July 19, 2019

Waaree Energies Limited: Ratings reaffirmed at [ICRA]BBB-(Stable) and [ICRA]A3, rated amount enhanced

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based working capital limits	35.0	75.0	[ICRA]BBB-(Stable); reaffirmed
Non-Fund Based limits	65.0	125.0	[ICRA]A3; reaffirmed
Total	**100.0**	**200.0**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in ratings takes into account Waaree Energies Limited's (WEL) long track record and established market position in the solar photovoltaic (PV) module manufacturing space. The ratings also take into consideration the favourable demand outlook for solar PV modules from utility scale projects as well as from industrial and commercial consumers, given that the tariff competitiveness of solar power has improved significantly in comparison to other power generation sources. In addition, the policy initiatives to encourage the use of domestically manufactured solar modules would remain a growth driver for WEL. While reaffirming the ratings, ICRA takes note of the monetisation of the investments in Waaneep Solar Private Limited (WSPL) to the Hero Energy Group. WEL has received funds for approximately 70% of the deal value with the balance expected to be realised within the next couple of months. The receipt of the balance amount from the Hero Group within the mentioned timeframe would be critical for WEL's liquidity profile given the growing scale of the company's operations, its modest liquidity profile and high-cost debt outstanding on the books as on date.

The ratings continue to be constrained by WEL's moderate financial risk profile as reflected by high debt levels and the concerns arising from the significantly high non-core investments into Group companies. ICRA further notes that any increase in unrelated/non-core investments towards the Group entities will be a key rating sensitivity from a credit perspective. Given the working capital intensity involved, the company's liquidity position remained modest, as evident from the consistently high utilisation of fund-based and non-fund based limits. The ratings are further constrained by the intense competition in the solar PV module manufacturing business domestically as well as from the global solar photovoltaic (PV) module manufacturers, especially 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, given the increased tariff competitiveness of solar power compared to other renewable power sources and the thrust of the Government on domestic manufacturing of solar power modules. The outlook may be revised to Negative in case of further increase in non-core investments, deterioration in financial risk profile or liquidity profile of the company. The outlook may be revised to Positive in case of realisation of funds blocked up in related entities, improvement in WEL's financial risk profile and liquidity position.

Key rating drivers

Credit strengths

Established presence in 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 1,500 MW at present.

Improved production and sales in FY2019 lead to increase in scale of operations – The module production and sales level of WEL increased in FY2018 and FY2019, primarily driven by an increase in the number of biddings conducted by states/counterparties viz. discoms, SECI, NTPC, etc. A major increase in export orders also provided support. The realisations of modules continued to decline, whereas the turnover continued to increase, primarily on account of a rise in the volumes of modules installed.

Modest order book position and satisfactory customer profile – WEL had a satisfactory order book position at the end of FY2019 and the order flow for it has been satisfactory in the recent past. Over the last couple of years, WEL's international sales have increased with it primarily supplying modules in the European markets in FY2018 and Vietnam in FY2019. However, sustenance of such sales in the export markets remains to be seen.

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. The imposition of safeguard duty on imported modules would continue until July 2020 and is likely to benefit domestic module manufacturers to some extent. Additionally, the Government has approved schemes such as KUSUM and CPSU Scheme II, which focus upon utilisation of domestically manufactured modules and provide near-to-medium term demand visibility for players like WEL.

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 competition in the solar module space from other domestic manufacturers and international players, primarily those based out of China. In fact, solar module imports from China comprise ~90% of India's domestic requirements.

Exposure to non-core investments and Group entities – WEL continues to have high exposure to its Group companies as reflected by the value of investments on its balance sheet. Despite monetisation of the assets of Waaneep Solar, the non-core investments of the company at the end of FY2019 stood at ~Rs. 145 crore. ICRA further notes that any increase in unrelated/non-core investments towards Group entities will remain a key rating sensitivity from a credit perspective.

Liquidity position

The liquidity profile of WEL remains modest as actual sanctioned bank limits are estimated to be lower than required, given the scale of the company's operations. The same is also evident from the consistently high limit utilisation levels, including the utilisation of non-fund based limits against 100% fixed deposits. The company had cash balances of ~Rs. 130 crore at the end of FY2019, out of which only Rs. 22 crore was free cash. The remaining was encumbered primarily for availing non-fund based limits over and above the sanctioned amount.

WEL is yet to receive a significant share from the sale proceeds of Waaneep's assets (~30% of the deal value) from Hero Group and the same is expected to be realised within the next couple of months. The receipt of the balance amount from the Hero Group within the mentioned timeframe would be critical for WEL's liquidity profile given the growing scale of the company's operations, its modest liquidity profile and high-cost debt outstanding on the books as on date.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	-
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the standalone financials of WEL

About the company

WEL was incorporated in 2007 and manufactures 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 1,500 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 (Standalone) (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1277.3	1604.6
PAT (Rs. crore)	25.3	38.0
OPBDIT/OI (%)	4.5%	5.6%
RoCE (%)	16.2%	22.0%
Total Debt/TNW (times)	1.18	0.40
Total Debt/OPBDITA (times)	4.60	1.17
Interest Coverage (times)	3.12	2.92

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding March 31, 2019 (Rs. crore)	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
					Jul-19	Aug-18	Apr-18	-	-
1	Cash Credit	Long Term	75	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	-	-
2	Non-Fund Based Limits	Short Term	125	-	[ICRA]A3	[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	-	-	-	75.0	[ICRA]BBB-(Stable)
NA	Non-Fund Based Limits	-	-	-	125.0	[ICRA]A3

Source: WEL

**rating watch with developing implications*

Annexure-2: List of entities considered for consolidated analysis : Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

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

Avneet Kaur
+91 124 4545319
avneetk@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:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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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,
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