Inox India Limited

July 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	630.00	CARE AA-; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Inox India Limited (IIL, or the 'Company') continue to factor in its strong market position in cryogenic tanks industry with 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 (rated 'CARE AA+/Stable') and having 16.85% stake in PVR Inox Pictures), the established operational track record 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 ratings also factor-in the diverse end-use of cryogenic tanks and increasing traction in the industrial gases and 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. The revenue has grown, with a y-o-y growth of 24.96% in FY23 at the consolidated level, as a result of industrial activities which revived significantly resulting in higher demand for industrial gases. Apart from industrial gases, LNG segment too has seen a growth as a result of government initiatives and Nord Stream pipeline destruction leading to creation of demand for LNG storage and distribution equipment. The adjusted overall gearing ratio (including customer advances) increased from 0.46x as on March 31, 2022 to 0.68x as on March 31, 2023 as a result of increase in the customer advances. 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 beverage kegs in order to diversify its revenue streams. The capex of around ₹140 crore (excluding land cost already incurred of ₹20 crore) is to be incurred towards setting up of this plant and routine capex of around ₹30 crore in FY24.

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: Factors likely to lead to rating actions.

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

- Improvement in total operating income (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.

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.**

Outlook: Stable

The stable outlook reflects the sustenance of the improvement in the operating and financial risk profile of the company amidst healthy cash flow generation from operations and absence of any large debt-funded capex or acquisition plans in the medium term.

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

Detailed description of the key rating drivers:

Key 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.

Strong performance in FY23, strong order book gives adequate revenue visibility:

In FY23, industrial activities revived significantly resulting in higher demand for industrial gases. Apart from industrial gases, LNG segment too has seen a growth as a result of government initiatives and Nord Stream pipeline destruction leading to creation of demand for LNG storage and distribution equipment reported robust sales growth of 24.96% y-o-y from FY22 to FY23. The company has order book of ₹966 crore as on March 31, 2023, to be executed over the next 12-15 months, thereby giving adequate revenue visibility.

Robust debt coverage indicators; expected to continue:

The company has robust debt coverage indicators, characterised by overall gearing (including customer advances) of 0.68x as on March 31, 2023 (PY: 0.46x) supported by higher profitability. Overall gearing (including customer advances/mobilisation) increased from 0.46x as on March 31, 2022 to 0.68x as on March 31, 2023 on account of increase in customer advances (CY – ₹363 crore and PY – ₹175 crore). However, the debt metrics are expected to remain strong as there is no debt-funded capex planned. The debt comprises 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 Pavan Jain faction):

IIL is a 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 beverage kegs in order to diversify its revenue streams. Kegs hold beverage 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 and USA markets but not very popular in India. The new product line will largely cater exclusively to the export market. The estimated capex of ₹140 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 Q4 FY23-24 onwards.

Key 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 the 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 187 days in FY23 from 147 days in FY22.

Liquidity: Strong
The liquidity profile of the company is strong as supported by cash and bank balance of ₹56.18 crore and liquid investments of ₹248 crore as on March 31, 2023. The company does not have any long-term debt repayment obligations in FY24. The fund based working capital limits of the company to the tune of ₹105 crore remained negligibly utilised at the end of May 31, 2023. IIL has adequate DP to draw entire limits. Furthermore, the company has generated healthy gross cash accruals (GCA) of ₹169 crore in FY23. As per the 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. The company had paid a dividend of ₹104 crore in FY23, however, despite payment of ₹104 crore in FY23, the liquidity has been strong.

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Other Industrial Products

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 FY23, the company derived 46% 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)	March 31, 2023 (A)
Total operating income	587.63	780.14	982.40
PBILDT	127.96	166.98	221.86
PAT	97.16	128.32	154.74
Overall gearing (times)	0.16	0.10	0.02
Interest coverage (times)	18.57	96.44	60.21

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: 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/ 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 2023-2024	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
1	Fund-based - LT/ ST-Cash Credit	LT/ST*	105.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (10-Jan-23)	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+ (10-Jan-23)	1)CARE AA-; Stable / CARE A1+ (11-Mar-22)	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	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.

Annexure-6: List of subsidiaries considered for consolidation.

Name of companies	Country of incorporation	% of holding as on March 31, 2023
INOXCVA Comercio E Industria De Equipamentos Criogenicos Ltd, Brazil	Brazil	100%
INOXCVA Europe BV	Netherlands	100%

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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.

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