Inox Air Products Private Limited

April 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non Convertible Debentures	260.00 (Reduced from 320.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	**260.00 (Rs. Two Hundred Sixty 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 a widespread presence across 44 locations in India. IAPPL's healthy mix of merchant and onsite plants ensures healthy operating margins and also lends stability to revenues owing to the long-term take or pay contracts entered into for the onsite clients. IAPPL has been reporting healthy growth in its operating income in the past, with stable operating margins. The growth in operating income has been supported by the continuous capacity additions in both, merchant and onsite segments. In particular, IAPPL has been adding capacities in the merchant segment with plants spread across the country in order to capture more market share as well as increase its geographical presence. IAPPL has a planned capex of around Rs.2,000 crore, spread across eight major plants, of which six are in the merchant category. These capacities are expected to commercialise in a phased manner in FY23, FY24 and FY25, thus supporting growth in revenue and profits, going forward.

The rating also continues to favourably factor IAPPL's strong financial risk profile, marked by a consistent and strong cash flow from operations, and a low leverage profile. The leverage, debt coverage, and liquidity indicators continue to remain comfortable as the 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 its operating performance in 9MFY22 (refers to the period from April 2021 to December 2021) on a y-o-y basis owing to high demand for medical oxygen due to the pandemic as well as steady demand from onsite units. The operating margins remained robust, owing to an increase in the share of liquid medical oxygen in the product-mix. CARE Ratings Limited notes that the operating margins may moderate, going forward, but will remain healthy.

The rating strengths are, however, tempered by the intensely competitive nature of the commoditised industrial gas business and the exposure to cyclical demand from the end-user industries, especially the steel industry. Furthermore, the business entails a large upfront capex for setting up plants (both onsite and the merchant segment) and payback is dependent upon the nature of contracts.

Recent Update

IAPPL had an onsite unit at Bellary, for supply of oxygen, nitrogen and argon through its 50% JV – The Bellary Oxygen Company Private Limited (BOCPL). The balance 50% stake is held by Linde India Limited. On expiry of contract with customer, the 885 tpd plant of Bellary Oxygen Company has been divested.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

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

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Sustained decline in its ROCE below 15%.
- Any large debt-funded capex/acquisition, thereby deteriorating the total debt/EBITDA over 2.0x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record and experienced promoters in the industrial gases industry

IAPPL is a JV between the Jain Family and Air Products & Chemical Inc., US, with each partner holding a 49.74% stake. IAPPL derives significant technological support from Air Products and Chemicals Inc, a leading international corporation in the field of industrial gases, with operations in 50 countries. Furthermore, APCI has also provided financial support by providing a 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 a team of well-qualified professionals for heading various functional departments.

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

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 operations, is one of the leading players in this industry and has a strong market presence with plants across 44 locations all over India (including onsite plants). The business profile of the company consists of three main segments – onsite sales, merchant sales and sales through packaged cylinders. Furthermore, the products supplied by the company find application in widely varied industries, like steel, chemicals, food processing, packaging, medical and pharmaceutical, among others. However, IAPPL derives around 35%-40% income from the steel sector (majorly through onsite facilities) and the remaining from other sectors. Although, this exposes it to the end-user segment concentration risk, however, the critical nature of the product supplied as well as the presence of long-term minimum take or pay agreement with onsite customers reduces the concentration risk to a large extent.

Assured nature of revenue for onsite installation, providing revenue stability and visibility
In the 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 a 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 other operating and maintenance cost is borne by the company. Furthermore, there is a price escalation clause inbuilt in these contracts and this takes care of the increase in the cost of operation and maintenance. For the merchant plants too, IAPPL enters into mid-term contracts in the range of three to five years, which also provides revenue visibility and stability.

Steady operating performance in FY21; 9MFY22 witnessed a spurt in revenue growth
IAPPL continued to exhibit a stable performance in FY21, with 13% growth in TOI on a y-o-y basis, on the back of a gradual ramping up of newly-added capacities. 9MFY22 witnessed a huge spurt in revenue growth (around 25% on a y-o-y basis) owing to a subdued base of the last year and an 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 witnessed minimal disruption in operations. The company's operating margin remained stable.

Strong financial risk profile
IAPPL continues to have a strong financial risk profile, marked by a favourable and improved capital structure and debt coverage. IAPPL continued to have a 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. The gearing, however, moved marginally, to 0.22x as on December 31, 2021, owing to an increase in borrowing to part finance the ongoing capex. Nevertheless, on a net debt basis, IAPPL continues to remain net debt-free. IAPPL is planning a total capex of Rs.2,000 crore, of which Rs.500 crore is financed through debt (already tied up) and the balance through internal accruals and dilution of investments. The interest coverage remained healthy, at 12.16x in FY21, and improved to 25.01 in 9MFY22. CARE Ratings Limited 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 the industrial gas industry
The industrial gas industry is highly competitive due to the commoditised nature of the product and the company faces stiff competition from the Indian subsidiaries of major international players. Apart from purity, there is a limited product differentiation, and thus, the merchant segment faces stiff competition from other domestic players and players from the unorganised segment, leading to limited ability to pass on the rise in input cost. Furthermore, the demand for industrial gasses also depends upon the performance of the manufacturing sector. The business profile of the company is capital-intensive in nature, with a 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.1671.00 crore as on December 31, 2021, un-utilised fund-based bank facilities to the tune of Rs.145 crore as on December 31, 2021, coupled with stable cashflow operating activities. The company is projected to generate gross cash accruals (GCA) of Rs.880 crore in FY22, as against this, the company has a gross loan repayment of Rs.243.30 crore in FY22. Furthermore, up to December 31, 2021, the company has redeemed Rs.60 crore of non-convertible debentures as per the redemption programme of NCDs.

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

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector
Rating Methodology – Manufacturing Companies
Liquidity Analysis of Non-Financial Sector Entities
Policy on withdrawal

About the Company
Founded in 1963, Inox Air Products Pvt Ltd (IAPPL) is a JV company between the Jain Family and Air Products and Chemical Inc., US, 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, acetylene (DA), nitrous oxide, Hydrogen 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, headquartered in Allentown, Pennsylvania. APCI serves customers in technology, energy, healthcare, food, and the 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 cryogenic equipment, oil field equipment, and the entertainment industry, apart from industrial and medical gases.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
TOI	1,583	1,783	1,746
PBILDT	657	859	906
PAT	465	473	574
Overall gearing (times)	0.37	0.21	0.22
Interest coverage (times)	10.25	12.16	26.98

A: Audited
Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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, 2018	10.85 %	December 31, 2023	260.00	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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	260.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Dec-21)	1)CARE AA+; Stable (21-Jan-21)	1)CARE AA; Positive (29-Jan-20)

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 Ratings Ltd. 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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Arti Roy
Contact no.: 9819261115
Email ID: arti.roy@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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