July 31, 2024

Indutch Composites Technology Pvt. Ltd.: Ratings reaffirmed; rated amount enhanced; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	33.25	27.50	[ICRA]A- (Stable); reaffirmed; outlook revised to Stable from Negative
Long-term fund-based – Cash credit	50.00	70.00	[ICRA]A- (Stable); reaffirmed/assigned for enhanced amount; outlook revised to Stable from Negative
Short-term – Non-fund based	62.00	62.00	[ICRA]A2+; reaffirmed
Total	**145.25**	**159.50**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Stable from Negative on the long-term rating outstanding on Indutch Composite Technologies Private Limited (INDUTCH) factors in the healthy ramp-up of sales volumes and revival of profit margin in FY2024, along with expectations of healthy execution of its strong order book, backed by offtake agreements with a reputed clientele comprising global wind turbine players. The credit metrics are likely to improve in the medium term with DSCR of 1.4-1.6 times (1.1 times in FY2024) and interest coverage of 3-3.3 times (2.7 times in FY2024), driven by a healthy top line and absence of any large debt-funded capex. The ratings also factor in the extensive experience of INDUTCH's founders in the composite-based windmill blades manufacturing industry and favourable prospects for renewable energy in India. The ratings further draw strength from INDUTCH's strong parentage of Munjal Auto Industries Limited (MAIL; rated [ICRA]AA-(Stable)/ [ICRA]A1+).

The ratings are, however, constrained by the significant execution commitments. INDUTCH's ability to deliver desired quality as operations scale up and avoid penalties remains critical. The ratings also consider the high segment risk with INDUTCH deriving most of its revenues from a single segment, windmill blades and allied products, although the end-customers are geographically diversified. ICRA also notes that the working capital requirements for the company could go up in the near term due to changes in terms with Enercon Wind Energy Private Limited by October 2024. Hence, INDUTCH has increased its credit facility to manage the additional working capital requirements. The company's operations are also dependent on a few clients, with 75-80% of its total revenue in FY2024 being generated by its top five clients. The client concentration risk is, however, expected to reduce with addition of some new clients.

The Stable outlook on the long-term rating factors in the favourable demand outlook for the wind energy sector, INDUTCH's established relationships with a reputed customer base and strong order book position.

Key rating drivers and their description

Credit strengths

Strong parentage of MAIL – INDUTCH is of strategic importance to MAIL, with expected long-term diversification benefits to the consolidated profile of MAIL. The strong parentage is expected to help the company bid for bigger projects, provide healthy financial flexibility with lenders, as well as receive need-based financial support. Also, the non-independent directors are common between MAIL and INDUTCH.

Extensive experience of founding directors and a qualified management – INDUTCH founders have significant experience in the composite industry, especially in wind energy application. The founders have established relationships with reputed wind turbine original equipment manufacturers (OEMs), leading to repeat business and contract renewals. The current clientele includes reputed names such as Nordex India Private Limited (Nordex), Enercon Wind Energy Private Limited (Enercon), Senvion Wind Technology Pvt Ltd, LM Wind Power Blades (India) Private Ltd (a General Electric Group company), and Senvion Wind Technology Pvt Ltd, among others.

Reputed client base with established track record of operations – INDUTCH's clients are reputed global wind majors, who have 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 facilities for clients which manufacture customised blades according to their requirements. Apart from its tooling facility in Vadodara (Gujarat), the remaining four production facilities are assigned/allocated primarily to one client. The clients have invested significantly in the plant and machinery with minimal assets owned by INDUTCH, thus maintaining the asset-light model wherein INDUTCH pays the lease for all five manufacturing plants. It also receives fixed-cost reimbursements and mobilisation or working capital advances from its key clients.

Ramp-up of operations and healthy revenue visibility backed by orders – INDUTCH witnessed healthy ramp-up in revenues to reach Rs. 559 crore in FY2024 compared to Rs. 403 crore in FY2023 and Rs. 209 crore in FY2022. There has been healthy ramp-up of operations across customers and manufacturing plants. INDUTCH has a pending order book of more than Rs. 1,600 crore as of April 2024 to be executed over FY2025 and FY2026, which lends healthy medium-term revenue visibility.

Credit challenges

Erosion in net worth and moderate credit metrics – The net-worth base of INDUTCH eroded to Rs. 27 crore in FY2024 from Rs. 42 crore in FY2022, due to accumulated losses on account of substantial increase in fixed costs in FY2023 and loss from flood in FY2024. The operating profit margins (OPM) improved in FY2024; however, credit metrics remain moderate with DSCR of 1.1 times and interest coverage of 2.7 times. The credit metrics are expected to improve gradually on account of healthy profitability led by ramp-up in operations through the execution of the present order book.

High customer concentration risk – The customer concentration remains high, as 70-80% of the company's revenues was generated by its top five customers in FY2024 with Enercon constituting 25-30% of the total revenues. The dependence on a few clients is expected to reduce gradually over the medium term with the addition of new clients. Further, ICRA notes that the existing customers are reputed global wind turbine players with long-term offtake arrangements with them, mitigating the risk to some extent.

High product concentration risk – At present, INDUTCH's entire revenue is derived from manufacturing windmill blades, moulds and allied products. Any slowdown in capacity addition in the wind energy sector may impact offtake from the existing (and prospective) clientele. However, India is emerging as a cost-effective destination for windmill manufacturers. INDUTCH has a unique business model, which offers exclusive production facilities to its clients, with offtake commitments that give it a competitive advantage.

Liquidity position: Adequate

INDUTCH's liquidity profile remains adequate. The average utilisation of sanctioned bank limits remained at 60-70% over the last 15 months ending in June 2024, reflecting a buffer of Rs. 30 crore. The utilisation is expected to increase in the near term with change in terms from a key client; however, the company has already enhanced its limits from March 2024. The entity has repayment of Rs. 5-7 crore in FY2025-FY2027 and planned capex of Rs. 10 crore in FY2025, to be funded by term debt. The repayment is likely to be easily covered by cash accruals, going forward.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to consistently scale-up operations along with sustenance of healthy margins, leading to improvement in credit metrics and liquidity position. Any improvement in the credit profile of the parent could also trigger a rating upgrade.

Negative factors – The ratings could face pressure in case of significant decline in the top line or margins resulting in material weakening in the credit profile of ICTPL. Weakening of the parent's credit profile or linkages will also trigger a negative action. Moreover, inability to manage performance/defect warranties, which exerts pressure on its credit metrics, may trigger a downgrade. A specific credit metric for a downgrade is if DSCR is below 1.4 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	ICRA expects INDUTCH's parent, MAIL, to extend operational and financial support to INDUTCH, should there be a need.
Consolidation/Standalone	Standalone

About the company

INDUTCH, established in 2010, 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. INDUTCH primarily derives its revenues from manufacturing windmill blades and ancillary products for global players using composite-based materials. At present, the company has five operational units including two in Vadodara (Gujarat), Mappedu and Trichy (Tamil Nadu) and one in Sullurpeta (Andhra Pradesh). INDUTCH 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, LM Wind Power, Enercon and Senvion, among others. MAIL acquired a 68% stake in INDUTCH in FY2019 and became its holding company, while the balance stake is held mainly by INDUTCH's founding promoters.

Key financial indicators (audited)

INDUTCH Standalone	FY2023	FY2024
Operating income (Rs. crore)	402.8	559.4
PAT (Rs. crore)	-15.3	-2.1
OPBDIT/OI (%)	8.5%	13.0%
PAT/OI (%)	-3.8%	-0.4%
Total Outside Liabilities/Tangible Net Worth (times)	18.1	20.4
Total Debt/OPBDIT (times)	7.8	3.8
Interest Coverage (times)	1.3	2.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation,
Note: All financial ratios as per ICRA's calculation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	
				Jul 31, 2024	Feb 22, 2024	Jul 20, 2023	Nov 03, 2022	March 31, 2022	July 05, 2021
1	**Term Loans**	Long-term	27.50	**[ICRA]A- (Stable)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB (Stable)**
2	**Cash Credit**	Long-term	70.00	**[ICRA]A- (Stable)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB (Stable)**
3	**Non-fund-based bank facilities**	Short-term	62.00	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A3+**

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	March 2020	NA	March 2028	27.50	**[ICRA]A- (Stable)**
NA	**Cash credit**	NA	NA	NA	70.00	**[ICRA]A- (Stable)**
NA	**Non-fund based limits**	NA	NA	NA	62.00	**[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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