November 29, 2023

Falcon Pumps Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Cash Credit	27.50	27.50	[ICRA]BBB+ (Stable); Reaffirmed
Long-term – Term Loan	3.78	-	
Short-term – Bank Guarantee	0.28	0.28	[ICRA]A2; Reaffirmed
Total	**31.56**	**27.78**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to factor in the vast experience of Falcon Pumps Private Limited's (FPPL) promoters in the submersible pump industry and its established track record of operations, diversified product range and wide distribution network. The ratings also favourably consider FPPL's healthy financial risk profile characterised by comfortable capital structure and coverage indicators.

The ratings, however, remain constrained by the vulnerability of FPPL's profitability to raw material price fluctuations and the high working capital intensity of operations because of its large inventory requirements owing to a long production cycle and wide product range. ICRA notes that in FY2023, the scale of operations moderated by 15% to around Rs. 200 crore amid a drop in sales volumes due to erratic rainfall in the regions FPPL operates in, thus impacting demand and lowering offtake. This in turn forced the company to offer discounts to push its product portfolio in a highly competitive industry. The margins were also impacted in FY2023 on account of the same. It is, however, expected that the entity will report much better sales in H1 FY2024, given weaker rainfall in the catchment area, thereby improving demand conditions. Operating margins, however, are expected to remain subdued compared to the historic highs of over 9%, given the ongoing discounting for its product portfolio.

FPPL's debt protection metrics, however, are expected to remain healthy with limited borrowing on its books. ICRA also notes that the company is looking at a capex of around Rs. 50 crore for a new automated facility in the medium term. The concrete details for the project are yet to be ascertained, including the funding mix. ICRA, hence, will continue to monitor the developments in this regard.

The rating also factors in the intense competition from organised and unorganised players and the fragmented nature of the submersible pump industry. The rating further notes the inherent risk due to the vulnerability of product demand to the amount of rainfall received in FPPL's catchment area.

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, wide product range and an established distribution network in the domestic market.

Key rating drivers and their description

Credit strengths

Vast experience of promoters and established track record of operations – The key promoters, Mr. Dhirajlal Suvagiya and Mr. Kamalnayan Sojitra, have more than two decades of experience in the submersible pump industry. The vast experience of the promoters, an established track record of operations with the brand name, 'Falcon', in-house technical and product development capabilities and healthy relationships with suppliers and dealers, will continue to support the company's business performance.

Broad range of products, established distribution network and healthy capacity utilisation level; although moderations seen in FY2023 – FPPL has more than 3,000 varieties of submersible and non-submersible pumps, and a strong pan-India network of more than 2,300 dealers/sub-dealers. Also, its own marketing arm, Falcon Global Sales Private Limited, has 17 branches across the nation. The manufacturing capacity utilisation moderated to 66% in FY2023 from 88% in FY2022, with fall in demand.

Healthy financial risk profile with comfortable capital structure and debt coverage indicators – The capital structure and coverage indicators remained comfortable on the back of a low debt level and healthy net worth base. As on March 31, 2023, the gearing and TOL/TNW stood at 0.01 times and 0.29 times, respectively. With the healthy accretion to reserves, debt coverage indicators remained comfortable, evident from an interest coverage of 8.82 times and a TD/OPBDITA of 0.10 times during FY2023. ICRA expects FPPL's capital structure and debt coverage indicators may moderate in the near term due to debt-funded capex plan for establishing a fully automated plant.

Credit challenges

Moderate scale of operations – The sales mix of the company mainly comprise pump sets, individual pumps and motors wherein pump sets have remained the highest revenue generators over the years. FPPL witnessed a decline in revenue by ~15% YoY in FY2023, while the scale remained moderate at Rs. 200 crore. The operating margins were also impacted on account of lower sales, which fell sharply to 5.77% in FY2023 over 9.95% in FY2022, given discounting strategies adopted by the company to push sales. Though sales are expected to improve from FY2023 levels due to better demand conditions, the margins are not expected to revert to FY2022 levels in the near term due to continuing discounts.

Working capital intensive nature of business – The company's operations remain working capital intensive, reflected in its NWC/OI of ~51% in FY2023. This high working capital intensity is driven by a large inventory requirement, owing to the long conversion cycle as well as FPPL's need to maintain high finished goods inventory for different variants of pumps to meet the continued demand from dealers/distributors. Also, the collection period from its Group entity, Falcon Global Sales Private Limited, remains elongated, which also aggravates the working capital cycle.

Susceptible to volatility in raw material prices – The key raw materials of the company are cold rolled non-grain oriented (CRNO) steel sheets, copper, stainless steel parts and scrap, among others. As the key input material remains commoditised in nature, FPPL's profitability remains susceptible to the volatility in raw material prices.

Intense competition and fragmented industry structure – The stiff competition from the organised and 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, evident from its low working capital limit utilisation (~7% for cash credit during the last 12 months ended October 2023). Further, the liquidity profile is also supported by healthy cash accruals and no outstanding long-term debt as on September 30, 2023.

Rating sensitivities

Positive factors – The rating could be upgraded in case of significant increase in scale of operations with improvement in margins, coupled with improvement in working capital cycle, in turn improving the overall financial and liquidity profile.

Negative factors – Pressure on the ratings could arise in case of any material decline in scale or profitability, on a sustained basis, leading to deterioration in key credit metrics. Further stretch in the working capital cycle or any material financial support to Group concerns, or any large debt-funded capex adversely impacting the liquidity profile and coverage metrics of the company, will also be a negative rating trigger.

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

Falcon Pumps Private Limited was incorporated in 1995, under the leadership of Mr. Dhirajlal Suvagiya and Mr. Kamalnayan Sojitra. FPPL is an ISO:9001-2008 certified company, involved in manufacturing 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 and mono-block pump sets, among others. FPPL has undertaken gradual capacity expansions at its Rajkot-based manufacturing facility over the years and at present, it has an annual manufacturing capacity of 4,50,000 pump set units. The pumps and motors are marketed under the brand name, 'Falcon'. FPPL is a flagship company of the Falcon Group, which comprises other entities such as Falcon Yarns Private Limited (manufactures compact yarn), Fabtech Cables Private Limited (manufactures electric cables and wires), Falcon Pipes Private Limited (manufactures various types of pipes) and Falcon Global Sales Private Limited (a marketing arm of FPPL).

Key financial indicators (audited)

FPPL – Standalone	FY2022	FY2023
Operating income	235.97	200.08
PAT	14.0	12.83
OPBDIT/OI	9.95%	5.77%
PAT/OI	5.93%	6.41%
Total outside liabilities/Tangible net worth (times)	0.41	0.29
Total debt/OPBDIT (times)	0.62	0.10
Interest coverage (times)	11.88	8.22

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 September 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 29, 2023	Sep 22, 2022	Jun 14, 2021	Apr 06, 2020
1	Cash Credit	Long term	27.50	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Term Loan	Long term	--	--	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Bank Guarantee	Short term	0.28	--	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Cash Credit	Simple
Short -term – 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 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 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	27.50	[ICRA]BBB+ (Stable)
NA	**Bank Guarantee**	NA	NA	NA	0.28	[ICRA]A2

Source: Company

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

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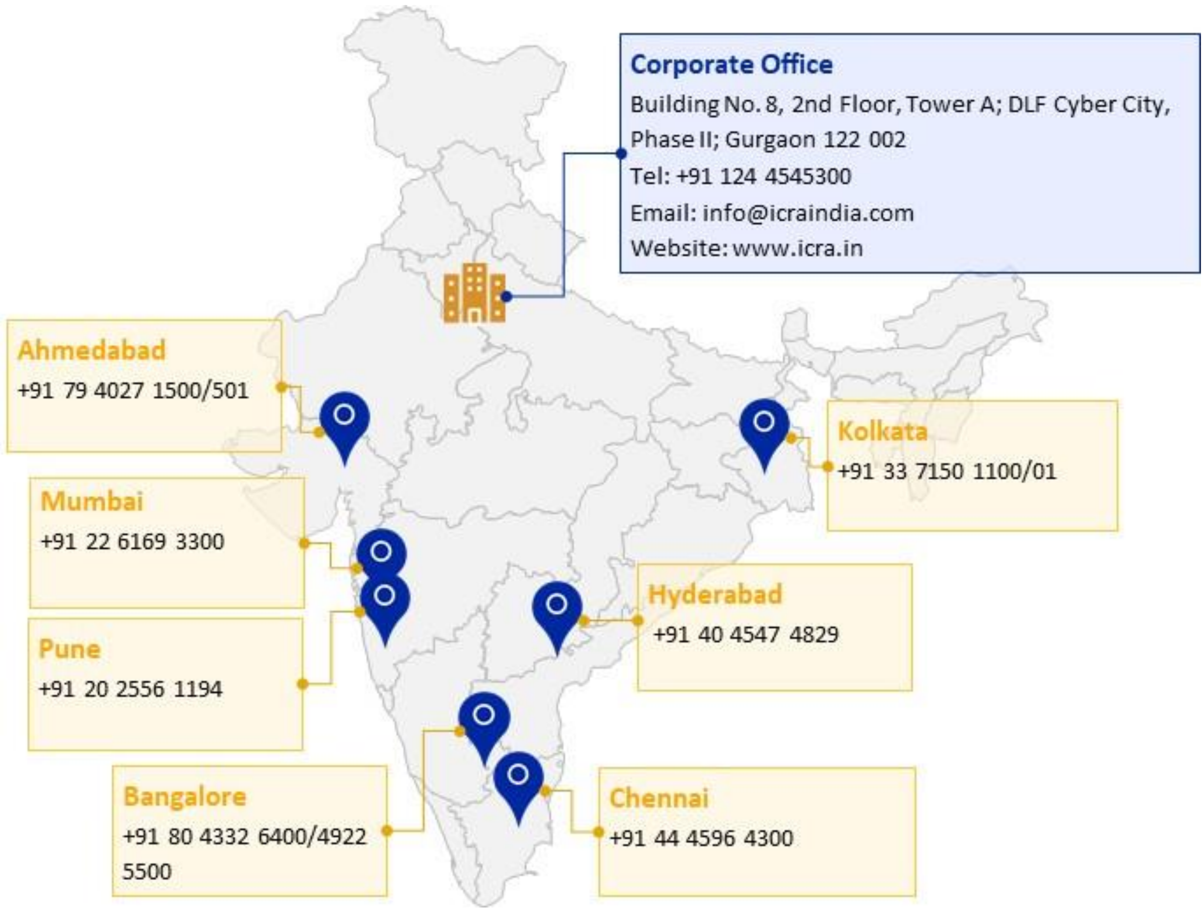

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