

Inox India Limited

January 10, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / Short-term bank facilities	630.00	CARE AA-; Stable / CARE A1+ (Double A Minus ; Outlook: Stable/ A One Plus)	Reaffirmed
Total bank facilities	630.00 (₹ Six hundred thirty crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Inox India Limited (IIL or the 'Company') factors-in the extensive experience of the promoters being part of the restructured Inox Group under the Pavan Jain faction (comprising other group entities – Inox Air Products Ltd (CARE AA+/Stable) and Inox Leisure Ltd), the established operational track record since around 25 years in the manufacturing of the cryogenic tanks industry with a strong market position, and the diversified revenue profile across the industrial gases and liquefied natural gas (LNG) segments, and intermittent orders from the International Thermonuclear Experimental Reactor project (ITER).

The rating also positively factors-in the diverse end-use of cryogenic tanks and increasing traction in the industrial gases & LNG segment with favourable growth prospects, healthy order book position, strong financial risk profile and debt coverage indicators, robust liquidity position of the company and minimal utilisation of working capital limits. Post decline in the total operating income (TOI) of 9% to ₹599.54 crore in FY21, at the consolidated level due to impact of the pandemic, the revenue has recovered significantly, with a y-o-y growth of 31% in FY22 at the consolidated level, driven by fast recovery from the industrial gases and projects segment. The growth momentum has continued in FY23. Controlled working capital utilization and higher retained earnings for the year led to improved debt coverage indicators. The overall gearing ratio (including customer advances) improved from 0.50x in FY21 to 0.46x in FY22. The debt coverage indicators are expected to remain comfortable, going forward, as well driven by future capex requirements to be funded through internal accruals. CARE Ratings Limited (CARE Ratings) notes that IIL is entering into a new product line i.e. manufacturing of beer kegs in order to diversify its revenue streams. Capex of ₹100 crore is to be incurred towards setting up of this plant.

The above rating strengths are, however, tempered by exposure to raw material price risk, currency risk, competition in the global cryogenic tanks market, working capital-intensive nature of operations and exposure to unrelated businesses.

Rating sensitivities

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

- Improvement in TOI to ₹1,500 crore on a sustained basis, along with sustainability of operating margins above 22%

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

- Deterioration in PBILDT margin to below 18% on a sustained basis
- Any large debt-funded capex or investment in group/unrelated parties, resulting in deterioration of overall gearing to 0.5x (including customer advances) on a sustained basis

Detailed description of the key rating drivers

Key rating strengths

Leading position in the cryogenic tanks industry:

IIL is a strong player in cryogenic equipment for industrial gases and has maintained its leadership position in this segment in India, with over 70% market share in the domestic market. The company also plans to expand its presence in the cryo-bio and life-sciences segment with new products developed for vaccines, stem cells, blood and bio specimens. The company had developed an entire range of new transport equipment with payload specifications.

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

Strong performance in FY22 & H1FY23, strong order book gives adequate revenue visibility:

In FY22, during the severe second wave of covid, there was higher demand from Medical/Healthcare segment due to requirement of oxygen. IIL has supplied Storage Tanks to covid hospitals in India and abroad in large numbers to cater to requirement of covid patients under challenging conditions in timely manner. Subsequently, after covid came under control, industrial activities picked up significantly. With fast recovery after the pandemic, the majority of industrial gas projects which were under hold have started moving. IIL reported robust sales growth of 32% y-o-y from FY21 to FY22. The growth momentum has continued in H1FY23 with IIL reporting total revenue of ₹520 crore. The company has order book in excess of ₹1,000 crore presently, to be executed over the next 12-15 months thereby giving adequate revenue visibility. CARE Ratings expects IIL to close FY23 on a revenue of ₹1,000 crore which shall be the highest for the company.

Robust debt coverage indicators; expected to continue:

The company has robust debt coverage indicators, characterised by overall gearing (including customer advances) of 0.46x in FY22 (PY: 0.50x) supported by higher profitability. The debt comprises of only working capital borrowings and there is no term debt with scheduled debt repayments. The debt coverage indicators are expected to remain robust going forward with higher profitability and also due to the fact that the proposed capex requirements are expected to be funded through internal accruals with no requirement of external funding.

Part of the Inox Group (under Mr. Pavan Jain faction):

IIL is part of the restructured Inox group (under the Pavan Jain faction). The group has interests in other sectors like industrial gases and entertainment. The day-to-day operations of the company are managed by Deepak Acharya, who is the Chief Executive Officer, and has 35 years of experience, including that of specialisation in fabrication of large pressure vessels, coded vessels and cryogenic tanks, with specialisation in cryogenic welding techniques. Siddharth Jain, an alumnus of the University of Michigan, Ann Arbor, with a degree in Mechanical Engineering and a MBA from INSEAD, is the Executive Director at IIL.

New product line to diversify revenue streams:

IIL is entering into manufacturing of beer kegs in order to diversify its revenue streams. Kegs hold beer that has finished fermenting in the brewery and is completely ready to drink. Kegs are also commonly used to store, transport, hold pressurised drinks and serve drinks such as beer, fizzy lager etc. Kegs are popular in Europe & USA markets but not very popular in India. The new product line will largely cater exclusively to export market. The estimated capex of ₹100 crore shall be executed in technical collaboration with an established European player which is in the similar product line. This collaboration shall be acting as a leverage for IIL to tap into export markets. The funding shall be out of internal accruals. The new products shall start contributing to incremental revenues from FY24-25 onwards.

Key rating weaknesses**Exposed to competitive intensity in India as well as international markets:**

The company is a leading player in the industrial gases segment in the domestic market. The other players in the industry are relatively smaller in comparison to IIL. The industry is characterised by higher entry barriers due to approvals required from government agencies. Nevertheless, the scale of operations of the company is relatively modest and it is not a very large player in the global market.

Exposure to raw material price risk and currency risk:

The principal raw material required for manufacturing cryogenic tanks is stainless steel. Steel prices have depicted significant inflationary trend over the past year-and-a-half. The company procures majority of its steel requirements from the domestic market. Since the company purchases raw materials immediately after an order is received, the raw material price risk is mitigated to an extent. The company operates internationally too, with transactions being entered in several currencies. However, the company is primarily exposed to foreign currency risk against USD. The company does not have a formal hedging policy although a portion of the forex exposure is hedged naturally.

Working capital intensive nature of operations:

The operations of the company are working capital intensive and the operating cycle is high. This is primarily due to higher inventory holding and collection period. The higher inventory is mainly in the form of raw materials and semi-finished goods. The conversion cycle of the company depends on the type of tanks to be supplied and can range from a month to even a year and a half. Due to high inflow of orders arising from resurgence in industrial capex, the company had to procure raw material, hence inventory days increased to 147 days in FY22 from 129 days in FY21.

Liquidity: Strong

The liquidity profile of the company is strong as supported by free cash and liquid investments of ₹298.36 crore as on September 30, 2022. The company does not have any long-term debt repayment obligations in FY22. The fund-based working capital limits of the company to the tune of ₹105 crore remained negligibly utilized at the end of November 30, 2022. IIL has adequate DP to draw entire limits. As per management articulation, the healthy liquidity buffer shall be maintained as the promoters want to rely less on external debt. It will be earmarked for any exigency and towards any expansion activities.

Analytical approach

Consolidated approach has been adopted as the consolidated entities are in the same line of business. The list of subsidiaries consolidated is given in **Annexure 6**.

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](#)

About the company

Incorporated in 1996, Inox India Limited is a part of the restructured Inox group under Pavan Kumar Jain. IIL is a cryogenic engineering company focused on cryogenic insulation technology equipment and systems. The company operates in the business of manufacturing cryogenic liquid storage and transport tanks and related products, ranging from 100 kilolitres (KL) to 1,000 KL. In the LNG segment, the company caters to industrial applications, mini-LNG infrastructure, high horsepower applications, automotive applications and LNG equipment. The products of the company also find application in satellite and launch facilities, cryogenic propulsion system and research, cryogenic process technologies, fusion (ITER) and superconductivity. The company has manufacturing facilities at Kalol, Kandla, Bhachau, in Gujarat, and at Silvassa, in Dadra & Nagar Haveli. The company caters to both, domestic and international markets. In FY22, the company derived 34% of revenue from the exports markets. The company supplies to countries like the US, Japan, South Korea and other countries in Europe.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	HYE Sept 30, 2022 (UA)
Total operating income	587.63	780.14	519.83
PBILDT	127.96	166.98	119.73
PAT	97.16	128.32	83.83
Overall gearing (times)	0.16	0.10	-
Interest coverage (times)	18.57	96.44	-

A: Audited; UA: Unaudited

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 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ST-Cash Credit		-	-	-	105.00	CARE AA-; Stable / CARE A1+
Non-fund-based - LT/ST-BG/LC		-	-	-	525.00	CARE AA-; Stable / CARE A1+

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/ST-Cash Credit	LT/ST*	105.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (11-Mar-22)	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	525.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (11-Mar-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not available**Annexure-4: Complexity level of various instruments rated for this company**

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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Annexure 6: List of subsidiaries considered for consolidation

Name of companies	Country of incorporation	% of holding as on March 31, 2022
INOXCVA Comercio E Industria De Equipamentos Criogenicos Ltd, Brazil	Brazil	100%
INOXCVA Europe BV	Netherlands	100%

Note on 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.

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Arti Roy
Phone: +91-22-67543456
E-mail: arti.roy@careedge.in

Relationship contact

Name: Saikat Roy
Phone: +91-22-67543404
E-mail: saiikat.roy@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**