

April 06, 2020

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 takes into account 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 satisfactory return indicators, comfortable capital structure and coverage indicators. ICRA also notes that FPPL holds ~39% equity stake (Rs. 13.42 crore as on February 29, 2020) in Falcon Yarns Private Limited (FYPL), which is into yarn manufacturing business. FYPL achieved a revenue of Rs. 204.48 crore, PAT of Rs. 4.74 crore and net cash accruals of Rs. 17.27 crore in FY2019.

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.

ICRA notes the rapid spread of the coronavirus outbreak that is deteriorating the global economic outlook and causing severe stress across sectors, regions and markets. ICRA also notes the impact of aligned regulatory restrictions and continues to monitor their impact on FPPL's operations in case of prolongation of existing conditions.

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 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 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 - FPPL's revenue grew at a healthy rate of ~26%; reaching Rs. 199.16 crore in FY2019 from Rs. 158.47 crore in FY2018—backed by demand from its existing customers resulting in higher sales volumes. However, the revenue is expected to witness some moderation in FY2020 owing to extended monsoon in CY2019. Notwithstanding this, the company's capital structure and coverage indicators remain comfortable, with a gearing of 0.40 times as on March 31, 2019, an interest coverage in FY2019 of 5.72 times and a TD/OPBDITA of 1.72 times for the same period. Also, its RoCE stood decent at ~15% in FY2019.

Credit challenges

High working capital intensity - The company's operations remain working capital intensive, as reflected in its NWC/OI of ~40% in FY2019 (46% in FY2018). 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. Further, the working capital intensity is expected to increase in FY2020 due to lower demand.

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 (~67% for cash credit facility from October 2018 to January 2020). Further, the liquidity profile is supported by healthy cash accruals against low bank debt repayment obligations; the term loan outstanding was Rs. 0.68 crore as on March 31, 2019, which was repaid in FY2020.

Rating sensitivities

Positive Triggers

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

Negative Triggers

- Significant decline in scale or profitability that deteriorates key credit metrics
- Further stretch in working capital cycle or debt-funded capex that adversely impacts the liquidity profile

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)

	FY2018	FY2019
Operating Income (Rs. crore)	158.47	199.16
PAT (Rs. crore)	6.13	9.05
OPBDIT/ OI (%)	9.18%	9.01%
RoCE (%)	13.65%	14.91%
Total Debt/ TNW (times)	0.54	0.40
Total Debt/ OPBDITA (times)	2.54	1.72
Interest Coverage (times)	4.09	5.72
NWC/ OI (%)	46%	40%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2017
					06-Apr-2020	03-Apr-2019	23-May-2018	07-Mar-2017
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	0.00*	[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

Amount in Rs. crore; * as on January 31, 2020

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: FPPL

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