Shapoorji Pallonji

December 10, 2019

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 revised the credit ratings as follows:

Facility	Amount Rated (Rs. In Crores)	Rating
Long term Fund-based Limits	71.50	[ICRA]BBB+ (Negative) revised from [ICRA]A(Negative)
Short term Fund-based Limits	16.0	[ICRA]A2 revised from [ICRA]A1
Short term Non-Fund-based Limits	38.5	[ICRA]A2 revised from [ICRA]A1
Unallocated Limits	25.99	[ICRA]BBB+ (Negative)/[ICRA]A2 revised from [ICRA]A (Negative) / [ICRA]A1
Non-Convertible Debenture Programme (Rs. 40 Crores)*	-	Rating Withdrawn; Previously [ICRA] A (Negative)
Commercial Paper	80.00	[ICRA] A2 revised from [ICRA] A1

* Repaid on Maturity

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

Thanking you

Yours faithfully,

For **Forbes & Company Limited**

Pankaj Khattar

Pankaj Khattar
Head Legal & Company Secretary

Encl: As above

ICRA

December 9, 2019

Forbes & Company Limited: Rating downgraded to [ICRA]BBB+(Negative) and [ICRA]A2

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]BBB+(Negative); downgraded from [ICRA]A(Negative)
Short-term Fund-based Limits	16.0	16.0	[ICRA]A2; downgraded from [ICRA]A1
Short-term Non-fund Based Limits	38.5	38.5	[ICRA]A2; downgraded from [ICRA]A1
Unallocated Limits	25.99	25.99	[ICRA]BBB+(Negative)/[ICRA]A2; downgraded from [ICRA]A (Negative)/[ICRA]A1
Non-convertible Debenture Programme	40.0	-	[ICRA]A(Negative); Rating Withdrawn
Commercial Paper	80.0	80.0	[ICRA]A2; downgraded from [ICRA]A1
Total	**271.99**	**231.99**	

Rationale

The rating downgrade primarily reflects the weakening financial profile of the parent company, Shapoorji Pallonji and Company Private Limited (SPCCL), and the continuing moderate consolidated financial profile of Forbes & Company Limited (FCL) driven by deterioration in the performance of engineering division at standalone level in H1 FY2020 and subdued performance of its subsidiaries, Eureka Forbes Limited (EFL) and Forbes Technosys Limited (FTL). During H1 FY2020, the company reported marginally improvement in consolidated operating margins to 3.8% (on Pre Ind AS 116 basis) from 3.4% in H1 FY2019 primarily due to improvement in margins from domestic EFL operations. However, the company reported exceptional loss of Rs. 149.97 crore in Q2 FY2020 for the impairment of goodwill in the consolidated results of EFL due to underperformance in certain downstream subsidiaries of EFL (Lux Group). The consolidated debt levels remained at Rs. 1,135.5 crore (including lease liabilities) compared to Rs. 1,069.5 crore as on March 31, 2019. Further, the standalone operating margins declined to 1.6% (on Pre Ind AS 116 basis) in H1 FY2020 from 10.8% in H1 FY2019 due to 13% degrowth in engineering division revenues during the same period due to overall slowdown in the auto industry. Overall, the consolidated debt coverage indicators continue to remain weak as reflected in reported Total Debt/OPBDITA of 7.0x in FY2019 and ~8.9x in H1 FY2020 and reported interest coverage of 1.6x in FY2019 and ~1.4 x in H1 FY2020.

Though the margins of EFL's domestic health and hygiene business have improved YoY in H1 FY2020, the weak operating performance of its international health and hygiene business (under EFL's subsidiaries) continues to impact FCL's overall consolidated risk profile. ICRA notes that the company has a strategy in place to turn around its domestic and international operations, the outcome and timelines of the same remain crucial to improve FCL's overall credit profile. Further, the performance of its other subsidiary, FTL, remains weak. FTL's management has undertaken many initiatives in the last 12 months, such as cost rationalisation and product portfolio diversification, however, the improvement in its performance remains to be seen. Though these initiatives are expected to further improve FTL's performance, it would still be dependent on refinancing/support from FCL for its debt repayments.

The rating also factors in the healthy progress/bookings witnessed in its ongoing real estate residential project, Vicinia (being concurrently developed with a co-developer), which are expected to improve its cash flows and liquidity profile. 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 ICRA's opinion that FCL's consolidated risk profile is likely to remain under pressure 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. Moreover, the rating pressure could also arise in case of further correction in the parent's credit rating.

Key rating drivers

Credit strengths

Part of Shapoorji Pallonji (SP) Group - The rating draws comfort from the parentage of SP Group, which holds ~73.85%[1] of the paid-up share capital of FCL through Shapoorji Pallonji and Company Private Limited (SPCPL, [ICRA]A+/Negative/[ICRA]A1 rating downgraded from [ICRA]AA-&/[ICRA]A1+& on November 28, 2019). SPCPL is the flagship company of the Shapoorji Pallonji (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, 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. The SP Group is also the largest private shareholder (18.37%) in Tata Sons Private Limited, the holding company of the Tata Group.

Significant real estate holdings at standalone level - The company's significant real estate holdings, apart from providing a steady stream of rental income (Rs. 18.2 crore in FY2019 and ~Rs. 9.7 crore in H1 FY2020), could lead to an increase in its cash flows, if monetised.

Healthy bookings in Vicinia - The company has received healthy bookings for ~70% of the total saleable area in its real estate residential project, Vicinia, in Mumbai till October 2019. Given the healthy response, the company expects to fund the project primarily through the resultant healthy customer advances. While ICRA notes the healthy response, timely project completion 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 H1 FY2020 - The continued past 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

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

profitability and stretched debt coverage indicators. During H1 FY2020, the company reported marginally improvement in consolidated operating margins to 3.8% (on Pre Ind AS 116 basis) from 3.4% in H1 FY2019 due to improvement in margins from domestic EFL operations. However, the company reported exceptional loss of Rs. 149.97 crore in Q2 FY2020 towards impairment of goodwill in the consolidated results of EFL due to underperformance in certain downstream subsidiaries of EFL (Lux Group). The consolidated debt levels remained at Rs. 1,135.5 crore (including lease liabilities) compared to Rs. 1,069.5 crore as on March 31, 2019. Further, the standalone operating margins declined to 1.6% (on Pre Ind AS 116 basis) in H1 FY2020 from 10.8% in H1 FY2019 due to 13% degrowth in engineering division revenues during the same period owing to overall slowdown in the auto industry. Overall, the consolidated debt coverage indicators continue to remain weak as reflected in reported Total Debt/OPBDITA of 7.0x in FY2019 and ~8.9x in H1 FY2020 and reported interest coverage of 1.6x in FY2019 and ~1.4 x in H1 FY2020. ICRA also notes that the management teams of the engineering division, EFL and FTL have taken various business improvement measures, with a strategy in place to turn around the operations. However, the outcome and timelines of the same remain crucial to improve FCL's overall credit profile.

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] over the next two years. However, comfort can be taken from the SP Group's financial flexibility.

Financial support to Subsidiaries - The company has supported its subsidiaries (FTL and EFL) through investments in the form of equity/preference shares and guarantees (Rs. 214.0 crore as on March 31, 2019) for its borrowings. Any further sizeable support to its subsidiaries will be a key rating monitorable.

Liquidity position: Stretched

Despite the YoY improvement in consolidated operating margins in FY2019 and H1 FY2020, 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 H1 FY2020 and major scheduled debt repayments over the next two years. However, liquidity remains supported by free cash and liquid investments (Rs. 73.2 crore as on March 31, 2019), expected cash flows from Vicinia real estate residential project and sizeable real estate holdings which, when monetised, could provide an upside to the company's cash flows. Further, comfort can be taken from the SP Group's financial flexibility. The management is also taking various initiatives for improving the performances of low profitable/loss making subsidiaries/business divisions, while continuing to focus on the profitable segments. The timing and success of these initiatives are critical for improving the company's credit profile and are key rating sensitivities.

Rating sensitivities

Positive triggers – ICRA could upgrade FCL's rating if if the management initiatives for turnaround in the operations of the engineering division, EFL and FTL improve the overall cost structure, resulting in a higher than expected improvement in profitability. Specific credit metrics that could lead to an upgrade of FCL's rating include Total Debt/ OPBITDA below 2.5x times on a sustained basis.

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[2] *EFL has debt repayments of Rs. 67.1 crore in FY2020 and Rs. 65.9 crore in FY2021. FTL has debt repayments of Rs. 38.4 crore in FY2020 and Rs. 44.3 core in FY2021. SPFSL has debt repayments of Rs. 41.9 crore in FY2020 and Rs. 136.8 crore in FY2021.*

Negative triggers – Negative pressure on FCL's rating could arise in case of downgrade in its parent's rating, or if the performance of its subsidiaries remains weak, or if there is any delay in 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
Parent/Group Support	ICRA expects FCL's parent, SPCPL (rated [ICRA]A+(Negative)/[ICRA]A1), to be willing to extend financial support to it, should there be a need, given its importance.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of FCL. As on March 31, 2019, the subsidiaries/joint ventures of FCL are enlisted in Annexure-2.

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 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 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 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, 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).

During H1 FY2020, FCL, on a consolidated basis, reported a loss of Rs. 167.8 crore on an operating income (OI) of Rs. 1,435.8 crore, as against a loss of Rs. 45.6 crore on an OI of Rs. 1,422.1 crore during H1 FY2019.

Key financial indicators (audited)

	Standalone		Consolidated	
	FY2018	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	293.7	228.0	2,822.9	2,853.4
PAT (Rs. crore)	40.9	10.3	-41.6	-10.2
OPBDIT/OI (%)	21.5%	13.0%	4.7%	5.4%
RoCE (%)	15.0%	6.6%	5.7%	6.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	2.0	5.3	6.5
Total Debt/OPBDIT (times)	2.7	5.7	8.9	7.0
Interest Coverage (times)	3.9	1.7	1.3	1.6
DSCR	3.5	1.0	0.6	0.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Type	Rating (FY2020)				Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating December 9, 2019	Earlier Rating July 1, 2019	Date & Rating in FY2019 October 26, 2018	Date & Rating in FY2018 September 11, 2017	Date & Rating in FY2017 August 4, 2016
1	Fund-based Limits	Long-term	71.50	-	[ICRA]BBB+(Negative)	[ICRA]A(Negative)	[ICRA]A+(Negative)	[ICRA]AA- (Negative)	-
2	Fund-based Limits	Short-term	16.00	-	[ICRA]A2	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-fund Based Limits	Short-term	38.50	-	[ICRA]A2	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated Limits	Long-term/Short-term	25.99	-	[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	80.00	Nil	[ICRA]A2	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Non-convertible Debenture Programme	Long-term	40.00	Nil	Withdrawn	[ICRA]A(Negative)	[ICRA]A+(Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)
7	Term Loans	Long-term	-	-	-	-	-	-	[ICRA]AA- (Stable)
8	Non-convertible Debenture Programme	Long-term	-	-	-	-	Rs. 60.0 crore Withdrawn	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)

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]BBB+(Negative)
NA	Short-term Fund-based Limits	NA	NA	NA	16.0	[ICRA]A2
NA	Short-term Non-fund Based Limits	NA	NA	NA	38.5	[ICRA]A2
NA	Unallocated Limits	NA	NA	NA	25.99	[ICRA]BBB+(Negative)/ [ICRA]A2
INE518A07044	Non-convertible Debenture	20-July-2016	9.10%	Repaid on Maturity	40.0	[ICRA]A(Negative); Rating Withdrawn
NA	Commercial Paper	NA	NA	7-365 days	80.0	[ICRA]A2

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.	50.0%	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 Aqua Czech s.r.o (up to April 30, 2018)	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
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
Forbes G4S 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

Source: Forbes & Company Limited Audit report