

Indutch Composites Technology Pvt. Ltd.

March 01, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based (Term Loan)	32.0	[ICRA]BBB(Stable); assigned
Fund-based Working Capital facilities	25.0	[ICRA]BBB(Stable); assigned
Non-fund based Working Capital facilities	17.0	[ICRA]A3+; assigned
Total	74.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings favourably factor in the extensive experience of the founders of Indutch Composites Technology Pvt. Ltd. (Indutch) in the fast-growing composite industry, the company's established relationships with its reputed clientele, and the strong parentage of Munjal Auto Industries Limited (MAIL, rated [ICRA]AA-(Stable)/[ICRA]A1+). Indutch manufactures composite parts, mainly for the wind energy sector, since the last few years. The founders have nearly three decades of experience in designing and developing composites for the wind turbine manufacturing companies and have established relationships with several global players in the industry. The company's scale of operations increased only modestly till FY2016. However, it entered a memorandum of understanding (MoU) with Acciona Windpower India Pvt. Ltd. (now merged with the Nordex Group at the parent level) in January 2017 to set up a facility in Chennai for the exclusive manufacturing of windmill blades on a job-work basis. This resulted in a healthy scale-up in operations over the last two years. MAIL's acquisition of a 68% stake in Indutch, in Q1 FY2019, is expected to further benefit the company's business and scale of operations as well as provide it access to necessary financial support. For MAIL, the investment in Indutch is expected to provide it entry into segments with long-term growth prospects. With a strong parentage, Indutch now plans to diversify into other sectors (like aerospace, mass transit and auto industry, among others) to generate steady revenues and scale up profitability. The company is setting up a large mould-manufacturing unit at Vadodara, Gujarat, which is unique in India. The new facility, expected to be operational in April 2019, has already attracted significant interest, especially of the original equipment manufacturers (OEMs) in the wind energy industry. This is expected to be the revenue and profit driver for the company in the near to medium term.

The ratings are, however, constrained by the company's small scale of operations, significant near-term debt-funded capex plans and customer concentration risk. ICRA notes that the company currently derives majority of its revenues by undertaking job work for the Nordex Group. Although Indutch has a committed offtake agreement with Nordex, which provides revenue visibility, it is expected to primarily remain dependent on the wind energy sector for the next one-two years. Any slowdown in capacity creation in the sector can therefore impact offtake from the existing (and prospective) clientele, which remains a key sensitivity. The company's ability to manage performance retention and defect warranties for the manufactured blades, as the operations scale up, also remains monitorable. While financial closure for the new mould unit is a positive, the capex size (which is significant compared to the existing scale of operations) exposes the company to execution and offtake risks. ICRA notes that with the mould unit operationalisation and the strong parentage, Indutch will have the capability to diversify into other sectors. However, its entry will be subject to the OEMs' design and manufacture acceptance and the prevalent Government policies for these sectors. Also, the company's working capital intensity of business is expected to increase with the diversification from job work to manufacture. This can impact its profitability and coverage metrics in the absence of a firm order book.

Going forward, the company's ability to quickly ramp up its capabilities for mould manufacture, realise early returns from investments, diversify its customer base and increase business from the existing clients (to consistently increase its scale of operations) will be the key rating sensitivities.

Outlook: Stable

ICRA expects Indutch to grow at a robust pace in the near term, benefitting from its strong parentage and established reputation among customers. The outlook may be revised to Positive if the company reports substantial growth in its revenues and improvement in its financial indicators, following timely commencement of its new unit. The outlook may be revised to Negative if the company's financial indicators decline significantly or there is deterioration in MAIL's credit profile.

Key rating drivers

Credit strengths

Strong parentage as subsidiary of MAIL - Indutch became MAIL's subsidiary in FY2019 and received a fresh equity infusion of Rs. 25 crore. 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.

Extensive knowledge and sector relationships of founders; reputed clientele - The company's founders have significant experience in the composite industry, especially in wind energy application. They have established relationships with reputed OEMs over the last eight years since the company's inception. The current clientele includes reputed players, like Nordex Group, Siemens Gamesa and **LM Wind Power Blades (a GE Group company)**, among others.

Mould manufacturing to benefit revenues and margins - The company is currently setting up a unique mould-manufacturing unit at Vadodara. Composite adoption in India is still in its nascent stages and the competition in wind energy component manufacturing is limited. Given the interest evinced by players from several industries, especially the wind turbine manufacturers, there exists a significant latent potential for Indutch's revenue and margin growth, following commencement of this project.

Strong growth expected in composite industry - At present, the use of composites is limited to select niche end-user industries due to high costs and limited know-how, especially in India. However, the Indian and global composite industry is expected to grow significantly in the medium term because of the increased application of composites in several industries (including wind energy, mass transit, defence, aerospace and automobiles).

Credit challenges

Small scale of operations; significant near-term debt-funded capex - Despite healthy growth in FY2018, the company has a small scale of operations with revenues of Rs. 46 crore in 9M FY2019. Also, the company is undertaking significant capex towards the mould-manufacturing unit set up. This is envisaged to be primarily funded through a recently sanctioned term loan of Rs. 31 crore. Though the financial closure is achieved, the project is significantly large against the current scale of operations. Hence, the company faces execution and offtake risks over the near to medium term.

Customer concentration risk; however, committed offtake provides comfort - Indutch currently generates nearly 80% of its revenues by manufacturing windmill blades on a job-work basis for the Nordex Group. Given the satisfactory relationship, the Group has entered into an agreement with Indutch for a committed offtake for a three-year period

(extendable), which provides comfort. Nonetheless, the termination of this agreement can not only impact Indutch's scale of operations but also expose it to significant damage liability. Going forward, the client concentration risk is expected to decrease with the company entering the large mould manufacturing business.

Segment concentration risk - The company currently derives almost its entire revenues from manufacturing windmill parts on a job-work basis. Indutch is, thus, dependent on the scale up of the wind energy industry in India and overseas for future offtake. Also, its diversification plans to supply to aerospace, mass transit and other sectors are yet to yield meaningful results.

Liquidity position

The company had marginal term debt of Rs. 40 lakhs on its books as on December 31, 2018. External commercial borrowings (ECBs) and unsecured loans from the promoter directors, outstanding as on March 31, 2018, were entirely paid-off through the equity proceeds received during the year. In terms of short-term borrowings, the interest-free deposits received (Rs. 6.22 crore as on March 31, 2018) were fully repaid in January 2019. The fresh equity infusion of Rs. 25 crore by MAIL and the healthy cash accruals (Rs. 4-5 crore) in 9M FY2019 have provided liquidity buffer to the company in FY2019; thus, the working capital utilisation levels have remained marginal. With the latest sanction received, Indutch has undrawn term loan of Rs. 31 crore and fund-based working capital limits of approximately Rs. 25 crore for funding set-up and ramp-up of the new unit in FY2020. ICRA expects internal accruals to increasingly become the company's major liquidity source over the medium term. The company would also enjoy significant financial flexibility, given its strong parentage.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Indutch is a 68% subsidiary of MAIL The ratings assigned to Indutch factor in the very high likelihood of its parent entity extending financial support to it because of its strategic importance. ICRA also expects the parent to be willing to extend financial support to Indutch out of the need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Established in 2010, Indutch is an ISO 9001 certified manufacturer, exporter and trader of various composite products in wind energy, railway, marine, industrial and aerospace applications. The company currently has three operational units (two at Vadodara (Halol and Manjusar) and one at Chennai) and primarily derives its revenues from the manufacturing of windmill blades and ancillary products. It is currently also setting up a mould-manufacturing facility at Waghodia, Vadodara. Indutch had initially tied up with Composite Technology Centre (Netherlands) as financial partners to set up the facilities; however, this association ended in FY2019. MAIL acquired a 68% stake in Indutch in Q1 FY2019 and became its holding company. Indutch has established its presence in East Europe, East Asia and North America and its clientele includes the world's largest windmill manufactures - Acciona Windpower (now merged with Nordex SE), LM Wind Power Blades and Siemens Gamesa.

Key financial indicators (audited)

	FY2017	FY2018	9M FY2019*
Operating Income (Rs. crore)	33.7	47.6	46.0
PAT (Rs. crore)	0.7	2.2	3.4
OPBDIT/OI (%)	5.5%	9.3%	10.8%
RoCE (%)	24.1%	32.9%	19.2%
Total Debt/TNW (times)	1.1	1.5	0.1
Total Debt/OPBDIT (times)	2.1	2.5	0.5
Interest Coverage (times)	2.9	4.2	10.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress);

* Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Mar 2019	Date & Rating in	Date & Rating in	Date & Rating in
					FY2018	FY2017	FY2016
1	Term Loans	32.0	0.28*	[ICRA]BBB (Stable)	--	--	--
2	Cash Credit	25.0	-	[ICRA]BBB (Stable)	--	--	--
3	Non-fund Based Limits	17.0	-	[ICRA]A3+	--	--	--

*Rs. 31-crore loan has been recently sanctioned and is yet to be drawn

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	Term Loan-1	16-Feb-19	NA	31-Mar-19	1.0*	[ICRA]BBB(Stable)
NA	Term Loan-2	16-Feb-19	NA	31-Mar-27	31.0	[ICRA]BBB(Stable)
NA	Cash Credit	16-Feb-19	NA	--	25.0	[ICRA]BBB(Stable)
NA	Non-fund Based Limits	16-Feb-19	NA	--	17.0	[ICRA]A3+

*Residual loan

Source: Indutch

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

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