Shapoorji Pallonji

October 26, 2020

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 - Revision in credit rating

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 revised the credit rating and revised the outlook as follows:

Facility	Amount Rated (Rs. in Crores)	Rating	Rating Action
Long - term Fund -based limits	71.5	[ICRA] BB+ (Negative)	Revised from [ICRA]BBB+ (Negative)
Short- term Fund -based limits	16.0	[ICRA]A4+	Revised from [ICRA]A2
Short- term Non-Fund - based limits	38.5	[ICRA]A4+	Revised from [ICRA]A2
Unallocated Limits	25.99	[ICRA]BB+ (Negative) / [ICRA]A4+	Revised from [ICRA]BBB+(Negative)/[ICRA]A2

We are enclosing herewith rationale given by ICRA Limited for revision in the credit rating and outlook of Long term bank and short term bank facilities and Unallocated Limits.

Kindly acknowledge receipt.

Yours faithfully,
For Forbes & Company Limited

PANKAJ KHATTAR

Digitally signed by PANKAJ KHATTAR
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serialNumber=a2fafdd331318231c7d6bee9fd33ebc9d9a50ae672a1c9750ab9ff4488f59c8d, cn=PANKAJ KHATTAR
Date: 2020.10.26 16:03:41 +05'30'

(Pankaj Khattar)
Head Legal & Company Secretary

Encl: As above

October 23, 2020

Forbes & Company Limited: Rating downgraded to [ICRA]BB+(Negative) and [ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	71.5	71.5	[ICRA]BB+(Negative); downgraded from [ICRA]BBB+(Negative)
Short-term Fund-based Limits	16.0	16.0	[ICRA]A4+; downgraded from [ICRA]A2
Short-term Non-fund Based Limits	38.5	38.5	[ICRA]A4+; downgraded from [ICRA]A2
Unallocated Limits	25.99	25.99	[ICRA]BB+(Negative)/[ICRA]A4+; downgraded from [ICRA]BBB+ (Negative)/[ICRA]A2
Commercial Paper	80.0	-	[ICRA]A4+; downgraded from [ICRA]A2 and withdrawn
Total	**231.99**	**151.99**	

**Instrument details are provided in Annexure-1*

Rationale

The rating downgrade primarily reflects the weakening financial profile of the parent company, Shapoorji Pallonji and Company Private Limited (SPCPL), and the continued deterioration in the consolidated financial profile of Forbes & Company Limited (FCL) driven by decline in the performance of its engineering division at a standalone level in FY2020 and weak performance of its subsidiaries, Eureka Forbes Limited (EFL) and Forbes Technosys Limited (FTL). During FY2020, the company reported deterioration in consolidated operating margins to 1.1% from 5.2% in FY2019 due to under-par performance in all its business segments primarily due to subdued demand conditions in the market and partial impact of the Covid-19 pandemic towards the end of Q4 FY2020. Further, the company reported exceptional loss of Rs. 214.7 crore in FY2020 due to impairment of goodwill in the consolidated results of FCL primarily due to continued underperformance of the overseas subsidiaries of EFL (Lux Group). The consolidated debt levels remained at Rs. 1,137.4 crore (including lease liabilities of Rs. 44.7 crore) as on March 31, 2020 compared to Rs. 1,069.5 crore as on March 31, 2019. Further, the standalone operating margins declined to 0.5% in FY2020 from 13.0% in FY2019 due to 16% degrowth in the engineering division's revenues during the same period due to overall slowdown in the auto industry coupled with lost sales in the month of March 2020 due to shutdown of operations since March 2020 on account of the Covid-19 induced lockdown. Consequently, there was significant deterioration in consolidated debt protection metrics during FY2020. Furthermore, with Q1 FY2021 bearing the brunt of the lockdown, FCL's consolidated operating performance remained adversely impacted, leading to losses at a net level. Weak operating performance of EFL's international health and hygiene business (under EFL's subsidiaries) has continued to impact FCL's overall consolidated risk profile. Further, the performance of its other subsidiary, FTL, has remained weak, exacerbated by the pandemic related lockdown. Meaningful turnaround in operating performance of its subsidiaries as economic activity picks up would be crucial to improve FCL's overall credit profile. Despite initiatives taken to improve FTL's performances, it would still be dependent on refinancing/support from FCL for its debt repayments and managing their operations. Further, ICRA notes that FCL had availed moratorium on one of its term loan facilities.

The rating also factors in the healthy progress/ bookings that was witnessed in its ongoing real estate residential project, Vicinia, which has supported its cash flows and liquidity profile. The real estate segment has also been disrupted by the lockdown leading to delay in obtaining Occupation Certificate for Phase-I of its project and delay in obtaining regulatory approvals/ permissions for Phase-II. However, the State Government of Maharashtra's initiative in lowering the stamp duty and other supporting measures by the Central Government/ Reserve Bank of India (RBI) to revive the industry are all expected to support bookings, going forward. Moreover, ICRA continues to derive comfort from FCL's significant real estate holdings, which apart from providing a steady rental income could lead to increase in its cash flows, if monetised.

The Negative outlook on the long-term rating reflects the constrained financial flexibility of its parent, SPCPL, and continuing pressure on FCL's consolidated risk profile until there is a significant turnaround in performance of its key subsidiaries, EFL and FTL, along with improvement in the performance of its engineering business at a standalone level.

ICRA has revised the short-term rating assigned to Rs. 80 crore Commercial Paper programme to [ICRA]A4+ and withdrawn the same, as there is no amount outstanding against the rated instrument.

Key rating drivers

Credit strengths

Part of Shapoorji Pallonji (SP) Group - The rating continues to draw comfort from the parentage of SP Group, which holds ~73.85%[1] of the paid-up share capital of FCL through SPCPL (rated [ICRA]BBB+/[ICRA]A2; placed under watch with negative implications downgraded from [ICRA]A+/Negative/[ICRA]A1 on October 5, 2020). SPCPL is the flagship company of the SP Group, which is a diversified industrial conglomerate 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 (Eureka Forbes Limited), 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.

Significant real estate holdings at standalone level - The company's significant real estate holdings, apart from providing a steady stream of rental income (Rs. 19.2 crore in FY2020 and Rs. 20.1 crore in FY2019), could lead to an increase in its cash flows, if monetised.

Healthy bookings in Vicinia - The company has received healthy bookings with ~140 apartment units being sold till July 2020, out of the total 167 units in its housing project, Vicinia, in Mumbai, as indicated by the management. While ICRA notes the healthy response, timely project completion and approvals and ability to maintain high collection efficiency will be critical to support the company's cash flows and liquidity profile.

Credit challenges

Stretched consolidated credit profile due to underperformance of key subsidiaries; weak performance of its engineering business at standalone level in FY2020 - The continued weak performance of its key subsidiaries (EFL and FTL) has impacted the company's overall financial performance at the consolidated level, as reflected in low profitability

[1] *Shapoorji Pallonji and Company Private Limited holds 72.56% and Forbes Campbell Finance Limited holds 1.29%.*

and stretched debt coverage indicators. During FY2020, the company reported deterioration in consolidated operating margins to 1.1% from 5.2% in FY2019 primarily due to subdued performance in all its business segments. Further, the company reported exceptional loss of Rs. 214.7 crore in FY2020 due to goodwill impairment for underperforming overseas subsidiaries of EFL (Lux Group). The consolidated debt levels remained at Rs. 1,137.4 crore (including lease liabilities) as on March 31, 2020 compared to Rs. 1,069.5 crore as on March 31, 2019. Further, the standalone operating margins declined to 0.5% in FY2020 from 13.0% in FY2019 due to 16% degrowth in engineering division revenues during the same period due to overall slowdown in the auto industry coupled with lost sales in the month of March 2020 due to shutdown of operations since March 2020 on account of the pandemic induced lockdown. Consequently, there was significant deterioration in consolidated debt protection metrics during FY2020. Furthermore, with Q1 FY2021 bearing the brunt of the lockdown, FCL's consolidated operating performance remained adversely impacted leading to losses at a net level. Weak operating performance of EFL's international health and hygiene business (under EFL's subsidiaries) has continued to impact FCL's overall consolidated risk profile. Further, the performance of its other subsidiary, FTL, has remained weak, exacerbated by the pandemic related lockdown. Meaningful turnaround in operating performance of its subsidiaries, as economic activity picks up, would be crucial to improve FCL's overall credit profile. Despite initiatives taken to improve FTL's performances, it would still be dependent on refinancing/ support from FCL for its debt repayments.

Refinancing risk - FCL's subsidiaries—EFL, FTL and Shapoorji Pallonji Forbes Shipping Limited (SPFSL)—remain exposed to refinancing risk due to their scheduled debt repayments[2] in FY2021.

Financial support to subsidiaries - The company has supported its subsidiaries (FTL and EFL) through investments in the form of equity/ preference shares and guarantees for their borrowings. Any further sizeable support to its subsidiaries will be a key rating monitorable.

Liquidity position: Stretched

The company's liquidity position at the consolidated level remains stretched due to subdued performance of its key subsidiaries, EFL and FTL, weak performance of its engineering business at the standalone level in FY2020 and major scheduled debt repayments. However, liquidity remains supported by free cash and liquid investments (Rs. 73.3 crore as on March 31, 2020), expected cash flows from the Vicinia housing project and sizeable real estate holdings that, when monetised, could provide an upside to the company's cash flows. Meaningful turnaround in the operating performance of its various loss making/ low profitable subsidiaries/ business divisions, as economic activity picks up, will be crucial for improving the company's credit profile and liquidity position.

Rating sensitivities

Positive triggers – Given the negative outlook, an upgrade in the ratings is unlikely in the near term. However, the outlook could be revised to Stable if the management's initiatives for a turnaround in the operations of the engineering division, EFL and FTL, improve the overall cost structure, resulting in significant improvement in profitability. Further, significant improvement in the financial flexibility of the parent group will also be a key rating trigger.

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[2] Based on available data, *EFL has debt repayments of Rs. 65.9 crore in FY2021. FTL has debt repayments of Rs. 44.3 core in FY2021. SPFSL has debt repayments of Rs. 136.8 crore in FY2021.*

Negative triggers – Negative pressure on FCL's rating could arise in case of a downgrade in its parent's rating, or if the performance of its subsidiaries remains weak, or if there is any delay in the progress of the ongoing real estate project, adversely impacting its financial risk profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	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 Policy on withdrawal of Credit ratings
Parent/Group Support	ICRA expects FCL's parent, SPCPL (rated [ICRA]BBB+/[ICRA]A2; placed under watch with negative implications), to be willing to extend financial support to it, should there be a need, given FCL's importance to its parent.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of FCL. The subsidiaries/ joint ventures of FCL, as on March 31, 2020, are enlisted in Annexure-2.

About the company

FCL traces its origins to 1767 when John Forbes from Scotland started his business in India. Over the years, the company's management moved from the Forbes family, to the Campbells, to the Tata Group, and finally to the SP Group. During this period, the company went through a series of mergers and demergers, and had to disengage from different businesses. Initially known as Forbes Gokak Limited, the company was renamed as Forbes & Company Limited with effect from October 25, 2007. The SP Group holds ~73.85% of the paid-up share capital of FCL.

Post various divestments and business discontinuations, FCL's standalone operations currently include engineering business (precision tools and coding) and residential project development (Vicinia in Chandivali, Mumbai). In addition, FCL earns substantial income from its treasury operations and real estate holdings. Further, FCL has many subsidiary companies, JVs and associate companies. In terms of revenue contribution, on a consolidated basis, EFL (100% subsidiary of FCL) contributes more than 80% to its total operating income. The other major Group companies, which contribute to the overall revenues of the consolidated entity, include FTL (100% subsidiary of FCL) and Shapoorji Paloonji Forbes Shipping Limited (SPFSL) (JV with Sterling Investment Corporation Limited and GS Enterprises, an SP Group company, with FCL holding a 25% stake).

Key financial indicators (audited)

	Standalone FY2019	FY2020	Consolidated FY2019	FY2020
Operating Income (Rs. crore)	227.9	195.9	2,853.3	2,754.6
PAT (Rs. crore)	10.3	-24.6	-10.2	-344.6
OPBDIT/OI (%)	13.0%	0.5%	5.2%	1.1%
RoCE (%)	6.6%	-2.6%	6.3%	-19.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	3.0	6.5	256.9
Total Debt/OPBDIT (times)	5.7	208.7	7.2	36.4
Interest Coverage (times)	1.7	0.1	1.7	0.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating 23-Oct-20	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 9-Dec-19	1-Jul-19	Date & Rating in FY2019 26-Oct-18	Date & Rating in FY2018 11-Sep-17
1	Fund-based Limits	Long-term	71.5	-	[ICRA]BB+ (Negative)	[ICRA]BBB+(Negative)	[ICRA]A(Negative)	[ICRA]A+(Negative)	[ICRA]AA- (Negative)
2	Fund-based Limits	Short-term	16	-	[ICRA]A4+	[ICRA]A2	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
3	Non-fund Based Limits	Short-term	38.5	-	[ICRA]A4+	[ICRA]A2	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
4	Unallocated Limits	Long-term/Short-term	25.99	-	[ICRA]BB+ (Negative)/ [ICRA]A4+	[ICRA]BBB+(Negative)/ [ICRA]A2	[ICRA]A(Negative)/ [ICRA]A1	[ICRA]A+(Negative)/ [ICRA]A1+	[ICRA]AA- (Negative)/ [ICRA]A1+
5	Commercial Paper	Short-term	-	-	[ICRA]A4+, withdrawn	[ICRA]A2	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
6	Non-convertible Debenture Programme	Long-term	-	-	-	Withdrawn	[ICRA]A(Negative)	[ICRA]A+(Negative)	[ICRA]AA- (Negative)
7	Term Loans	Long-term	-	-	-	-	-	-	-
8	Non-convertible Debenture Programme	Long-term	-	-	-	-		Rs. 60.0 crore Withdrawn	[ICRA]AA- (Negative)

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 click here

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	71.5	[ICRA]BB+(Negative)
NA	Short-term Fund-based Limits	NA	NA	NA	16.0	[ICRA]A4+
NA	Short-term Non-fund Based Limits	NA	NA	NA	38.5	[ICRA]A4+
NA	Unallocated Limits	NA	NA	NA	25.99	[ICRA]BB+(Negative)/ [ICRA]A4+
NA	Commercial Paper	NA	NA	7-365 days	-	[ICRA]A4+, withdrawn

Source: Forbes & Company Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Subsidiary Companies		
Eureka Forbes Limited and its Subsidiaries	100.0%	Full Consolidation
Aqualgnis Technologies Private Limited	100.0%	Full Consolidation
Forbes Lux International AG Baar	100.0%	Full Consolidation
Lux International AG	100.0%	Full Consolidation
Lux del Paraguay S.A.	80.0%	Full Consolidation
Forbes International AG	100.0%	Full Consolidation
Lux Italia srl	100.0%	Full Consolidation
Lux Schweiz AG	100.0%	Full Consolidation
Lux (Deutschland) GmbH	100.0%	Full Consolidation
Lux International Services and Logistics GmbH	100.0%	Full Consolidation
Lux Norge A/S	100.0%	Full Consolidation
Lux Osterreich GmbH	100.0%	Full Consolidation
Lux Hungária Kereskedelmi Kft.	100.0%	Full Consolidation
LIAG Trading & Investment Ltd.	100.0%	Full Consolidation
Lux Professional International GmbH	100.0%	Full Consolidation
Lux Professional Paraguay S.A.	100.0%	Full Consolidation
Lux International Service Kft (w.e.f January 6, 2017)	100.0%	Full Consolidation
Lux Aqua Paraguay S.A (w.e.f December 1, 2016)	90.0%	Full Consolidation
EFL Mauritius Limited	100.0%	Full Consolidation
Euro Forbes Financial Services Limited	100.0%	Full Consolidation
Euro Forbes Limited, UAE	100.0%	Full Consolidation
Forbes Lux FZCO	99.4%	Full Consolidation
Forbes Facility Services Private Limited	100.0%	Full Consolidation
Forbes Enviro Solutions Limited	100.0%	Full Consolidation
Lux Welity Polska Sp z o o	100.0%	Full Consolidation
Forbes Campbell Finance Limited and its Subsidiaries	100.0%	Full Consolidation
Forbes Campbell Services Limited	98.0%	Full Consolidation
Forbes Edumetry Limited	57.5%	Full Consolidation
Forbes Technosys Limited	100.0%	Full Consolidation
Volkart Fleming Shipping and Services Limited	100.0%	Full Consolidation

Shapoorji Pallonji Forbes Shipping Limited	25.0%	Full Consolidation
Campbell Properties & Hospitality Services Limited	100.0%	Full Consolidation
Joint Ventures		
Forbes Aquatech Limited	50.0%	Equity Method
Forbes Concept Hospitality Services Private Limited	50.0%	Equity Method
Infinite Water Solutions Private Limited	50.0%	Equity Method
Aqualgnis Technologies Private Limited	50.0%	Equity Method
AMC Cookware Limited	50.0%	Equity Method
Forbes Bumi Armada Limited	51.0%	Equity Method
Associates		
Euro P2P Direct (Thailand) Co. Limited	49.0%	Equity Method
Nuevo Consultancy Services Private Limited	49.0%	Equity Method
Dhan Gaming Solution (India) Private Limited	49.0%	Equity Method

Source: Forbes & Company Limited Audit report