Waaree Energies Limited

April 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,423.89 (Reduced from 2,505.57)	CARE A; Stable	Revised from CARE A-; Stable
Long Term / Short Term Bank Facilities	394.00	CARE A; Stable / CARE A2+	Revised from CARE A-; Stable / CARE A2+

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 significant improvement in business and financial risk profile as reflected by improvement in capacity utilisation, better demand prospects for domestic manufacturers, growth in operating income, amelioration in profitability margins and capital structure. WEL had increased its installed capacity from 4 GW as on FY22 end to 12 GW as on December 2023 end which has aided the company in increasing its top line. Secondly, the demand prospects for domestic module manufacturers remain buoyant on account of reimposition of approved list of module manufacturers (ALMM) from April 01, 2024. During FY24, despite the ALMM remaining in abeyance, the company benefitted from its healthy order book from overseas geographies, particularly the U.S. market which has banned Chinese imports thereby improving the competitive position of Non-Chinese manufacturers. Going forward, CARE Ratings expects the demand prospects for WEL to remain strong in the domestic market, given the favourable policy support by the Government. Further, the U.S. market is expected to remain attractive for another 2-3 years as the domestic capacities that are being set up in the U.S. as a part of the inflation protection act, may take a similar time to come online. Moreover, the strong order-book position, most of which is from overseas customers is a testament of the same.

The operating profitability margins of the company have also witnessed an improvement from 4.6% in FY22 to 13.0% in FY23. CARE Ratings, estimates the profitability margins to remain in double digits in FY24 and expects a similar trend over the near to medium term. The capital structure of the company has also improved through two rounds of equity funding in which WEL raised ~Rs. 2000 crore and the promoters have diluted ~28% stake in the company. The latest round of equity infusion happened in August 2023 and CARE Ratings had also expected the company to draw ~Rs. 2400 crore debt for its ongoing capex. While WEL has obtained a sanction for the said amount, the management has not drawn any loan as the liquidity position was supported due to healthy customer advances. While the mentioned debt would be drawn over the near term, the management has articulated that the quantum of debt would be lower by ~Rs. 400-500 crore thereby resulting in a better than expected capital structure.

The ratings continue to be supported by the long track record of WEL in the business of production and sale of solar modules. The presence of strong customer profile comprising of leading domestic and global developers and healthy order book position of ~20 GW as on December 2023 end provides revenue visibility for the near to medium term. Further imposition of basic customs duty (BCD) on imported solar modules (40%) and cells (25%) and re-applicability of ALMM which includes only domestic manufacturers is likely to result in sustenance of increased scale of operations and improvement in profitability margins for the domestic OEMs. Given the market leadership position of WEL, it is likely to benefit more than the other players. CARE Ratings also notes that WEL has filed draft red herring prospectus (DRHP) with SEBI in December 2023 for issuance of fresh equity shares worth Rs 3000 crore and offer for sale of 3.2 million shares by existing shareholders and promoters. The funds raised in the latest private placement round in August 2023 and the net proceeds raised from the Initial Public Offer (IPO) would be utilised to partly fund the upcoming 6 GW deeply integrated module manufacturing capacity [won in the trance-2 of production linked incentive (PLI) scheme] in the state of Odisha and for other general corporate purposes. CARE Ratings notes that, this capex is running with a delay and expects this to fructify only towards FY27.

Nevertheless, the ratings are constrained on account of vulnerability of company's 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 by provisioning for warranty. 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 in Gujarat. The cell facility is expected to get commissioned in a phased manner by September 2024 end. The execution progress and ramping up of operations thereafter would be key monitorables from a credit standpoint.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustenance of operating margins above 12% over the medium to long run along with maintenance of operating cycle below 75 days
- Maintenance of gearing levels below 1.2 times and Total Debt/ EBITDA below 2.2x on a sustained basis

Negative factors

- Deterioration in financial risk profile on account of lower than envisaged growth in scale and moderation in operating profitability margins below 8%
- Debt funded capex resulting in overall gearing above 1.6x and Tota Debt/ EBITDA above 3.0x on a sustained basis
- Any adverse regulatory outcome which reduces the competitiveness of domestic manufacturers as against international players

Analytical approach: Consolidated

CARE Ratings has analysed Waaree Energies Limited on the basis of consolidated financials of the entity. List of subsidiaries getting consolidated at WEL as on March 31, 2023 are annexed in Annexure 6.

Outlook: Stable

The stable outlook on the CARE A rating of WEL reflects CARE Ratings' opinion that the company will be able to execute the under-construction cell capacity in a timely manner and ramp up its production as per envisaged timelines. Further, the outlook is supported by the expected robust demand for domestically manufactured solar modules over the near to medium term.

Detailed description of the key rating drivers:

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 12 GW module manufacturing capacity at present. In addition to solar module manufacturing, the Waaree group 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 ~9 GW as per the ALMM order dated January 24, 2024, 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 two year as reflected by module manufacturing capacity of 12 GW at present as against 4 GW capacity as on FY22 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. 6,800 crore in FY23 as against Rs. 2,880 crore in FY22. Going forward, CARE Ratings expects the operating income to be remain above Rs. 10,000 crore for FY24 given the increased operational capacity and healthy order book position in place.

Healthy order book position and diversified customer profile

The order book of the company has improved significantly during last 12-18 months as reflected by an order book of ~20 GW approximating to ~Rs 47,000 crore as on December 2023 end against an order book of ~10 GW approximating to ~Rs 25,000 crore as on December 2022 end. This improvement in order-book position is primarily driven by increased export orders which constitute a major part of orders-in-hand. Most of the current export orders are from the U.S. as there are a lot of barriers for Chinese imports in the U.S. The domestic sales constituted ~80% of the overall sales in FY22, however, in FY23, its share dipped to ~32%. 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 improved through two rounds of equity funding in which WEL raised ~Rs. 2000 crore and the promoters have diluted ~28% stake in the company. The latest round of equity infusion happened in August 2023 and CARE Ratings had also expected the company to draw ~Rs. 2500 crore debt for its ongoing capex. While WEL has obtained a sanction for the said amount, the management has not drawn any loan as the liquidity position was supported due to healthy customer advances. While the mentioned debt would be drawn over the near term, the management has articulated that the quantum of debt would be lower by ~Rs. 400-500 crore thereby resulting in a better than expected capital structure.

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

The demand prospects for domestic module manufacturers remain buoyant on account of reimposition of approved list of module manufacturers (ALMM) from April 01, 2024. During FY24, despite the ALMM remaining in abeyance, the company benefitted from its healthy order book from overseas geographies, particularly the U.S. market which has banned Chinese imports thereby improving the competitive position of Non-Chinese manufacturers. Further, 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 01, 2022, is expected to be a key growth driver for the domestic manufacturers by making them cost-competitive compared to Chinese players. Additionally, 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.

Going forward, CARE Ratings expects the demand prospects for WEL to remain strong in the domestic market, given the favourable policy support by the Government. Further, the U.S. market is expected to remain attractive for another 2-3 years as the domestic capacities that are being set up in the U.S. as a part of the inflation protection act, may take a similar time to come online.

Key weaknesses

Susceptibility of profitability to volatility in raw material prices and foreign exchange rates

The operating margins of the company has improved as reflected by EBITDA margin of 13.0% in FY23 as against 4.6% in FY22, however the same 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 fluctuations in the past two years. Though WEL undertakes order-backed procurement with price indexation 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 of the company. CARE Ratings, estimates the profitability margins to remain in double digits in FY24 and expects a similar trend over the near to medium term.

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. The capex is proposed to be funded through a mixture of proceeds of first round of 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.

Further, CARE Ratings notes that WEL has won 6 GW capacity under production linked incentive (PLI) Tranche 2 for setting up module manufacturing facility through backward integration. The capital outlay of this upcoming project is estimated ~Rs 9000 crore and the management has proposed to fund the same through a mixture of equity proceeds, IPO proceeds and internal cash accruals upto ~Rs 4000 crore and remaining ~5000 crore would be funded through a long-term debt which has already been tied up.

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.

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.

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.

Liquidity: Adequate

The liquidity position of the company is adequate as reflected by cash and bank balance aggregating to ~Rs. 2250 crore as on December 31, 2023 at standalone level. Additionally, the company has working capital limits of Rs. 105 crore. As per CARE Ratings base case scenario, the internal accruals are expected to be adequate to service its debt obligations.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Short Term Instruments

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

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 12 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: WEL Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	2880	6798
PBILDT	132	882
PAT	81	500
Overall gearing (times)	0.8	0.5
Interest coverage (times)	3.2	10.7

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-Cash Credit		-	-	-	105.00	CARE A; Stable
Fund-based - LT-Term Loan		-	-	September 2027	118.89	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 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-Term Loan	LT	118.89	CARE A; Stable	-	1)CARE A-; Stable (07-Feb-23) 2)CARE BBB; Stable	-	-

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
						(23-Jun-22)		
2	Fund-based - LT-Term Loan	LT	2200.00	CARE A; Stable	-	1)CARE A-; Stable (07-Feb-23)	-	-
3	Fund-based - LT-Cash Credit	LT	105.00	CARE A; Stable	-	1)CARE A-; Stable (07-Feb-23)	-	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	394.00	CARE A; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (07-Feb-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA

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

Annexure-6: List of all the entities consolidated

Entity Name	Country of incorporation	% Shareholding	Rationale for consolidation
Blue Rays Solar Pvt Ltd	India	100.00%	Subsidiary
Rasila International Pte Ltd	Singapore	99.99%	Subsidiary
Waaneep Solar One Pvt Ltd	India	100.00%	Subsidiary
Waaree Renewable Technologies Ltd	India	74.51%	Subsidiary
Waaree Power Pvt Ltd	India	100.00%	Subsidiary
Sangam Solar One Pvt Ltd	India	100.00%	Subsidiary
Sangam Solar Two Pvt Ltd	India	100.00%	Subsidiary
Sangam Solar Three Pvt Ltd	India	100.00%	Subsidiary
Sangam Solar Four Pvt Ltd	India	100.00%	Subsidiary
Indosolar Limited	India	96.15%	Subsidiary
Waaree Solar America Inc.	USA	100.00%	Subsidiary
Sangam Rooftop Pvt Ltd	India	100.00%	Step-down subsidiary
Waasang Solar Pvt Ltd	India	100.00%	Step-down subsidiary
Waasang Solar One Pvt Ltd	India	100.00%	Step-down subsidiary
Waaree PV Technologies Pvt Ltd	India	100.00%	Step-down subsidiary

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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