Inox Air Products Private Limited

December 06, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Non Convertible Debentures	320.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**320.00 (Rs. Three Hundred Twenty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Non-Convertible Debenture (NCD) issue of Inox Air Products Private Limited (IAPPL; CIN No: U24999MH1963PTC012625) reflects its established position in the industrial gases industry with widespread presence across 45 locations in India. IAPPL's healthy mix of merchant and onsite plants ensures healthy operating margins and also lends stability to revenues owing to long term take or pay contracts entered into for the onsite clients. IAPPL has been reporting healthy growth in operating income in the past with stable operating margins. Growth in operating income has been supported by continuous capacity additions in both merchant and onsite units. In particular, IAPPL has been adding capacities in the merchant segment with plants spread across country in order to capture more market share as well as increase its geographical presence. IAPPL has planned capex of ~Rs. 2,000 crore spread across 8 major plants out of which 6 are in the merchant category. These capacities are expected to commercialise in a phased manner in FY23 and FY24 thus, supporting growth in revenue and profits going forward.

The rating also continues to favourably factor IAPPL's strong financial risk profile marked by consistent and strong cash flow from operations and low leverage profile. The leverage, debt coverage and liquidity indicators continue to remain comfortable as majority of the capex is funded using internal accruals, which is likely to be the trend going forward as well. IAPPL reported significant improvement in operating performance in H1FY22 (refers to period from April 2021 to September 2021) on a YoY basis owing to high demand for medical oxygen due to the pandemic as well as steady demand from onsite units. Operating margins also improved from 48.19% in FY21 to 52.24% in H1FY22 owing to increase in the share of liquid medical oxygen in the product mix. CARE notes that operating margins may moderate going forward but shall remain healthy.

The rating strengths are, however, tempered by intensely competitive nature of the commoditized industrial gas business and exposure to cyclical demand from the end user industries especially the Steel Industry. Further, business entails the large upfront capital expenditure for setting up plants (both on-site and Merchant segment) and payback is dependent upon the nature of contracts.

Recent Update

IAPPL has an onsite unit at Bellary, for supply of oxygen through its 50% JV The Bellary Oxygen Company Private Limited (BOCPL). The balance 50% stake is held by Linde India Limited. After the merger of Linde with Praxair, the Competition Commission of India, as part of its approval for the merger, had stipulated divestment of the company's units at Bellary, Hyderabad and Chennai. Accordingly, IAPPL was required to purchase Linde's 50% share in BOCPL. However, the divestment got delayed and on November 16, 2021, Linde India Limited informed the stock exchanges that BOCPL has accepted to sell its Air separation units (ASU) with an aggregate capacity of 855 TPD and other related assets to JSW Steel Ltd. In view of the expiry of the gas supply contract with JSW Steel Ltd. on 14 November 2021, BOCPL has signed and executed the asset sale agreement with JSW Steel Ltd. and has received the consideration amount of Rs. 50 crores for the transaction.

Rating Sensitivities

Positive Sensitivities

- Sustained growth in total operating income while maintaining operating profitability levels leading to sustained cash generation
- Further improvement in overall gearing by reducing debt and improvement in coverage indicators

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Negative Sensitivities

- Sustained decline in its RoCE below 15%
- Any large debt funded capex/ acquisition thereby deteriorating the Total Debt / EBITDA over 2.0x on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record and experienced promoters in the field of industrial gases industry

IAPPL is a joint venture between the Jain Family and Air Products & Chemical Inc., USA with each partner holding a 49.74% stake. IAPPL derives significant technological and managerial support from Air Products and Chemicals Inc, a leading international corporation in the field of industrial gasses industry with operations in 50 countries. Further, APCI has also provided financial support by providing perpetual interest free loan of Rs. 27 crore to IAPPL. The promoters of IAPPL have decades of experience in the industrial gas industry, and actively participate in the day to day operations of the company. Besides, the company has team of well qualified professionals for heading various functional departments.

Established market position along with diversified revenue profile albeit end user concentration risk prevails

IAPPL with a track record of over five and half decades of operation is one of the leading players in this industry and has strong market presence with plants across 45 locations all over India (Including onsite plants). The business profile of the company consists of three main segments, namely Onsite sales, Merchant sale and sales through packaged cylinders. Further, the products supplied by the company find application in wide varied industries like steel, chemicals, food processing, packaging medical and pharmaceutical etc. However, IAPPL derives ~35%-40% income from steel sector (majorly through onsite facilities) and the remaining from other sectors. Although, this exposes to end user segment concentration risk, however, given the critical nature of the product supplied as well as presence of long term minimum take or pay agreement with onsite customers reduces the concentration risk to large extent.

Assured nature of revenue for onsite installation providing revenue stability and visibility

In onsite business the company typically enters into long term take or pays contracts with the clients with periods ranging from 15-20 years and some of the onsite plants also have provision to sell the excess production to other merchant customers. During FY21, 35% of its total revenue was contributed by this segment. The main operating cost i.e. power cost is borne by the customer while operating and maintenance cost is borne by the company. Further, there is price escalation clause inbuilt in these contracts and this takes care of increase in operation and maintenance cost. For the merchant plants also, IAPPL enters into mid-term contracts in the range of 3-5 years which also provides revenue visibility and stability.

Steady operating performance in FY21; H1FY22 witnessed a spurt in revenue growth coupled with improvement in operating margins

IAPPL continued to exhibit a stable performance in FY21 with 13% growth in TOI (Total Operating Income) on a YoY basis on the back of gradual ramping up of newly added capacities. H1FY22 witnessed a huge spurt in revenue growth (~40% on a YoY basis) owing to subdued base of last year and increased demand for LMO following the second wave of the pandemic. While a lot of merchant plants were diverted to cater to the healthcare needs of the country, onsite units continued to operate at optimum capacities as steel industries witnesses minimal disruption in operations. High utilization of capacities coupled with increase in the share of LMO in the product mix led to improved operating profitability in H1FY22 with PBILDT margins increasing to 52.25% as compared to 48.19% in FY21.

Strong financial risk profile

IAPPL continues to have a strong financial risk profile marked by a favorable and improved capital structure and debt coverage IAPPL continued to have strong financial risk profile marked by comfortable capital structure and debt coverage indicators. The overall gearing improved to 0.21x as on March 31, 2021 primarily because of reduction in short term borrowing. Gearing however, deteriorated to 0.24x as on Sep 30, 2021 owing to increased borrowing to fund the ongoing capex. Nevertheless, on a net debt basis, IAPPL continues to remain net debt free. IAPPL is planning total capex of Rs. 2000 crore out of which Rs. 500 crore is financed through debt (already tied up) and the balance through internal accruals and dilution of investments. Interest coverage remains healthy at 12.16x in FY21 and improved to 26.98 in H1FY22. CARE expects that any capex going forward, will be largely met through internal accruals and IAPPL will continue to maintain its strong financial risk profile.

Key Rating Weaknesses

Highly competitive and capital intensive nature of industrial gas industry

The industrial gas industry is highly competitive due to the commoditized nature of the product and the company faces stiff competition from the Indian subsidiaries of the international majors Praxair India Pvt Ltd, Linde India Ltd and Air Liquidate

India Holdings. Apart from purity there is limited product differentiation and thus the merchant segment faces stiff competition from other domestic players and players from unorganized segment leading to limited ability to pass on the rise in input cost. Further the demand for industrial gasses also depends upon performance of the manufacturing sector especially the steel industry which is also cyclical in nature. The business profile of the company is capital intensive in nature with long gestation period. However it is partially mitigated by the assured nature of revenue from the onsite clients (long term contracts signed with the client which are take or pay in nature).

Liquidity: Strong
IAPPL has a strong liquidity profile with unencumbered cash and current investment of Rs.523 crore as on September 30, 2021, un-utilised fund based bank facilities to the tune of ~99% of the sanctioned limit of Rs.145 crore coupled with stable cash flow operating activities. The company is projected to generate gross cash accruals of Rs.880 crore in FY22, as against this the company has a gross loan repayment of Rs.243.30 crore in FY22. Further, up to September 30, 2021 the company has repaid about Rs. 81.27 crore of scheduled loan repayment for FY22.

Analytical approach: Consolidated
CARE has considered consolidated financials of IAPPL and its JV Bellary Oxygen Company Private Limited (BOCPL); where in IAPPL holds 50% stake in BOCPL as on March 31, 2021. Both IAPPL and BOCPL are in similar line of business and have operational linkages between them.

Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Rating methodology- Liquidity analysis of Non- Financial Sector companies
Rating Outlook and Credit Watch
Manufacturing Companies

About the Company
Founded in 1963, Inox Air Products Pvt Ltd (IAPPL) is a joint venture company between the Jain Family and Air Products and Chemical Inc., USA with each partner holding a 49.74% stake. IAPPL is engaged in the manufacturing, trading and supply of industrial and medical gases viz. Oxygen, Nitrogen, Argon, Helium, Acytelene (DA) Nitrous Oxide and specialty gas mixtures. The business profile of the company consists of three main segments - Onsite sales, merchant sales and packaged sales in cylinders.
Air Products and Chemicals Inc. (APCI) is a leading international corporation, headquarters in Allentown, Pennsylvania. APCI serves customers in technology, energy, healthcare, food and industrial market worldwide with a unique portfolio of products, services and solutions. Its present operations are spread over 50 countries across the globe.
The Jain family has interests in manufacturing of Fluorochemicals, PTFE, Cryogenic equipment, oil field equipments, wind turbines and entertainment industry, apart from Industrial & Medical Gases.

(Rs. Crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total Operating income	1,583	1,783	1,184
PBILDT	657	859	619
PAT	465	473	409
Overall Gearing (x)	0.37	0.21	0.24
Interest Coverage (x)	10.25	12.16	26.98

A: Audited, UA=Un-Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE321A07142, INE321A07159, INE321A07167	December 31, 2013	10.85 %	December 31, 2023	320.00	CARE AA+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Non Convertible Debentures	LT	320.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Jan-21)	1)CARE AA; Positive (29-Jan-20)	1)CARE AA; Positive (04-Feb-19)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact-1
Name: Arti Roy
Contact No: 9819261115
Email ID- arti.roy@careratings.com

Analyst Contact-2
Name: Mr. Pulkit Agarwal
Contact No: +91-22-6754 3505
Email ID- pulkit.agarwal@careratings.com

Relationship Contact
Name: Mr. Saikat Roy
Contact no. +91-22-6754 3404
Email ID: saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rational**e Report and subscription information, **please contact us at www.careratings.com**