Waaree Energies Limited

April 26, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	35.00	[ICRA]BB+ (Stable); assigned
Non-Fund Based Limits	65.00	[ICRA]A4+; assigned
Total	**100.00**	

Rating action:

ICRA has assigned its long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) for the Rs. 35-crore[1] cash credit facility of Waaree Energies Limited (WEL)[2]. ICRA has also assigned its short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 65-crore non-fund-based limits of WEL. The outlook on the long-term rating is Stable.

Rationale:

The assigned rating for WEL takes into account of its moderate financial profile as reflected by modest profitability margins high debt levels and tight liquidity position as evident from the consistently high utilisation of fund-based and non-fund-based limits. The ratings also factor in the concerns arising from the significantly high non-core investments into Group companies, given that such investments have remained more than its own net worth at the end of both FY2017 and 9M FY2018. The company has recently issued Non-Convertible Debentures of Rs. 100 crore to fund the purchase of a 40% stake (held by NEEPCO) in its subsidiary. Going forward, WEL plans to monetize its solar assets and the sale process is at an advanced stage and likely to be concluded in the near term. ICRA further notes that progress on the sale of solar assets as well as any further increase in unrelated/non-core investments towards Group entities will remain key rating sensitivities from a credit perspective. The rating is further constrained by intense competitive pressures in the solar PV module manufacturing business domestically as well as from global solar photovoltaic (PV) module manufacturers, especially in China. The company's profitability also remains vulnerable to movement in the spread between prices of solar cells and solar modules, given that solar cells are mostly imported and constitute a major portion of the company's cost structure. Moreover, WEL's profitability remains exposed to variations in foreign exchange rates as a major proportion of its modules are sold within India and solar cells are mainly imported. The ratings also take note of the company's ongoing capital expenditure plan for augmenting module-manufacturing capacity at a cost of around Rs. 75 crore, which is being debt funded up to 70% and is scheduled to be completed by May 2018. As a result, the volume growth and improvement in the utilisation of the manufacturing facility remains critical from a credit perspective.

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[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Nevertheless, the ratings positively factor in the company's long track record in the solar PV module-manufacturing space and its established relations with reputed solar cell manufacturers which reduces supply-side risks. The ratings also take into consideration the favourable demand outlook for solar modules from utility scale projects as well as from industrial and commercial consumers, given that the tariff competitiveness of solar power has improved in comparison to other power generation sources. In addition, the Government's thrust and policy initiatives to encourage domestic manufacturing of solar modules would remain a growth driver for WEL. While quantum and timelines for both safeguard duty/anti-dumping duty still remains uncertain, the same if notified on cells and modules in near term is likely to have marginally positive impact on the competitive position of the company. This is also because the company is into PV module manufacturing wherein the primary raw material – PV cells – is imported. ICRA also factors in the healthy order flow for the company along with its satisfactory customer profile comprising large and renowned solar power producers.

Outlook: Stable

The Stable outlook reflects ICRA's expectations that WEL will continue to benefit from the favourable demand outlook for solar modules, which will lead to scaling up in the operations given the increased tariff competitiveness of solar power in comparison to other power sources and the thrust of the Government on domestic manufacturing of solar power modules. The outlook may be revised to Positive in case of realisation of funds blocked up in related entities, improvement in order flow and profitability indicators. The outlook may be revised to Negative in case of any diversion of funds to other Group entities, decline in profitability levels and cash-flow generation which may weaken its overall debt-protection metrics.

Key rating drivers:

Credit strengths

Established presence in the solar module-manufacturing industry – WEL is an established player in the solar module-manufacturing sector with experience of over a decade. The company has an installed capacity of 500 MW at present and is in process of increasing the capacity to 1,250 MW, which is expected to become operational from Q2 FY2019 onwards.

Improvement in production and sales in FY2017 and FY2018 – The module production and sales level of WEL increased in FY2017 and FY2018, primarily driven by an increase in the number of biddings conducted by states/counterparties viz. discoms, SECI, NTPC etc. along with a major increase in export orders.

Healthy order-book position and satisfactory customer profile – WEL had a healthy order-book position as on FY2018-end and the order flow for it has been satisfactory in the recent past. The company continues to be associated with reputed power-generating companies and is also well connected to reputed domestic and international cell suppliers.

Favourable demand outlook for solar power modules – The demand outlook for the solar power sector remains healthy aided by various state and Central Government initiatives and increase in cost competitiveness in comparison to other power sources. While the quantum and timelines for both safeguard duty/anti-dumping duty still remains uncertain, the same if notified on cells and modules in the near term are likely to have a marginally positive impact on the competitive position of the company. This is also because of the fact the company is into PV module manufacturing, wherein the primary raw material (PV cells) is imported.

Credit challenges

Profitability remains vulnerable to variation in prices of solar cells and foreign exchange rate – As solar cells comprise a major portion of the company's procurements, its profitability is vulnerable to movement in the spread between prices of solar cells and solar modules. Moreover, as most of the solar cells are imported, the profitability remains exposed to movements in foreign exchange.

Intense competition in solar module space – The company faces intense competitive pressure in the solar module space from other domestic manufacturers apart from international players, primarily based out of China, as solar module imports from China comprise ~90% of India's domestic requirements.

Moderate financial profile characterised by high amount of investments in related entities – WEL has a moderate financial profile as reflected by modest profitability margins and tight liquidity position as reflected by high utilisation of fund-based and non-fund-based limits and extremely high exposure to Group companies. WEL's investments into Group companies were more than its own net worth at the end of both FY2017 and 9M FY2018.

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:

WEL was incorporated in 2007 and manufactures of solar photo voltaic (PV) modules at its manufacturing facility at Surat, Gujarat. Initially, the company started trading in solar PV modules but has added its own capacity in a phased manner. At present, the company has manufacturing capabilities of 500 MW and is in process of setting up another greenfield capacity of 750 MW. Apart from the sale and manufacture of PV modules, the company performs Engineering, Procurement and Construction(EPC) for solar power plants. Besides trading PV modules, the company deals in other solar-related products viz. solar lights, solar water heaters, solar water pumps etc.

WEL also owns 75-MW operational solar power plants in one of its subsidiary i.e. Waaneep Solar Private Limited (WSPL). Previously, NEEPCO held a 40% stake in WSPL, which was purchased by WEL in FY2018.

Key financial indicators (Audited)

	FY2016	FY2017	9M FY2018
Operating Income (Rs. crore)	998.0	1065.0	978.7
PAT (Rs. crore)	22.8	45.9	29.9
OPBDIT/OI (%)	6.4%	6.8%	5.5%
RoCE (%)	22.7%	30.6%	22.0%
Total Debt/TNW (times)	0.72	0.48	0.70*
Total Debt/OPBDIT (times)	1.85	1.32	2.19*
Interest Coverage (times)	4.09	6.13	5.55
NWC/OI (%)	-5%	0%	1%

**does not include off balance sheet liabilities (bill discounting) in the total debt*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) December 31, 2017	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					April 2018	-	-	-
1	Cash Credit	Long Term	35.00	-	[ICRA]BB+ (Stable)	-	-	-
2	Non-Fund Based Limits	Short Term	65.00	-	[ICRA]A4+	-	-	-

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 (SBI)	-	-	-	35.00	[ICRA]BB+ (Stable)
NA	Non-Fund Based Limits (SBI)	-	-	-	65.00	[ICRA]A4+

Source: WEL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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