



Falcon Technoprojects India Limited

IPO Note
Recco – **AVOID**



IPO Details

Opening Date	June 19, 2024
Closing Date	June 21, 2024
Stock Exchange	NSE SME
Lot Size	1,200 Shares
Issue Price	₹92 per share
Issue Size	Aggregating up to ₹13.69Cr.
Fresh Issue	Aggregating up to ₹13.69Cr.
Offer for Sale	-
Application Amount (Price at Upper Band)	₹1,10,400 (1,200 shares)

IPO Objective

- Working capital requirements of the company
- General Corporate Expenses

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	32,57,597	84.20%
Public	6,11,196	15.80%

Promoter of the Company

- Bharat Shreekishan Parihar
- Sheetal Bharat Parihar

Competitive Strengths

- Project management and execution capability
- Adding renowned customers and procuring repetitive work orders from existing customers
- Managing diverse business operations amidst growing demand
- Technology at the forefront
- Experienced and committed professional management team

Company Background

- Falcon technoprojects India Limited was incorporated in 2010 with its registered office in Mira Road East, Mumbai.
- The company is engaged in providing mechanical electrical and plumbing services to their PAN India customers which are operating in various sectors including petroleum refineries, residential townships, atomic energy, civil construction, etc.
- Some of their services include installing air-conditioning systems, power & lighting systems, water & drainage systems, fire-fighting systems, etc.
- The Company employs 24 people at various levels as of 31st January, 2024 on its payroll.

Market Capitalization (In Cr.)

Pre-Issue	Post-Issue
₹36	₹49

Financial Summary (In Lakhs)

For the Period Ended	Mar-21	Mar-22	Mar-23	Jan-24
Total Assets	1,720.12	2,179.52	2,183.62	2,143.73
Net Assets	127.79	230.56	334.47	898.75
Total Borrowings	729.75	962.81	1,232.02	771.68
Total Revenue	946.35	2,290.08	1,656.58	1,036.62
Profit After Tax	29.59	102.75	103.91	86.98

Tentative Timeline

Opening Date	June 19, 2024
Closing Date	June 21, 2024
Basis of Allotment	June 24, 2024
Initiation of Refunds	June 25, 2024
Credit of Shares to Demat	June 25, 2024
Listing Date	June 26, 2024

Company Background and Analysis

The company was incorporated in 2010 with its registered office in Mira Road East, Mumbai, Maharashtra. The company is engaged in the business of providing Mechanical, Electrical and Plumbing (MEP) services to PAN India customers which are operating in various sectors including petroleum refineries, residential townships, atomic energy, civil construction, etc. MEP services refer to installation services that provide comfortable spaces for building occupants.

MEP services specifically deal with the design, selection, and installation. It includes installing air-conditioning systems, power and lighting systems, water supply and drainage, fire prevention and fighting systems, and telephones. By integrating these separate systems into one, the operation can be made more energy effective. The design of MEPs is important for the facility's operation and maintenance. MEP services specifically cover the in-depth design and selection of these systems, rather than simply installing the equipment. Their major clientele include:

- L&T Seawoods Private Limited
- Cowtown Infotech Services Private Limited
- Reliance Projects & Property
- Om Technical Solutions
- Shapoorji Pallonji 7 Co Private Limited
- Empire Webtech Private Limited
- Prama Hikvision8
- Bharat Petroleum Excellence Centre

Given below is a short description of the services that the company provides:

• **Mechanical Services-**

Mechanical systems are those systems associated majorly with Firefighting and HVAC services. Under firefighting services, the company provides solutions like fire hydrant, wet riser system, sprinkler system, water spray system, gas-based suppression system, etc. Under HVAC services the company provides solutions relating to heating, ventilation, air conditioning systems and also comprise elevators, escalators etc. on basis of client requirements. Their HVAC services include design, supply, installation, service and maintenance of air conditioning and ventilation solutions for all types of commercial, industrial and domestic environments. The company further provides assistance and services relating to central plant designing, exhaust systems, direct digital control systems, heating & chilled water systems. They also prepare initial blue-prints, lay outs and drawing for clients which helps in customized plant designing.

• **Electrical Services-**

The Company undertakes turn-key electrical projects and is principally engaged in executing and providing electrical engineering service for power, process, industrial and commercial projects for the public and private sector undertakings. The company further provides services required for power generation, lighting fixtures, fans and air conditioning systems, connecting electric appliances through audio/remote controls, touch panels, lighting control design, etc.

• **Plumbing Services-**

The company provides services of sanitary fixtures & fittings, internal drainage system, external drainage system, rain water disposal system, water supply system, rainwater harvesting, plant & utilities etc.



Given below is the sector-wise bifurcation of the company's revenue from operations for the previous 3 financial years.

(in lakhs)

Particulars	March 31, 2021		March 31, 2022		March 31, 2022	
	Amt.	%	Amt.	%	Amt.	%
Government Sector	11.22	1.19%	46.83	2.05%	225.21	13.62%
Private Sector	931.92	98.81%	2,239.35	97.95%	1,428.29	86.38%
Total	1,653.50	100.00%	2,286.18	100.00%	943.14	100.00%

Conclusion

The company has over a decade of experience in this industry. The company provides mechanical, electrical, and plumbing services to its PAN India customers across various sectors, to industrial, commercial, and domestic environments. All the segments are interconnected so bifurcating revenue based on the 3 verticals of the business is not possible. The company employs 24 employees on different levels as on January 31, 2023, on its payroll.

Business Strategies

1. Grow Customer Base While Maintaining Relationships with Existing Customers-

The company's contracts with most of their customers is generally for a period of four months or more, with repetitive projects from the same clients. The company has over the years established long-term relationships with their customers leading to recurring business engagements. The company believes that it will be able to retain existing customers and attract new customers because of their brand, strong market positioning, and delivery of quality services. The company's PAN India presence is also expected to drive their growth. The company intends to further develop and implement technological and customer-oriented initiatives as they diversify their offerings and exploit future growth opportunities.

2. Growing Market Share in Key Segments

The company seeks to grow their business through the acquisition of new customers across industries such as real estate, industrial construction, warehousing, and public infrastructure such as airports, etc. Their customer acquisitions are usually undertaken through two mechanisms being past track and technical business development. Past track is where their prospective customers check past performance with existing customers. The role of their technical business development team is to procure new customers by briefing them about the scope of their services, quality, timely delivery, and installation of equipment.

3. Improving Operating Margins-

The company's margin improvement strategy rests on four key pillars:

- a. **Improving Operating Leverage** – The company intends to reduce or maintain their fixed costs as compared with revenues and therefore, improve EBITDA margin. The company is exploring and implementing gradually a shared services model to lower the costs of common services.
- b. **Technology Leverage** – The company has implemented IT solutions to cover key areas of their operations. The company will continue to focus on and make investments in their IT systems which will automate processes and reduce manual intervention.
- c. **Service Mix Within Each Business** – The company intends to develop, enhance and promote their portfolio to customers. Diversity of customer base allows them to further increase the span of services offered to existing customers through cross selling initiatives.
- d. **Increase Geographical Spread With Existing Services and Provide Additional Services Where The Company has Presence** – The company has executed various projects in majority of the states across the country. They intend to further deepen their market penetration in atomic energy segment and public infrastructure segment including airports, state transport stations, etc. The company also intends to cater our services in other geographies where they already have on-ground presence. The company is currently engaging in several projects with both government and private sectors for increasing their business.



Competitive Scenario and Peer Mapping

Competition

The MEP services industry faces a moderate threat of new entrants, as starting small is feasible but larger projects require government licenses and experienced personnel, creating a barrier. Supplier power is moderate due to the availability of standard MEP materials from various vendors, though a shortage of skilled labour for specialized projects gives some leverage to labour providers. Buyer bargaining power ranges from moderate to high; clients have less leverage on complex projects needing deep expertise but for smaller projects, prices are driven down due to competition. The threat of substitutes is low since MEP systems are essential. Competitive rivalry is moderate-high, with many small and medium firms competing intensely on price.

Peer Analysis

As per the offer documents, the company has no listed peers.

Industry Overview

Indian market for MEP services is undergoing a transition. The major factor behind this is the emergence of complex construction projects across all segments of real estate. The changing regulations in electrical voltage systems for different consumer classes (residential, commercial, and industrial) is a major feature that is reshaping the MEP industry. The focus on green buildings is getting stronger as well. Smart buildings are becoming widespread, wherein the buildings are closely integrated with technology. This calls for a new level of competence and skillsets from the MEP sector.

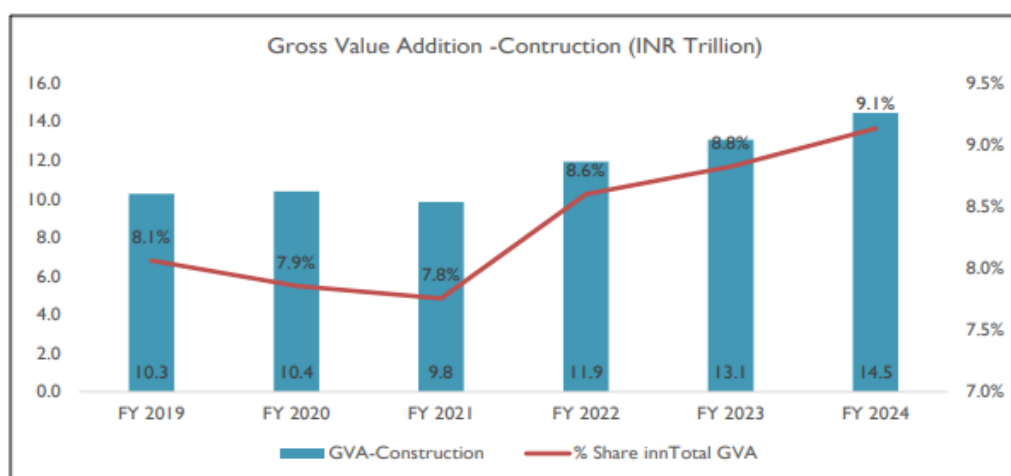
The demand for MEP services is directly correlated to the construction sector. An increase in the number of construction projects would directly result in higher demand for MEP services, which accounts for 40% of building construction cost. The increasing complexities in the construction sector has led to widespread adoption of centralized MEP services. This has resulted in preference for a single vendor. Furthermore, the evolution in building construction standards has increased the demand for superior HVAC & associated facilities.

• Construction Sector

The construction sector is a key component of the Indian economy with linkages across more than 200+ sub sectors. Further, India is poised to become the third largest construction market in the next 2-3 years. As per a Knight Frank report, the construction sector contributes nearly 18% to the economy's total output. Cities are a major driver for the construction industry as more than 40% of the population is expected to live in urban India (compared to the current 33%). India's construction industry is on a rapid growth trajectory, projected to reach a staggering USD 1.4 trillion by 2025. The sector indirectly supports numerous job opportunities in associated industries like manufacturing, transportation, and logistics.

The Indian government's ambitious Gati Shakti National Master Plan plays a pivotal role in propelling the construction industry forward. It aims to integrate infrastructure development across various sectors, creating a national logistics network. The Bharatmala Pariyojana initiative complements it by focusing specifically on developing a world-class highway network spanning over 83,000 kilometers.

Contribution to national economy by the construction sector has steady improved over the years, and it is estimated to account for nearly 9.1%, or INR 14.5 trillion, of national Gross Value Added by FY 2024. The construction development segment is the seventh largest FDI recipient with its share in total FDI inflows standing at nearly 4% at the end of March 2024.

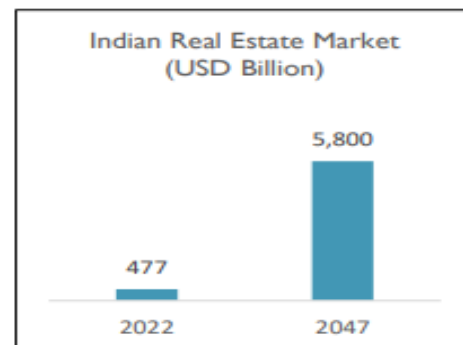


Source: Ministry of Statistics & Programme Implementation (base year 2011-12)

- **Real Estate Scenario**

The post-Covid period from 2021, witnessed gradual revival in the real estate sector. The growth of the sector is well complemented by the growth in demand for office, residential and industrial space. A robust demand, attractive and affordable opportunities, policy support and increasing investments all are collectively contributing to the growth of this sector. According to Knight Frank India, private equity (PE) investment in the Indian real estate sector declined by 20% in the first half of 2023 because of a conservative shift in investment strategies. However, the overall PE investments in the real estate sector are estimated to touch USD 5.6 billion in 2023, recording a 5.3% Y-o-Y growth.

According to a report 'India Real Estate: Vision 2047' released by National Real Estate Development Council and Knight Frank India, the Indian real estate sector is estimated to increase by more than 12-fold to USD 5.8 trillion by 2047. The sector is expected to contribute over 15% to the total economic output from an existing share of 7.3%.



- **Changing demand dynamics**

1. **Green and Sustainable Construction** – Focus on green development and transition to sustainable energy sources wherein MEP services can play a key role in energy conservation practices. Renewable energy integration is emerging as a key driver of the MEP market with increasing focus on energy efficient MEP systems. The need arises as different types of renewable energy sources such as solar panels, wind turbines, biomass generators etc. must be integrated with the building's electrical system to power lighting, HVAC, and other systems.
2. **Rising Demand for HVAC Services** – In industrial and commercial segments, the rapid expansion in office space as well as industrialization ensures the demand for HVAC remains strong. The HVAC market in India is experiencing a gradual shift towards energy-efficient systems primarily due to government initiatives. Additionally, there is growing awareness of indoor air quality leading to increased demand for HVAC systems that can address these concerns. There is also a shift towards technologically advanced HVAC solutions like smart controls, remote monitoring, and energy management systems. The adoption of such technology will drive the industry further towards greater efficiency and reduced carbon footprint. The sectors that employ HVAC systems most in India include commercial buildings, hospitals, hospitality sector, educational institutions, and industrial facilities.

(Source: Prospectus)



Key Managerial Personnel

Bharat Shreekishan Parihar, aged 40, is one of the promoters and Managing Director of the company. He completed his graduation in the field of electrical engineering. He has 16 years of experience in the MEP sector. His roles in the company include tender and purchase negotiations, coordination and deployment of resources, operations management, finance and cash flow management, etc.

Sheetal Bharat Parihar, aged 35, is one of the promoters and Non – Executive Director & Chairperson of the company. She holds a degree of Bachelor of Commerce. She has 9 years of experience in the industry. She overviews tendering process and guides the marketing activities.

Priyanka K. Gola, aged 30, is an Independent Director of the company. She is a qualified Company Secretary and also holds a Bachelor’s Degree of Laws. She has 8 years of experience in corporate laws, corporate governance, and tax.

Sumitkumar Hareshbhai Patel, aged 24, he is an Independent Director of the company. He is a qualified Company Secretary and has more than 2 years of experience in secretarial activities.

Swapnil Sandeep Navale, aged 35, he is a Non – Executive Director of the company. He is a commerce graduate who has 8 years of working experience in real estate related activities and as an Mep contractor.

Sandeep Dinkar Navale, he is the CFO of the company. He holds a degree of Bachelor of Arts and has over 3 decades of experience in project execution, team management, and ERP implementation. He oversees strategic planning, preparing & tracking cash flows, and handling IT & Admin Department of the company.

Dipti Sharma, she is the Compliance Officer of the company. She holds a degree of Bachelor of Commerce and is a qualified Company Secretary. She has 2 years of experience in secretarial activities. She looks after compliance and legal matters of the company.

Anil Kumar SM, he is the COO of the company and the functional head of Procurement, Commercial & Contracts Department. He has 7 years of experience in engineering, project management, and operational functions along with project execution & management, MEP operations, and team management.

To conclude, the company has 2 individual promoters. The promoters have a good amount of experience in the industry. The Board of Directors along with other Key Managerial Personnel all have satisfactory level of experience in their respective fields.



Financial Snapshot

Profit and Loss Statement				
(In Lakhs)				
Particulars	FY 21	FY 22	FY 23	Jan-24
Revenue from Operations	943.14	2,286.19	1,653.50	1,033.81
Other Income	3.21	3.89	3.08	2.81
Total Income	946.35	2,290.08	1,656.58	1,036.62
Expenses				
Cost of Material Consumed	564.27	1,705.83	1,205.49	588.25
Employee benefit expenses	68.45	108.18	130.52	133.46
Finance cost	56.71	76.41	99.19	68.7
Depreciation and amortization	7.22	4.96	3.05	1.45
Other expenses	208.53	255.94	78.79	119.6
Total Expenses	905.18	2,151.32	1,517.04	911.46
Earnings Before Interest, Taxes, Depreciation & Amortization	105.10	220.13	241.78	195.31
EBITDA Margin	11.14%	9.63%	14.62%	18.89%
Profit/(Loss) before tax	41.17	138.76	139.54	125.16
Tax Expense				
Current Tax	-11.88	-36.78	-34.72	-38.46
Deferred Tax	0.3	0.77	-0.91	0.28
Total Tax Expense	-11.58	-36.01	-35.63	-38.18
Profit/(Loss) for the year	29.59	102.75	103.91	86.98
Net Profit Margin	3.13%	4.49%	6.27%	8.39%

Balance Sheet				
(In Lakhs)				
Particulars	FY 21	FY 22	FY 23	Jan-24
EQUITY AND LIABILITIES				
1. Shareholders' Funds				
Share Capital	50.00	50.00	50.00	386.88
Reserves and Surplus	77.79	180.56	284.47	511.87
Total Equity	127.79	230.56	334.47	898.75
2. Non-current liabilities				
(a) Financial Liabilities				
Long-Term Borrowings	384.51	613.87	801.90	341.14
Other Long-Term Liabilities	43.73	17.39	2.25	1.25
Long Term Provisions	10.27	12.06	13.1	14.66
Total Non-Current Liabilities	438.51	643.32	817.25	357.05
3. Current Liabilities				
(a) Financial Liabilities				
Short-Term Borrowings	345.24	348.94	430.12	439.91
Trade Payables	684.62	828.46	478.03	344.57
Other Current Liabilities	108.79	89.39	84.72	62.54
Short-Term Provisions	15.17	38.86	39.01	40.92
Total Current liabilities	1,153.82	1,305.65	1,031.88	887.94
Total Liabilities	1,592.33	1,948.97	1,849.13	1,244.99
Total Equity and Liabilities	1,720.12	2,179.53	2,183.60	2,143.74



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IPO Note

Recco – **AVOID**



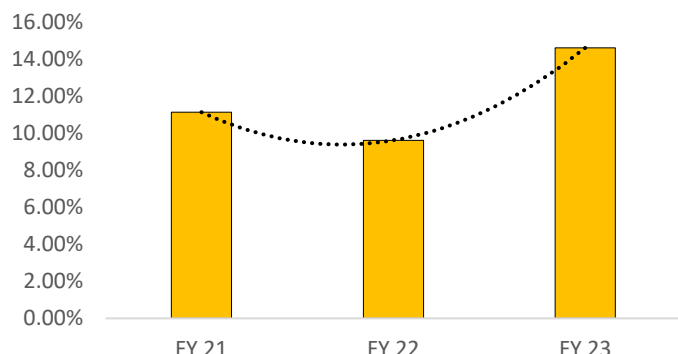
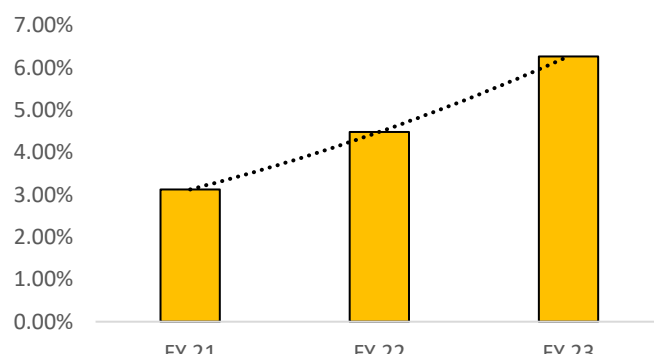
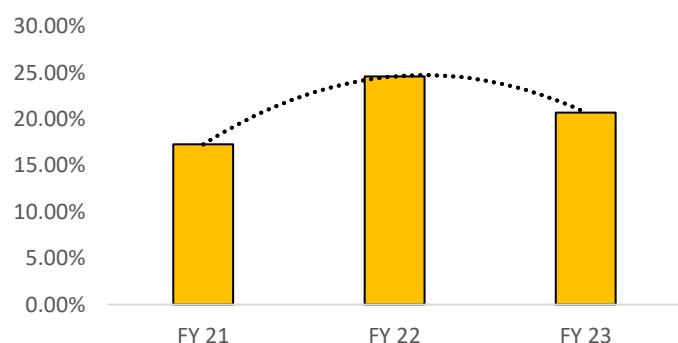
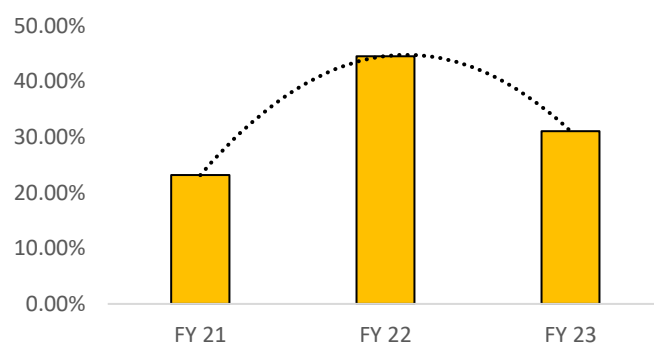
Balance Sheet					(In Lakhs)
ASSETS					
1. Non-current assets					
Property, Plant and Equipment	393.1	388.14	385.1	202	
Non Current Investment	6.74	6.74	8.04	8.04	
Deferred Tax Assets (Net)	7.39	8.16	7.25	7.53	
Other Non-Current Assets	172.3	154.25	288.74	106.04	
Total Non-Current Assets	579.53	557.29	689.13	323.61	
2. Current Assets					
Inventories	893.24	996.19	1162.75	1,181.91	
Trade Receivables	157.16	493.43	268.12	576.89	
Cash and Cash Equivalents	2.87	15.23	15.98	6.66	
Short-Term Loans and Advances	21.86	31.83	0.76	3.36	
Other Current Assets	65.46	85.55	46.88	51.3	
Total Current assets	1,140.59	1,622.23	1,494.49	1,820.12	
Total Assets	1,720.12	2,179.52	2,183.62	2,143.73	

Cash Flow Statement					(In Lakhs)
Particulars	FY 21	FY 22	FY 23	Jan-24	
Net Cash Flow From Operating Activities	315.53	-153.96	-67.65	-307.70	
Net Cash Flow From Investing Activities	-251.39	-	-1.30	157.86	
Net Cash Flow From Financing Activities	-70.00	166.32	69.70	140.52	

Ratio Sheet				
Particulars	FY 21	FY 22	FY 23	Jan-24*
Per Share Data				
Diluted EPS	0.88	3.07	3.10	2.44
BV per share	2.39	4.30	6.24	42.65
Operating Ratios				
EBITDA Margin	11.14%	9.63%	14.62%	18.89%
PAT Margin	3.13%	4.49%	6.27%	8.39%
Inventory Days	345.69	159.05	256.67	208.07
Debtor Days	60.82	78.78	59.19	101.56
Creditor Days	264.95	132.27	105.52	60.66
Return Ratios				
ROCE	17.28%	24.62%	20.73%	18.46%
ROE	23.16%	44.57%	31.07%	4.55%
Valuation Ratios**				
EV/EBITDA	8.13	5.35	6.41	13.06
Market Cap / Sales	5.23	2.16	2.98	4.77
P/E	104.55	29.97	29.68	37.70
Price to Book Value	38.57	21.38	14.73	2.16
Solvency Ratios*				
Debt/Equity	5.71	4.18	3.68	0.34
Current Ratio	0.99	1.24	1.45	2.05
Quick Ratio	0.21	0.48	0.32	1.26
Asset Turnover Ratio	0.55	1.05	0.76	0.58
Interest Coverage Ratio	1.73	2.82	2.41	2.83

*Annualized Figures

**Valuation Ratios are calculated using the current Issue Price.

Financial Charts
EBITDA Margin

PAT Margin

ROCE

ROE

Key Risk Factors
1. Top Customers-

The company derives a significant portion of its revenue from a few number of customers. For the FY ended March 31, 2021, top 5 customers contributed 52.29% of the total revenue from operations. 46.82% for the FY ended March 31, 2022, and 64,15% for the FY ended March 31, 2023.

2. Outstanding Litigations-

There are **2 criminal proceedings against the company, its promoters, and a director, and 1 criminal proceeding against the company and its promoter.** They are worth a total of ₹12.06 lakhs. All 3 cases are because the company refused to pay when supplied with either inferior materials or materials which did not match the description/requirement provided by the company. There are **43 tax related proceedings against the company worth a total of ₹48.31 lakhs.**

3. Negative Cash Flows-

The company has experienced **negative cash flows from operations in the previous 2 financial years.** ₹153.96 lakhs for the financial year ended March 31, 2022 and ₹67.65 lakhs for the financial year ended March 31, 2023.

4. High Debt – Equity Ratio-

The company has higher debt – equity ratio which requires significant cash flows to service their debts obligations. This also puts certain restrictions on the resources that the company can freely use.



Track Record of Lead Manager(s)

The lead manager to the issue is Kunvarji Finstock Pvt. Ltd. As per the offer documents, **this is the first mandate of the lead manager.**



Recommendation

The company has been in the industry since 2010 and thus has very good experience in the industry. The company's management overview is positive.

The P/E on a post-IPO and annualized basis is around 37.70 times.

The company operates in a competitive segment. The company has seen inconsistent in the increase of its top-line financials as the revenue from operations increased by 2.5 times from the FY 21 to 22, to 2,280 lakhs but then declined to 1,650 lakhs during FY 23. As for the bottom-line financials, EBITDA margin saw the same trend while the PAT margin consistently increased.

The company is also involved in criminal proceedings as well as tax litigation matters. Negative Cash Flow from operations also raise concerns.

Thus, we believe one should **AVOID** this IPO.



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