Inox India Private Limited

March 11, 2022

Ratings

Facilities/Instruments	Amount (Rs. 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)	Assigned
Total Bank Facilities	**630.00 (Rs. Six Hundred Thirty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Inox India Private Limited (IIPL) 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 increasing traction in the 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 Rs.599.54 crore in FY21, at the consolidated level, despite being impacted by the pandemic, the same has recovered sharply, with a growth of 35% in 9MFY22 to Rs.558.47 crore, at the consolidated level, driven by improved demand from the industrial gases segment.
Despite lower revenue, the company generated healthy cash accruals in FY21 and was able to substantially reduce its debt levels both, long-term as well as short-term, leading to improved debt coverage indicators. The overall gearing ratio (including customer advances) improved from 0.91x in FY20 to 0.50x in FY21. The debt coverage indicators are expected to remain comfortable, going forward, as well driven by low capex requirements to be funded through internal accruals. The interest coverage improved from 5.45x in FY20 to 19.03x in FY21. The ratio is expected to improve further due to minimal utilisation of the working capital limits.
The 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 Rs.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 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
IIPL 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 has developed an entire range of new transport equipment with payload specifications.

Stable operating performance in FY21 despite COVID; further improvement witnessed in 9MFY22
In FY21, the company reported a TOI of Rs.599.54 crore, down by 9% on a y-o-y basis due to the impact of the pandemic, as requirements from the industrial sector dropped due to the lockdown, thus generating lower demand. However, the demand from medical and healthcare sectors surged during FY21. The PBILDT margin remained robust at 21.76% in FY21. In 9MFY22, the company reported a TOI of Rs.558.47 crore, which is an improvement of 35% over the previous period. This was largely led by the industrial gases segment. The company has a healthy order book of over Rs.800 crore from the industrial gases and LNG segments, to be executed over FY23 and FY24. Furthermore, the increase in the number of LNG stations across the country by major government undertakings and private sector players is expected to augur well for the company and provide increased revenue visibility from the LNG segment.

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

Robust debt coverage indicators; expected to continue going forward as well
The company has robust debt coverage indicators, characterised by overall gearing (including customer advances) of 0.50x in FY21 (PY: 0.91x). Despite relatively lower revenue earned by the company in FY21, the cash accruals remained strong in the fiscal. The improvement in debt coverage indicators in FY21 was due to the repayment of long-term as well as short-term debt to the tune of Rs.84.55 crore. The debt coverage indicators improved further in 9MFY22, as the company does not have any long-term debt, except for lease liability. The interest coverage improved to 19.03x in FY21 (PY: 5.45x) and further to 164.91x in 9MFY22. The debt coverage indicators are expected to remain robust going forward as well, as the capex requirements are expected to be funded through internal accruals with no requirement of external funding.

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

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 IIPL. 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, as the company does not have a formal hedging policy.

Working capital-intensive nature of operations
The operations of the company are working capital-intensive and the operating cycle is high. The operating cycle was 196 days in FY21 (PY: 211 days). This is due to the 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 two years. The working capital requirements of the company are met through customer advances (the customers of the company generally give an advance to the tune of 20-30% of the order value) and internal accruals.

Liquidity: Strong
The liquidity profile of the company is strong, as evinced by cash and liquid investments of Rs.288.98 crore, on a consolidated basis, as on December 31, 2021. 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 Rs.80 crore, remained fully unutilised at the end of December 31, 2021. Furthermore, the company is expected to earn healthy cash accruals in FY22.

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

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
Rating Methodology: Notching by factoring linkages in Ratings
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology – Manufacturing Companies

About the Company
Incorporated in 1996, Inox India Private Limited is a part of the restructured Inox group under Mr Pavan Kumar Jain. IIPL 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 FY21, 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 (Rs. crore)-Consolidated	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	658.13	599.54	558.47
PBILDT	138.91	130.46	135.23
PAT	97.33	97.48	95.47
Overall gearing (times)	0.91	0.50	-
Interest coverage (times)	5.45	19.03	164.91

A: Audited *UA: Unaudited*

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
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 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	Fund-based - LT/ ST-Cash Credit	LT/ST*	105.00	CARE AA-; Stable / CARE A1+	-	-	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	525.00	CARE AA-; Stable / CARE A1+	-	-	-	-

* 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	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 which are consolidated

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

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

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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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