November 03, 2022

Indutch Composites Technology Pvt. Ltd. : Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	35.84	35.84	[ICRA]A- (Stable); reaffirmed
Long-term Fund-based – Cash Credit	25.00	25.00	[ICRA]A- (Stable); reaffirmed
Short-term Non-fund Based	51.00	51.00	[ICRA]A2+; reaffirmed
Total	**111.84**	**111.84**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in the company's strong order book backed by off-take agreements with reputed clientele comprising global wind turbine players and the technical and funding support provided by these clients. In addition to the company's established relationships with wind turbine players, the ratings also factor in the extensive experience of ICTPL's founders in the composite based windmill blades manufacturing industry and the healthy demand outlook. The ratings further draw strength from ICTPL's strong parentage by virtue of being majorly owned by Munjal Auto Industries Limited (MAIL, rated [ICRA]AA-(Stable)/A1+).

The ratings are, however, constrained by the slower than expected ramp up of volumes owing to the elongated prototyping phase for ICTPL's recently commissioned facilities. The ratings thus factor in the significant execution commitments and the fact thatICTPL's ability to deliver desired quality as the operations scale up and avoid penalties remains critical. The ratings also consider the high segment risk with ICTPL deriving most of its revenues from single segment - windmill blades and allied products though, the end customers are geographically diversified. The company's operations are also dependent on a few clients as nearly 70-80% of the total revenue is currently generated from job-work operations for two clients. The client concentration risk, however, is expected to reduce with the ramp up of business from Enercon and Senvion.

The stable outlook on the ratings factor in favourable demand outlook for the wind energy sector and high strategic importance of ICTPL for the parent entity to drive the future revenue growth and profitability.

Key rating drivers and their description

Credit strengths

Strong parentage as a subsidiary of MAIL – ICTPL became MAIL's subsidiary in FY2019. ICTPL is of strategic importance to MAIL with healthy long-term growth expected in ICTPL's cash flows given the buoyant demand outlook and emergence of India as a preferred low cost manufacturing destination. The financially strong parentage is expected to help the company bid for bigger projects, negotiate better terms with lenders, as well as gain need-based financial support. Also, there is common directorship of non-independent directors between MAIL and ICTPL which indicates high reputation sensitivity for the parent company.

Extensive knowledge and sector relationship of founding directors; professional and technically qualified management – ICTPL's founders have significant experience in the composite industry, especially in the wind energy application. They enjoy established relationships with reputed wind turbine original equipment manufacturers (OEMs), which has resulted in repeat business and contract renewals. The current clientele includes reputed names such as Nordex, Enercon, Siemens Gamesha, LM Wind Power (a General Electric Group company), Senvion among others.

Reputed client base with strong commitment demonstrated through significant capital investments in the production facilities being operated by ICTPL – ICTPL's clients are reputed global wind majors planning to set up a cost effective manufacturing base in India as blade manufacturing is a highly technical, customised and labour-intensive process. The company has exclusive client wise facilities which can manufacture customised blades. Apart from its tooling facility in Vadodara, all the remaining five production facilities are assigned/allocated to one client. The clients have invested significantly in the plant and machinery with minimal assets owned by ICTPL, thus maintaining the asset light model though the lease is paid by ICTPL for the four plants. It also receives fixed cost reimbursements and mobilisation or working capital advances from its key clients. The company, thus, is primarily operating on an asset light model with a strong commitment from client end.

Healthy revenue visibility backed by offtake commitments from reputed clients; c**ompletion of Enercon facility mitigates project execution risks –** ICTPL has a healthy order book of Rs. 500-600 crore resulting from medium-to-long-term offtake agreements with its key clients such as Nordex, Enercon and Senvion India leading to healthy medium-term revenue visibility. Enercon's facility commenced operations in March 2022 and Senvion's facility in Trichy has also commenced operations in August 2022. The new facilities have almost completed the prototyping phase thus reducing project execution risk to some extent and are expected to witness a healthy ramp-up in H2 FY2023.

Credit challenges

Dependence on few customers; **ramp-up of Enercon facility and Senvion India to support client diversification –** ICTPL's customer concentration remains high with nearly ~70% of its revenues coming from job-work business for the Nordex Group and LM Windpower during FY2022. ICRA notes that these are reputed global wind turbine players and there are long term off-take arrangements with these clients which mitigates the risk to some extent. Further, with the commencement of Enercon facility and new business from Senvion India, the dependence on few clients is expected to reduce significantly over the medium term.

Timely execution of the significant commitment remains critical, given the presence of high penalty clauses for delays/defects – ICTPL's Enercon and Senvion facilities have commenced operations from March 2022 and August 2022, respectively. Across an expanded client base and capacity, the company's ability to deliver the desired quality and avoid penalties as the execution ramps up, is crucial. However, the company's track record of producing windmill blades at a large scale for global players, such as Nordex, as well as the presence of a strong parent, MAIL, provides comfort.

In Q1 FY2023, ICTPL was able to book only Rs. 72-crore revenues owing to the time taken for client approvals and the prototyping phase in the recently commenced Enercon facility. There were no penalties levied by Enercon during the prototyping phase. The revenue booking is expected to ramp up during the balance part of FY2023. Moreover, owing to initial commencement costs and lower revenue booking, ICTPL's margin and coverage indicators moderated in FY2022 and Q1 FY2023. With the expected ramp-up, the profitability as well as the coverage indicators are expected to witness improvement.

High segment concentration though buoyant demand outlook and favourable positioning of India as a low-cost destination augur well in long term – ICTPL's entire revenue, at present, is being derived from manufacturing windmill blades, moulds and allied products. Any slowdown in capacity addition in the wind energy sector can therefore impact offtake from the existing (and prospective) clientele. However, India is emerging as a low-cost destination as a windmill manufacturer. Moreover, ICTPL has a unique business model in which it offers exclusive production facilities to its clients, with offtake commitments which result in a competitive advantage.

Liquidity position: Adequate

ICTPL's liquidity profile remains **Adequate**. Although, the average utilisation of sanctioned bank limits remains high at 80-90 over the last six months ending in September 2022, the company is planning further enhancement in working capital limits in Q3 FY2023 by Rs. 20-30 crore to support the ramp-up of the new production facilities. Further, its liquidity is expected to be supported by the committed advances from customers. ICTPL's strong parentage is expected to provide financial support to the company, if need arises. While there are no major capex plans, the company has moderate annual bank debt repayment obligations of Rs. 6-10 crore for the next 2-3 years.

Rating sensitivities

Positive factors – Sustained scale up in operations and cash accruals will be considered favourably for a rating upgrade. Strengthening of operational and financial linkages with the parent or any further improvement in the credit profile of the parent company, could also trigger a rating revision.

Negative factors – The ratings could face downward pressure in case of significant weakening in the credit profile of its parent company, or if linkages with parent company weaken, or if ICTPL's credit metrics weaken significantly. Moreover, inability to manage performance/defect warranties, which exerts pressure on its credit metrics, may trigger a rating downgrade. Additionally, DSCR below 1.8 times, on a sustained basis, may result in downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit support from Parent or group
Parent/Group support	Yes, Munjal Auto Industries Limited which holds 68% in ICTPL
Consolidation/Standalone	Not Applicable

About the company

Established in 2010, ICTPL is an ISO 9001-certified manufacturer, exporter and trader of various composite products that find applications in sectors such as wind energy, railways, marine, industrial and aerospace. ICTPL primarily derives its revenues from manufacturing windmill blades and ancillary products for global players using composite based materials. At present, the company has six operational units including two in Vadodara (Gujarat), two in Chennai (Tamil Nadu), one in Nellore (A.P.) and one in Trichy (Tamil Nadu).

ICTPL has established its presence in East Europe, East Asia and North America and its clientele includes some of the world's largest windmill manufacturers –Nordex SE, Vestas, Enercon GmbH and Senvion amongst others. MAIL acquired 68% stake in ITCPL in Q1 FY2019 and became its holding company.

Key financial indicators (audited)

ICTPL	FY2021	FY2022
Operating income	140.7	209.1
PAT	-0.4	7.2
OPBDIT/OI	20.2%	17.6%
PAT/OI	-0.3%	3.5%
Total outside liabilities/Tangible net worth (times)	3.9	4.6
Total debt/OPBDIT (times)	3.3	2.4
Interest coverage (times)	2.8	3.7

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *unaudited; Total debt includes lease liabilities*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	Date & rating in FY2019
					Nov 03, 2022	March 31, 2022	July 05, 2021	June 19, 2020	-	Mar 01, 2019
1	Term Loans	Long-term	35.84	25.3	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
2	Cash Credit	Long-term	25.00		[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
3	Non fund based bank facilities	Short-term	51.00		[ICRA]A2+	[ICRA]A2+	[ICRA]A3+	[ICRA]A3+	-	[ICRA]A3+

&= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term – Fund Based – Cash Credit	Simple
Short-term – Non-Fund Based facilities	Very Simple

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 are available on ICRA’s website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Jan 2020	NA	FY2027	35.84	[ICRA]A- (Stable)
NA	Cash credit	Jan 2020	NA	-	25.00	[ICRA]A- (Stable)
NA	Non-fund Based Limits	Jan 2020	NA	-	51.00	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

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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.

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