

Falcon Pumps Private Limited

April 03, 2019

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 ratings reaffirmation continues to take into account the extensive experience of the promoters in the submersible pump industry, the well-established and wide distribution network of the company and the healthy financial risk profile characterised by satisfactory return indicators, comfortable capital structure and coverage indicators. ICRA notes that in FY2017, the company invested Rs. 16.37 crore in the newly formed company 'Falcon Yarns Private Limited' (FYPL), which translated into a holding of ~48%. On successful commissioning and healthy scaling up of the yarn manufacturing business in FY2018, the financial profile at a consolidated level has also witnessed an uptick. Moreover, with FPPL gradually monetising its stake in FYPL (equity stake of ~41% as on December 31, 2018) by selling it to its current directors, the cash flow is likely to improve.

The ratings, however, continue to remain 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. However, FPPL's diverse product profile comprising of bore well as well as open well submersible pumps mitigates this risk to some extent.

Outlook: Stable

ICRA believes that FPPL will continue to benefit from its established brand presence ('Falcon') and the extensive experience of its promoters. The outlook may be revised to Positive if substantial growth in revenue and profitability, better working capital management, and infusion of equity strengthen the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or any major debt-funded capital expenditure, or a stretch in the working capital cycle, weakens liquidity.

Key rating drivers

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 1300 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 - The operating margin improved in FY2018 vis-a-vis the previous fiscal due to lower job-work expenses, following the installation of new machineries during the past two-three fiscals. The company's capital structure and debt coverage indicators stood comfortable, with a gearing of 0.54 times as on March 31, 2018, interest coverage of 4.09 times, TD/OPBDITA of 2.54 times, DSCR of 2.60 times and NCA/Debt of 25% in FY2018. Further, the company is expected to achieve a revenue of ~Rs. 200.00 crore in FY2019, with an estimated gearing of 0.40 times and TD/OPBDITA of 1.65 times as on FY2019 end.

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Credit challenges

High working capital intensity - The company's operations remain working capital intensive, as reflected in its NWC/OI of ~46% in FY2018, which increased from 39% in FY2017. 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. Further, the intensity also was higher because of the higher debtors from Falcon Global Sales Private Limited, which is the marketing arm of the company.

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

FPPL's fund flow from operations stood positive in FY2018; however, the gross cash flow stood negative due to the YoY incremental working capital requirements. Further, the free cash flow also stood negative in FY2018 due to the capex undertaken by the company. Overall, the company's liquidity position remains comfortable, as reflected by moderate working capital limit utilisation (average utilisation of ~62% against sanctioned limit from March 2018 to December 2018), healthy cash accruals against debt obligations and free cash of Rs. 0.70 crore as on March 31, 2018.

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 standalone financial profile of the company.

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)

	FY2017	FY2018
Operating Income (Rs. crore)	159.37	158.47
PAT (Rs. crore)	12.69	6.13
OPBDIT/ OI (%)	7.93%	9.18%
RoCE (%)	30.03%	13.65%
Total Debt/ TNW (times)	0.59	0.54
Total Debt/ OPBDITA (times)	2.85	2.54
Interest Coverage (times)	3.54	4.09
NWC/ OI (%)	39%	46%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in	Date & Rating in	Date & Rating in		
					FY2019	FY2017	in FY2016	in FY2016	
				Apr 2019	May 2018	Mar 2017	Feb 2016		
1	Cash Credit	Long Term	37.50	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2	Term Loan	Long Term	4.65	1.00*	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3	Bank Guarantee	Short Term	0.28	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	

*As on December 31, 2018

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 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	FY2020	4.65	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	0.28	[ICRA]A2

Source: Falcon Pumps Private Limited

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