

Rating Rationale

February 02, 2023 | Mumbai

Flovel Energy Private Limited

Rating Action

Total Bank Loan Facilities Rated	Rs.195 Crore
Long Term Rating	CRISIL BBB/Stable
Short Term Rating	CRISIL A3+

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings ratings on the bank facilities of Flovel Energy Private Limited (FEPL) continues to reflect the extensive experience of the promoter in the hydro power industry, healthy order book and strong financial risk profile. These strengths are partially offset by large working capital requirement and exposure to volatility in raw material prices.

Key Rating Drivers & Detailed Description

Strengths:

Extensive experience of the promoter: The four-decade-long experience of the promoter, his demonstrated technical capabilities, strong understanding of the local market dynamics and healthy relationships with customers (in domestic as well as overseas markets) and suppliers should continue to support the business risk profile of the company.

Healthy order flow: Orders worth around Rs 382 crore as of April 2022, to be executed in the next two fiscals, ensure revenue visibility over the medium term. Management's focus on delivering high quality product has aided in improving geographical reach of the company having more than 55% order flow from foreign market. However, time taken for the execution of these orders and the contractual framework will remain key rating sensitivity factors.

Strong financial risk profile: The healthy financial risk profile is reflected in adequate net worth of Rs 73.9 crore and gearing of 0.38 time as on March 31, 2022. Debt protection metrics were adequate, indicated by interest coverage and net cash accrual to total debt ratios of 3.6 times and 0.4 time, respectively, in fiscal 2022. Financial risk profile of the company is expected to remain healthy over the medium term, though sustenance of debt protection metrics driven by healthy improvement in operating profitability will be monitored closely.

Weaknesses:

Exposure to volatility in raw material prices: Intense competition and fixed-price contracts may continue to constrain the pricing power and profitability. This is reflected in operating margin fluctuating at 7-10% over the three fiscals through 2022. Company during past two fiscals has witnessed a shar fall in operating profitability of 5.5% in fy22, mainly driven by changes in raw material prices along with additional fixed costs. Though, company has improved its profitability in the current fiscal, substance of improved profitability along with revenue growth driven by healthy order flow will remain a key rating sensitivity factor.

Large working capital requirement: Gross current assets (GCAs) stood at 247 days as on March 31, 2022, driven by sizeable receivables (189 days), retention money and large security deposits with counterparties. Though credit from suppliers helps partially meet the funding gap, it also results in a high total outside liabilities to tangible net worth (TOLTNW) ratio (2.1 times as on March 31, 2022). Any further increase in the TOLTNW ratio will be a key monitorable.

Liquidity: Adequate

Net cash accrual, expected above 10 crore per annum, will sufficiently cover yearly debt obligation of Rs 3-3.2 crore over the medium term. Bank limit was utilised at 33.7% over the 10 months through April 2022. Cash and liquid investments stood at Rs 17.6 crore as on 31st March 2022. Current ratio is estimated at a moderate 1.5 times as on March 31, 2022.

Outlook: Stable

CRISIL Ratings believe FEPL will continue to benefit from the extensive experience of its promoter, and established relationships with clients.

Rating Sensitivity factors

Upward factors

* Efficient working capital management leading to further moderation in bank limit utilization.

* Increase in revenue to over Rs 225 crore and improvement in operating margins over 9.5% leading to higher-than-expected cash accrual

Downward factors

* Sustained decline in operating profitability or revenue leading to lower cash accrual of less than 7 Crores

* Substantial increase in the working capital requirement, with GCAs above 300 days weakening liquidity and the financial risk profile

About the Company

Incorporated in 2006 and based in Faridabad, Haryana, FEPL designs, manufactures, installs and tests small and medium hydro turbines and other auxiliary equipment on a turnkey basis; it also provides services such as renovation, modernisation and upgradation for small and medium hydropower plants. Mr Maharaj Kar is the promoter of the company.

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	219.86	206.11
Reported profit after tax	Rs crore	6.79	6.88
PAT margins	%	3.18	3.28
Adjusted Debt/Adjusted Net worth	Times	0.38	0.35
Interest coverage	Times	2.99	7.11

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	91	NA	CRISIL A3+
NA	Cash Credit	NA	NA	NA	13.5	NA	CRISIL BBB/Stable
NA	Letter of Credit	NA	NA	NA	58.5	NA	CRISIL A3+
NA	Long Term Loan	NA	NA	Nov-29	28.8	NA	CRISIL BBB/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	3.2	NA	CRISIL BBB/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	45.5	CRISIL BBB/Stable	03-01-23	CRISIL BBB/Stable	25-11-22	CRISIL BBB/Stable	29-09-21	CRISIL BBB/Positive	17-06-20	CRISIL BBB/Stable	CRISIL BBB/Stable
				--	--	11-10-22	CRISIL BBB/Stable	07-09-21	CRISIL BBB/Positive	10-06-20	CRISIL BBB/Stable	--
Non-Fund Based Facilities	ST	149.5	CRISIL A3+	03-01-23	CRISIL A3+	25-11-22	CRISIL A3+	29-09-21	CRISIL A3+	17-06-20	CRISIL A3+	CRISIL A3+
				--	--	11-10-22	CRISIL A3+	07-09-21	CRISIL A3+	10-06-20	CRISIL A3+	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	27	State Bank of India	CRISIL A3+
Bank Guarantee	30	IndusInd Bank Limited	CRISIL A3+
Bank Guarantee	13	ICICI Bank Limited	CRISIL A3+
Bank Guarantee	11	HDFC Bank Limited	CRISIL A3+
Bank Guarantee	10	Axis Bank Limited	CRISIL A3+
Cash Credit	6	ICICI Bank Limited	CRISIL BBB/Stable
Cash Credit	5	State Bank of India	CRISIL BBB/Stable

Cash Credit	2.5	HDFC Bank Limited	CRISIL BBB/Stable
Letter of Credit	10	Axis Bank Limited	CRISIL A3+
Letter of Credit	13	ICICI Bank Limited	CRISIL A3+
Letter of Credit	19	State Bank of India	CRISIL A3+
Letter of Credit	6.5	HDFC Bank Limited	CRISIL A3+
Letter of Credit	10	IndusInd Bank Limited	CRISIL A3+
Long Term Loan	3.8	Axis Bank Limited	CRISIL BBB/Stable
Long Term Loan	25	Axis Bank Limited	CRISIL BBB/Stable
Proposed Long Term Bank Loan Facility	3.2	Not Applicable	CRISIL BBB/Stable

This Annexure has been updated on 02-Feb-23 in line with the lender-wise facility details as on 29-Sep-21 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Criteria for rating solar power projects
CRISILs Criteria for rating short term debt

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