

October 27, 2018

General Manager
 Department of Investor Services,
 BSE Ltd.
 Phiroze Jeejeebhoy Towers,
 Dalal Street, Mumbai 400 001

Dear Sirs,

Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 - Rating/revision in credit rating of various facilities

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation, 2015, we wish to inform you that ICRA Limited has Reaffirmed/ revised credit rating of various facilities as follows:

Facilities	Amount (Rs. Crores)	Rating
Non-convertible Debentures (ISIN: INE518A07044)	40.00	[ICRA] A+ (Negative) revised from [ICRA]AA- (Negative)
Long term Bank Facilities	72.50	[ICRA] A+ (Negative) revised from [ICRA]AA- (Negative)
Short term Bank Facilities	56.50	[ICRA] A1+ (Reaffirmed)
Unallocated Limits	22.99	[ICRA] A+ (Outlook: Negative)/[ICRA]A1+
Commercial Paper	80.00	[ICRA] A1+ (Reaffirmed)

We are enclosing herewith rationale given by ICRA for revision in ratings of Non-convertible Debentures and Long term Bank Facilities and for reaffirming Short term facilities/borrowings.

Thanking you

Yours faithfully,
 For Forbes & Company Limited

Pankaj Khattar

Pankaj Khattar
 Head Legal & Company Secretary
 Encl: As above

Forbes & Company Limited

October 26, 2018

Forbes & Company Limited: Long-term rating downgraded to [ICRA]A+(Negative); Short-term rating reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	19.50	72.50	[ICRA]A+ (Negative); downgraded from [ICRA]AA- (Negative)
Short-term Fund-based Limits	17.50	16.00	[ICRA]A1+; reaffirmed
Short-term Non-fund Based Limits	70.50	40.50	[ICRA]A1+; reaffirmed
Unallocated Limits	44.49	22.99	[ICRA]A+ (Negative)/[ICRA]A1+; revised from [ICRA]AA- (Negative)/[ICRA]A1+
Non-Convertible Debenture Programme	40.00	40.00	[ICRA]A+ (Negative); downgraded from [ICRA]AA- (Negative)
Non-Convertible Debenture Programme	60.00	-	[ICRA]AA-(Negative); Withdrawn
Commercial Paper	80.00	80.00	[ICRA]A1+; reaffirmed
Total	331.99	271.99	

*Instrument details are provided in Annexure-1

Rating action

ICRA has downgraded the long-term rating to [ICRA]A+ (pronounced ICRA A plus)¹ from [ICRA]AA- (pronounced ICRA double A minus) assigned to the Rs. 72.50-crore² (increased from Rs. 19.50 crore) fund based bank limits and the Rs. 40.0-crore non-convertible debenture (NCD) programme of Forbes & Company Limited (FCL). ICRA has also reaffirmed the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 16.00-crore (reduced from Rs. 17.50 crore) fund-based bank facilities, Rs. 40.50-crore (reduced from Rs. 70.50 crore) non-fund based bank facilities and Rs. 80.00 crore commercial paper (CP) programme of FCL. ICRA has also downgraded the long-term rating to [ICRA]A+ from [ICRA]AA- and reaffirmed the short-term rating at [ICRA]A1+ for the Rs. 22.99-crore (reduced from Rs. 44.49 crore) unallocated limits of the company. The outlook on the long-term rating continues to remain 'Negative'.

ICRA has also withdrawn the long-term rating of [ICRA]AA- (Negative) assigned to the Rs. 60.00 crore NCD as the company has fully repaid the said facility and there is no amount outstanding against it. The rating withdrawal is in accordance with ICRA's policy on withdrawal and suspension.

¹For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

²100 lakh = 1 crore = 10 million

Rationale

The long-term rating downgrade takes into account the continued weak consolidated operating performance of the company in the last two fiscal years, driven largely by its key subsidiary – Eureka Forbes Limited (EFL). The subdued performance of EFL’s domestic health and hygiene business (operating margins of ~4% in FY2018) and adverse operating performance of its international health and hygiene business (under Forbes Lux International AG, subsidiary of EFL) has weakened the overall consolidated risk profile of FCL. Further, the weak performance of its other subsidiary - Forbes Technosys Limited (FTL), also contributes to the overall weakened financial risk profile of FCL. Overall, the consolidated debt coverage indicators remain weak. ICRA also notes that though the company has a strategy in place to turnaround the operations of EFL and FTL, the execution and timelines of the same remains crucial to improve the overall credit profile of FCL.

The ratings continue to positively factor in the financial flexibility enjoyed by FCL by virtue of being a part of the Shapoorji Pallonji Group (Shapoorji Pallonji & Company Private Limited rated [ICRA]AA+(Stable)/ [ICRA]A1+) as well as the improving performance of the company’s standalone business. The healthy progress/bookings witnessed by FCL’s ongoing real estate project- ‘Vicinia’ (being concurrently developed by FCL and its co-developer) continues to aid the liquidity profile of the company. ICRA continues to derive comfort from FCL’s significant real estate holdings which apart from providing steady rental income could provide an upside to the its cash flows if monetised.

Outlook: Negative

ICRA believes that the consolidated risk profile of FCL will continue to remain under pressure until there is demonstrated turnaround in performance of its key subsidiaries- EFL and FTL. The rating may be downgraded in case of further deterioration in the performance of its subsidiaries or a delay in progress of ongoing real estate project results in further deterioration of the company’s financial risk profile. The outlook may be revised to Stable if management initiatives towards turnaround in operations of EFL and FTL improves the overall cost structure, resulting in higher operating profitability thereby strengthening consolidated financial risk profile.

Key rating drivers

Credit strengths

Strengths arising from being part of the Shapoorji Pallonji Group– The ratings draws comfort from the strong parentage of the company with Shapoorji Pallonji (SP) Group holding about 73.85% of the paid up share capital of FCL. Shapoorji Pallonji and Company Private Limited (SPCPL; rated [ICRA]AA+ (Stable)/[ICRA]A1+) is the flagship company of the SP Group, is a diversified industrial conglomerate comprising a group of companies held by the Mistry Family. The SP Group has a diversified presence across sectors such as construction (SPCPL, Afcons Infrastructure Limited), mechanical electrical and plumbing (Sterling & Wilson Private Limited), contracting (Sterling & Wilson Private Limited), water purification (EFL), infrastructure development (Shapoorji Pallonji Infrastructure Capital Company Private Limited), solar power generation and contracting (Sterling & Wilson Private Limited and Shapoorji Pallonji Infrastructure Capital Company Private Limited), floating production storage and offloading (FPSO) vessels (SP Oil & Gas Private Limited) etc. FCL being a part of the SP Group, draws comfort from the experience of the management team and the Group’s resourcefulness.

Continued market leadership position enjoyed by FCL’s key subsidiary – EFL in the electric water purification market in the domestic market – EFL is a market leader in the domestic electric water purification industry and vacuum cleaner business, with an estimated market share of ~65% and ~75% in respective market segments as per company estimates.

EFL is one of the largest direct sales companies in India having strong distribution network of ~20,000 retailers and more than 7,000 direct sales personnel, catering to ~20 million customers across 1,500 cities and towns.

Adequate liquidity position at standalone level and support from significant real estate holdings – The liquidity position of the company (at standalone level) continues to remain adequate, supported by its available cash & liquid investments and unutilised bank line of credit. Further, the performance of engineering division has improved over the last one year thereby supporting standalone operations. The company’s significant real estate holdings, apart from providing a steady stream of rental income (Rs. 16.7 crore in FY2018) could provide an upside to the company’s cash flows if monetised.

Credit challenges

Weak operating performance at consolidated level due to under performance of key subsidiaries– The continued weak performance of some of the key subsidiaries (EFL and FTL) in the past has impacted the overall financial performance of the company at the consolidated level as reflected in flat revenues and low profitability. The performance of Forbes Lux International AG (Subsidiary of EFL), which caters to the international markets (mainly Europe), continues to remain weak because of the adverse regulatory environment, and weak market sentiments. However, the company has a strategy in place to turnaround the domestic and international operations of EFL; the execution and timeliness of the same crucial to improve the overall credit profile of FCL. Likewise, FTL’s operations have been impacted during last two fiscals as the business from key verticals such as banking, telecom and government slowed down due to policy level and competitive challenges.

Stretched credit profile reflected in weak debt coverage indicators at consolidated level – The debt profile at consolidated level is dominated by borrowings taken by key subsidiary- EFL, which accounts for the maximum portion of total debt outstanding as on March 31, 2018. The net debt of the company stands at Rs. 1,032.5 crore and net gearing at 2.4 times as on March 31, 2018. At consolidated level, high debt levels coupled with low operating margins has resulted in weak debt coverage indicators as reflected in net debt/OPBDITA of 7.7x and interest coverage of 1.3 times for FY2018. However, ICRA continues to derive comfort from the strong financial flexibility of the group and its ability to refinance maturing debt.

Timely project completion largely relies on advances from customers – FCL’s real estate project is proposed to be funded largely through customer advances. While, the company has received bookings for ~52% of its total saleable area till June 2018, continuing booking inflow will remain a critical rating sensitivity factor.

Extension of financial support to group entities – The company has been supporting group entities (mainly FTL) through investments in form of equity/preference shares and corporate guarantees (Rs. 179.2 crore as on March 31, 2018 for FTL) for its borrowings. Any further major investments in its group entities will be a key rating monitorable.

Analytical approach: For arriving at the ratings, ICRA has considered the consolidated business and the financial risk profile of Forbes & Company Limited. Further, ICRA has considered, FCPL’s strong parentage as a subsidiary of Shapoorji Pallonji And Company Private Limited. The rating methodologies applied are given below:

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Impact of Parent or Group Support on an Issuer’s Credit Rating](#)

[Rating Methodology for Real Estate Entities](#)

[Rating Methodology for Entities in the Shipping Industry](#)

[ICRA Policy on Withdrawal and Suspension of Credit Rating](#)

About the company

FCL traces its origins to the year 1767 when John Forbes of Scotland started his business in India. Over the years, the management of the company moved from the Forbes Family to the Campbells to the Tata Group and then to the SPG. During this period, the company has also gone through a series of mergers and demergers and had to disengage from different businesses. Initially known as Forbes Gokak Limited, the name of the company was changed to Forbes & Company Limited with effect from October 25, 2007. SP Group holds about 73.85% of the paid-up share capital of FCL.

Post various divestments and business discontinuations, the standalone operations of FCL include engineering business (comprising precision tools and coding business) and development of residential project (Vicinia in Chandivali, Mumbai). In addition, FCL earns substantial income from its treasury operations and its real estate holdings.

Further, FCL has number of subsidiary companies, Joint ventures and associate companies. In terms of revenue contribution, on a consolidated basis, EFL (100% subsidiary of FCL) contributes to more than 80% of the total operating income of the company. The other major group companies which contribute to the overall revenues of the consolidated entity include FTL (100% subsidiary of FCL) and SPFSL (JV with Sterling Investment Corporation Limited and G.S Enterprises (a Shapoorji Pallonji group company) with FCL holding 25% stake).

Key financial indicators (Audited)

Rs. Crore	Standalone		Consolidated	
	FY2017	FY2018	FY2017	FY2018
Operating Income (Rs. crore)	266.3	293.7	2998.6	2822.9
PAT (Rs. crore)	96.6	40.9	70.7	-41.6
OPBDIT/ OI (%)	14.3%	21.5%	3.6%	4.7%
RoCE (%)	29.7%	15.0%	11.3%	5.7%
Total Debt/ (TNW + Minority Interest) (times)	0.6	0.6	2.6	2.7
Total Debt/ OPBDIT (times)	3.9	2.7	10.9	8.9
Interest Coverage (times)	3.1	3.9	1.4	1.3

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, and Taxes; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth (TNW) + Deferred Tax Liability - Capital Work-in-Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October 2018	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016 August 2015	
1 Fund-based Limits	Long-term	72.50	-	[ICRA]A+(Negative)	[ICRA]AA-(Negative)	-	-	
2 Fund-based Limits	Short-term	16.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
3 Non-fund Based Limits	Short-term	40.50	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4 Unallocated Limits	Long-term/Short-Term	22.99	-	[ICRA]A+(Negative) / [ICRA]A1+	[ICRA]AA-(Negative) / [ICRA]A1+	-	-	
5 Term Loans	Long-Term	-	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	
6 Non-Convertible Debenture Programme	Long-term	40.00	40.00	[ICRA]A+ (Negative)	[ICRA]AA-(Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	
7 Non-Convertible Debenture Programme	Long-term	60.00	0.00	Withdrawn	[ICRA]AA-(Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	
8 Commercial Paper	Short-term	80.00	50.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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

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	Long-term Fund-based Limits	NA	NA	NA	72.50	[ICRA]A+(Negative)
NA	Short-term Fund-based Limits	NA	NA	NA	16.00	[ICRA]A1+
NA	Short-term Non-fund Based Limits	NA	NA	NA	40.50	[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	22.99	[ICRA]A+(Negative)/ [ICRA]A1+
NA	Commercial paper	NA	NA	7-365 days	80.00	[ICRA]A1+
INE518A07044	Non-convertible Debenture	20-July-2016	9.10%	22-July-2019	40.00	[ICRA]A+(Negative)
INE518A07036	Non-convertible Debenture	10-Sep-2015	9.80%	Repaid on 10-Sep-2018	60.00	Withdrawn

Source: Forbes & Company Limited