# Waaree Energies Limited

June 23, 2022

**Rating**

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 200.57 | CARE BBB; Stable<br>(Triple B; Outlook: Stable) | Assigned |
| **Total Bank Facilities** | **200.57<br>(₹ Two Hundred Crore and Fifty-Seven Lakhs Only)** | | |

Details of instruments/facilities in Annexure 1

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the bank facilities of Waaree Energies Limited (WEL) factors in the company's established market position in the solar photovoltaic (PV) module manufacturing industry and its growing scale as reflected by increase in production and sales over the last few years. The rating also derive comfort from WEL's healthy order book position which provides revenue visibility over the medium term, strong customer profile comprising of leading developers, and favourable demand outlook for domestically manufactured solar modules especially post imposition of basic customs duty (BCD) of 40% and 25% on imported solar modules and solar cells respectively from April 2022.

Nevertheless, the rating remains constrained on account of WEL's modest and fluctuating profitability margins over the years, vulnerability of its 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 from domestic as well as from global module manufacturers. The company is further exposed to the performance risk of modules. CARE also factors in the execution risks pertaining to the proposed implementation of large-scale projects pertaining to setting up of 4 GW solar cell capacity (backward integration) and additional module capacity of 2 GW in phases over the next 12-15 months. The company has planned for an initial public offering (IPO) in Q2 FY23 to raise sizeable equity, which will be used for funding the first phase of the proposed capex.

**Rating Sensitivities**

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

- Significant improvement in scale of operations along with sustained improvement in profitability
- Successful completion of impending capex without any time/cost overrun
- Successful completion of IPO with issue size of Rs 1,500 crore as envisaged

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

- Deterioration in financial risk profile on account of lower than envisaged profitability margins and weakening of liquidity profile
- Any major time and cost overrun for the construction of ongoing capacity expansion project

**Detailed description of the key rating drivers**

**Key Rating 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 has recently become the largest solar module manufacturer on India post completion of its 2 GW module capacity expansion project in March 2022. In addition to solar module manufacturing, the company also undertakes Engineering, Procurement and Construction (EPC) for solar power plants, which contribute 3-5% to total sales. The company derives 55% revenue from domestic sales to utilities and enterprises, 25% from exports and the remaining 20% from franchisee sales.

WEL is also part of the Approved List of Module Manufactures (ALMM) for solar PV module manufacturing in India having enlisted capacity of 2.1 GW as per the ALMM Order dated April 05, 2022, as released by the Ministry of New & Renewable Energy (MNRE).

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

**Growing manufacturing capacity with improvement in production and sales over past few years**

WEL has gradually increased its module manufacturing capacity over the past 3-4 years, from 0.50 GW at the start of fiscal 2019 to 4 GW at the end of fiscal 2022. Consequently, the size and scale of company's operation has witnessed healthy growth at the back of satisfactory capacity utilisation of plants, with WEL registering a CAGR of around 22% in operating income over FY18-FY20. While the growth the momentum was arrested in FY21 on account of the disruptions due to the Covid-19 pandemic, the company is estimated to register a robust y-o-y growth of around 40% in operating income in FY22, at the back strong recovery in domestic sales and healthy growth in export sales.

**Healthy order book position and strong customer profile comprising of leading developers**

The solar module order book of the company has remained healthy over the last few years and stood at over Rs. 9,700 crore as on May 9, 2022. Export orders, which has witnessed strong growth in the past two years, constitute around 72% of the orders-in-hand. Most of the current export orders are from the United States market where WEL has been expanding its presence over the past 2-3 years. Furthermore, the domestic orders are from various strong customers comprising leading developers such as Renew group and Tata Power.

**Satisfactory capital structure and debt protection metrics**

The capital structure of the company is satisfactory with the estimated overall gearing (including LC/bill discounting) as on March 31, 2022, being around 1.25 times (1.60 times as on March 31, 2021). Debt coverage indicators also remain satisfactory as reflected by interest coverage of over 3.0 times estimated for FY22. While the company is expected to avail debt amounting Rs. 927 crore in FY23 to fund the second phase of the planned capex, the capital structure is expected to remain satisfactory with overall gearing of around 0.80-1.20 times over the medium term.

**Favourable demand for domestic solar modules**

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 basic custom duty (BCD) of 40% and 25% on imported solar modules and solar cells respectively from April 1, 2022, is expected to be a key growth driver for the domestic manufacturers by making them cost-competitive compared to Chinese players. Additionally, the requirement of procuring solar modules from only suppliers which included in ALMM and 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.

**Key Rating Weakness**

**Modest and fluctuating profitability due to susceptibility to volatility in raw material prices and foreign exchange rates**

The operating margin of the company remains modest and stood at 4.1-5.1% over past three years. Furthermore, the profitability remains susceptible to risks of fluctuations in prices of raw material which include polysilicon, wafer, solar cells, aluminium panels, and glass. The key raw material viz. solar cells which constitutes about 50% of the total raw material cost, has witnessed sharp increase in costs in the past. Though WEL undertakes order-backed procurement to mitigate this risk, any sharp rise in input cost would adversely impact the company's profitability. Moreover, WEL imports majority of its solar cell requirements from China and other Southeast Asian markets, which exposes the company to the risks arising out of foreign exchange movements. However, the forex risk is partially mitigated by the natural hedge on account of export of modules and hedging of the balance portion by WEL.

**Execution risk for under-implementation large scale projects**

WEL has large capacity expansion project under-construction, which entails setting up 4 GW in-house solar cell manufacturing capacity as part of its backward integration strategy, in addition to enhancing the solar module capacity by additional 2 GW. The project is planned to be undertaken in two phases, with WEL currently focusing on phase-1 of setting up 2 GW solar cell line and enhancing solar module capacity by 1 GW. The capex will be funded through proceeds from the proposed IPO, which is expected to be completed by Q2 FY23. Hence, successful completion of proposed IPO and raising of the requisite equity as envisaged will be a key rating sensitivity factor.

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.

**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. Around 80-85% of the solar modules used in India is estimated to be imported from international players, as domestic capacity is currently inadequate to meet demand. China continues to remain the largest exporter to India, with a share of around 80% in overall imports. Other countries like Vietnam, Singapore and Thailand have also emerged as major suppliers to India in recent years.

**Performance risk of modules**

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 two years. Furthermore, WEL has been making adequate provisions for warranty, thereby mitigating itself from any kind of inadvertent claims that may arise in future.

**Liquidity: Adequate**

As on March 2022 end, WEL had unencumbered cash balance/liquid investments aggregating Rs. 167 crore, in addition to unutilised fund-based bank lines amounting Rs. 26 crore. Furthermore, the internal accruals are expected to be adequate to service its debt obligations. As per CARE's base case, annual gross cash accruals (GCA) for FY23 are expected to be around Rs. 120-130 crore, as against debt repayment of Rs. 82 crore during the year.

**Analytical approach:**

CARE has rated WEL on the basis of consolidated financials of the entity.

**Applicable Criteria**

Policy on default recognition
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Infrastructure Sector Ratings
Solar Power Projects

**About the Company**

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 4 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 (Rs. crore) – Consolidated | 31-03-2020 (A) | 31-03-2021 (A) | H1FY22 (UA) |
|---|---|---|---|
| Total operating income | 1,998 | 1,969 | 1,343 |
| PBILDT | 94 | 101 | 39 |
| PAT | 42 | 48 | 8 |
| Adjusted overall gearing (times) | 1.06 | 1.60 | NA |
| Interest coverage (times) | 2.90 | 3.40 | 1.86 |

A: Audited; UA: Unaudited; NA: Not 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 the rated 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 | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | 9.5% | September 2027 | 200.57 | CARE BBB; Stable |

**Annexure-2: Rating History of 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-Term Loan | LT | 200.57 | CARE BBB; Stable | - | - | - | - |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities –** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No | Name of Instrument | Complexity level |
|---|---|---|
| 1 | Fund-based - LT-Term Loan | Simple |

**Annexure-5: Bank lender details for this company**

| |
|---|
| **To view the lender wise details of bank facilities please** click here |

**Note on complexity levels of the rated instrument:** CARE 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: Jatin Arya
Contact no.: +91-11-4533 3246
Email ID: jatin.arya@careedge.in

**Relationship Contact**
Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saikat.roy@careedge.in

**About CARE Ratings Limited:**
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
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.



****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**