

December 09, 2019

Forbes Technosys Limited: Rating downgraded to [ICRA]BBB+(CE)(Negative) / [ICRA]A2(CE) / [ICRA]A-(CE)(Negative)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Loans	15.0	15.0	[ICRA]BBB+(CE)(Negative); downgraded from [ICRA]A(CE)(Negative)
Long-term Fund-based Limits	48.0	48.0	[ICRA]BBB+(CE)(Negative); downgraded from [ICRA]A(CE)(Negative)
Short-term Non-fund Based Limits	32.0	32.0	[ICRA]A2(CE); downgraded from [ICRA]A1(CE)
Non-convertible Debenture (NCD) Programme	35.0	35.0	[ICRA]BBB+(CE)(Negative); downgraded from [ICRA]A(CE)(Negative)
NCD Programme	25.0	25.0	[ICRA]BBB+(CE)(Negative); downgraded from [ICRA]A(CE)(Negative)
Long-term - Loan	5.7	5.7	[ICRA]A-(CE)(Negative); downgraded from [ICRA]A+(CE)&
Total	160.7	160.7	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement

[ICRA]BB+

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO)/(S) suffix. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]BBB+(CE)(Negative)/[ICRA]A2(CE) ratings

The rating for the Rs. 60.0-crore NCD programme and the Rs. 95.0-crore bank facilities of Forbes Technosys Limited (FTL) are based on the strength of an unconditional and irrevocable corporate guarantee by Forbes & Company Limited (FCL). The rating revision for the Rs. 60.0-crore NCD programme and the Rs. 95.0-crore bank facilities of FTL follows the revision in the rating of FCL to [ICRA]BBB+(CE)(Negative)/[ICRA]A2(CE) from [ICRA]A(SO)(Negative)/ [ICRA]A1(SO).

[Rating rationale of FCL](#)

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is irrevocable and unconditional, and covers the entire amount and tenor of the rated instrument. The rating for the Rs. 60.0-crore NCD factors in the payment mechanism designed to ensure its timely payment as per the terms of the transaction. The rating for FTL's Rs. 95.0-crore bank facilities are based on an unconditional and irrevocable guarantee provided by FCL and an undertaking from the guarantor to ensure that the debt obligations are serviced on or prior to the due date, irrespective of invocation of the guarantee by the beneficiary. The guarantee provided by FCL is adequately strong to result in an enhancement in the

rating of the said instruments to [ICRA]BBB+(CE)(Negative)/[ICRA]A2 against the rating of [ICRA]BB+ without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instruments as well.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » *The guarantee is a continuing one for all the amounts advanced to the borrower under the said facilities as well as for all interest, costs, charges, expenses and/ or other monies that may from time to time become due and remain unpaid to the bank*
- » *Defined payment mechanism (including guarantee invocation mechanism) is part of the terms, to ensure that dues of the NCDs are payable in a timely manner*

For the [ICRA]A-(CE)(Negative) rating

The rating for the Rs. 5.7-crore term loan facility is based on a letter of comfort (LOC) from Shapoorji Pallonji and Company Private Limited (SPCPL). The revision in long-term rating for the Rs. 5.7-crore term loan facility follows the revision in long-term rating of SPCPL to [ICRA]A+(Negative)/[ICRA]A1 from [ICRA]AA-&/[ICRA]A1+&.

[Rating rationale of SPCPL](#)

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » *The LOC given to the borrower under the said term loan facility is valid till all amounts due under the facility are repaid*

Key rating drivers and their description

Credit strengths

For the [ICRA]BBB+(CE)(Negative)/[ICRA]A2(CE) ratings

Corporate guarantee from FCL - The rating for the Rs. 60.0-crore NCD programme and the Rs. 95.0-crore bank facilities are based on the strength of an unconditional and irrevocable corporate guarantee by FCL.

For the [ICRA]A-(CE)(Negative) rating

LOC from SPCPL - The rating for the Rs. 5.7-crore term loan facility is based on the strength of the LOC from SPCPL.

Liquidity position

For the [ICRA]BBB+(CE)(Negative)/[ICRA]A2(CE) ratings: Stretched

Kindly refer to the link below for the liquidity position of the corporate guarantee provider (FCL) for the Rs. 60.0-crore NCD programme and the Rs. 95.0-crore bank facilities.

[Rating rationale of FCL](#)

For the [ICRA]A-(CE)(Negative) rating: Adequate

Kindly refer to link below for the liquidity position of the LOC provider (SPCPL) for the Rs. 5.7-crore term loan facility.

[Rating rationale of SPCPL](#)

Rating sensitivities

For the [ICRA]BBB+(CE)(Negative)/[ICRA]A2(CE) rating

The rating assigned to the Rs. 60.0-crore NCD programme and the Rs. 95.0-crore bank facilities would remain sensitive to any movement in the rating or outlook of the guarantor, FCL.

For the [ICRA]A-(CE)(Negative) rating

The rating assigned to the Rs. 5.7-crore term loan facility would remain sensitive to any movement in the rating or outlook of the LOC provider, SPCPL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for Rating Debt Instruments Backed by Third-Party Explicit Support
Parent/Group Support	The rating for the Rs. 60.0-crore NCD programme and the Rs. 95.0-crore bank facilities are based on the strength of an unconditional and irrevocable corporate guarantee by FCL. The rating for the Rs. 5.7-crore term loan is based on the strength of the LOC from SPCPL.
Consolidation/Standalone	Standalone

About FTL

FTL, a Shapoorji Pallonji (SP) Group company, is a subsidiary of FCL. Initially incorporated as Wandel & Goltermann & Forbes Limited on July 9, 1991, the company was renamed as Forbes Technosys Limited in July 2004, after being non-operative for more than a decade. Since then, FTL underwent many changes with respect to its business activities. FTL's current businesses include self-service automation (kiosks and multi-function ATMs), imaging solutions, financial inclusion solutions, enterprise mobility solutions, banking automation solutions, retail automation products, e-payment solutions, e-stamping solutions, recharge and ticketing solutions, and managed services. Its customers include leading banks, insurance players, telecom companies, power companies, utilities, retailers, airlines and Government organisations.

About FCL

FCL traces its origins to 1767, when John Forbes of Scotland started his business in India. Over the years, the company's management moved from the Forbes family to the Campbells, and then to the Tata Group before going 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 include its engineering business (comprising precision tools and coding business) 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, joint ventures (JVs) and associate companies. In terms of revenue contribution, on a consolidated basis, Eureka Forbes Limited (100% subsidiary of FCL) drives more than 80% of 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 Pallonji Forbes Shipping Limited (JV with Sterling Investment Corporation Limited and GS Enterprises, an SP Group company, with FCL holding a 25% stake).

About SPCPL

SPCPL is the flagship company of the SP Group, which 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 and 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. The SP Group is also the largest private shareholder (18.37%) in Tata Sons Limited, the holding company of the Tata Group.

SPCPL functions as the SP Group's holding-cum-operating company. The company holds stakes in various listed and unlisted companies, within and outside the Group, and also has significant investments in properties that have high market value. SPCPL is one of India's leading construction companies, with a heritage of more than 150 years. Over the years, SPCPL has built diverse civil and engineering structures such as factories, stadiums, auditoriums, airports, hospitals, housing complexes and power plants.

Key financial indicators (audited)

	FTL		FCL (Consolidated)	
	FY2018	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	130.6	123.9	2,822.9	2,853.4
PAT (Rs. crore)	-12.3	0.1	-41.6	-10.2
OPBDIT/OI (%)	4.8%	16.7%	4.7%	5.4%
RoCE (%)	-	15.0%	5.7%	6.7%
Total Outside Liabilities/Tangible Net Worth (times)	12.6	8.4	5.3	6.5
Total Debt/OPBDIT (times)	24.2	7.7	8.9	7.0
Interest Coverage (times)	0.6	1.6	1.3	1.6
DSCR	0.1	0.7	0.6	0.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Rating (FY2020)		Current Rating	Earlier Rating	Date & Rating in FY2019		Chronology of Rating History for the past 3 years						
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)			December 9, 2019	July 1, 2019	November 28, 2018	October 26, 2018	Date & Rating in FY2018		Date & Rating in FY2017		
								January 25, 2018	October 23, 2017	September 15, 2017	July 6, 2017	March 31, 2017	September 6, 2016	
1	Term Loans	Long-term	15.0	12.0	[ICRA]BBB+(CE) (Negative)	[ICRA]A(SO) (Negative)	[ICRA]A+(SO) (Negative)	[ICRA]A+(SO) (Negative)	[ICRA]AA-(SO) (Negative)	[ICRA]AA-(SO) (Negative)	[ICRA]AA-(SO) (Negative)	[ICRA]AA-(SO) (Stable)	[ICRA]AA-(SO) (Stable)	[ICRA]AA-(SO) (Stable)
2	Fund-based Limits	Long-term	48.0	-	[ICRA]BBB+(CE) (Negative)	[ICRA]A(SO) (Negative)	[ICRA]A+(SO) (Negative)	[ICRA]A+(SO) (Negative)	[ICRA]AA-(SO) (Negative)	[ICRA]AA-(SO) (Negative)	[ICRA]AA-(SO) (Negative)	[ICRA]AA-(SO) (Stable)	[ICRA]AA-(SO) (Stable)	[ICRA]AA-(SO) (Stable)
3	Non-fund Based Limits	Short-term	32.0	-	[ICRA]A2(CE)	[ICRA]A1(SO)	[ICRA]A1+(SO)	[ICRA]A1+(SO)	[ICRA]A1+(SO)	[ICRA]A1+(SO)	[ICRA]A1+(SO)	[ICRA]A1+(SO)	[ICRA]A1+(SO)	[ICRA]A1+(SO)
4	NCD	Long-term	35.0	35.0	[ICRA]BBB+(CE) (Negative)	[ICRA]A(SO) (Negative)	[ICRA]A+(SO) (Negative)	[ICRA]A+(SO) (Negative)	[ICRA]AA-(SO) (Negative)	Provisional [ICRA]AA-(SO) (Negative)	-	-	-	-
5	NCD	Long-term	25.0	25.0	[ICRA]BBB+(CE) (Negative)	[ICRA]A(SO) (Negative)	[ICRA]A+(SO) (Negative)	[ICRA]A+(SO) (Negative)	[ICRA]AA-(SO) (Negative)	[ICRA]AA-(SO) (Negative)	[ICRA]AA-(SO) (Negative)	[ICRA]AA-(SO) (Stable)	Provisional [ICRA]AA-(SO) (Stable)	-
6	Term Loan	Long-term	5.7	2.8	[ICRA]A-(CE) (Negative)	[ICRA]A(S)&	[ICRA]A+(S)&	[ICRA]AA-(S) (Stable)	[ICRA]AA-(S) (Stable)	-	-	-	-	-

Note: Amount outstanding as on September 30, 2019

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](http://www.icra.in)

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Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE465R08040	NCD	18-Oct-2017	9.90%	18-Oct-2020	35.0	[ICRA]BBB+(CE) (Negative)
INE465R08032	NCD	20-Mar-2017	10.38%	20-Mar-2020	25.0	[ICRA]BBB+(CE) (Negative)
NA	Term Loan 1	Aug-2016	NA	Aug-2021	15.0	[ICRA]BBB+(CE) (Negative)
NA	Term Loan 2	Dec-2015	NA	Mar-2020	5.7	[ICRA]A-(CE) (Negative)
NA	Cash Credit	-	-	-	48.0	[ICRA]BBB+(CE) (Negative)
NA	Letter of Credit and Bank Guarantee	-	-	-	32.0	[ICRA]A2(CE)

Source: Forbes Technosys Limited

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