June 24, 2022

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	15.00	16.00	[ICRA]BBB-(Stable); reaffirmed
Short-term Non-fund Based	103.50	111.25	[ICRA]A3; reaffirmed
Short-term/Long-term Unallocated	42.50	33.75	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
Short-term Non-fund Based (Sublimit)	(21.50)	(32.50)	[ICRA]A3; reaffirmed
Long-term Fund Based (Sublimit)	(10.00)	(15.00)	[ICRA]BBB-(Stable); reaffirmed
Total	**161.00**	**161.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings considers Fives Cail KCP Limited's (FCKL) established track record in the sugar machinery industry and the benefits arising from its parentage, in terms of access to technology and brand. The parent entities, The KCP Limited and Fives Cail (France), 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 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.

However, the ratings are constrained by FCKL's high receivables position, as is common in the heavy engineering industry, with occasional bad debt write-offs adversely impacting its margins. The ratings also consider the moderation in the profit margins in recent years with increased competition limiting pricing flexibility and the fixed price nature of its contracts. In FY2021, the profit margins declined further due to a significant moderation in order execution on account of subdued demand and disruptions caused by the pandemic. However, a healthy order book position as on March 31, 2021 (including orders ready for dispatch) helped improve the company's revenues in FY2022, allowing small profit at the operating level as well. With FCKL mainly catering to the sugar industry, it remains exposed to the cyclicality inherent in the industry as sugar prices have a direct bearing on the industry's prospects and order flows. However, the company's growing geographical diversification in the last few years has mitigated the impact to some extent. Further, increasing demand for ethanol production has created additional demand for boilers in the domestic sugar industry. FCKL also remains exposed to forex risks in the absence of a formal hedging policy.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that FCKL will continue to benefit from the experience and track record of its promoters, in terms of technology and brand recall.

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 it in getting orders from domestic and international markets. The KCP Limited has earlier supported the company by giving an extended credit period for supplies.

Comfortable capital structure due to asset-light nature of business – FCKL does not own any major manufacturing facility and sources from third parties. The company has a comfortable capital structure due to the asset-light nature of its business, with its debt comprising only working capital borrowings. FCKL had a gearing of 0.4 times as on March 31, 2022. Further, the coverage indicators improved in FY2022 on the back of the operating profits booked by the company against the operational losses incurred in FY2021. The interest coverage and TD/OPBDITA were 2.1 times and 1.4 times, respectively, in FY2022 compared with -5.0 times and -0.7 times in FY2021. FCKL is expected to generate stable cash flows in the coming years as its revenue scales up with an increasing order book. The expected revenue growth is likely to keep the company's incremental reliance on debt under check and its capitalisation and coverage metrics are likely to improve.

Credit challenges

High receivables but moderate working capital intensity – The company generally offers a credit period of 30 days to its customers. However, the receivable levels remain higher owing to the delayed payments by a few clients. FCKL's receivable levels improved as on March 31, 2022 but remains elevated because of the high retention money held by the customers. However, the advances from customers for project execution and the credit period offered by the suppliers help the company manage its working capital intensity.

Exposure to cyclicality in sugar industry – FCKL is exposed to the cyclicality inherent in the sugar industry, which it caters to. Its revenues have fluctuated over the years, primarily mirroring the domestic sugar industry. However, the company'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. Moreover, FCKL has recently created a separate services division. The contribution of the services division, though modest at present, has been increasing and may provide a more stable revenue stream with a ramp-up in sales going forward.

Intense competition limits pricing flexibility – The company faces intense competition in the domestic and export markets. This, coupled with the fixed price nature of the contracts, limits its pricing flexibility. Hence, the margins are vulnerable to the adverse movements in raw material prices. However, the company is negotiating with its customers to enter into contracts with escalation clauses.

Forex risk – 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 as reflected in the buffer available in the form of undrawn working capital limits. The average utilisation of the fund-based working capital limits remained moderate at 53% of the drawing power in the past 15-month period ended March 2022. The company's liquidity position draws comfort from the free cash and bank balance of Rs. 3.3 crore as on March 31, 2022. The company's liquidity profile is expected to be supported by the availability of unutilised working capital limits of Rs. 15.2 crore as on March 31, 2022 and minimal maintenance capex plans with no term loan obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company exhibits sustained improvement in revenue and profitability and better working capital management.

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 Impact of Implicit support from Parent or Group on an Issuer's Credit Rating
Parent/Group Support	Parent company: The KCP Limited (40% stake) FCKL gets the benefits of access to technology and brand recall from its parentage. ICRA also expects The KCP Limited 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 rating is 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 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 - The 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

	FY2021 Audited	FY2022 Audited
Operating Income (Rs. crore)	76.0	202.2
PAT (Rs. crore)	-9.5	1.3
OPBDIT/OI (%)	-12.7%	2.0%
PAT/OI (%)	-12.5%	0.6%
Total Outside Liabilities/Tangible Net Worth (times)	4.3	5.2
Total Debt/OPBDIT (times)	-0.7	1.4
Interest Coverage (times)	-5.0	2.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Fives Cail KCP Limited

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 Mar 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun 24, 2022	Apr 19, 2021	Apr 07, 2020	Jun 03, 2019
1	Fund Based	Long-Term	16.00	-	**[ICRA]BBB-(Stable)**	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Non-fund Based	Short-Term	111.25	-	**[ICRA]A3**	[ICRA]A3	[ICRA]A3	[ICRA]A3
3	Non-fund Based (Sublimit)	Short-Term	(32.50)	-	**[ICRA]A3**	[ICRA]A3	[ICRA]A3	[ICRA]A3
4	Fund Based (Sublimit)	Long-Term	(15.00)	-	**[ICRA]BBB-(Stable)**	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
5	Unallocated	Long-Term/ Short-Term	33.75	-	**[ICRA]BBB-(Stable)/ [ICRA]A3**	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based- Working Capital Facilities	Simple
Non-fund based-Bank Guarantee/ Letter of Credit	Very Simple
Non-Fund based (sub-limit)	Not Applicable
Fund based (sub-limit)	Not Applicable
Unallocated	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: www.icra.in

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	CC/EPC/PCFC/FBD/OCC/ODBD	NA	NA	NA	16.00	[ICRA]BBB-(Stable)
NA	BG/LC	NA	NA	NA	111.25	[ICRA]A3
NA	Letter of Credit/ Treasury Limit (Sublimit)	NA	NA	NA	(32.50)	[ICRA]A3
NA	Cash Credit (Sublimit)	NA	NA	NA	(5.00)	[ICRA]BBB- (Stable)
NA	WCDL (Sublimit)	NA	NA	NA	(5.00)	[ICRA]BBB- (Stable)
NA	EPC/PCFC/PSC/PSCFC (Sublimit)	NA	NA	NA	(5.00)	[ICRA]BBB- (Stable)
NA	Long-term/Short-term Unallocated	NA	NA	NA	33.75	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Fives Cail KCP Limited

Annexure-2: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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