

October 10, 2019 <sup>Revised</sup>

## FLSmidth Private Limited: Ratings Reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund based/CC	101.00	101.00	[ICRA]A+(Stable); reaffirmed
Long term/Short term – Non-Fund based	1008.25	1008.25	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Short Term – Fund based	150.00	150.00	[ICRA]A1+; reaffirmed
Unallocated	410.75	410.75	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
<b>Total</b>	<b>1670.00</b>	<b>1670.00</b>	

### Rationale

The rating reaffirmation favourably factors in FLSPL's inherent business strengths gained through the longstanding experience; its proven track record; the technical expertise of the FLSmidth Group (consolidated operations of FLSPL's ultimate parent, FLSmidth & Co A/S, Denmark); FLSPL's sizeable market position in the cement machinery/equipment, material handling and mineral processing machinery business; and its business exposure across industries such as cement, power, iron and steel, coal and other mineral segments. ICRA, also notes the healthy improvement in order flow in FY2019, which resulted in strong orderbook position and healthy revenue visibility. However, sustainability of the orders in the near to medium term remains a concern due to the economic slowdown in the domestic market, although the impact is partly mitigated by orders from other South Asian countries.

ICRA notes that there has been some moderation in the net worth position due to share buy back from parent in FY2019, which also moderated the cash balances in the current fiscal; despite that, ICRA continues to positively factor in the healthy capital structure of FLSPL as reflected in its zero-debt position, its strong debt protection metrics and the comfortable liquidity position. Further, advances from customers and favourable credit period from suppliers also support the liquidity position and result in moderate working capital intensity.

The ratings are, however, constrained by the intense competition from large multi-national companies as well as from cheaper imports from China, which limit pricing flexibility. The ratings are further constrained by the vulnerability of the company's profitability to fluctuation in raw material prices, given the long project-execution cycle and fixed-price nature of certain contracts. ICRA also takes note of the significant contingent liabilities of the company (due to the imposition of service tax on composite orders executed by the it) and is monitoring the developments on this front; however, there has been some reduction in liability in FY2019.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that FLSPL will continue to benefit from the long-standing experience, the track record and the technical expertise of the FLSmidth Group.

## Key rating drivers and their description

### Credit strengths

**FLSPL's strong parentage as subsidiary of FLSmidth & Co A/S, Denmark** - FLSPL is a subsidiary of FLSmidth & Co A/S, Denmark, one of the leading global players in supplying cement machinery and material handling/mineral processing system. The rating factors in FLSPL's inherent business strengths gained through the longstanding experience, its proven track record and the technical expertise of the FLSmidth Group, which also mitigate the technology obsolescence risks.

**Strong market position in addressable market segments**— FLSPL is a full range supplier of equipment for cement plants. It also provides mineral processing and material handling equipment for mining and other process industries and owns considerable market share and a strong market position in all its addressable market segments. The company's robust order flow in FY2019 together with the strong orderbook worth Rs. 2,866-crore as on March 31, 2019 (1.32 times the revenues of FY2019) has ensured good revenue visibility over the near-to-medium term.

**Financial risk profile remains healthy with zero debt and comfortable debt protection metrics** – In FY2019, FLSPL's net worth moderated as the parent group brought back Rs. 165.0 crore share. This buy back also eroded the cash balances in the current fiscal. Nonetheless, the company's financial risk profile continues to remain healthy, with zero debt and comfortable debt protection metrics. The company's liquidity profile is also strong, supported by unutilised limits (backed by corporate guarantee from FLSmidth & Co A/S) and cash and liquid investments.

### Credit challenges

**Competitive pressure from established peer group** - The competitive pressure remains intense in the cement and mineral segment, dominated by the subsidiaries of foreign companies, which exert pressure on the company's profitability. The material handling equipment are used in multiple industries, both large scale and small scale, resulting in fragmented market shares for various players. Despite the increase in competitive intensity in last few years, the parentage of FLSPL and its track record in domestic market have enabled it to mitigate the impact.

**Vulnerability to increase in raw material costs**— FLSPL's sales to most of its customers are largely fixed price in nature; only some contracts have price escalation clauses. Given the raw material-intensive operations, any volatility in cost of raw materials can impact operating the profitability as the company's ability to pass on input price escalations is limited.

**Weak profit margins and return indicators** - During the last few years FLSPL's profitability margins declined due to a spate of factors including increased competition, demand slowdown, adverse movements in steel prices and increase in overheads. During FY2018, the operating margin reduced considerably to -2.5% from 2.9% in FY2017 due to large provision for bad debts. However, even though OPM was negative in FY2018, the PAT margin turned positive, due to increase in non-operating income in the form of write-back of provisions no longer required. Nonetheless, during FY2019, the company's operating margin improved to 2.7%, in-line with earlier levels. The RoCE also witnessed improvement to 10.4% during FY2019 from -4.9% in FY2018.

**Susceptibility to cyclicity in end-user industries** – The major end-user segments of FLSPL and the Group, namely cement and minerals, are cyclical in nature and hence the order flow and performance of FLSPL is susceptible to capex and replacement cycles of these industries.

**Contingent liabilities** – FLSPL has considerable contingent liabilities, mainly arising from disputes related to service tax, CST, VAT etc. on composite orders. ICRA, however, takes note of some reduction in contingent liabilities during the last two years—FY2018 and FY2019. ICRA will be monitoring the developments on this front, and any adverse outcome remains a rating sensitivity factor.

### Liquidity position: Strong

FLSPL's liquidity is strong, supported by zero debt position, availability of unutilised fund-based working capital limits, moderate annual FFO of nearly Rs. 35-40 crore and liquid cash and investments. Further, due to being part of FLSmidth Group, FLSPL has healthy financial flexibility with the lenders, as reflected by lower cost of borrowings and zero margin money requirement for its non-fund-based limits.

### Rating sensitivities

**Positive triggers** – ICRA could upgrade FLSPL's rating if there is sustained improvement in profitability and return indicators (ROCE more than 12%)

**Negative triggers** – Negative pressure on FLSPL's rating could emerge if there is significant increase in TOL/TNW position (TOL/TNW more than 2.5 times), moderation in profitability, slower-than-anticipated project execution that hinders the revenue growth, lower-than-anticipated order flow, and increase in receivables position that weakens the financial risk profile of the company.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Implicit benefits from being part of the FLSmidth Group
Consolidation / Standalone	Rating is based on standalone financial statements

### About the company

FLSmidth Private Limited (FLSPL), an engineering organisation and a member of the FLSmidth Group, was incorporated on April 18, 2000, as FLS Automation India Private Limited, a subsidiary of Dan Indian Holding ApS, Denmark. It started commercial operations from July 1, 2000, and was initially engaged in designing, selling, supervision of erection and commissioning, rendering engineering, after-sales service and consultancy for complete automation and control systems for cement and other process industries. With effect from January 1, 2005, however, FLSmidth Limited (engaged in the design, manufacture, supply and supervision of erection and commissioning of cement machinery, spares and equipment) merged with FLS Automation India Pvt. Ltd. and the merged entity was renamed as FLSmidth Private Limited. Furthermore, three group companies, FLSmidth Minerals Pvt. Ltd., FLSmidth Designs Pvt. Ltd. and FLSmidth Infotech Pvt. Ltd., were amalgamated with FLSPL with effect from April 1, 2008.

The merger between the above-mentioned Indian entities took place after the merger of their immediate parents at the global level, and as a result, FLSmidth Mineral Holdings ApS replaced Dan Indian Holding ApS as FLSPL's new immediate parent company. During FY2011-12, EEL India Private Limited got amalgamated with FLSPL and during FY2013-14, FLSmidth Pfister India Limited, Ludowici Mining Process India Private Limited and Ludowici India Private Limited was

amalgamated with FLSPL. The company has a foundry at Arakonnam, Tamil Nadu, for manufacturing special small castings and a manufacturing unit at Bawal, Haryana, for packing loading and weighing and batching systems

### Key financial indicators

Consolidated	FY2018	FY2019 (provisional)
Operating Income (Rs. crore)	1,638.8	2,429.3
PAT (Rs. crore)	20.1	55.7
OPBDIT/OI (%)	-2.5%	2.7%
RoCE (%)	4.9%	10.4%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	-7.2	9.5

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

**Any other information: None**

### Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 10-Oct 2019	Date & Rating in FY2019 12-Apr 2018	Date & Rating in FY2017 20-Jan 2017	Date & Rating in FY2016 08-Oct 2015
	Instrument	Type						
1	Overdraft/ Cash Credit	Long Term	101.00	NA	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)
2	Bank Guarantees	Long Term/ Short Term	1008.25	NA	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
3	Short term loans	Short Term	150.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated	Long Term/ Short Term	410.75	NA	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+

### 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	Overdraft/Cash Credit	NA	NA	NA	101.00	[ICRA]A+(Stable)
NA	Bank Guarantees	NA	NA	NA	1008.25	[ICRA]A+(Stable)/[ICRA]A1+
NA	Short term loans	NA	NA	NA	150.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	410.75	[ICRA]A+(Stable)/[ICRA]A1+

Source: FLSmith Pvt. Ltd.

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## Corrigendum

The rationale document dated October 10, 2019 has been corrected with revisions as detailed below:

Correction in Liquidity profile

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