

May 05, 2020

## Waaree Energies Limited: Update

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based working capital limits	75.00	75.00	[ICRA] BBB- (Stable); rating outstanding
Non-Fund Based limits	125.00	125.00	[ICRA]A3; rating outstanding
<b>Total</b>	<b>200.00</b>	<b>200.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating continues to factor in Waaree Energies Limited (WEL's) long track record and established market position in the solar photovoltaic (PV) module manufacturing space and its improved production and sales for past three fiscals ended March 2020. The ratings also take into consideration the favourable demand outlook for solar PV modules from utility scale projects as well as from industrial and commercial consumers, given that the tariff competitiveness of solar power has improved significantly in comparison to other power generation sources. In addition, the policy initiatives to encourage the use of domestically manufactured solar modules would remain a growth driver for WEL. Also, ICRA factors in WEL's healthy order book position which provides revenue visibility over the medium term. Nonetheless, the prevailing lockdown imposed in India to control the outbreak of Covid-19 pandemic is expected to have an impact on the company's production and sales in Q1 FY 2021, given the disruption in supply chain and operations. The extent of normalcy in business operations post lockdown and the company's ability to supply /execute the orders within the budgeted costs remains key monitorables from the rating perspective. However, ICRA notes that the company has a sufficient liquidity buffer in the form of cash balances and undrawn working capital limits to meet the fixed costs and debt obligations in Q1 FY2021.

ICRA also takes a note of WEL's proposed plan of undertaking a sizeable capital expenditure for a 500MW manufacturing facility of solar PV cells and modules, as part of the tender won by the JV partner namely Azure Power Global Ltd (Azure) recently. The company intends to set up the project for the manufacturing facility through a special purpose vehicle (SPV); which would be held by WEL (74%) and Azure (26%) and the expected timelines for the completion of project is 18 months post signing of manufacturing contract agreement (MCA). MCA has however not been signed yet and given the lockdown to prevent the outbreak of Covid-19 in India, signing of MCA has been further delayed. The total project cost is estimated to be around Rs 450 crore and is expected to be funded by debt to equity of 2.6:1, which would result in equity requirement of Rs 93 crore for WEL; the financial closure for the project is pending. The quantum of debt raised by WEL to fund this project and its impact on WEL's capital structure would remain a key rating trigger. Also, ICRA will monitor the progress on the project including funding tie-up as well as on requisite approvals including signing of MCA.

The ratings further continue to be constrained by the intense competition in the solar PV module manufacturing business domestic as well as from global solar PV module manufacturers, especially China. The company's profitability also remains vulnerable to movement in the spread between prices of solar cells and solar modules, given that solar cells are mostly imported and constitute a major portion of the company's cost structure. Moreover, WEL's profitability remains exposed to variations in foreign exchange rates as a major proportion of its modules are sold within India and solar cells are mainly imported. ICRA further notes that any increase in unrelated/non-core investments towards the Group entities will be a key rating sensitivity from a credit perspective.

## Key rating drivers and their description

### Credit strengths

**Established presence in solar module-manufacturing industry** – WEL is an established player in the solar module-manufacturing sector with experience of over a decade. The company has an installed capacity of 1,500 MW at present.

**Improvement in production and sales in past three fiscals ended March 2020** – The module production and sales level of WEL increased have increased in past three fiscals through FY2020, primarily driven by an increase in the number of biddings conducted by states/counterparties viz. discoms, SECI, NTPC, etc. A major increase in export orders also provided support. The realisations of modules continued to decline, whereas the turnover continued to increase, primarily because of a rise in the volumes of modules installed.

**Healthy order-book position** – The order book of the company has remained healthy over the last few years because of significant amount of solar capacities auctioned by the Government. Over the last couple of years, WEL's international sales have increased, mostly in Europe and Vietnam. However, sustenance of such sales in the export markets remains to be seen.

**Favourable long-term demand outlook for solar power modules** – The demand outlook for the solar power sector remains favourable in the long run aided by various state and Central Government initiatives and increase in cost competitiveness in comparison to other power sources. In addition, the Government's thrust and policy initiatives to encourage domestic manufacturing of solar modules would remain a growth driver for WEL. The imposition of safeguard duty on imported modules would continue until July 2020 and is likely to benefit domestic module manufacturers to some extent. The clarity on continuity of safeguard duty beyond July 2020 is still pending. Additionally, the Government has approved schemes such as KUSUM and CPSU Scheme II, which focus upon utilisation of domestically manufactured modules and provide near-to-medium term demand visibility for players such as WEL.

### Credit challenges

**Profitability remains vulnerable to variation in prices of solar cells and foreign exchange rate** – As solar cells comprise a major portion of the company's procurements, its profitability is vulnerable to movement in the spread between prices of solar cells and solar modules. Moreover, as most of the solar cells are imported, the profitability remains exposed to movements in foreign exchange. However, this risk is mitigated to a certain extent by management's hedging policy.

**Intense competition in solar module space** – The company faces intense competition in the solar module space from other domestic manufacturers and international players, primarily those based out of China. In fact, solar module imports from China comprise ~90% of India's domestic requirements.

**Lockdown imposed to control Covid-19 pandemic would have an adverse impact on production and sales in FY 2021** – The prevailing lockdown imposed in India to control the outbreak of Covid-19 pandemic is expected to have an impact on the company's production and sales in Q1 FY 2021, given the disruption in supply chain and operations. The extent of normalcy in business operations post lockdown and the company's ability to supply /execute the orders within the budgeted costs remains key monitorables from the rating perspective. Nonetheless, ICRA notes that the company has a sufficient liquidity buffer in the form of cash balances and undrawn working capital limits to meet the fixed costs and debt obligations in Q1 FY2021.

## Liquidity position: Adequate

Liquidity is expected to remain adequate supported by comfortable cash and bank balance and adequate buffer in working capital limits. While the lockdown to prevent the outbreak of Covid-19 in India could adversely impact the cash flow in the near term, the liquidity is expected to be supported by the presence of undrawn working capital line of around Rs. 50 crore and comfortable cash and bank balance of around Rs 48.2 crore as on March 31, 2020 (provisional figures) against repayment obligation of Rs 15.75 crore and fixed overheads of around Rs 24 crore in Q1 FY2021.

## Rating sensitivities

**Positive triggers:** The ratings could be upgraded in case of significant improvement in scale of operations along with sustained improvement in profitability.

**Negative triggers:** The ratings could be downgraded if debt funding for the proposed capex for manufacturing facility of solar PV cells/ modules with Azure Group affects the company's capital structure, or any sizeable decline in scale of operations affects company's profitability. Also, any further investments in non-core assets and delay in monetisation of the same will have a negative impact on company's rating.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	-
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the standalone financials of WEL

## About the company

WEL was incorporated in 2007 and manufactures solar PV modules at its manufacturing facility at Surat, Gujarat. Initially, the company started with trading of solar PV modules and later added its own capacity in a phased manner. At present, the company has manufacturing capabilities of 1,500 MW spread across two locations in Gujarat. Apart from the sale and manufacture of PV modules, the company performs engineering, procurement and construction (EPC) for solar power plants. Besides trading PV modules, the company deals in other solar-related products viz. solar lights, solar water heaters, solar water pumps, etc.

## Key financial indicators (Standalone) (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1277.3	1604.6
PAT (Rs. crore)	25.3	38.0
OPBDIT/OI (%)	4.5%	5.6%
RoCE (%)	16.2%	22.0%
Total Debt/TNW (times)	1.18	0.40
Total Debt/OPBDITA (times)	4.60	1.17
Interest Coverage (times)	3.12	2.92

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

Instrument	Type	Current Rating (FY2021)		Date & Rating May 05, 2020	Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2020	Date & Rating in FY2019		
					July 19, 2019	August 09, 2018	April 26, 2018	
1	Cash Credit	Long Term	75.0	75.0	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)
2	Non-Fund Based Limits	Short Term	125.0	125.0	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+

**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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	75.0	[ICRA]BBB- (Stable)
NA	Non-Fund Based Limits	-	-	-	125.0	[ICRA]A3

Source: WEL

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

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