October 30, 2023

Firefox Bikes Private Limited: Ratings downgraded to [ICRA]BBB+ (Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	10.00	10.00	[ICRA]BBB+ (Stable)/[ICRA]A2; downgraded from [ICRA]A- (Stable)/[ICRA]A2+
Fund-based/ Non-fund Based Limits	20.00	20.00	[ICRA]BBB+ (Stable)/[ICRA]A2; downgraded from [ICRA]A- (Stable)/[ICRA]A2+
Unallocated Limits	10.00	-	-
Total	**40.00**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Firefox Bikes Private Limited (Firefox) considers its considerably weaker than expected operating and financial performance in FY2023 as marked by de-growth in revenues and operating and net losses, leading to deterioration of its liquidity profile and debt protection metrics. ICRA's expects the company's credit profile to remain moderated in FY2024.

Firefox's operating performance was subdued in FY2023 on the back of muted demand for bicycles after the pandemic, with resumption of economic activity and change in customer preferences. This resulted in the company carrying excess inventory during the peak demand period of the pandemic and inability to liquidate the same in FY2023, leading to high fixed operating costs, pushing sales through discounts and increased dependence on external borrowings to support operations. The same translated to weakening of its financial performance as reflected by negative cash flows, stretched liquidity profile (almost fully utilised working capital limits) and moderation of its debt protection metrics. However, the company's management has taken various measures to optimise its working capital cycle such as domestically sourcing bikes through its parent, Hero Cycles Limited (HCL), actively liquidating inventory (expected by Q4 FY2024) and plans of launching new products.

While its performance is expected to remain moderated for FY2024 as well, the combined initiatives planned to turn around profitability along with gradual recovery in volume sales are expected to support its business prospects over the medium term. Additionally, the ratings are constrained by the high segment concentration risk with its presence restricted to the premium and mass premium bicycle segments and highly competitive intensity in the industry marked by several large players.

However, the ratings derive comfort from the strong brand name and leadership position of Firefox in the domestic premium bicycle segment, its strong parentage as a 100% subsidiary of HCL, and extensive distribution network across the country. Firefox benefits from HCL's market leader status in the domestic bicycle industry, high business linkages and healthy financial flexibility. HCL is also expected to financially support the company in case of any funding requirements to support the business.

The Stable outlook on the long-term rating reflects ICRA's opinion that Firefox will benefit from its strong market position and initiatives being undertaken by its management to turn around business performance.

Key rating drivers and their description

Credit strengths

Access to business and financial support from parent entity, HCL – Firefox being a 100% subsidiary of HCL, benefits from the healthy financial flexibility of its parent. The parent has acknowledged its willingness to support the company in the event of any contingencies, as reflected by its funding support to the company in the past. Firefox and HCL also share high business linkages with Firefox sourcing part of its bicycle requirements, especially for its new products in the mass premium segment, from HCL.

Strong brand name in domestic premium bicycle segment; foray into mass premium segment augurs well for business growth prospects – Firefox primarily caters to the premium segment of the bicycle market (price range above Rs. 15,000), wherein it has an established brand name and strong leadership position with an estimated market share of 15%. Recently, the company also forayed into the mass premium cycle segment (price range of Rs. 8,000-15,000) to gain from the growing demand for mass premium bicycles and has been able to capture a market share of ~40% in this segment, supported by its strong brand and new product range. Given healthy prospects for this segment in the domestic market, it plans to expand its product base from the next fiscal, which is expected to support its revenue growth.

Extensive distribution network and established relationships with suppliers – Firefox has an extensive distribution network of ~600-700 dealers, 18,000-20,000 outlets (including multi-brand outlets) and seven company owned and operated stores (COCOs) across India. Apart from dealers and COCOs, Firefox also sells its bicycles through online channels such as e-commerce portals and its own website. The company also enjoys established relationships with its vendors, with most of its requirements being serviced by HCL and its Group companies, as well as Intertrend Limited (manufacturing unit of Mr. Mehrotra, co-founder of Firefox).

Credit challenges

Weakening of the financial risk profile as marked by decline in revenues, leading to losses and stretched liquidity – Firefox's scale of operations declined by 42% YoY with revenues of Rs. 79 crore in FY2023 due to subdued demand in the domestic premium bicycles industry after the pandemic, as well as the base effect. Also, the company carried high inventory levels, which were being maintained in the business in anticipation of higher demand offtake. However, the same could not be materialised, leading to high discounts being offered for liquidating the inventory and increased dependence on external borrowings to fund business requirements. This led to weakening of its financial risk profile in FY2023, marked by negative cash accrual generation, stretched liquidity position and weak debt protection metrics. While ICRA expects the company's financial profile to remain moderated in FY2024, its ongoing efforts to optimise its working capital cycle such as shifting the sourcing of bikes from import markets to its parent's domestic plant, liquidating its inventory through discounts and incentives, and plans to launch new products in the growing mass premium segment are expected to support its business prospects and cash flow generation over the medium term.

High segment concentration with presence restricted to premium and mass premium segments; high competitive intensity in industry from several players in the field – Firefox's business faces high segment concentration from its leadership position in the domestic premium and mass premium bicycle segments. The premium (where demand is generally sluggish due to its niche market) and the mass premium segments both witnessed a slowdown during the post-pandemic period, similar to global industry trends as consumer preferences shifted to fitness/athleisure and economic activities resumed post-pandemic. This led to its revenue and profitability declining considerably from peak demand levels during FY2021-FY2022. Further, the industry is also marked by several players, exposing the company to high competitive intensity. Going forward, Firefox's ability to sustain its market share and protect its earnings and profitability to any downturns in its present segments and entry of new industry players will remain key for its business prospects.

Working capital-intensive nature of operations due to high inventory levels – Given excess inventory levels of the business and high lead time for imported components, the company's working capital intensity remains high. Further, the muted demand levels across the premium bicycle industry after the opening up of the economy, resulted in build-up of excess inventory that in turn increased NWC/OI[1] to 81% in FY2023 (50% in FY2022). This also increased its dependence on external borrowings to support business requirements. However, the company is actively working on streamlining its collection cycle

[1] *Net working capital/ Operating income*

and optimise inventory levels, which is expected to gradually reduce over the next few quarters aided by its efforts to push sales.

Liquidity position: Stretched

Firefox's liquidity position is stretched, characterised by negative cash accruals and almost fully utilised working capital limits in the past 12-month period ending in September 2023. While the company is likely to remain loss making in FY2024, funding requirements for its business are expected to be met through optimisation of the working capital cycle, aided by reduction in inventory and receivable levels. The company, however, has no debt repayments nor any capex requirements over the medium term. Moreover, ICRA expects its parent, HCL, to provide funding support, in case of any cash flow mismatches.

Rating sensitivities

Positive factors – ICRA could upgrade Firefox's ratings if there is a substantial improvement in its performance as marked by healthy growth in revenues and internal accrual generation, leading to strengthening of its debt protection metrics and liquidity position on a sustained basis. Improvement in the credit profile of the parent company could also trigger an upward rating revision.

Negative factors – Pressure on Firefox's ratings could arise if there is continued pressure on its revenues and profitability. A stretched working capital cycle resulting in weak debt protection metrics and liquidity position could also trigger a rating downgrade. The ratings could also face pressure in case of material weakening in the credit profile of its parent company or weakening of operational linkages with the parent.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Company: Hero Cycles Limited The ratings assigned to Firefox factors in the high likelihood of its parent, HCL, extending financial support to it, should there be a need, given the high strategic importance that Firefox holds for HCL for meeting its diversification objectives. We also expect HCL to be willing to extend financial support to Firefox out of its need to protect its reputation from the consequences of a Group entity's distress. HCL also has a consistent track record of extending timely financial support to Firefox, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

Firefox, a wholly owned subsidiary of Hero Cycles Limited, is a leading player in the premium and mass premium bicycle market in India. It has a product portfolio of mountain bikes, city/ hybrid bikes, road bikes, women's bikes, children's bikes and electric bicycles, selling over 100 different models. The company trades bicycles procured from both domestic and overseas markets through a distribution network of ~700 dealers, 18,000-20,000 outlets and seven COCOs across India.

Firefox was established in 2005 by Mr. Shiv Inder Singh and Mr. Pradeep Mehrotra. It was later acquired by HCL in 2015, when HCL was looking at diversifying its product profile into the premium bicycle segment. The company's registered office is at Gurugram, Haryana.

Hero Cycles Limited: HCL, incorporated in 1956, is the largest manufacturer of bicycles globally. The company has a manufacturing capacity of 65 lakh bicycles per year, with units in Ludhiana (Punjab), Bihta (Bihar) and Ghaziabad (Uttar Pradesh). The company has augmented its bicycle portfolio in recent years through acquisitions in the space, namely Firefox, Insync and BSH.

HCL is the flagship company of the Late O.P. Munjal fraction of the Hero Group. Following an arrangement in FY2011 among the Munjal family (the promoters of the Hero Group), HCL is now managed by Mr. Pankaj Munjal (son of the Late O.P. Munjal) and his family. As a part of the arrangement, HCL hived off its cold-rolled (CR) steel division into a separate company in May 2010.

Key financial indicators

Firefox - Standalone	FY2022	FY2023*
Operating income	139.1	79.0
PAT	9.9	-14.7
OPBDITA/OI	12.0%	-10.8%
PAT/OI	7.1%	-18.6%
Total outside liabilities/Tangible net worth (times)	0.8	2.0
Total debt/OPBDIT (times)	1.6	-4.0
Interest coverage (times)	9.7	-3.0

*PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; All ratios as per ICRA's calculations; *Provisional data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 30, 2023	Aug 01, 2022	-	-
1	**Fund-based Limits**	Long-term/Short-term	10.0	-	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	**[ICRA]A- (Stable)/ [ICRA]A2+**	-	-
2	**Fund-based/Non-fund Based Limits**	Long-term/Short-term	20.0	-	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	**[ICRA]A- (Stable)/ [ICRA]A2+**	-	-
3	**Unallocated Limits**	Long-term/Short-term	-	-	-	**[ICRA]A- (Stable)/ [ICRA]A2+**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Limits	Simple
Fund-based/Non-fund Based Limits	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 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based Limits**	NA	NA	NA	10.00	[ICRA]BBB+ (Stable)/[ICRA]A2
NA	**Fund-based/Non-fund Based Limits**	NA	NA	NA	20.00	[ICRA]BBB+ (Stable)/[ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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