

## Fives Cail KCP Limited

June 04, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based	16.00	39.00	[ICRA]BBB-(Stable); reaffirmed
Short-term Non-fund based	101.00	122.00	[ICRA]A3; reaffirmed
Short-term Unallocated	14.00	0.00	-
Short-term Non-fund based (Sublimit)	0.00	(21.50)	[ICRA]A3; reaffirmed
Long-term Fund based (Sublimit)	0.00	(10.00)	[ICRA]BBB-(Stable); reaffirmed
<b>Total</b>	<b>131.00</b>	<b>161.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long - term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 39.00 crore<sup>1</sup> fund based bank facilities (enhanced from Rs. 16.00 crore) and to the Rs. 10.00 crore fund based sub-limits of Fives Cail KCP Limited. ICRA has also reaffirmed the short-term rating of [ICRA]A3 (pronounced ICRA A three) to the Rs. 122.00 crore non fund based bank facilities (enhanced from Rs. 101.00 crore) and to the Rs. 21.50 crore non-fund based sub-limits of Fives Cail KCP Limited (FCKL / 'the company')<sup>2</sup>. The outlook on the long-term rating is 'Stable'.

### Rationale

The ratings reaffirmation favourably considers the robust revenue growth registered by the company during FY2018 enabled by healthy order flow coupled with improved execution during the period. The ratings continue to draw comfort from FCKL's strong parentage, being a joint venture (JV) of The KCP Limited (KCP) and Fives Cail, France, both of which are established players in sugar machinery industry, which benefits the company in terms of access to technology and brand recall. The ratings also take note of FCKL's geographical diversification of revenues from newer markets such as Africa and South East Asia.

The ratings are, however, constrained by FCKL's high receivables position, as is common in the heavy engineering industry, with occasional bad debt write-offs adversely impacting margins. ICRA also takes into consideration the declining profitability in the recent fiscals leading to lower cash accruals due to increase in raw material costs amidst limited ability to pass on input cost fluctuations due to largely fixed price nature of contracts and competition from larger incumbents in the sugar boiler industry. With the company solely catering to the sugar industry, FCKL remains exposed to the cyclicality inherent to the industry, with sugar prices having a direct bearing on the industry prospects and order flows, although the growing geographic diversification mitigates the impact to some extent. FCKL also remains exposed to forex risks, especially given the increasing share of exports in its revenues and order book. Further, the orders in hand as on March 31, 2018 also remain modest at ~Rs. 132.0 crore.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

ICRA also takes note of the substantial VAT and income tax claims made by Ethiopian Revenue and Customs Authority (ERCA) for a large project executed earlier in Ethiopia. While the claims are being contested by the company, any potential liability arising from the claim would have adverse impact on company's financial profile and remains a rating sensitivity factor and ICRA will be monitoring the developments.

## Outlook: Stable

ICRA believes FCKL will continue to benefit from the experience and track record of its partners in terms of technology and brand recall, which will aid the company in getting orders. The outlook may be revised to 'Positive' if healthy growth in revenue and profitability, and better working capital management strengthen the financial risk profile. The outlook may be revised to 'Negative' if the cash accrual is lower than expected, or if any stretch in the working capital cycle weakens the liquidity.

## Key rating drivers

### Credit strengths

**Strong parentage** – FCKL is incorporated in 1995 as a JV between The KCP Limited and Fives Cail, France. The KCP Group has diverse interests in various sectors such as heavy engineering, sugar, cement and power generation and Fives Group is one of the leading suppliers of process equipment and complete plants for sugar sector. FCKL enjoys benefits from the strong parentage, in the form of technology transfer from Fives Cail and track record of the parent entities in sugar machinery sector, which aids the company in getting orders in domestic and international market. Further, the company has also received support from the KCP limited in the past in the form of extended credit period for supplies.

**Comfortable capital structure due to asset light nature of business** – FCKL does not own any major manufacturing facilities and operates through sourcing from third parties and the parent – The KCP Limited. The company has comfortable capital structure due to this asset light nature of business, with its debt comprising of only working capital borrowings. Nevertheless, higher working capital borrowings on account of increase in scale of operations during FY2018 led to increased gearing of ~0.6x as on February 2018 compared to 0.26x as on March 31, 2017. The TOL/TNW, however, continues to remain high at more than 3.0x times mainly on account of considerable trade payables and advances received from the customers. The coverage indicators such as interest cover, NCA/TD etc. remained adequate at 2.06x and 48% respectively in FY2017.

### Credit challenges

**High receivables although working capital intensity is moderate** - The company generally offers a credit period of 30 days to its customers though the receivable levels have remained higher owing to the delayed payments by few clients. FCKL's receivable levels are also high on account of high retention money held by the customers. However, the advances from customers for project execution and credit period offered by suppliers help the company manage its working capital intensity.

**Exposure to cyclicity inherent to sugar industry** - FCKL caters to the sugar industry exposing it to cyclicity inherent to sugar industry. The revenues of FCKL have witnessed fluctuations over the years largely mirroring the macroeconomic conditions in the domestic sugar industry. However, the company's diversification into different geographies partly mitigates the risk. The company has orders worth of around Rs. 132.0 crore as on March 31, 2018.

**Susceptible to volatility in raw material prices** - Any adverse movement in the price of raw materials could have an adverse impact on the firm's margins, considering the limited ability to pass on the price hike owing to fixed price nature of the

contracts entered into by the company. Despite significant revenue growth in FY2018, the margins witnessed decline mainly on account of increased operating costs due to higher steel prices.

**Exposure to forex risk** – The company’s orderbook includes significant portion of export orders. Any adverse movements in foreign exchange rates will significantly impact the margins from these orders thereby impacting the overall margins of the company.

**Potential liability arising from dispute with ERCA is a rating sensitivity** – The company is exposed to potential substantial liability that could arise out of VAT and Income Tax dispute with Ethiopian Revenue and Customs Authority (ERCA) for an order executed by FCKL earlier. While, the claims are being contested by the Company, if the liability crystallises, it will have adverse impact on company’s credit profile and is a rating sensitivity factor and the developments will be monitored.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

### About the company:

Fives Cail-KCP Limited was established in October 1995 as a joint venture (JV) between The KCP Limited and Fives Cail, France with the equity in the proportion 40:40 between the JV partners and the remaining stake is directly held by promoters of The KCP Group. The company does not own any manufacturing facilities, apart from a fabrication and assembly unit in Tiruvottiyur, Chennai, and mostly subcontracts the manufacturing to third parties and the parent - The KCP Limited. It undertakes orders for manufacture of 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 footprints in diverse businesses such as heavy engineering, cement, sugar and power generation. Fives Cail is part of the Fives group and is a global leader in the design and manufacture of process equipments and plants for the sugar sector.

In FY2018, on a provisional basis, the company reported profit before tax of Rs. 5.5 crore on an operating income of Rs. 265.5 crore, as compared to profit before tax of Rs. 4.3 crore on an operating income of Rs. 134.1 crore in the previous year.

### Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	237.38	134.07
PAT (Rs. crore)	5.72	2.58
OPBDIT/OI (%)	4.4%	3.2%
RoCE (%)	38.46%	19.97%
Total Debt/TNW (times)	0.62	0.26
Total Debt/OPBDIT (times)	1.25	1.44
Interest coverage (times)	4.73	2.06

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

**Any other information: None**

**Rating history for last three years:**

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating June 2018	Date & Rating in FY2017 April 2017	Date & Rating in FY2016 April 2016	Date & Rating in FY2014 May 2015
1 Fund based	Long Term	39.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2 Non fund based	Short Term	122.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
3 Non fund based (sub-limit)	Short Term	(21.50)	-	[ICRA]A3	-	-	-
4 Fund based (sub-limit)	Long Term	(10.00)	-	[ICRA]BBB- (Stable)	-	-	-
5 Unallocated	Short Term	-	-	-	[ICRA]A3	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://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	NA	NA	NA	39.00	[ICRA]BBB-(Stable)
NA	BG/LC	NA	NA	NA	122.00	[ICRA]A3
NA	Letter of Credit (sub-limits)	NA	NA	NA	(21.50)	[ICRA]A3
NA	Cash Credit (sub-limit)	NA	NA	NA	(5.00)	[ICRA]BBB-(Stable)
NA	EPC/PSC/PCFC/PSCFC (sub-limit)	NA	NA	NA	(5.00)	[ICRA]BBB-(Stable)

Source: Fives Cail KCP Limited

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