

June 14, 2021

Falcon Pumps Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	37.50	37.50	[ICRA]BBB+ (Stable); Reaffirmed
Term Loan	4.65	4.65	[ICRA]BBB+ (Stable); Reaffirmed
Bank Guarantee	0.28	0.28	[ICRA]A2; Reaffirmed
Total	42.43	42.43	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation in ratings continues to factor in the extensive experience of the promoters in the submersible pump industry, the well-established and wide distribution network of Falcon Pumps Private Limited (FPPL) and the healthy financial risk profile characterised by above-average return indicators, comfortable capital structure and coverage indicators. The rating also favourably factors in the improvement in topline witnessed in FY2021, because of strong rural demand along with further strengthening of distribution network as well as product profile.

The ratings, however, continue to be constrained by the intense competition from the organised as well as unorganised players and the fragmented nature of the submersible pump industry. The ratings also take note of the vulnerability of FPPL's profitability to raw material price fluctuations and the high working capital intensity of operations because of its large inventory requirement owing to a long production cycle and wide product range. The performance of the company also remains exposed to rainfall availability of a particular year, given that better monsoon adversely impacts the demand for submersible pumps.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that FPPL will continue to benefit from the extensive experience of its promoters, its wide product range and the established distribution network in the domestic market.

Key rating drivers and their description

Credit strengths

Extensive experience and established track record of promoters - The key promoters, Mr. Dhirajlal Suvagiya and Mr. Kamalnayan Sojitra, have extensive experience of more than two decades in the submersible pump industry. The rich experience of the promoters, in-house technical and product development capabilities, and the established relationship with the suppliers and dealers will continue to support the company's business performance.

Wide product range and established distribution network - The company has a wide product range of more than 3000 varieties of pumps and motors. FPPL has a strong pan-India network of more than 2300 dealers/sub-dealers and 17 branches under Falcon Global Sales Private Limited (the marketing arm of FPPL). Moreover, the well-established Falcon brand further supports the business risk profile.

Healthy financial risk profile – Stretched monsoon season and adequate rainfall adversely impacted the demand in FY2020. Accordingly, the revenue declined by ~15% to Rs. 168.83 crore in FY2020 from Rs. 199.16 crore in FY2019. Despite the challenges imposed by the lockdown induced by COVID-19, the company's revenue recovered sharply by ~20% in FY2021, supported by strong rural demand along with further strengthening of distribution network. The company developed a cost efficient product range in FY2021, which also supported revenue growth. FPPPL reported revenue of Rs. 203.06 crore in FY2021 on a provisional basis. Capital structure and coverage indicators continued to be comfortable and improved further in FY2021 owing to a moderation in overall debt levels against the improved net-worth base. FPPL reported a gearing of 0.40 times and TOL/TNW of 0.39 times as on March 31, 2021 as against 0.48 times and 0.76 times as on March 31, 2020. With healthy accretion to reserves, debt-coverage indicators remained comfortable, as evident from an interest coverage of 9.11 times and a TD/OPBDITA of 0.78 times for the same period. Going forward, ICRA expects FPPL to continue to maintain comfortable capital structure and debt-coverage indicators over FY2022-23, given no planned significant addition of the debt.

Credit challenges

High working capital intensity - The company's operations remain working capital intensive, as reflected in its NWC/OI of ~37% in FY2021 (57% in FY2020). The high working capital intensity is driven by a large inventory requirement, owing to the long conversion cycle as well as its need to maintain high finished goods inventory for different variants of pumps to meet the continued demand of the dealers/distributors. Also, the intensity is high because of the higher debtors from Falcon Global Sales Private Limited, which is the marketing arm of the company. FPPL's working capital intensity over FY2022-23 is likely to remain in line with the current fiscal.

Susceptible to volatility in raw material prices - The main raw materials of the company are cold rolled non-grain oriented (CRNO) steel sheets, copper, stainless steel parts and scrap among others. As FPPL's operations remain highly raw material intensive, its profitability remains susceptible to the volatility in raw material prices.

Intense competition and fragmented industry structure - The stiff competition from the organised as well as from a large number of unorganised players in the submersible pumps industry inhibits the company from commanding premium pricing, thereby limiting its margins.

Liquidity position: Adequate

FPPL's liquidity position remains **adequate**, as is evident from the moderate working capital limit utilisation (~33% for cash credit facility from January 2020 to March 2021). Further, the liquidity profile is supported by healthy cash accruals while the term-debt was paid off completely in FY2021.

Rating sensitivities

Positive factors –

- Significant increase in scale and market share in the domestic market along with improvement in profitability
- Improvement in working capital cycle and liquidity

Negative factors –

- Significant decline in scale or profitability deteriorating key credit metrics
- Further stretch in working capital cycle or debt-funded capex adversely impacting the liquidity profile of the company

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

FPPL was incorporated in 1995 under the leadership of Mr. Dhirajlal Suvagiya and Mr Kamalnayan Sojitra. FPPL is an ISO 9001-2008 certified company and is involved in manufacturing of pump sets (i.e. pump and motor). The company manufactures a variety of pump sets such as submersible bore-well pump sets, submersible open-well pump sets, self-priming mono-block pump sets and centrifugal mono-block pumps. FPPL has undertaken gradual capacity expansions at its Rajkot-based manufacturing facility over the years and at present has an annual capacity to manufacture 4,00,000 pump set units.

Key financial indicators (audited/provisional)

FPPL - Standalone	FY2020	FY2021
Operating Income (Rs. crore)	168.8	203.1
PAT (Rs. crore)	6.7	10.6
OPBDIT/OI (%)	9.0%	9.5%
PAT/OI (%)	4.0%	5.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.4
Total Debt/OPBDIT (times)	2.7	0.8
Interest Coverage (times)	4.1	9.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; FY21 – provisional figures

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Jun 14, 2021	Apr 06, 2020	Apr 03, 2019	May 23, 2018	
1	Cash Credit	Long-term	37.50	5.44	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2	Term Loan	Long-term	4.65	0.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3	Bank Guarantee	Short term	0.28	0.00	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Bank Guarantee	Very Simple

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 analyzing 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, is available on ICRA's website: www.icra.in

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	Cash Credit	NA	NA	NA	37.50	[ICRA]BBB+ (Stable)
NA	Term Loan	FY2016	NA	FY2021	4.65	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	0.28	[ICRA]A2

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Source: Company data

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