Inox Air Products Private Limited

January 21, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Instruments – Non Convertible Debenture	320.00 (Reduced from 390.00) (Rs. Three hundred and Twenty crore only)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	Revised from CARE AA; Positive (Double A; Outlook Positive)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the Non-Convertible Debenture (NCD) issue of Inox Air Products Private Limited (IAPPL; CIN No: U24999MH1963PTC012625) reflects its sustained improvement in its operating performance driven by improved market share backed by significant capacity additions in both merchant and onsite segments y-o-y. IAPPL has a healthy mix of merchant and onsite plants which 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. The rating further factors in the strong performance of IAPPL witnessed despite the current pandemic year owing to widespread application of its gases, wherein decline in demand from the industrial segment was more than compensated by increased demand for medical oxygen during H1FY21. As such, the newly set up merchant facilities were able to ramp up production in an accelerated manner, ensuring the total capacity utilisation from 57% in Q1FY21 to 95% in Q2FY21. This momentum has been sustained in the second half of the year as well owing to pick up of industrial activity, thus boosting demand for IAPPL. CARE notes that optimum capacity utilization of the manufacturing facilities coupled with improved operating profitability has led to an improvement in return on operating capital employed[2] during the year.

The rating also continues to favourably factor IAPPL's strong financial risk profile marked by consistent and strong cash flow from operations and low leverage profile. The leverage, debt coverage and liquidity indicators continue to remain comfortable as majority of the capex is funded using internal accruals, which is likely to be the trend going forward as well. IAPPL is continuously expanding its capacities particularly in the merchant segment in order to capture more market share as well as to increase its geographical presence. It has planned capex of ~Rs. 800 crore which is expected to commercialise in a phased manner from FY22-FY24. The rating comfort from the fact that there has been no support extended by IAPPL to other related entities, in the form of loans and advances or corporate guarantees in the past and that it is not likely to be extended in the future as well.

The rating strengths are, however, tempered by intensely competitive nature of the commoditized industrial gas business and exposure to cyclical demand from the end user industries especially the Steel Industry. Further, business entails the large upfront capital expenditure for setting up plants (both on-site and Merchant segment) and payback is dependent upon the nature of contracts.

Outlook: Revised from Positive to Stable

The stable outlook factors in the leading market position of the company with its widespread geographical presence which is likely to support operating performance of the company and generate stable cash flows going forward.

Rating Sensitivities

Positive Sensitivities

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

Negative Sensitivities

- Sustained decline in its RoCE below 15%
- Any large debt funded capex/ acquisition thereby deteriorating the Total Debt / EBITDA over 2.0x on sustained basis.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

[2] Operating capital employed = capital employed adjusted for cash and investment balance

Detailed description of the key rating drivers
Key Rating Strengths

Established track record and experienced promoters in the field of industrial gases industry
IAPPL is a joint venture between the Jain Family and Air Products & Chemical Inc., USA with each partner holding a 49.74% stake. IAPPL derives significant technological and managerial support from Air Products and Chemicals Inc (APCI, rated 'A/Stable/A-1' by S&P Global Ratings), a leading international corporation in the field of industrial gasses industry with sales of $8.9 billion in FY19 (refers to October 01 to September 30 period) from operations in 50 countries and a current market capitalization of about $60.8 billion[3]. Further, APCI has also provided financial support by providing 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 team of well qualified professionals for heading various functional departments.

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 operation is one of the leading players in this industry and has strong market presence with plants across 45 locations all over India (Including onsite plants). The business profile of the company consists of three main segments, namely Onsite sales, Merchant sale and sales through packaged cylinders. Further, the products supplied by the company find application in wide varied industries like steel, chemicals, food processing, packaging medical and pharmaceutical etc. However, IAPPL derives ~41% income from steel sector (majorly through onsite facilities) and the remaining from other sectors. Although, this exposes to end user segment concentration risk, however, given the critical nature of the product supplied as well as presence of long term minimum take or pay agreement with onsite customers reduces the concentration risk to large extent. CARE has taken cognizance that during H1FY21 when industrial demand was low owing to lockdown restrictions on the back of CoVID-19 pandemic, surge in demand for medical oxygen supported revenues and margins of the company. As such, immediately after the initial lockdown restrictions were lifted, IAPPL was able to ramp up operations of its existing and newly commissioned merchant plants to fulfil the surge in demand.

Assured nature of revenue for onsite installation providing revenue stability and visibility
In 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 provision to sell the excess production to other merchant customers. During FY20, 35% of its total revenue was contributed by this segment. The main operating cost i.e. power cost is borne by the customer while operating and maintenance cost is borne by the company. Further, there is price escalation cost inbuilt in these contracts which are generally linked to WPI and this takes care of the variable cost. Further the company has also executed mid-term contracts in the range of 3-5 years for merchant sales which also provides revenue visibility and stability.

Healthy operating performance witnessed in FY20; momentum to continue in FY21
IAPPL continued to exhibit a stable performance in FY20 with 12% growth in TOI (Total Operating Income) on a YoY basis on the back of gradual ramping up of newly added capacities. IAPPL commissioned 3 merchant plants with an aggregate capacity of 630 TPD and one onsite plant in the second half of FY20. It also acquired 2, 1200 TPD air separation units and leased the same to Jindal Steel and Power Limited in Q4FY20. In the current financial year, in the first half while industrial demand was low owing to lockdown restrictions, surge in demand for medical oxygen support revenues of the company. This also allowed IAPPL to ramp up operations of the newly added merchant facilities in an accelerated manner ensuring ~90% capacity utilization levels. This momentum has sustained in the second half of the current year as industrial activity has picked up pace. High utilization of capacities also led to improved operating profitability in the current year with PBILDT margins increasing to 47.60% in H1FY21 as compared to 41.47% in FY20. This also led to an improvement in return on capital employed which increased to 21.21% in H1FY21.

Strong financial risk profile
IAPPL continued to have strong financial risk profile marked by a favorable and improved capital structure and debt coverage IAPPL continued to have strong financial risk profile marked by comfortable capital structure and debt coverage indicators. The overall gearing further moderated to 0.37x as on March 31, 2020 as against 0.24x as on March 31, 2019, primarily because of a temporary short term loan of Rs. 620.68 crore availed by the company to finance the acquisition of two air separation units of 1200 TPD capacity each and leasing the same to Jindal Steel and Power Limited. Part of this loan was refinanced by availing a term loan of Rs. 170 crore from HDFC Bank and the rest was paid off by using internal accruals and by liquidating investments. Consequently, overall gearing reduced to 0.20x as on September 30, 2020. Interest coverage

[3] As on November 25, 2020

remains healthy at 10.25x in FY20 and improved to 11.16 in H1FY21. CARE 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 industrial gas industry

The industrial gas industry is highly competitive due to the commoditized nature of the product and the company faces stiff competition from the Indian subsidiaries of the international majors Praxair India Pvt Ltd, Linde India Ltd and Air Liquidate India Holdings. Apart from purity there is limited product differentiation and thus the merchant segment faces stiff competition from other domestic players and players from unorganized segment leading to limited ability to pass on the rise in input cost. Further the demand for industrial gasses also depends upon performance of the manufacturing sector especially the steel industry which is also cyclical in nature. The business profile of the company is capital intensive in nature with 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.840.66 crore as on September 30, 2020, un-utilised fund based bank facilities to the tune of ~93% of the sanctioned limit of Rs.73 crore coupled with stable cash flow operating activities. The company is projected to generate gross cash accruals of Rs.591.97 crore in FY21, as against this the company has a gross loan repayment of Rs.97.03 crore in FY21. Further, up to Dec. 31, 2020 the company has repaid about Rs. 76.63 crore of scheduled loan repayment.

Analytical approach: Consolidated

CARE has considered consolidated financials of IAPPL and its JV Bellary Oxygen Company Private Limited (BOCPL); where in IAPPL holds 50% stake in BOCPL as on March 31, 2020. Both IAPPL and BOCPL are in similar line of business, have common management (to the extent of its holdings) and has operational linkage with IAPPL.

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-Manufacturing Companies
- Financial ratios – Non-Financial Sector
- Rating Methodology for Consolidation
- Rating methodology- Liquidity analysis of Non- Financial Sector companies

About the Company

Founded in 1963, Inox Air Products Pvt Ltd (IAPPL) is a joint venture company between the Jain Family and Air Products and Chemical Inc., USA 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, Acytelene (DA) Nitrous Oxide 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, headquarters in Allentown, Pennsylvania. APCI serves customers in technology, energy, healthcare, food and 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 Fluorochemicals, PTFE, Cryogenic equipment, oil field equipment and wind turbines, apart from Industrial Gases.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

(Rs. Crore)	FY19 (A)	FY20 (A)	H1FY21 (UA)
Total Operating income	1416.90	1,583.33	845.13
PBILDT	597.84	656.65	402.25
PBT	458.03	487.12	263.92
PAT	310.66	465.37	195.50
Overall Gearing (x)	0.24	0.37	0.20
Interest Coverage (x)	9.61	10.25	11.16

A: Audited, UA=Un-Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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	December 31, 2013	10.85 %	December 31, 2021	60.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE321A07159	December 31, 2013	10.85 %	December 31, 2022	60.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE321A07167	December 31, 2013	10.85 %	December 31, 2023	200.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	320.00	CARE AA+; Stable	-	1)CARE AA; Positive (29-Jan-20)	1)CARE AA; Positive (04-Feb-19)	1)CARE AA; Stable (20-Mar-18)

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 the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact-1
Name: Arti Roy
Contact No: 9819261115
Email ID- arti.roy@careratings.com

Analyst Contact-2
Name: Mr. Sudarshan Shreenivas
Contact No: +91-22-6754 3566
Email ID- sudarshan.shreenivas@careratings.com

Relationship Contact
Name: Mr. Saikat Roy
Contact no. +91-22-6754 3404
Email ID: saikat.roy@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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