

December 08, 2021

RenewSys India Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based working capital limits	57.50	[ICRA]A-(Stable); assigned
Term Loan	60.00	[ICRA]A-(Stable); assigned
Non-fund-based working capital limits	94.50	[ICRA]A2+; assigned
Unallocated bank facilities	338.00	[ICRA]A-(Stable)/ [ICRA]A2+; assigned
Total	550.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating for the bank facilities of RenewSys India Private Limited (RenewSys) considers its established presence as the fourth largest player in the domestic solar module manufacturing industry with an installed capacity of 750 mega-watts (MW). In addition, RenewSys is backward integrated into manufacturing of Ethylene Vinyl Acetate sheets (EVA) and Backsheet and Photovoltaics (PV) Cells, wherein it enjoys healthy market position in EVA and Backsheet market. ICRA notes that the company is undertaking a large debt-funded capex with planned capacity enhancement of 2 GW in PV modules, 19.3 million square metre (Msqm) in EVA and 8.4 Msqm in Backsheet, which will cement its market position further in the industry. The rating favourably considers its strong revenue growth (58% CAGR over FY2017-FY2020), followed by stable revenues in FY2021 pursuant to Covid-19 related disruptions. ICRA positively takes note of RenewSys's conservative capital structure and healthy debt metrics with gearing of 0.1 times, interest cover of 23.7 times, total debt /OPBITDA of 0.3 times in FY2021. Notwithstanding the ongoing capacity expansion that would result in some moderation in coverage indicators over the medium term, ICRA expects the credit profile to remain comfortable, supported by expansion in profits as the business scales up further.

Additionally, the rating factors in the favourable demand outlook for the domestic solar module manufacturers, driven by the strong policy thrust from the Government of India (GoI). The expected imposition of basic customs duty on imported solar PV cells and modules from April 2022, the continued requirement of procuring solar modules from suppliers included in the approved list of module manufacturers (ALMM), and the domestic content requirement (DCR) for public sector projects under PM KUSUM and CPSU schemes will support growth for the module manufacturing sector.

The rating, however, is constrained by RenewSys's profitability being susceptible to volatility in the price spread between PV modules and cells, other raw material prices (including polysilicon, aluminium, wafer, glass and copper) and foreign exchange fluctuations, as most of the raw material is imported and constitute a significant portion of its cost structure. ICRA notes that domestic module manufacturing sector is characterised by stiff competition and continues to attract new players, given the expected gradual transition in energy requirements from fossil fuel to renewable sources, with higher share towards the solar sector. Further, the domestic solar module manufacturing industry faces competition from imports that currently remain price advantageous. The favourable policy environment has supported the competitiveness of domestic industry and continuation of the same remain critical for encouraging domestic production. Moreover, there is continuous innovation on the product side in the global market and to keep abreast with the evolving technology, which necessitates continuous upgrade and investments in product development by the company. Also, ICRA notes that RenewSys offers product warranty for 10 years and performance warranty for 25 years, which exposes it to risks pertaining to any devolvement of warranties.

The Stable outlook reflects ICRA's expectation that RenewSys would be able to scale up its revenues, driven by commercialisation of new capacities within the expected timelines and the favourable outlook for domestic module manufacturers, while maintaining adequate profitability levels and healthy coverage and debt metrics.

Key rating drivers and their description

Credit strengths

Established presence in solar module manufacturing industry with backward integration – RenewSys is an established player in the manufacturing of PV cells, EVA, backsheet and solar modules with a current installed capacity of 750 MW translating into fourth largest market player in solar modules. The company enjoys an operational track record of over five years catering to Vikram Solar Ltd., Mundra Solar Pvt. Ltd. (Adani Group), Premier Energies Ltd. and Fourth Partner Energy Private Limited, which indicates its comfortable market position. RenewSys's manufacturing capacity of PV modules is planned to be increased by 2 GW by October 2022. Further, its operations are backward integrated with manufacturing capacities of 130 MW cells, 19.3 Msqm of EVA and 16.0 Msqm of Backsheet as on March 31, 2021 wherein it enjoys leadership position in EVA and Backsheet. Moreover, it is under the process of enhancing the EVA and Backsheet capacity to 38.7 Msqm and 24.4 Msqm respectively by October 2022, which would further strengthen its market position.

Favourable demand outlook for domestic module manufacturers – The demand outlook for the domestic solar module manufacturers remains favourable over the medium term. This is primarily driven by enhanced policy focus towards domestic manufacturing with likely imposition of basic customs duty (BCD) on imported cells and modules, the requirement of procuring solar modules from suppliers included in ALMM, which presently features only domestic suppliers. Additionally, introduction of DCR for all public sector projects under PM KUSUM and CPSU scheme, approved funding to incentivise solar rooftop installation and a strong project pipeline aggregating about 35-40 GW during the next three to five years from various schemes requiring the use of domestic modules augur well for the company. Further, the GoI imposed Anti-Dumping Duty (ADD) on EVA imported for modules from China, Malaysia, Thailand and Saudi Arabia in April 2019 for five years, which would enhance competitiveness of domestic companies including RenewSys.

Strong growth in scale and operating profits in recent years – RenewSys has registered a CAGR of around 40% in operating income (OI) over FY2017-FY2021. While the growth till FY2020 remained strong (58% CAGR), the momentum was arrested in FY2021 on account of the Covid-19 pandemic-induced lockdown resulting in loss of sales for nearly two months and slower project execution, which affected demand. Further, in H1 FY2022, RenewSys reported an OI of Rs. 550 crore (on a provisional basis), thus pointing towards the healthy growth trajectory for the current year. Considering the strong demand prospects and its planned capacity addition by October 2022, ICRA expects the company to register robust revenue growth in FY2023. Its operating profits improved to Rs. 110 crore in FY2021 (13.9% OPM) from Rs. 46.7 crore in FY2020 (5.8% OPM) compared to thin OPM during the previous two fiscals, driven by capacity expansion in December 2018, coupled with regulatory support in the form of ADD on EVAs since March 2019 and DCR in December 2019. Further, its profitability in FY2021 benefited from favourable cost savings initiatives undertaken by the company. ICRA expects RenewSys to report an operating profit margin of 9-11% over the medium term on the back of planned increase in scale, led by favourable demand prospects and Government support.

Healthy capital structure and coverage metrics – RenewSys reported a conservative capital structure with a gearing of 0.1 times as on March 31, 2021 owing to healthy equity infusion from promoters. Further, of the total debt outstanding of Rs. 34.5 crore as on March 31, 2021, Rs. 7.4 crore is unsecured loans from the promoters. Lower debt levels resulted in strong coverage metrics with interest cover of 23.7 times, total debt /OPBIDTA of 0.3 times, NCA/TD of 311% in FY2021. However, the company presently is undertaking debt-funded capacity expansion, which would result in some moderation in credit metrics, albeit remaining healthy, with gearing estimated around 0.3–0.6 times, total debt/OPBIDTA of 1.0-3.0 times and interest cover of 6-9 times over the medium term.

Credit challenges

Profitability exposed to fluctuations in raw material prices and foreign exchange rates – RenewSys’s profitability indicators remains susceptible to fluctuations in raw material prices such as polysilicon, aluminium, solar cells, wafer, glass and copper (accounting for 70-80% of the OI) that have risen sharply recently. However, the raw material prices are likely to remain range bound in the near term. Further, RenewSys maintains a smaller order backlog of ~45 days to mitigate the price risk, although it exposes the company to market risk due to significant dependence on imports from China and Korea for sourcing of cells. RenewSys is also vulnerable to any adverse movement in foreign exchange rates. However, the forex risk is primarily mitigated as most of the negotiations are done in dollar terms, with contingencies factored in the pricing.

Susceptible to intense competition and regulatory changes – The domestic solar module manufacturing industry faces competition from imports, considering the price advantage that the latter possess. While the Safe Guard Duty (SGD) on imports has ended on July 30, 2021, the implementation of BCD of 25% on cells and 40% on modules from April 01, 2022 is expected to shield the domestic module manufacturers against the imports to a large extent. Nonetheless, the risk of competition from imports persists during the nine months window till the implementation of BCD that may constrain revenue and profits. Moreover, given the significant policy push towards domestic manufacturing, the competition is likely to increase, as evident from capex plans by some of the larger players. Further, while the Government’s regulations, targets and policy currently support the industry, the company remains vulnerable to changes in policies and tariff barriers.

Risk of technological obsolescence necessitates continuous upgrade of products – The PV module industry including components such as cells is characterised by continuous product and process innovation, along with rapid adoption of new technology. Given the risk of technological obsolescence, the industry players are required to undertake continuous upgrades and related investments to sustain the competitive advantage.

Risk of devolvement of warranties on solar modules – The operations remain exposed to risks pertaining to any devolvement of warranties provided on the solar modules. It offers an average product warranty for 10 years and performance warranty for 25 years. However, the company creates a provision (on present values) for the same. The warranty claims has been nil till date, which assures on the quality of its products and services.

Liquidity position: Adequate

RenewSys’s liquidity is **adequate** with ~Rs. 27 crore of liquid cash and bank balance as on September 30, 2021 and likely healthy cash flow from operations in FY2022. Further, it has an average cushion in drawing power of around Rs. 70 crore over April-September 2021, however, the sanctioned working limits are Rs. 55 crore. ICRA expects RenewSys to comfortably meet its medium-term debt repayment obligations. Moreover, it is in the process of expanding its EVA/PV modules/Backsheet capacities at a total project cost of around Rs. 400 crore planned over FY2022-FY2023. The said capex in planned to be funded with bank debt of ~Rs. 300 crore that has already been tied up (with one-year moratorium and five-year repayment tenure) and the balance through internal accruals and promoter contribution (through equity/unsecured loans).

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to demonstrate significant scale up in revenues while maintaining healthy profitability levels, coupled with ongoing project implementation within the estimated timelines and project costs. Specific credit metrics that could trigger a rating upgrade is total debt/OPBIDTA below 2 times on a sustained basis.

Negative factors – Negative pressure on RenewSys’s rating could arise if the company is unable to scale up its operations and improve the profitability in a timely manner or if there is a reduction in the Government’s support or any significant time and cost overrun in the ongoing debt-funded capital expenditure. The company’s inability to maintain total debt/OPBIDTA below 2.6 times, on a sustained basis, could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2011, RenewSys is the first and only backward integrated manufacturer of PV modules and its key components namely encapsulants (Ethylene Vinyl Acetate (EVA) and Polyolefin Elastomer (POE), Backsheet and PV cells. It is a renewable arm of the Enpee Group, a conglomerate established five decades ago having presence in packaging solutions, construction products and services, FMCG (consumer packaged products), energy and chemicals. Currently, RenewSys is the fourth largest module manufacturing company in India with 750 MW of modules production capacity, which is planned to be increased by another 2 GW by October 2022. Further, its operations are backward integrated with manufacturing capacities of 130 MW cells, 19.3 Msqm of EVA and 16.0 Msqm of Backsheet. RenewSys has two existing manufacturing facilities in Hyderabad and Bengaluru and is in the process of setting up a new facility in Patalganga, Maharashtra with expanded modules line to further diversify geographically.

Key financial indicators (audited)

RenewSys Standalone	FY2020	FY2021
Operating Income (Rs. crore)	809.0	790.8
PAT (Rs. crore)	26.0	50.3
OPBDIT/OI (%)	5.8%	13.9%
PAT/OI (%)	3.2%	6.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.2
Total Debt/OPBDIT (times)	1.1	0.3
Interest Coverage (times)	5.8	23.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; OI: operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 08, 2021			
1	Fund- based working capital limits	Long Term	57.50	-	[ICRA]A- (Stable)	-	[ICRA]BB+ (Positive); Withdrawn	-
2	Term Loan	Long Term	60.00	0.00	[ICRA]A- (Stable)	-	[ICRA]BB+ (Positive); Withdrawn	-
3	Non-fund-based working capital limits	Short Term	94.50	-	[ICRA]A2+	-	[ICRA]A4+; Withdrawn	-
4	Unallocated bank facilities	Long Term/ Short Term	338.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]BB+ (Positive)/ [ICRA]A4+; Withdrawn	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based working capital limits	Simple
Term Loan	Simple
Non-fund-based working capital limits	Very Simple
Unallocated bank facilities	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No or Banker's Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
State Bank of India	Fund-based working capital limits	-	-	-	27.50	[ICRA]A-(Stable)
IndusInd Bank	Fund-based working capital limits	-	-	-	20.00	[ICRA]A-(Stable)
Federal Bank	Fund-based working capital limits	-	-	-	10.00	[ICRA]A-(Stable)
IndusInd Bank	Term Loan	July, 2021	8.0%-9.0%	FY2028	60.00	[ICRA]A-(Stable)
Federal Bank	Non-fund-based working capital limits	-	-	-	30.00	[ICRA]A2+
IndusInd Bank	Non-fund-based working capital limits				7.00	[ICRA]A2+
HDFC Bank	Non-fund-based working capital limits				57.50	[ICRA]A2+
NA	Unallocated bank facilities	-	-	-	338.00	[ICRA]A-(Stable)/ [ICRA]A2+

Source: Company

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

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Branches



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