Waaree Energies Limited (Revised)

February 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,305.00	CARE A-; Stable	Assigned
Long Term Bank Facilities	200.57	CARE A-; Stable	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Long Term / Short Term Bank Facilities	394.00	CARE A-; Stable / CARE A2+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating upgrade on the bank facilities of Waaree Energies Limited (WEL) factors in the incremental equity infusion of ~Rs. 1000 crore during 9M-FY23 through ~18% stake dilution. The management had previously indicated plans to come out with an initial public offering (IPO) of upto Rs. 1500 crore in FY23, however, given the tough market conditions, the company decided to raise funds through private placement route. Further the competitiveness of domestic manufacturers has improved and is likely to be sustained over the near to medium term. The key reasons for the same include imposition of basic customs duty (BCD) on imported solar modules (40%) and cells (25%) and applicability of approved list of module manufacturers (ALMM) which includes only domestic manufacturers. This is likely to result in sustenance of increased scale of operations and improvement in profitability margins for the domestic OEMs and given the market leadership position of WEL, it is likely to benefit more than the other players.

The rating is further supported by the long track record of WEL in the business of production and sale of solar modules along with the continuous improvement in the scale of operations as reflected by operating income of Rs 3713 crore for 9M-FY23 as against Rs. 2880 crore for FY22. Going forward, CARE Ratings expects the full year operating income to be around Rs. 6,000 crore for FY23 given the increased operational capacity in 9M-FY23. Further there has been a certain uptick in the profitability margins in the current fiscal primarily driven by the improved competitiveness of domestic manufacturers which has allowed them to command better realizations. Moreover, the overall dependence on domestic developers has reduced as the company has been able to receive and fulfil substantial export orders in the current fiscal. The rating continues to be supported by the presence of strong customer profile comprising of leading domestic and global developers and healthy order book position of Rs. 25,000 crore as on December 2022 end which provides revenue visibility for the near to medium term.

Nevertheless, the rating is constrained on account of WEL's moderate and fluctuating profitability margins over the past few years, vulnerability of its profitability to variation in raw material prices as well as foreign exchange rates given the reliance on imports for solar cell procurements as well as the intense competition in the solar module manufacturing business. The company is further exposed to the performance risk of modules, however the same is mitigated due to the limited warranty claims in the past.

CARE Ratings also factors in the execution risks pertaining to the proposed implementation of large-scale projects pertaining to setting up of 5.4 GW solar cell capacity (backward integration) and additional module capacity of 2 GW. The cell facility is expected to get commissioned by FY24 end whereas the incremental module capacity will be commissioned in the next 2-3 months. The execution progress and ramping up of operations thereafter would be key monitorables from a credit standpoint.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in scale of operations along with operating profitability margins remaining above 10% on a sustained basis

Negative factors

- Deterioration in financial risk profile on account of lower than envisaged growth in scale and moderation in profitability margins with operating margins remaining below 6%
- Weakening of liquidity position as reflected by stretching of receivables, inventory etc.
- Any major cost/time overrun for the completion of ongoing capacity expansion projects
- Any adverse regulatory/policy level changes which reduces the competitiveness of domestic manufacturers as against international players

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach: Consolidated

CARE Ratings has adopted the consolidated approach for analysing Waaree Energies Limited

Outlook: Stable

Key strengths

Established market position in the solar module manufacturing industry

WEL is an established player in the solar module manufacturing industry with track record of over 15 years. The company is the largest solar module manufacturer in India with 7 GW module manufacturing capacity at present. In addition to solar module manufacturing, the company also undertakes Engineering, Procurement and Construction (EPC) for solar power plants, which contributes 3-5% to total sales. WEL is also part of the ALMM for solar PV module manufacturing in India having enlisted capacity of 4.8 GW as per the ALMM order dated September 27, 2022, as released by the Ministry of New & Renewable Energy (MNRE).

Growing manufacturing capacity with improvement in production and sales over past few years

WEL has scaled up its production capacity significantly during last one year as reflected by module manufacturing capacity of 7 GW at present as against 2 GW capacity at March 2021 end. Consequently, the size and scale of company's operation has witnessed healthy growth at the back of satisfactory capacity utilisation of plants. The sales of the company also witnessed a significant uptick as reflected by operating income of Rs 3713 crore in 9M-FY23 as against Rs. 2880 crore in FY22. Going forward, CARE Ratings expects the full year operating income to be around Rs. 6,000 crore for FY23 given the increased operational capacity and healthy order book position in place.

Healthy order book position and diversified customer profile

The solar module order book of the company has improved significantly during last 8-9 months as reflected by an order book of ~Rs. 25000 crore as on December 2022 end against an order book of ~Rs. 9700 crore as on May 2022 end. This improvement in order-book position is primarily driven by increased export orders which constitute the major part of orders-in-hand. Most of the current export orders are from the United States of America (USA) as there are a lot of barriers for Chinese imports in USA. The domestic sales constituted ~80% of the overall sales in FY22, however, in 9M-FY23, its share dipped to 35%. WEL remains strongly placed on account of diversification of sales as it has a strong position vis-à-vis the other domestic OEM's (in both utility scale as well as rooftop projects) and reasonable presence in the export market.

Satisfactory capital structure and debt protection metrics

The capital structure of the company has been satisfactory as reflected by overall gearing (including LC/bill discounting) of 1.25 times as on March 31, 2022. As per CARE Ratings, the gearing is expected to increase given the debt funded capex for setting up the cell manufacturing unit. The gearing number (including LC/bill discounting) is expected to remain range bound between 1.6x to 2.7x over the next 3 years. The debt coverage indicators are expected to remain satisfactory as reflected by interest coverage of over 3.0 times estimated for FY23 (3.2 times for FY22).

Strong competitiveness of the domestic module manufacturers vis-à-vis Chinese module manufacturers

To promote solar module manufacturing in India and reduce dependence on imports, the Government of India has introduced various policy measures to benefit domestic manufacturers over the past two years. Of these measures, the imposition of BCD of 40% and 25% on imported solar modules and solar cells respectively from April 1, 2022, is expected to be a key growth driver for the domestic manufacturers by making them cost-competitive compared to Chinese players. Additionally, the requirement of procuring solar modules from only suppliers which included in ALMM and introduction of production-linked incentive (PLI) scheme to promote backward integrated plants, are also expected to benefit domestic module manufacturers over the medium to long term.

As per CARE Ratings this policy level support is likely to result in sustenance of increased scale of operations and improvement in profitability margins for the domestic OEMs and given the market leadership position of WEL, it is likely to benefit more than the other players.

Key weaknesses

Moderate and fluctuating profitability due to susceptibility to volatility in raw material prices and foreign exchange rates

The operating margins of the company remain moderate as reflected by PBILDT margin of 4.6% as on FY22 end. The margins of WEL had been adversely impacted previously on account of high competitive intensity in the industry along with additional burden of freight and transportation cost which had increased significantly post the onset of Covid. In order to protect its margins, the company has changed its method of sales from cost, insurance and freight (CIF) basis to free-on-board (FOB) basis. Further, the cost competitiveness of domestic manufacturers has also improved vis-à-vis international players and consequently the current year operating margins stand at 8.1% (on a standalone basis) for 9M FY23.

The profitability, however, remains susceptible to risks of fluctuations in prices of raw material which include polysilicon, wafer, solar cells, aluminium panels, and glass. The key raw materials viz. solar cells which constitutes about 50% of the total raw material cost, has witnessed sharp increase in the past. Though WEL undertakes order-backed procurement to mitigate this risk, any sharp rise in input cost and the company's inability to pass it to its customers would adversely impact the profitability.

Moreover, WEL imports majority of its solar cell requirements from China and other Southeast Asian markets, which exposes the company to the risks arising out of foreign exchange movements. However, the forex risk is partially mitigated by the natural hedging on account of export sales and hedging of the balance portion by WEL.

Performance risk of modules given the presence of long term warranties

The business remains exposed to risks pertaining to any devolvement of warranties provided on the solar modules. The modules are typically sold with a 10-year warranty for product manufacturing defects and a 25-year warranty relating to output performance. However, the warranty claims have remained very low in the past few years. Furthermore, WEL has been making adequate provisions for warranty, thereby mitigating itself from any kind of inadvertent claims that may arise in future.

Intense competition in the solar module manufacturing business

WEL faces intense competition in the solar module business from other domestic manufacturers as well as international players thereby exposing it to demand related risks. Around 80-85% of the solar modules used in India were imported till FY22 end given the competitive advantage of imported modules as against the indigenous modules. However, with the imposition of BCD on imported solar modules and cells (25%) and applicability of ALMM, the cost competitiveness of domestic module manufacturers has improved.

However, time and again, the Indian developers have found innovative methods to import modules by circumventing the existing tariff and non-tariff barriers. While the Government remains focussed on building domestic manufacturing capabilities, any adverse regulatory/policy level changes which reduces the competitiveness of domestic manufacturers would be a key negative sensitivity.

Execution risk for under-implementation large scale projects

WEL has large capacity expansion projects under-construction, which entails setting up of 5.4 GW solar cell manufacturing capacity as part of its backward integration strategy along with expansion of module capacity to 9 GW from 7 GW at present. The capex is proposed to be funded through a mixture of proceeds of recent equity raise and term debt. As a result, the capital structure of the company is expected to get leveraged in near future.

Given the relatively large capital outlay, WEL also remains exposed to execution risks which emanate from implementation of these projects. While the company's track record and expertise in implementing module capacity expansion projects in the past is expected to aid in project execution, the ability of the company to execute the planned capex without any major time and cost overrun would be critical from a credit standpoint.

Technology risk owing to the evolving technology for solar cells and modules

WEL is exposed to technology risk since solar cells and modules are subject to technical advancements thereby exposing the products manufactured by the company to risk of obsoletion in terms of technology. Nevertheless, as per the management, company plans to operate the plant in a modular fashion enabling it to switch from Mono PERC technology to TOPCon technology.

Liquidity: Adequate

The liquidity position of the company is adequate as reflected by cash and bank balance aggregating to ~Rs 1300 crore as on December 31, 2022 end at standalone level. Additionally, the company has unutilized working capital limits of Rs 105 crore as on December 31, 2022 end. Going forward, the internal accruals are expected to be adequate to service its debt obligations. As per

CARE's base case scenario, annual gross cash accruals (GCA) for FY23 and FY24 are expected to be around Rs. 173-338 Crore as against annual repayment of Rs. 33-60 Crore respectively.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Infrastructure Sector Ratings
Policy on Withdrawal of Ratings

About the company

Incorporated in 2007, WEL is primarily engaged in manufacturing of solar PV modules. Over the years, WEL has increased its installed capacity from 30 MW in FY11 to its current operating capacity of 7 GW. The manufacturing facilities are spread across four locations in Gujarat. Apart from the sale and manufacture of PV modules, the company also provides EPC services for solar power plants in India and overseas, and trades in other solar-related products such as solar water heaters and solar water pumps.

Brief Financials (₹ crore) Consolidated	March 31, 2021 (A)	March 31, 2022 (A)	December 31, 2022 (UA)
Total operating income	1969	2880	NA
PBILDT	101	132	NA
PAT	48	81	NA
Adjusted overall gearing (times)	1.60	1.25	NA
Interest coverage (times)	3.40	3.43	NA

A: Audited, NA: Not Available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	105.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	September 2027	200.57	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	March 2032	2200.00	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	394.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	200.57	CARE A-; Stable	1)CARE BBB; Stable (23-Jun-22)	-	-	-
2	Fund-based - LT-Term Loan	LT	2200.00	CARE A-; Stable				
3	Fund-based - LT-Cash Credit	LT	105.00	CARE A-; Stable				
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	394.00	CARE A-; Stable / CARE A2+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

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

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

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About us:
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