

April 07, 2022

Flender Drives Private Limited: [ICRA]BB+(Stable)/[ICRA]A4+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	30.00	[ICRA]BB+(Stable); assigned
Working Capital Term Loan	258.00	[ICRA]A4+; assigned
Letter of Credit	20.00	[ICRA]A4+; assigned
Bank Guarantee	14.00	[ICRA]A4+; assigned
Unallocated Limits	28.00	[ICRA]BB+(Stable)/[ICRA]A4+; assigned
Total	350.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings take into account Flender Drives Private Limited's (FDPL)'s weak financial profile, characterized by operating losses in H1 FY2022, high working capital intensity and moderate coverage metrics. FDPL was impacted in H1 FY2022 by the steep cost inflation including increase in raw material and freight expenses, and inability to pass on the same entirely. Further, it is expected to post operating losses for FY2022. The company also had relatively high working capital intensity of 32% (NWC/OI) in FY2021. Cash losses and dependence of working capital borrowings had moderated FDPL's coverage metrics for H1 FY2022. The company derived over 75% of its revenue from the wind-power segment, exposing its top line to any slowdown in the sector. Further, the company's customer concentration is high with the top five clients constituting 47% of the revenues for the period Oct '20 – Sep '21.

The parent, Flender GmbH, is an established player in the global wind gearbox market and reported a turnover of around \$2.6 billion in the period Oct '20 – Sep '21. FDPL receives operational support from the parent in the form of R&D, manufacturing processes/design and customer sourcing. Also, FDPL is an important part of the parent's supply chain and its criticality is likely to increase because of the parent's China + 1 strategy. The parent has also infused Rs. 560 crore equity in FY2021 to fund FDPL's takeover of Siemens Limited's mechanical drives/gearbox business. Further, it has extended ~Rs. 290 crore ECB loans in FY2022 to fund FDPL's cash losses, working capital and capex requirements in FY2022. However, ICRA notes that the parent's debt metrics deteriorated following a leveraged buyout transaction to acquire the Flender GmbH in March 2021. As the parent is instrumental for FDPL's operations, any further weakening of the parent's credit profile would impact FDPL's growth prospects and overall credit profile.

Going forward, the Flender Group is focused on building capacity in India on account of cost advantages compared to existing manufacturing facilities. FDPL is expected to gain a larger share of the group's business going forward and the same is reflected in the three-fold increase in FDPL's revenues from Rs. 661.6 crore in the period Oct '19 – Sep '20 to around Rs. 2100 crore in the period Oct '21 – Sep '22 – based on the existing order book. Further, FDPL's margins are likely to improve from FY2023 with scale improvement and anticipated price revisions contributing to better overhead absorption. The company's cost structure is likely to benefit from increase in value addition and higher localisation of critical components, which are currently being imported from the parent in Germany. However, the extent of improvement and cost passthrough remains to be seen. In addition to susceptibility to raw material and other cost increases, FDPL's margins also remain vulnerable to any adverse forex movements. The company has a relatively high capex plan of ~Rs. 650 crore outlined for FY2023-FY2025, predominantly for capacity enhancements and backward integration. However, ICRA draws comfort from the fact that it is expected to

primarily funded through ECBs from the parent with no repayment obligations at least till FY2025. ICRA also expects FDPL's parent, Flender GmbH, to be willing to extend timely and adequate financial support to FDPL, as and when required.

Key rating drivers and their description

Credit strengths

Operational and financial support from the parent, Flender GmbH - FDPL receives operational support from the parent in the form of R&D, manufacturing processes/design, etc., for which it pays a royalty of 3% of its revenues. Customer sourcing is also largely done by the parent. The parent holds 100% stake in the company and has infused Rs. 560 crore equity in FY2021 to fund FDPL's takeover of Siemens Limited's mechanical drives/gearbox business. Further, it has extended ~Rs. 290 crore ECB loans in FY2022 to fund FDPL's cash losses, working capital and capex requirements in FY2022 and is expected to extend further ECB loans to fund the FDPL's capex programme of ~Rs. 650 crore over FY2023-FY2025. We expect FDPL's parent, Flender GmbH, to be willing to extend timely and adequate financial support to FDPL, as and when required.

FDPL is a critical entity in the global supply chain for its parent – Flender GmbH is an established player in the global wind gearbox market and reported a turnover of around \$2.6 billion in FY2021 (Oct '20 – Sep '21). FDPL is an important part of the parent's supply chain and its criticality is likely to increase because of the parent's China+1 strategy. Going forward, the Flender Group is focused on building capacity in India on account of cost advantages compared to existing manufacturing facilities. FDPL is expected to gain a larger share of the group's business going forward and the same is reflected in the three-fold increase in FDPL's revenues from Rs. 661.6 crore in the period Oct '19 – Sep '20) to around Rs. 2100 crore in the period Oct '21 – Sep '22 – based on the existing order book

Credit challenges

Weak operating performance and high working capital intensity – FDPL reported operating losses in H1 FY2022 and is expected to post operating losses for FY2022 due to steep cost inflation including increase in raw material and freight expenses during the year, and inability to pass on the same entirely. FDPL's margins are likely to improve from FY2023 with scale improvement and anticipated price revisions contributing to better overhead absorption. Further, the anticipated, increase in value addition and higher localisation of critical components, which are currently being imported from the parent in Germany, are likely to benefit the company's cost structure. However, the extent of improvement and passthrough remains to be seen. In addition to susceptibility to raw materials and other cost increases, FDPL's margins also remain vulnerable to any adverse forex movements. The company also relatively working capital intensity of of 32% (NWC/OI). The company has moderate coverage metrics by virtue of its weak accruals and its working capital borrowings.

High segment and customer concentration risks – The company derives over 75% of its revenue from the wind-power segment, exposing its top line to any slowdown in the sector. The company's customer concentration continues remain high with the top five clients constituting 47% of the revenues for the period Oct '20 – Sep '21. However, the parent's long-standing relationships with key wind turbine manufacturers, criticality of FDPL in the end-customer supply chain, healthy client additions in the recent past and low churn rates of the existing customers mitigate the risk to an extent.

Relatively high capex for FY2023 to FY2025 – The company has a relatively high capex plan of ~Rs. 650 crore outlined for FY2023-FY2025, predominantly for capacity enhancements and backward integration. However, ICRA draws comfort from the fact that it is expected to primarily funded through ECBs from the parent with no repayment obligations at least till FY2025.

Liquidity position: Adequate

FDPL's liquidity is expected to remain adequate with moderate fund based working capital utilization of 41% of its sanctioned limits in the 12-month period ended February 2022. FDPL had cash and liquid investments of over Rs. 25.5 crore as on February 28, 2022 and Rs. 30 crore of undrawn term loans as on the same date. As against these sources of cash, FDPL has sizeable capex plans of ~Rs. 650 crore over the next three years, expected to be funded entirely through ECB loans from the parent, Flender GmbH, beyond FDPL's internal accruals. The company does not have any repayments at least till FY2025. ICRA expects the parent to extend timely and adequate financial support to FDPL, as and when required.

Rating sensitivities

Positive factors – ICRA could upgrade FDPL's ratings a) if the company achieves material improvement in its profit margins and debt metrics, and b) upon strengthening of the credit profile of the parent, Flender GmbH.

Negative factors – The ratings may be downgraded if there is a deterioration in the credit profile of the parent or in the absence of timely and adequate support by the parent, Flender GmbH. Further, negative pressure on the rating could emerge with sharp deterioration in FDPL's earnings or significant rise in debt, resulting in moderation of debt coverage metrics.

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	Parent Company: Flender GmbH We expect FDPL's parent, Flender GmbH, to be willing to extend financial timely and adequate support to FDPL, whenever there is a need.
Consolidation/Standalone	Standalone

About the company

FDPL was incorporated in August 2020 and bought out the mechanical drives/gearbox business from Siemens Limited on January 01, 2021. It is a wholly owned Indian subsidiary of Flender GmbH, Germany, which is indirectly held by the Carlyle Group. Exports accounted for 64% of FDPL's revenues for the period Oct '20 – Sep '21. In terms of business segment, wind power contributed to 78% of FDPL's topline during the 12-month period ended Sep '21, while industrial Segment contributed to the remaining. The company has manufacturing facilities at Chennai and Kharagpur with a capacity to manufacture 1,400 gearboxes for the wind segment and 1,200 gearboxes for the industrial segment.

Key financial indicators (audited)

	FY2020	FY2021*
Operating Income (Rs. crore)	--	209.2
PAT (Rs. crore)	--	15.8
OPBDIT/OI (%)	--	15.8%
PAT/OI (%)	--	7.6%
Total Outside Liabilities/Tangible Net Worth (times)	--	0.6
Total Debt/OPBDIT (times)	--	0.0
Interest Coverage (times)	--	439.4

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

Note: Amount in Rs. crore; All calculations are as per ICRA research; FDPL started operations in January 2021.

Source: Company, ICRA Research

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)	Date & Rating in	Date & Rating in		
						FY2021	FY2020	FY2019
					Apr 07, 2022	-	-	-
1	Term Loans	Long-term	30.00	0.0	[ICRA]BB+(Stable)	-	-	-
2	Working Capital Term Loan	Short-term	258.00	-	[ICRA]A4+	-	-	-
3	Letter of Credit	Short-term	20.00	-	[ICRA]A4+	-	-	-
4	Bank Guarantee	Short-term	14.00	-	[ICRA]A4+	-	-	-
5	Unallocated Limits	Long-term and short-term	28.00	-	[ICRA]BB+(Stable)/[ICRA]A4+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Working Capital Term Loan	Very Simple
Letter of Credit	Very Simple
Bank Guarantee	Very Simple
Unallocated Limits	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 analyzing 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.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Term Loans	NA	NA	-	30.0	[ICRA]BB+(Stable)
-	Working Capital Term Loan	NA	NA	-	258.0	[ICRA]A4+
-	Letter of Credit	NA	NA	-	20.0	[ICRA]A4+
-	Bank Guarantee	NA	NA	-	14.0	[ICRA]A4+
-	Unallocated Limits	NA	NA	-	28.0	[ICRA]BB+ (Stable)/[ICRA]A4+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Source: Company

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About ICRA Limited:

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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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