

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

August 03, 2021 | Mumbai

Inox Wind Limited

Ratings downgraded to 'CRISIL BBB/Stable/CRISIL A3+'; NCD reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.2500 Crore
Long Term Rating	CRISIL BBB/Stable (Downgraded from 'CRISIL BBB+/Stable')
Short Term Rating	CRISIL A3+ (Downgraded from 'CRISIL A2')

Rs.199 Crore Non Convertible Debentures	CRISIL AA (CE) /Negative (Reaffirmed)
Rs.200 Crore Commercial Paper	CRISIL A3+ (Downgraded from 'CRISIL A2')

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has downgraded its ratings on the bank loan facilities and commercial paper programme of Inox Wind Limited (IWL) to '**CRISIL BBB/Stable/CRISIL A3+**' from '**CRISIL BBB+/Stable/CRISIL A2**'. CRISIL Ratings has reaffirmed the rating on the non-convertible debentures (NCDs) of IWL at '**CRISIL AA(CE)/Negative**'.

The rating action was mainly on account of weakening of the credit risk profile driven by a sustained weak operating performance. The performance was earlier expected to improve in fiscal 2021 given the healthy order book. However, operating income declined by 6% to Rs 718 crore in fiscal 2021 from Rs 767 crore in the previous fiscal due to lower execution primarily because of the impact of the COVID 19 pandemic. Operating margin was also impacted as IWL sold the stuck inventory at lower prices. Operating profits were also impacted by provision on debtors of Rs 95 crore in fiscal 2021. Consequently the company reported operating losses of Rs 64 crore in fiscal 2021 against operating profits of Rs 67 crore in fiscal 2020.

Company's operating performance is expected to remain impacted in the first quarter of fiscal 2022 because of the 2nd wave of the COVID 19 pandemic. However, performance is expected to revive thereafter from the improved execution as well as launch of the 3 MW turbines during the year. Timely execution of the orders leading to healthy build-up of revenue and profits will remain a rating sensitivity factor.

Financial risk profile further weakened in fiscal 2021 as the total debt increased to Rs 1564 crore from Rs 1121 crore in fiscal 2020 to finance the cash flow requirements of the company. Consequently, the capital structure was also impacted with gearing increasing to 1.21 times in fiscal 2021 from 0.68 times in fiscal 2020. Debt protection metrics were also weak with operating losses in fiscal 2021.

IWL is executing a 50 MW project housed in SPV Nani Virani for second tranche of SECI auctions. The SPV is expected to be commissioned during second quarter of fiscal 2022 and thereafter will generate revenue out of the power generation/supply. The SPV post the commissioning can also be down sold in line with the SECI II tender condition. The company has already achieved financial closure for project loan for this SPV and has drawn down around Rs 100 crore against the project loan.

The rating on the NCDs centrally factor in the unconditional and irrevocable corporate guarantee by Gujarat Fluorochemicals Ltd (GFCL; '**CRISIL AA/Negative/CRISIL A1+**').

The guarantee and the undertaking together cover the principal, interest, and other monies payable on these facilities. For the NCDs, the payment mechanism is administered by the debenture trustee to ensure timely payment. Any adverse movement in the credit risk profile of the guarantor and non-adherence to the payment mechanism are key rating sensitivity factors.

The ratings continue to reflect strong support from the Inox group and an established market position as a leading wind turbine manufacturer. These strengths are partially offset by large working capital requirement constraining liquidity, and a weaker-than-expected operating performance.

Analytical Approach

For arriving at the ratings on the NCDs, CRISIL has applied its criteria on rating instruments backed by guarantees.

For arriving at the ratings of non-guaranteed instruments, CRISIL has combined the business and financial risk profiles of IWL and its subsidiary, Inox Wind Infrastructure Services Ltd (IWISL). Both the companies, together referred to herein as IWL, are in related businesses and have common promoters.

CRISIL has applied its group notch-up framework to factor in the strong strategic and financial support from the Inox group, which includes Inox Wind Energy Ltd, IWL and GFCL and their subsidiaries.

Please refer Annexure - List of entities consolidated, for details of the entities considered and their analytical treatment for consolidation

Key Rating Drivers & Detailed Description

Strengths:

- **Structured payment mechanism:** For the payment of the NCDs the company will deposit funds into the escrow account at least seven business days prior to any coupon payment or redemption date. If it fails to do so, the guarantors will make the requisite payment one business day prior to the final date of payment.

The payment structure is designed to ensure full and timely payment to the lender. The guarantee will remain unaffected even if the company faces bankruptcy; in case of dissolution, insolvency or liquidation; or on winding up proceedings initiated by or against the issuer.

- **Strong support from the Inox group:** Inox Wind Energy Ltd holds 55.37% equity in IWL, while the promoter family holds 18.02%, thus giving the group complete control over operations. The Inox group has extended support to IWL and IWISL through Inox Wind Energy and GFCL by enabling them to raise funds through NCDs, term debt and working capital facilities as and when required. Group entities have also supported liquidity through capital advances and inter-corporate deposits. The promoters maintain their stance of financial and managerial support to the company, given its strategic importance to the group.
- **Established market position:** The company is a leading wind-turbine manufacturer in India. It has maintained a healthy market position by directly winning orders of 850 MW in the four central and two state auctions till date, with total unexecuted orders at 1,324.7 MW as on March 31, 2021. Ability to successfully execute these orders should result in healthy revenue and cash flow visibility for fiscals 2022. Timely execution of orders and receipt of payments will remain a rating sensitivity factor.

Weakness:

- **Large working capital requirement, impacting liquidity:** The working capital cycle remains stretched, with receivables (net of provisions) at Rs 1,049 crore as on March 31, 2021. Working capital intensity was high under the feed-in-tariff regime (FIT) regime as there were delays in commissioning or signing of power-purchase agreements (PPAs). The situation was compounded by an abrupt halt in signing of PPAs by distribution companies after the advent of wind auctions in February 2017. While the company has taken steps to reduce receivables by allocating some of the stuck machinery against new orders under the auctions regime, receivables remain high due to deferral in commissioning on account of delay in receipt of the evacuation infrastructure.

Large working capital requirement and slow order execution have led to continuous pressure on liquidity. CRISIL will continue to monitor the company's ability to execute orders and timely realisation of payments leading to an improvement in cash flow.

- **Weaker-than-expected operating performance:** Fiscal 2021 performance continued to remain weak with lower than expected execution in primarily due to the impact of the COVID 19 pandemic. Operating margins were significantly impacted as the company disposed of stuck inventory at lower prices leading to negative operating margins in fiscal 2021.

The company is currently executing orders of 250 MW from Continuum Green Energy (India) Pvt Ltd along with projects that were auctioned by SECI during the second tranche in its own SPV, Nani Virani. Furthermore, it is expected to launch 3 MW turbines which should further support project execution in fiscal 2022. Revival in project execution leading to healthy revenue growth and improvement in the operating margins will remain key rating sensitivity factor.

- **Weak debt protection metrics:** The debt protection metrics continued to remain weak with company reporting operating losses in fiscal 2021. Going forward the metrics are expected to improve with the improvement in operating performance

Liquidity: Adequate

Unencumbered cash and equivalents stood at around Rs 128 crore as on March 31, 2021. Liquidity is constrained by large working capital requirement. Any improvement in working capital management post successful execution of orders and timely receipt of payments remain key monitorable.

Liquidity is strengthened by the financial flexibility derived as part of the Inox group. The group companies have provided direct funds in the form of inter-corporate deposits and advances for supplies and have also enabled the company to avail funds from banks supported by guarantees, letters of comfort, or pledging of their own funds to provide liquidity support.

Liquidity for NCD's: Strong

Liquidity for the rated NCDs derives comfort from the guarantee structure (unconditional and irrevocable guarantee from GFCL), which should ensure timely repayment of debt. The guarantee will remain unaffected even if the company faces bankruptcy; in case of dissolution, insolvency or liquidation; or on winding up proceedings initiated by or against the issuer.

Outlook: Stable

CRISIL Ratings believes IWL might be impacted from continued lower execution of order book

Rating Sensitivity factors**Upward factors**

- Improvement in liquidity, driven by an increase in cash accrual and fructification of deleveraging plans
- Sustained increase in cash flow from operations with increase in revenue and operating margin sustaining above 10%
- Significant improvement in the working capital leading to improvement in capital structure

Downward factors

- Any material change in shareholding by, or diminution in support from, the Inox group
- Lower cash accrual on account of a fall in revenue along with operating margin sustaining below 8%.

Outlook for NCD's - Negative:

The outlook on NCDs reflects CRISIL Rating 's outlook on the credit quality of GFCL

Rating sensitivity factors for NCD's**Upward factors**

- * Revision in the credit risk profiles of GFCL, leading to improvement in rating by one or more notches

Downward Factors

- * Revision in the credit risk profiles of GFCL, leading to decline in rating by one or more notches
- * Any non-adherence to the payment structure.

Adequacy of credit enhancement structure

GFCL has provided an unconditional and irrevocable guarantee for the rated instruments, thus ensuring timely payment of the interest and principal obligations.

Unsupported ratings - 'CRISIL BBB'

CRISIL Ratings has introduced the 'CE' suffix for instruments with an explicit credit enhancement feature, in compliance with the Securities and Exchange Board of India circular dated June 13, 2019

Key drivers for unsupported ratings

CRISIL has combined the business and financial risk profiles of IWL and its subsidiary, IWISL. Both the companies, together referred to herein as IWL, are in related businesses and have common promoters. CRISIL has applied its group notch-up framework to factor in the strong strategic and financial support from the Inox group.

About the Company

IWL, established in April 2009, is part of the Inox group. The company manufactures nacelles, hubs, rotor blades and towers used to make and assemble wind turbines. It also provides associated services such as O&M of wind turbines, project execution, and infrastructure development for wind farms. The company has four units, at: Una in Himachal Pradesh for nacelles and hubs; Rohika in Gujarat for blades and towers; Barwani in Madhya Pradesh for nacelles, hubs, blades and towers; and a newly tied-up nacelle manufacturing facility at Bhuj. IWL has a technical tie-up with AMSC Windtech, which provides control systems and vets suppliers for other parts from across the world.

Key Financial Indicators

As on/for the period ended March 31	Unit	2021	2020
Revenue	Rs.Crore	718	767

Profit After Tax (PAT)	Rs.Crore	-307	-279
PAT Margin	%	-42.8	-36.4
Adjusted debt/adjusted networth	Times	1.21	0.68
Interest coverage	Times	-0.10	0.35

List of covenants

* The guarantor, irrevocably and unconditionally guarantees to the debenture trustee due and punctual payment of the entire obligations and the performance and/or discharge of all obligations by the issuer in accordance with the terms of the transaction documents.

* During the subsistence of the deed, the guarantor shall have no right to terminate its obligations under the deed and any such right is excluded

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Letter of credit@	NA	NA	NA	215	NA	CRISIL A3+
NA	Letter of credit	NA	NA	NA	595	NA	CRISIL A3+
NA	Long-term loan	NA	NA	31-Jan-22	130.82	NA	CRISIL BBB/Stable
NA	Bank guarantee	NA	NA	NA	140.5	NA	CRISIL A3+
NA	Bank guarantee@@	NA	NA	NA	100	NA	CRISIL A3+
NA	Bank guarantee@@@	NA	NA	NA	50	NA	CRISIL A3+
NA	Proposed long-term bank loan facility	NA	NA	NA	674.18	NA	CRISIL BBB/Stable
NA	Cash credit*	NA	NA	NA	37.3	NA	CRISIL BBB/Stable
NA	Cash credit**	NA	NA	NA	72	NA	CRISIL BBB/Stable
NA	Cash credit***	NA	NA	NA	15	NA	CRISIL BBB/Stable
NA	Cash credit	NA	NA	NA	97.6	NA	CRISIL BBB/Stable
NA	Proposed Letter of credit	NA	NA	NA	372.6	NA	CRISIL A3+
NA	Commercial Paper	NA	NA	7-365 days	200	Simple	CRISIL A3+
INE066P07018	NCD	10-Nov-2020	9.5%	10-Nov-2023	199	Simple	CRISIL AA(CE)/Negative

*Rs.37.30 crore is interchangeable with letter of credit/bank guarantee

** Rs.25 Crore Limits is interchangeable with Letter of credit & bank guarantee each

***Rs.15 crore is interchangeable with letter of credit

@Rs.215 crore is interchangeable with bank guarantee

@@Rs.100 crore is interchangeable with bank guarantee

@@@Rs.50 crore is interchangeable with letter of credit.

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Inox Wind Infrastructure Services Ltd	Fully consolidated	Strong business and financial linkages

Annexure - Rating History for last 3 Years

		Current		2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1026.9	CRISIL BBB/Stable		--	27-11-20	CRISIL BBB+/Stable	23-08-19	CRISIL A-/Stable	23-11-18	CRISIL A-/Positive	CRISIL A-/Stable
			--		--	05-11-20	CRISIL BBB+/Stable	09-08-19	CRISIL A-/Stable	16-10-18	CRISIL A-/Positive	--
			--		--	29-09-20	CRISIL BBB+/Stable	30-07-19	CRISIL A-/Stable	28-09-18	CRISIL A-/Positive	--
			--		--	27-05-20	CRISIL BBB+/Stable		--		--	--
Non-Fund Based Facilities	ST	1473.1	CRISIL A3+		--	27-11-20	CRISIL A2	23-08-19	CRISIL A2+	23-11-18	CRISIL A2+	CRISIL A2+
			--		--	05-11-20	CRISIL A2	09-08-19	CRISIL A2+	16-10-18	CRISIL A2+	--
			--		--	29-09-20	CRISIL A2	30-07-19	CRISIL A2+	28-09-18	CRISIL A2+	--
			--		--	27-05-20	CRISIL A2		--		--	--
Commercial Paper	ST	200.0	CRISIL A3+		--	27-11-20	CRISIL A2	23-08-19	CRISIL A2+	23-11-18	CRISIL A2+	CRISIL A2+
			--		--	05-11-20	CRISIL A2	09-08-19	CRISIL A2+	16-10-18	CRISIL A2+	--
			--		--	29-09-20	CRISIL A2	30-07-19	CRISIL A2+	28-09-18	CRISIL A2+	--
			--		--	27-05-20	CRISIL A2		--		--	--
Non Convertible Debentures	LT	199.0	CRISIL AA (CE) /Negative		--	27-11-20	CRISIL AA (CE) /Negative		--		--	--
			--		--	05-11-20	Provisional CRISIL AA (CE) /Negative		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	140.5	CRISIL A3+	Bank Guarantee	315	CRISIL A2
Bank Guarantee@@	100	CRISIL A3+	Cash Credit###	65	CRISIL BBB+/Stable
Bank Guarantee@@@	50	CRISIL A3+	Cash Credit#	38.7	CRISIL BBB+/Stable
Cash Credit*	37.3	CRISIL BBB/Stable	Cash Credit	65	CRISIL BBB+/Stable
Cash Credit**	72	CRISIL BBB/Stable	Cash Credit%	50	CRISIL BBB+/Stable
Cash Credit***	15	CRISIL BBB/Stable	Cash Credit%%	20	CRISIL BBB+/Stable
Cash Credit	97.6	CRISIL BBB/Stable	Cash Credit%%%	75	CRISIL BBB+/Stable
Letter of Credit@	215	CRISIL A3+	Cash Credit\$	15	CRISIL BBB+/Stable
Letter of Credit	595	CRISIL A3+	Letter of Credit	1045	CRISIL A2
Long Term Loan	130.82	CRISIL BBB/Stable	Long Term Loan	130.82	CRISIL BBB+/Stable

Proposed Letter of Credit	372.6	CRISIL A3+	Proposed Long Term Bank Loan Facility	680.48	CRISIL BBB+/Stable
Proposed Long Term Bank Loan Facility	674.18	CRISIL BBB/Stable	-	-	-
Total	2500	-	Total	2500	-

*Rs.37.30 crore is interchangeable with letter of credit/bank guarantee

** Rs.25 Crore Limts is interchangeable with Letter of credit & bank guarantee each

***Rs.15 crore is interchangeable with letter of credit

@Rs.215 crore is interchangeable with bank guarantee

@@Rs.100 crore is interchangeable with bank guarantee

@@@Rs.50 crore is interchangeable with letter of credit

#Rs.38.70 crore is interchangeable with letter of credit

##Rs.65 crore is interchangeable with letter of credit/bank guarantee

%Rs.50 crore is interchangeable with letter of credit/bank guarantee

%%Rs.20 crore is interchangeable with letter of credit/bank guarantee

%%Rs.75 crore is interchangeable with letter of credit/bank guarantee

\$Rs.15 crore is interchangeable with letter of credit

Criteria Details

Links to related criteria
<u>CRISILs Approach to Financial Ratios</u>
<u>Rating criteria for manufacturing and service sector companies</u>
<u>CRISILs Bank Loan Ratings - process, scale and default recognition</u>
<u>Criteria for rating instruments backed by guarantees</u>
<u>CRISILs Criteria for rating short term debt</u>
<u>CRISILs Criteria for Consolidation</u>
<u>Criteria for Notching up Stand Alone Ratings of Companies based on Group Support</u>

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