February 1, 2023

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**

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 the credit ratings as follows:

| Facility | Amount Rated (Rs. In Crores) | Rating | Rating Action |
|---|---|---|---|
| Long term Fund-based Limits | 19.50 | [ICRA]BB+ | [ICRA]BB+ reaffirmed and continue to be on watch with developing implications |
| Short term Fund-based Limits | 16.00 | [ICRA]A4+ | [ICRA]A4+ reaffirmed and continue to be on watch with developing implications |
| Short term Non-Fund-based Limits | 13.50 | [ICRA]A4+ | [ICRA]A4+ reaffirmed and continue to be on watch with developing implications |
| Unallocated Limits (Long term/Short term) | 10.00 | [ICRA]BB+/A4+ | [ICRA]BB+/A4+ reaffirmed and continue to be on watch with developing implications |

We are enclosing herewith rationale given by ICRA Limited for revision in credit ratings of Long & short term Fund/Non-Fund based Limits and Unallocated Limits.

Thanking you

Yours faithfully,

For **Forbes & Company Limited**

RUPA PAWAN KHANNA
Digitally signed by RUPA PAWAN KHANNA
Date: 2023.02.01 15:38:54 +05'30'

**Rupa Khanna**
**Company Secretary & Compliance Officer**

Encl: As above

January 31, 2023

# Forbes & Company Limited: Ratings reaffirmed; continues on Watch with Developing Implications

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term Fund-based - Cash Credit** | 19.50 | 19.50 | [ICRA]BB+ reaffirmed and continue to be on watch with developing implications |
| **Short-term Fund-based - Cash Credit** | 16.00 | 16.00 | [ICRA]A4+ reaffirmed and continue to be on watch with developing implications |
| **Short-term Non-fund Based Facilities** | 23.50 | 13.50 | [ICRA]A4+ reaffirmed and continue to be on watch with developing implications |
| **Long-term/Short-term Unallocated Limits** | - | 10.00 | [ICRA]BB+/A4+ reaffirmed and continue to be on watch with developing implications |
| **Total** | **59.00** | **59.00** | |

**Instrument details are provided in Annexure I*

## Rationale

The reaffirmation of ratings of Forbes & Company Limited (FCL) favourably factors in the completion of demerger of its domestic health & hygiene business - under Eureka Forbes Limited (EFL), apart from successful monetization of Chandivali land parcel (at a consideration of ~Rs. 235 crore) and stake sale in Shapoorji Pallonji Forbes Shipping Ltd (SPFSL; ~Rs. 29 crore) and Forbes Facility Services Pvt Ltd (FFSPL; ~Rs. 42 crore) during H1 FY2023. Cumulatively, these transactions have resulted in a significant improvement in the leverage and liquidity position of the Group (viz. FCL together with its subsidiaries and associates). While EFL's demerger has also resulted in a significant reduction in the consolidated scale of operations (from ~Rs. 2,857 crore in FY2021 to Rs. 515 crore in FY2022), the Group's consolidated debt levels[1] have reduced from Rs. 691 crore in FY2021 to Rs. 156 crore as on FY2022 and further to Rs. 94 crore as on Sep 30, 2022, which have supported its credit metrics.

In its real estate business, a steady rental income supports FCL's liquidity profile and despite some delays in completion of its sole ongoing residential project - Vicinia (Phase 2), ICRA notes that the project has witnessed healthy bookings (87% area sold as on Sep 30, 2022). The project is expected to be completed by June 2023 and FCL is expected to report significant improvement in revenue and profitability in FY2024e. However, timely project completion, as per the revised date, remains critical to sustain sales velocity as well as meeting the regulatory timeline as per Real Estate Regulatory Authority (RERA).

The ratings, however, remain constrained by the weak performance of its subsidiaries, Forbes Technosys Limited (FTL) and Lux International AG (LUX group), which continues to impact FCL's consolidated financial profile. Further, the standalone operations (mainly Engineering business) also witnessed a sharp moderation in profitability in H1FY2023, impacted by the commodity price inflation. While the Group has significantly downsized the operations of FTL over the past 1-1.5 years (and is presently undertaking only profitable projects) and Lux group has seen a reduction in losses in H1 FY2023, a meaningful and sustained turnaround in the operating performance of both - its standalone businesses and those under the subsidiaries - would be crucial to improve FCL's overall credit profile.

ICRA notes that as on Dec 31, 2022, the promoters held 72.56% equity stake in the company, of which 98.25% was pledged. This position remains unchanged on a YoY basis and would remain a monitorable.

The ratings continue to be on watch pending approvals/implementation of a proposed scheme of arrangement which seeks demerger of Precision Tools Business (within the engineering segment) from FCL. As per the company management, the

[1] *External debt net of lease liabilities.*

scheme is expected to get implemented in Q1 FY2024 (w.e.f. April 1, 2023). The scheme of arrangement will result in further reduction in the FCL's scale of operations and profitability.

## Key rating drivers and their description

### Credit strengths

**Significant real estate holdings & steady stream of rental income supports cashflows -** The company's significant real estate holdings, which apart from providing a steady stream of rental income (~Rs. 16-17 crore per annum), could lead to an increase in its cash flows, if monetised. During Q1 FY2023, the company concluded its sale of some land in Chandivali at a consideration of Rs. 235 crore, of which Rs. 40 crore was received during FY2022 and balance during Q1 FY2023. The funds received has supported FCL's deleveraging initiatives and strengthened the liquidity positioning of the Group.

**Improved capital structure following sizeable debt reduction in FY2023; financial flexibility supported by Group linkages** - Apart from the land sale concluded during Q1 FY2023, the company has divested its stake in SPFSL and FFSPL for a consideration of Rs. 29 crore and Rs. 42 crore, respectively during Q2 FY2023. The amount has largely been utilised towards deleveraging at a consolidated level, thus, resulting in an improvement in the credit metrics, going forward. Apart from demerger of EFL's debt, FCL's consolidated debt levels[2] have reduced to Rs. 94 crore as on Sep 30, 2022 (compared to Rs. 691 crore in FY2021 and Rs. 153 crore in FY2022), such that Total Debt/TNW of 0.9 times as on Sep 30, 2022 (compared to 3.5 as on Mar 31, 2022). Moreover, the Group had around ~Rs. 70 crore of free cash and liquid investments as on Sep 30, 2022, apart from investments in property holdings and EFL's shares, which can be monetized (if required).

### Credit challenges

**Proposed demerger of precision tools business to moderate scale and profitability levels** - The Group has announced demerger of its Precision Tools Business (part of Engineering business) into Forbes Precision Tools & Machine Parts Ltd (FPTMPL) on Sep 26, 2022 with an objective to unlocking shareholder value and expansion of high margin precision tools business. This segment generated revenues of ~Rs. 179 crore in FY2022, viz. ~85% of overall engineering business revenues, and estimated EBDITA margins of ~15-20%. With implementation of the scheme, FPTMPL will be listed as a standalone entity and cease to be a part of FCL, thereby resulting in a significant moderation in FCL's scale and profitability in the near-term.

**Underperformance of key subsidiaries remains a drag on consolidated financial performance -** The weak performance of its key subsidiaries (LUX Group and FTL) has impacted FCL's financial performance at the consolidated level. The company reported exceptional loss in the past due to impairment of investment, intangible assets, and goodwill amid continued underperformance of FTL and overseas subsidiaries (LUX Group). While the Group has undertaken significant turnaround in its operations, FTL and LUX Group are expected to continue to remain as a drag on the company's overall performance.

**Delay in completion of 'Vicinia' residential project** - The real estate segment was disrupted by the lockdown leading to delay in project completion (project completion date was extended by RERA from June 2021 to June 2023) owing to the pandemic. Nonetheless, ICRA notes the healthy response with Phase 1 of the project been fully sold as on date and healthy bookings of ~111 apartment (out of the total 127 units) sold till Sep 2022 in Phase 2, in Mumbai. Thus, timely project completion and ability to maintain high collection efficiency will be critical to support the company's cash flows and liquidity profile, in addition to meeting the regulatory timeline as per RERA.

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[2] *External debt net of lease liabilities.*

## Environmental and social risks

**Environmental Risk -** FCL's real estate segment is exposed to risks of increasing environmental norms impacting operating costs, including higher costs of raw materials such as building materials and cost of compliance with pollution control regulations. Environmental clearances are required for real estate projects and lack of timely approvals can impact its business operations. Impact of changing environmental regulations on licences taken for property development could also create credit risks. Moreover, even as FCL's engineering segment is not directly exposed to climate-transition risks from a likelihood of tightening emission-control requirements, its products being used by different categories of OEMs, its automotive-manufacturing customers remain highly exposed to the same.

**Social Risk -** In terms of the social risks, the trend post-pandemic has been favourable to real-estate developers as demand for quality home with good social infrastructure has increased. Moreover, FCL has a dependence on human capital; as such retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption free operations for the entity.

## Liquidity position: Adequate

FCL's liquidity position is expected to remain adequate, supported by free cash and liquid investments of Rs. 70 crore (as on September 2022) and no material impending debt obligations and capex/investments plans over the near to medium term. Nonetheless, any significant organic or inorganic investments or funding requirements in the subsidiaries (FTL/LUX Group) will remain a key monitorable.

## Rating sensitivities

**Positive factors -** The rating watch will get resolved upon consummation of the transaction. Further, the ratings could be upgraded if the company is able to materially improve its revenues and profitability, with turnaround in loss making businesses/subsidiaries, while maintaining its capital structure on a sustained basis.

**Negative factors -** The rating watch will get resolved upon consummation of the transaction. Negative pressure on FCL's rating could arise in case of a significant decline in revenues or profitability, or under performance of its subsidiaries, or delay in the progress of the ongoing real estate project, which impacts its financial risk profile. Further, any significant debt funded capex/investment plans, which adversely impacts its credit metrics would also result in downward pressure on the company's ratings.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Real Estate |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of FCL.<br>As on September 30, 2022, FCL had 15 subsidiaries/step-down subsidiaries and 5 associates/JVs which are all enlisted in Annexure – II. |

## About the company

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 to the Tata Group and finally, to the Shapoorji Pallonji (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's name was changed to Forbes & Company Limited with effect from Oct 25, 2007. The SP Group holds ~73.85% of the paid-up share capital of FCL.

FCL's standalone operations include engineering business (comprising precision tools and industrial automation & coding business) and residential project development (Vicinia in Chandivali, Mumbai). In addition, FCL earns substantial income from its real estate holdings. FCL also has many subsidiary, JVs, and associate companies. However, the company has undertaken various divestments and business discontinuations over the years. Presently, mainly Group companies, include FTL and Lux International AG (100% subsidiary of FCL).

### Key financial indicators (audited)

| | Standalone | | | Consolidated | | |
|---|---|---|---|---|---|---|
| | FY2021 | FY2022 | H1 FY2023* | FY2021 | FY2022 | H1 FY2023* |
| **Operating income (Rs. crore)** | 563.1 | 236.1 | 127.1 | 932.4 | 514.7 | 236.6 |
| **PAT (Rs. crore)** | (31.0) | 4,132.9 | 226.2 | (121.4) | 4,212.8 | 182.9 |
| **OPBDIT/OI (%)** | 25.4% | 14.5% | 4.5% | 14.8% | 9.6% | -3.8% |
| **PAT/OI (%)** | -5.5% | 1750.7% | 178.0% | -13.0% | 818.4% | 77.3% |
| **Total outside liabilities/Tangible net worth (times)** | 2.0 | 10.2 | 1.6 | (27.4) | 8.2 | 2.4 |
| **Total debt/OPBDIT (times)** | 1.1 | 3.0 | 5.2 | 3.8 | 5.9 | (10.8) |
| **Interest coverage (times)** | 8.1 | 2.8 | 1.4 | 2.7 | 1.2 | (0.8) |

*Source: ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Limited Review*

### Status of non-cooperation with previous CRA: Not Applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2023) | | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as on Sep 30, 2022 (Rs. crore) | Date & Rating on | Date & Rating in FY2022 | | Date & Rating in FY2021 | Date & Rating in FY2020 | |
| | | | | | Jan 31, 2023 | Oct 22, 2021 | Sep 28, 2021 | Dec 31, 2020 Oct 23, 2020 | Dec 9, 2019 | Jul 1, 2019 |
| 1 | Fund based Cash Credit | Long-term | 19.50 | - | [ICRA]BB+ & | [ICRA]BB+ & | [ICRA]BB+ (Negative) | [ICRA]BB+ (Negative) | [ICRA]BBB+ (Negative) | [ICRA]A (Negative) |
| 2 | Fund based Cash Credit | Short-term | 16.00 | - | [ICRA]A4+ & | [ICRA]A4+ & | [ICRA]A4+ | [ICRA]A4+ | [ICRA]A2 | [ICRA]A1 |
| 3 | Non-fund based facilities | Short-term | 13.50 | - | [ICRA]A4+ & | [ICRA]A4+ & | [ICRA]A4+ | [ICRA]A4+ | [ICRA]A2 | [ICRA]A1 |
| 4 | Unallocated Limits | Long-term/ Short-term | 10.00 | - | [ICRA]BB+/A4+ & | [ICRA]BB+/ [ICRA]A4+ & | [ICRA]BB+ (Negative)/ [ICRA]A4+ | [ICRA]BB+ (Negative)/ [ICRA]A4+ | [ICRA]BBB+ (Negative)/ [ICRA]A2 | [ICRA]A (Negative)/ [ICRA]A1 |
| 5 | Commercial Paper | Short-term | - | - | - | - | - | [ICRA]A4+ withdrawn | [ICRA]A2 | [ICRA]A1 |
| 6 | NCD | Long-term | - | - | - | - | - | - | [ICRA]A (Negative) withdrawn | [ICRA]A (Negative) |

*& - Rating watch with developing implications*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term Fund based - Cash Credit | Simple |
| Short-term Fund based - Cash Credit | Simple |
| Short-term Non-fund-based facilities | Very Simple |
| Long-term/Short-term Unallocated Limits | Not applicable |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Fund based - Cash Credit | Multiple | - | - | 19.50 | [ICRA]BB+; Rating watch with developing implications |
| NA | Fund based - Cash Credit | Multiple | - | - | 16.00 | [ICRA]A4+; Rating watch with developing implications |
| NA | Non-fund based facilities | Multiple | - | - | 13.50 | [ICRA]A4+; Rating watch with developing implications |
| NA | Unallocated Limits | - | - | - | 10.00 | [ICRA]BB+/A4+; Rating watch with developing implications |

*Source: Forbes & Company Limited*

## Annexure II: List of entities considered for consolidated analysis

| Company | Ownership | Consolidation Approach |
|---|---|---|
| Forbes Lux International AG | 100% | Full Consolidation |
| Lux International AG | 100% | Full Consolidation |
| Lux del Paraguay S.A. | 80% | Full Consolidation |
| Lux Schweiz AG | 100% | Full Consolidation |
| Lux International Services and Logistics GmbH | 100% | Full Consolidation |
| Lux Osterreich GmbH | 100% | Full Consolidation |
| Lux Welity Polska Sp z o o | 100% | Full Consolidation |
| Lux Professional Paraguay S.A. | 100% | Full Consolidation |
| EFL Mauritius Limited | 100% | Full Consolidation |
| Forbes Facility Services Private Limited* | 100% | Full Consolidation |
| Forbes Campbell Finance Limited | 100% | Full Consolidation |
| Forbes Campbell Services Limited | 98% | Full Consolidation |
| Forbes Technosys Limited | 100% | Full Consolidation |
| Volkart Fleming Shipping and Services Limited | 100% | Full Consolidation |
| Campbell Properties & Hospitality Services Limited | 100% | Full Consolidation |
| Forbes Concept Hospitality Services Private Limited | 50% | Limited Consolidation |
| Forbes Bumi Armada Limited | 51% | Limited Consolidation |
| Nuevo Consultancy Services Private Limited | 49% | Limited Consolidation |
| Dhan Gaming Solution (India) Private Limited | 49% | Limited Consolidation |
| Shapoorji Pallonji Forbes Shipping Limited# | 25% | Limited Consolidation |

** FCL has sold its stake in FFSPL during H1 FY2023*

*# SPFSPL has been classified as an associate w.e.f. March 1, 2022 and subsequently, FCL has sold its stake in SPFSL during H1 FY2023*