

Falcon Pumps Private Limited

May 23, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based -Cash Credit	37.50	37.50	[ICRA]BBB+ (Stable); Reaffirmed
Long-term Fund-based – Term Loan	4.65	4.65	[ICRA]BBB+ (Stable); Reaffirmed
Short-term Non-fund-based – Bank Guarantee	0.28	0.28	[ICRA]A2; Reaffirmed
Total	42.43	42.43	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) assigned to the Rs. 37.50-crore¹ cash credit facility and Rs. 4.65-crore term loan facility of Falcon Pumps Private Limited (FPPL or the company)². ICRA has also reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) to the Rs. 0.28-crore bank guarantee limits of FPPL. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of ratings continues to take into account the extensive experience of the promoters in submersible pump industry, the well-established and wide distribution network of the company and the healthy financial risk profile characterized by satisfactory return indicators, comfortable capital structure and coverage indicators. ICRA notes that during 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 consolidated level has also witnessed an uptick, along with FPPL, gradually monetizing its stake in FYPL, through selling it to its current directors, thereby improving its cashflow position.

The ratings, however, continue to remain constrained by the intense competition and the fragmented nature of the submersible pump industry, with intense competition from the organised as well as unorganised players. The ratings also take note of the vulnerability of FPPL's profitability to raw material price fluctuations and its 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 for a particular year, given 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, infusion of equity, strengthens the financial risk profile. The outlook may be revised

¹ 100 lakh = 1 crore = 10 million

² For complete rating definition, please refer to ICRA Website www.icra.in or any of the ICRA Rating Publications

to Negative if cash accrual is lower than expected, or if 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 business performance of the company.

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 declined in FY2017 vis-a-vis the previous fiscal due to higher job-work expenses. Nevertheless, the net margins improved considerably due to the increase in non-operating income received on account of the sale of land. The operating margin is expected to improve to ~9.5-10.0% in FY2018, following installation of new machineries during the year, which will be resulting in a reduction in job-work charges. The company's capital structure and debt coverage indicators stood comfortable with a gearing of 0.59 times as on March 31, 2017, interest coverage of 3.54 times and total debt/OPBDITA of 2.85 times for FY2017. The capital structure and coverage indicators are likely to improve in FY2018 with the improvement in profitability and stable debt levels, with an estimated gearing of 0.55 times as on March 31, 2018 and interest coverage of 4.43 times for FY2018.

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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 ~39% for 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.

Susceptibility to volatility in raw material prices - The main raw materials for 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 - FPPL faces stiff competition from the organised as well as from a large number of unorganised players in the submersible pumps industry, exerting pressure on commanding premium pricing and limiting its margins.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

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 among others. 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)

	FY2016	FY2017
Operating Income (Rs. crore)	171.26	159.37
PAT (Rs. crore)	7.83	12.69
OPBDIT/ OI (%)	9.58%	7.93%
RoCE (%)	23.79%	30.03%
Total Debt/ TNW (times)	0.27	0.59
Total Debt/ OPBDITA (times)	0.80	2.85
Interest Coverage (times)	5.18	3.54
NWC/ OI (%)	25%	39%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			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 FY2015		
					FY2017	FY2016	Feb 2016	Feb 2015	
				May 2018	Mar 2017	Feb 2016	Feb 2015		
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	2.34*	[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, 2017*

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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