Waaree Energies Limited

August 09, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	35.00	35.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Non-Fund Based Limits	65.00	65.00	[ICRA]A3; upgraded from [ICRA]A4+
Total	**100.00**	**100.00**	

Rating action:

ICRA has upgraded its long-term rating to [ICRA]BBB- (pronounced ICRA triple B minus) from [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 upgraded its short-term rating to [ICRA]A3 (pronounced ICRA A three) from [ICRA]A4+ (pronounced ICRA A four plus) for the Rs. 65-crore non-fund-based limits of WEL. The outlook on the long-term rating is Stable.

Rationale:

The revision in ratings favourably factors in the monetisation of the investments in Waaneep Solar Private Limited (WSPL) with consideration received for stake sale of 49% to reputed private solar developer & subsequent repayment of the first tranche of NCD's that were issued primarily to fund 40% stake purchase from NEEPCO (North Eastern Electric Power Corporation Limited). The company further expects the transaction of entire stake sale in WSPL to be concluded over a month. This in turn is expected to result in improvement in the company's cash flow position & financial flexibility in near term.

The ratings continue to factor in 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. Recently the Government imposed safeguard duty of 25% on imported solar cells and modules for the next one year starting from July 30, 2018 and thereafter the duty would reduce to 20% and 15% for two subsequent six-month period. This imposition of duty is likely to have a marginally positive impact on the competitive position of the company vis-a-vis its Chinese competitors. ICRA also factors in the healthy order flow for the company along with its satisfactory customer profile comprising large and renowned solar power producers.

The ratings continue to be constrained by WEL's moderate financial profile as reflected by modest profitability margins high debt levels and modest 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

---

[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

Group companies. Despite the sale of 75MW of Waaneep's assets, the quantum of these investments remains high and almost equates to WEL's Net worth position as on FY2018 end. ICRA further notes that any further increase in unrelated/non-core investments towards Group entities will remain a key rating sensitivity 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.

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 stable outlook also factors monetisation of balance 51% stake in WSPL in a timely manner. 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 1500 MW at present.

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. In addition, the Government's thrust and policy initiatives to encourage domestic manufacturing of solar modules would remain a growth driver for WEL. Recently the Government imposed safeguard duty of 25% on imported solar cells and modules for the next one year starting from July 30, 2018 and thereafter the duty would reduce to 20% and 15% for two subsequent six-month periods. This imposition of duty is likely to have a marginally positive impact on the competitive position of the company visavis its Chinese competitors.

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. WEL's profitability margins were adversely impacted in FY2018 on account of higher forex expenses.

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, high debt levels and modest liquidity profile as reflected by high utilisation of fund-based and non-fund-based limits and high exposure to Group companies. Despite the sale of 75MW of Waaneep's assets, the quantum of Group investments remains high and almost equates to WEL's Net worth position as on FY2018 end.

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 1500 MW spread across two locations in Gujarat. 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.

Key financial indicators (Audited)

	FY2016	FY2017	FY2018
Operating Income (Rs. crore)	998.0	1065.0	1277.3
PAT (Rs. crore)	22.8	45.9	25.3
OPBDIT/OI (%)	6.4%	6.8%	4.5%
RoCE (%)	22.7%	30.6%	16.2%
Total Debt/TNW (times)	0.72	0.48	1.18
Total Debt/OPBDIT (times)	1.85	1.32	4.60
Interest Coverage (times)	4.09	6.13	3.12
NWC/OI (%)	-5%	0%	2%

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)	Date & Rating	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				March 31, 2018	August 2018	April 2018	-	-	-
1	Cash Credit	Long Term	35.00	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-	-	-
2	Non-Fund Based Limits	Short Term	65.00	-	[ICRA]A3	[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	-	-	-	35.00	[ICRA]BBB- (Stable)
NA	Non-Fund Based Limits	-	-	-	65.00	[ICRA]A3

Source: WEL

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Jatin Arya
+91 124 4545313
jatin.arya@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents