

May 17, 2024

RenewSys India Private Limited: Long-term rating upgraded to [ICRA]A(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Cash credit	140.00	180.00	[ICRA]A(Stable) upgraded from [ICRA]A-(Stable)
Long term- Fund based - Term loan	373.06	250.00	[ICRA]A(Stable) upgraded from [ICRA]A-(Stable)
Short term - Non-fund based – Others	125.00	320.00	[ICRA]A2+ reaffirmed
Long term/Short term - Unallocated limits	111.94	0.00	-
Total	750.00	750.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade favourably factors in the healthy revenue growth of RenewSys India Private Limited (RenewSys) over the past few years. This growth trend is expected to be sustained over the medium term on the back of the recently concluded capacity expansion in module manufacturing, the proposed capacity expansion plans across all segments and a healthy order book position of ~Rs. 1,600 crore as of May 2024.

The ratings also factor in the favourable business outlook for domestic solar module manufacturers because of the policy thrust from the Government of India (GoI) and the strong project pipeline in the solar power sector. The operating profit margins expanded by 200 bps YoY to ~9.5% in FY2024 (provisional) and the margins are likely to improve further in the medium term owing to scale benefit.

The ratings continue to factor in the established presence of the company as one of the leading market players in the domestic solar module manufacturing industry. In addition, RenewSys is backward integrated into manufacturing encapsulants (EVA, POE, EPE) and backsheets and has a small capacity for photovoltaics (PV) cells. It enjoys a healthy market position in encapsulants and backsheets. ICRA notes that the company is undertaking debt-funded capex to enhance the capacity of PV modules by 1.5 GW and introduce an additional line of encapsulants to cement its market position in the industry.

ICRA takes note of the conservative capital structure and healthy debt metrics with interest cover of 7.8 times and total debt /OPBIDTA of 1.2 times in FY2024 (provisional numbers). Though the ongoing debt-funded capacity expansion would moderate the coverage indicators to some extent in the near term, ICRA expects the credit profile to remain comfortable as the scale-up in the business will ensure healthy profits and cash generation.

Additionally, the ratings factor in the measures, such as the imposition of basic customs duty (BCD) on imported solar PV cells and modules from April 2022, the anti-dumping duty (ADD) on EVA and backsheets, the domestic content requirement (DCR) for select projects and the requirement to procure modules from manufacturers listed in the Approved List of Module Manufacturers (ALMM) which currently enlists only domestic manufacturers, which will support the growth of the module manufacturing sector.

The ratings, however, remain constrained by RenewSys's profitability being susceptible to the 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 the domestic module manufacturing sector is characterised by high competitive intensity and continues to attract new players on the back of policy support to facilitate the transition towards green energy, keeping the profitability under check. Further, the domestic solar module manufacturing industry faces competition from imports, though a favourable policy environment encourages local production. Moreover, there is continuous innovation on the product side in the global market and the company needs to continuously upgrade and invest in product development to keep abreast of the evolving technology. Also, ICRA notes that RenewSys offers product warranty for 10 years and limited power output warranty for 25 years, which exposes it to risks pertaining to any devolvement of warranties, though there have been no such claims till date.

The Stable outlook reflects ICRA's expectation that RenewSys would be able to scale up its revenues, driven by a robust order book position and a favourable outlook for domestic module manufacturers, while maintaining healthy coverage indicators.

Key rating drivers and their description

Credit strengths

Established presence in solar module manufacturing industry with backward integration - RenewSys is an established player in manufacturing PV cells, encapsulants, backsheets and solar modules with a current installed capacity of 3.5 GW, making it one of the leading solar module manufacturers in India. The company has an operational track record of over a decade, catering to reputed market players, which indicates the quality of its products and its comfortable market position. RenewSys's operations are backward integrated with manufacturing capacities of 130-MW solar PV cells, 48.4 million square meter (msqm) of encapsulants and 20.0 msqm of backsheets as on March 31, 2024. Further, the company plans to increase the manufacturing capacity of PV modules by 1.5 GW by FY2026 and cell capacity by 350 MW, besides rolling out an additional line for encapsulants.

Favourable demand outlook for domestic module manufacturers to support revenue growth - The company reported an OI of Rs. 2,162.3 crore in FY2024, a YoY growth of 20%. The growth was supported by healthy demand and the company's capacity expansion projects. The established presence of the company along with its enhanced capacity is expected to benefit the business in the form of high-value orders from reputed market players in the short to medium term. The management plans to use a mix of tolling contracts and retail business, going forward, to ensure a balanced penetration for the company in the Indian market.

Further, the demand outlook for domestic solar module manufacturers remains favourable over the medium term, driven by enhanced policy focus towards domestic manufacturing with the imposition of BCD on imported cells and modules and other Government initiatives which will further improve the cost competitiveness of the local entities. Further, the requirement of procuring solar modules from suppliers included in ALMM, which features only domestic suppliers at present, augurs well for domestic manufacturers, including RenewSys.

Comfortable capital structure and coverage metrics - The company has maintained a healthy financial risk profile with a conservative capital structure with a gearing of 0.3 times and total debt/OPBITDA of 1.2 times as on March 31, 2024 owing to steady earnings and accretion to reserves. The debt coverage metrics also remained healthy with interest cover of 7.8 times and NCA/TD of 62.8% in FY2024 (provisional financials). The debt protection metrics should remain comfortable over the medium term with increase in earnings, despite a debt-funded capex of Rs. 375 crore over the 2025 and 2026 fiscals for capacity expansion across segments. The total debt to OPBDITA is expected to remain below 2 times in fiscals 2025 and 2026. The interest coverage ratio is expected to sustain above 8 times in FY2025.

Credit challenges

Profitability exposed to fluctuations in raw material prices and foreign exchange rates - RenewSys's profitability indicators remain susceptible to fluctuations in raw material prices such as polysilicon, aluminium, solar cells, wafer, glass and copper etc. that have remained volatile in the past as these contribute to a significant portion of the operating costs. Further, RenewSys maintains a smaller order backlog of ~90 days to mitigate the price and forex risk for most of its volumes, although

it exposes the company to the risks posed by Government regulations due to significant dependence on imports from China for the sourcing of cells. RenewSys is also vulnerable to any adverse movement in foreign exchange rates even as the company's sales price negotiations are in dollar terms factoring in some contingencies.

The operations remain exposed to risks pertaining to any devolvement of warranties on the supply of solar modules. However, the warranty claims have remained very minimal so far and are backed by insurance, which provides assurance on the quality of the company's products and services.

Susceptible to intense competition and regulatory changes- The company faces intense competition from Chinese imports, considering the latter's price advantage, resulting in moderate margin levels. The end of safeguard duty (SGD) on imports from July 2021 and the implementation of BCD of 25% on cells and 40% on modules from April 2022 have inhibited imports to an extent. Additionally, ethylene vinyl acetate (EVA) has been benefitting on account of ADD since March 2019 for a period of five years. Also, the reinstatement of the ALMM order for further five years with effect from April 01, 2024, will support the growth of the domestic module manufacturing sector. The significant policy push towards domestic manufacturing is likely to increase the competition, evident from the capex plans by some of the larger domestic players. Further, while the Government's regulations, targets and policies 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 the 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.

Liquidity position: Adequate

RenewSys's liquidity is adequate with ~Rs. 20 crore of free cash and bank balance as on March 31, 2024 and a healthy generation of cash accruals, which is likely to increase with the scale-up in business operations. The company has sufficient cushion available in its working capital limits, with an average utilisation of nearly 12% of fund-based working capital limits (total sanctioned limits of Rs. 180 crore) in the last 12 months. Though the company is undertaking debt-funded capacity expansion, ICRA expects it to comfortably meet its medium-term debt repayment obligations with healthy cash accruals.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to demonstrate a significant increase in scale and profitability margins on a sustained basis while maintaining healthy credit metrics.

Negative factors – Pressure on the ratings could arise if the company witnesses a sharp deterioration in its revenues and profitability that would weaken the debt coverage metrics. Further, any adverse regulatory changes or any significant increase in indebtedness may trigger a downward rating action. The company's inability to maintain total debt/OPBIDTA below 2.0 times, on a sustained basis, could also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Renewsys, incorporated in 2011, is a backward-integrated manufacturer of PV modules and its key components, such as encapsulants {ethylene vinyl acetate (EVA) and polyolefin elastomer (POE)}, backsheet and PV cells. It is a renewable energy arm of the Enpee Group, a conglomerate established nearly six decades ago with presence in packaging solutions, construction products and services, FMCG (consumer packaged products), energy and chemicals. RenewSys is one of the largest module manufacturing companies in India with 3.5-GW of module production capacity, which is planned to be increased to 5 GW by FY2026. Further, its operations are backward integrated with manufacturing capacities of 130-MW cells, 48.4 msqm of EVA and 20.0 msqm of backsheets (as on March 31, 2024). RenewSys has three manufacturing facilities in Hyderabad, Bengaluru and Patalganga, Maharashtra.

Key financial indicators (audited)

RIPL Standalone	FY2022	FY2023	FY2024*
Operating income	1194.4	1796.1	2162.3
PAT	48.0	46.1	95.3
OPBDIT/OI	8.8%	7.4%	9.5%
PAT/OI	4.0%	2.6%	4.4%
Total outside liabilities/Tangible net worth (times)	0.6	1.0	0.7
Total debt/OPBDIT (times)	1.7	2.4	1.2
Interest coverage (times)	11.3	5.2	7.8

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				May 17, 2024	-	Feb 28, 2023	Dec 08, 2021
1 Fund-based - Cash credit	Long term	180.0	-	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2 Fund-based - Term loans	Long term	250.0	230.2	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3 Non-fund based - Others	Short term	320.0	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
4 Unallocated limits	Long term and short term	0.00	-	-	-	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Long-term fund-based – Term loans	Simple
Non-fund based - Other	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	180.00	[ICRA]A(Stable)
NA	Term loans	FY22-FY23	NA	FY28-FY30	250.00	[ICRA]A(Stable)
NA	Non-fund based others	NA	NA	NA	320.00	[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:

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