July 20, 2023

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

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	33.25	[ICRA]A- (Negative); Ratings reaffirmed; outlook revised to Negative from Stable
Long-term Fund-based – Cash Credit	25.00	50.00	[ICRA]A- (Negative); Ratings reaffirmed/assigned; outlook revised to Negative from Stable
Short-term Non-fund Based	51.00	62.00	[ICRA]A2+; Ratings reaffirmed/assigned
Total	**111.84**	**145.25**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in rating outlook factors in the slower than expected ramp up of volumes in Indutch Composite Technologies Private Limited's (ICTPL) Enercon and Senvion facilities resulting in lower-than-expected operating margins and consequent weak coverage metrics in FY2023. ICRA, however, expects a recovery in gearing and coverage indicators, whose pace will be crucial. Also, there could be sizeable increase in funding requirements for the Enercon business with expected conclusion of the escrow facility. Thus, the company needs to generate adequate accruals to improve its cash flow and coverage metrics, and the same will be monitorable. Further, the ratings factor in the significant execution commitments and the fact that ICTPL's ability to deliver desired quality as operations scale up and avoid penalties remains critical. The ratings also consider the high segment risk with ICTPL deriving most of its revenues from a single segment—windmill blades and allied products; although the end-customers are geographically diversified. The company's operations are also dependent on a few clients, with 60-70% of its total revenue FY2023 being generated by its two clients, Nordex and LM Wind Power. The client concentration risk, however, is expected to reduce with the ramp up of business from Enercon and Senvion.

The ratings, however, take comfort from 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+).

Key rating drivers and their description

Credit strengths

Strong parentage as a subsidiary of MAIL – ICTPL is of strategic importance to MAIL with healthy long-term growth expected in ICTPL's cash flows given the buoyant demand outlook and the 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 a common directorship of non-independent directors between MAIL and ICTPL, which indicates high reputation sensitivity for the parent company.

Extensive experience 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 Gamesa, LM Wind Power (a General Electric Group company), and Senvion, among others.

Reputed client base with strong commitment demonstrated through significant capital investments in production facilities operated by ICTPL – ICTPL's clients are reputed global wind majors, which 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 (Gujarat), 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 wherein ICTPL pays the lease for the four plants. It also receives fixed-cost reimbursements and mobilisation or working capital advances from its key clients. The company, thus, primarily operates on an asset-light model with a strong commitment from the client end.

Good revenue visibility backed by offtake commitments from reputed clients – ICTPL witnessed 93% growth in revenues to reach Rs. 403 crore in FY2023; though the revenue growth was lower than ICRA's expectation due to slower than expected ramp-up in Enercon and Senvion facilities. In early FY2024, Nordex has taken back control of production in the Vengal (Chennai) plant from ICTPL following a strategic change and also discontinued one mould in the Mappedu (Chennai) plant owing to phase out of the demand for blades associated with this mould's specifications, which will impact ICTPL's revenues from Nordex this year. However, in FY2024, the company expects the installation of a new mould in both the Enercon plant and Nordex's Mapeddu plant as well as a healthy order book for moulds. Thus, ICTPL has a healthy order book of Rs. 660 crore for FY2024 backed by medium-to-long-term blade offtake agreements leading to healthy medium-term revenue visibility. Hence, the ramp-up in Enercon and Senvion facilities is critical to make up for the lower than anticipated business with Nordex.

Credit challenges

Slower than anticipated ramp-up of new facilities impacted margin profile and coverage metrics in FY2023; improvement in the same remains monitorable – The company witnessed a sharp decline in OPM to 8.3% in FY2023 from 16.9% in FY2022 owing to increased employee costs and sizeable tooling costs for Enercon and Senvion facilities, which are in the process of ramp-up and yet to break-even. Further, there was delay in revenue booking owing to delay in client inspection and approvals. Due to the increase in lease liabilities and working capital limit utilisation from cash losses in new plants, the gearing and Total Debt/OPBITDA increased to 9.3 times (PY: 2.0 times) and 7.9 times (PY:2.5 times), respectively, as on March 2023 end. Adjusting for Ind-AS 116 lease liabilities, gearing stood at 1.6 times; however, TD/OPBITDA was weaker at 15.1 times. Going forward, with the ramp-up of these plants, the OPM and accruals are expected to improve with TD/OPBITDA at ~3.0-3.2 times and DSCR at 1.5-1.7 times on an adjusted basis. However, the funding requirements could increase significantly in FY2025 with maturity of escrow arrangement with Enercon after the completion of a 300-blade order. Thus, pace of performance improvement remains a key rating monitorable.

Current dependence on few customers due to delays in ramp-up of Enercon and Senvion facilities – ICTPL's customer concentration remains high with 60-70% of its revenues coming from job-work business for the Nordex Group and LM Windpower during FY2023. The improvement in client diversification was slower than anticipated owing to a slower ramp-up in business from its new clients, Enercon and Senvion. Further, with the commencement of the Enercon facility and new business from Senvion India, the dependence on a few clients is expected to reduce significantly over the medium term. Further, ICRA notes that these are reputed global wind turbine players and there are long-term off-take arrangements with them, which mitigates the risk to some extent.

High segment concentration risk; but buoyant demand outlook for wind energy and favourable positioning of India as low-cost destination augur well for the ICTPL in the 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, which offers exclusive production facilities to its clients, with off-take commitments that 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 May 2023, the utilisation is expected to come down owing to healthy growth in accruals with the ramp-up of the new production facilities. Also, the company will take further enhancement in working capital limits to support the ramp-up of the new production facilities. ICRA also notes that its working capital requirements are currently supported by the committed advances from customers; however, the company would need additional WC limits when customers take away funding support once the plants ramp up. ICTPL's strong parent is expected to provide financial support to the company, if the need arises, as it has also done in the past. 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 – The outlook would be revised to Stable if the company is able to demonstrate a consistent scale up in operations along with recovery in cash accruals. Any 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 ICTPL and/ or its parent company, or if linkages with the parent company weaken. Moreover, inability to manage performance/defect warranties, which exerts pressure on its credit metrics, may trigger a rating downgrade. Additionally, DSCR below 1.4 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
Parent/Group support	Munjal Auto Industries Limited 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 (Andhra Pradesh) 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, among others. MAIL acquired 68% stake in ITCPL in Q1 FY2019 and became its holding company, while the balance stake is held mainly by ICTPL's founding promoters..

Key financial indicators (audited)

	FY2021	FY2022	FY2023
Operating Income (Rs. crore)	140.7	209.1	402.8
PAT (Rs. crore)	-0.4	5.6	-15.3
OPBDIT/OI (%)	20.2%	16.9%	8.3%
PAT/OI (%)	-0.3%	2.7%	-3.8%
Total Outside Liabilities/Tangible Net Worth (times)	3.9	4.6	18.1
Total Debt/OPBDIT (times)	3.3	2.5	7.9
Interest Coverage (times)	2.8	3.5	1.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Jul 20, 2023	Nov 03, 2022	March 31, 2022	July 05, 2021	June 19, 2020	-
1	Term Loans	Long-term	33.25	24.10	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2	Cash Credit	Long-term	50.00	-	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
3	Non-fund-based bank facilities	Short-term	62.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A3+	[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 Loan**	Jan 2020	NA	FY2027	33.25	[ICRA]A- (Negative)
NA	**Cash credit**	Jan 2020	NA	-	50.00	[ICRA]A- (Negative)
NA	**Non-fund Based Limits**	Jan 2020	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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