

Press Release

Fenner Conveyor Belting Private Limited

D-U-N-S® Number: 91-906-5656

February 03, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 13.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (**read as ACUITE A two**) on the Rs. 13.00 crore bank facilities of Fenner Conveyor Belting Private Limited(FCBL). The outlook is '**Stable**'.

Madurai based, Fenner Conveyor Belting Pvt. Ltd (FCBL) was incorporated in 2000. The company is 100 percent subsidiary of Fenner Group Holdings Limited (FGHL) (Former known as Fenner Plc) which was acquired by Michelin SCA in May 2018. FCBL is engaged in manufacturing and supply of wide range of Industrial conveyor belts, heavyweight conveyor belting, belts & rollers, medical components & devices, hoses, high performance polymer components. The installed capacity of conveyer belt unit is 240 Lakhs meters per annum.

About the Group

Michelin SCA is one of the world's leading tyre manufacturer company. Michelin Group is one of the global leader in manufacturing, designing and distributing the tyres, services and solutions, headquartered in Clermont-Ferrand, France, Michelin is present in 170 countries, and operates 70 production facilities in 17 countries. The Michelin Group has generated revenue of ~€ 22.08 billion in 2018.

Analytical Approach

For arriving at the ratings, Acuité has considered standalone business and financial risk profile of the company and has factored in the operational and financial support by, Michelin group.

Key Rating Drivers

Strengths

• Operational and financial support from Parent, Michelin Group

FCBL is a 100 per cent subsidiary of Fenner Group Holdings Limited (FGHL) which was acquired by Michelin SCA in May 2018. FCBL has been receiving financial and operational support from its parent companies i.e. Fenner Group Holdings Limited (UK) and Michelin SCA. The company also benefits from the on-going operational support from by parent companies which has an established market position in the global market. Further, ratings derives comfort from Michelin's decision to create procurement synergies and its intentions to not to dispose any of Fenner group holdings limited (Fenner Plc) operations after acquisition. FCBL bank limits are also backed by corporate guarantee from FGHL to the tune of Rs.13.00 Crore which covers 100 percent of debt facilities. While arriving at the final rating, Acuité has factored in the support in form of guarantee provided and operational support from the group.

- **Establish track record and reputed clientele**

FCBL was incorporated in 2000, this having an operation track record of around two decades. The company is engaged in manufacturing and supply of conveyor belting for mining and industrial applications. The strong parentage has helped FSBL to establish its presence in the industry along with longstanding relationship with reputed clienteles. The company caters to reputed clients like Tata Steel, Hindalco, Singareni Collieries Company Limited (SCCL) to name few in domestic market and ~65.00 per cent of its revenue is derived from its group company, Fenner Group Holdings Limited (UK).

Weaknesses

- **Small scale of operations along with fluctuations in margins**

The company was incorporated in 2000 thus having a presence in the said industry for almost two decades. Despite its presence in the industry for around two decades, the scalability of the company has remained small marked by operating income of Rs. 35.66 crore in CY2018 (16 months) as against Rs. 19.55 crore in CY2017, which has declined to Rs.25.90 crores in CY2019 (Provisional). Further, the operating margins have been fluctuating in the past marked by operating loss of Rs.2.47 Crore in CY2019 (Provisional) as against operating profit of Rs.2.19 crore in CY2018. The company has incurred net loss of Rs.3.25 crore in CY2019 (Provisional) as against net profit of Rs.0.37 crore in the previous year. Further, the company's ability to maintain its scalability along with maintaining its margin will remain a key monitorable.

- **Intense competition and end users are present in cyclical industries**

Intense competition among various players in the conveyor belt manufacturing business has impacted the pricing power of the company and having direct impact on the overall margins of the contracts. Furthermore, the end users are present in cyclical industries, thereby exposing operations to the risk of sluggish demand during an economic slowdown, particularly if the clients defer capex or scale down production. Additionally, since the clients are large players, bargaining power and ability to collect receivables on time may be constrained in times of uncertain economic environment. This along with high overhead expenses led to losses at the operating level in CY2019 (Provisional), although the same improved to some extent in CY2018 over the previous fiscal. Moreover, FCBL has incurred cash losses during the same period.

Liquidity Position: Adequate

The net cash accruals of the company has stood adequate during CY2018 at Rs. 1.10 crores, while there was no maturing debt obligation for the same period. The net cash accruals are expected to decline in CY2019 high overhead expenses led to losses at the operating level. The current ratio stood at 1.83 times and Gross Current Assets (GCA) days stood at 117 days in CY2018. The working capital limits stood utilised at 57.00 percent for last six month ending December 2019. Further, the liquidity is also supported by continuous support from group companies in form of timely equity infusion and funding whenever required. The company maintains cash and bank balances of Rs 3.39 crores as on 31 December 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of no major repayments over the medium term.

Rating Sensitivities

- Any further decline in operating and profitability margins
- Working capital management
- Stabilisation in its operations and improving liquidity profile
- Credit profile of FCBL

Outlook: Stable

Acuite believes that FCBL will continue to benefit from its established brand as well as track record of operations in the conveyor belts manufacturing business. The outlook may be revised to 'Positive' if there is a sustainable improvement in turnover and profitability, favorably impacting the coverage indicators of the company. The outlook may be revised to 'Negative' in case of further deterioration in financial risk profile is observed or cash accruals remains lower than expected leading to liquidity pressures.

About the Rated Entity - Key Financials

	Unit	CY18 (Actual)*	CY17 (Actual)
Operating Income	Rs. Cr.	35.66	19.55
PAT	Rs. Cr.	0.37	(1.87)
PAT Margin	(%)	1.03	(9.56)
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	6.50	(8.53)

*The Company used to follow September to August as Financial year till 2017. However, same has changed to January to December from 2018. Thus, CY2018 consists of 16 months and previous years are for 12 months period.

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Nov-2018	Cash Credit	Long Term	7.00	ACUITE BBB+ / Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A2 (Assigned)
	Proposed Bank Facility	Long Term	1.00	ACUITE BBB+ / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB+ / Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB+ / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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