICRA]A2+	Oct 25, 2022	[ICRA]A2+	Oct 06, 2021	[ICRA]A2

Letter of credit	Short term	1.00	[ICRA]A2+	Nov 24, 2023	[ICRA]A2+	Oct 25, 2022	[ICRA]A2+	Oct 06, 2021	[ICRA]A2
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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

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Prashant Vasisht

+91 124 4545322

prashant.vasisht@icraindia.com

Ankit Jain

+91 124 4545865

ankit.jain@icraindia.com

Harshita Singh

+91 1244545300

harshita.singh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@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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For more information, visit www.icra.in

ICRA Limited



Registered Office

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

Tel: +91 11 23357940-45



Branches



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