

Inox Wind Limited

May 29, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	223.33	CARE A-; Negative [Single A Minus; Outlook: Negative]	Revised from CARE A-; Stable [Single A Minus; Outlook: Stable]
Total Facilities	223.33 (Rs. Two hundred twenty three crore and thirty three lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Inox Wind Limited (IWL) continues to take into account healthy order book position, presence of the resourceful promoter group, viz, INOX group and experienced management, satisfactory market position of Inox Wind Limited (IWL) being one of the leading Wind Turbine Generator (WTG) manufacturers in India, vertical integration with capabilities in WTG manufacturing, Engineering, Procurement & Construction (EPC), Operations & Maintenance (O&M) and project development and satisfactory capital structure. The rating also derives comfort from access to pipeline of probable wind project sites and access to technology from AMSC Windtec GmbH, Austria and WIND Novation Engineering Solutions GmbH, Germany.

These rating strengths are, however, tempered by weak financial performance in FY18 with cash losses incurred on account of delay in commencement of execution on new projects, risks pertaining to technological and regulatory changes in the industry, execution & performance risks, high receivables position and working capital intensive nature of operations though the same is expected to improve as PPA signing will be upfront under the new regime, and exposure to volatility in input costs & forex rates.

Going forward, further improvement in working capital cycle, IWL's ability to successfully execute existing orders in timely manner, improve its order book position as well as sustain its market position and profitability, any change in government policies and regulations, any higher than envisaged capex impacting financial risk profile would be the key rating sensitivities. Also, stance of need based and timely support from its parent would be critical.

Outlook: Negative

The outlook for the rating is revised to 'Negative' on account of muted execution of new projects and high receivable levels. Minimal execution of new orders led to weak financial performance during FY18 and realization of receivables was slower than envisaged. If the trend sustains, it can impact the financial risk profile of the company. The outlook may be revised to 'Stable' if the company is able to improve its financial performance and receivables position.

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable order book, though execution of the same crucial: As wind power industry underwent transition from feed-in-tariff (FIT) based mechanism to reverse auction based mechanism, the company's earlier order book became irrelevant given the uncertainty in the tariff structure of wind projects in various states. The company has started rebuilding its order book through auction based mechanism. As on May 2018, the company has an outstanding order book of 950 MW. The company had won 250 MW capacity each in SECI Phase-I and SECI Phase-II auctions completed in February 2017 and October 2017, respectively. Also, the company has received EPC contract aggregating 100 MW from Adani (50 MW capacity each won in SECI Phase I and Phase II auctions). Further, the company have won additional 350 MW capacity in various auctions conducted during Q4FY18 and Q1FY19 so far (SECI Phase III, Phase IV and Maharashtra

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

state auction). The company has already down sold the 250 MW capacity won in SECI Phase-I to two IPPs and is in the process of down selling the 250 MW capacity won in SECI Phase-II. Execution on the new order book is slower than envisaged, with minimal execution and weak financial performance during FY18.

Going forward, ramping up of existing order book by winning additional wind capacities in future bids while sustaining the profitability shall be crucial from credit perspective.

Strong Promoter group: IWL is part of INOX Group with presence in various businesses including Industrial Gases, Refrigerants, Chemicals, Renewable Energy and Entertainment sectors. IWL's promoter and the parent company, GFL which is the largest producer of refrigerants and polytetrafluoro ethylene in India by volume, is the majority shareholder in IWL. During FY18, GFL facilitated raising of Rs 300 crore of non-convertible debentures (NCDs) by Inox Wind Infrastructure Services Ltd (IWISL) by providing a corporate guarantee. Demonstrated parent support and financial flexibility available being a part of strong group, provide comfort. During March 2018, the company completed its OFS to comply with SEBI listing requirements reducing promoter holding to 75%.

One of the leading players in WTG manufacturing, Technology tie-ups with AMSC Austria and WINDnovation, Germany: IWL is one of the leading Wind Turbine Generator (WTG) manufacturers in India and provides integrated wind energy solutions with majority of the orders being executed on a turnkey basis. IWL manufactures key components including Blades, Towers, Hubs and Nacelles in-house. The company has a perpetual license from AMSC Austria GmbH, a leading wind energy technology company based in Austria, to manufacture 2 MW WTGs in India based on AMSC's proprietary technology. Also, IWL has taken over the rights to make Electronic Control Systems (ECS) for 2 MW WTGs from AMSC which will further help in integrating the supply chain of WTG manufacturing. The company also has non-exclusive licenses from WIND novation Engineering Solutions GmbH (based in Germany), for custom-made-rotor blade-sets in variants of 93.3, 100 and 113 meter rotor blades.

Developments in wind industry to provide visibility to future projects for WTG developers: Renewable energy technologies have been supported by a number of fiscal and policy initiatives taken by the central and various state governments. While the government's focus on renewable power is expected to result in long-term opportunities for the sector, competitive intensity has increased in auction based mechanism. Also, in December 2017, GoI through MNRE came out with new guidelines under Section 63 of Electricity Act, 2003 providing a framework for procurement of wind power through bidding including standardization of the process and defining of roles and responsibilities of various stakeholders. These guidelines are expected to provide boost to wind power sector as it would facilitate the windy states to go for bidding process for procurement of wind power themselves. Also, central government bids through SECI have already been a success in the past. Additional such bids along with state bids are expected to add the much required certainty to project visibility for various WTG manufacturers in India.

Thus, ability of IWL to improve its order book position while improving its profitability shall be crucial.

Key Rating Weaknesses

Weak financial performance in FY18: During FY18, the company reported operating income of Rs.504.20 crore and losses of Rs.187.61 crore as against operating income of Rs.3484.85 crore and PAT of Rs.302.76 crore during FY17. The company operating income declined by around 85% at consolidated levels on account of lower commissioned capacity (company commissioned 182 MW in FY18 as against 656 MW in FY17 and 786 MW in FY16). While the company has healthy order book of 950 MW now, execution on the same in timely manner would be crucial. Also, with increased competitive intensity in the industry, profitability margins would be under pressure.

High working capital intensity of the business: The company's business is working capital intensive and it continues to have high receivables position, though the same has improved in the current financial year. The receivable level as on March 31, 2018 has come down to Rs.1338.67 crore as compared to Rs.2382.3 crore as on March 31, 2017 at consolidated levels with further collection of around Rs.200 crore of receivables in FY19 so far, but remains elevated considering significantly lower revenue booked during FY18.

While, working capital intensity of the company's business is expected to be relatively better as the PPAs signing will be upfront under the reverse auction based mechanism, realization of old receivables would be crucial. The company had

cash & bank balance of Rs.126.68 crore on a consolidated level as on March 31, 2018, as against Rs.419.50 crore as on March 31, 2017.

Exposure to volatility in input costs and forex: The company derives all of its revenue from fixed price contracts. Although the company generally procures raw materials and components in advance, unanticipated increase in costs or delays in performing part of fixed price contract can negatively impact the profitability. Also, the company imports significant portion of raw materials & components (around 60% for FY17), which exposes the company to the risk of any adverse movement in foreign currencies.

Technological and competition risks: The company faces risks arising from technological changes and increasing competition. The industry continues to be competitive in nature as customers look for efficient and cost effective machineries/WTGs. Furthermore, the company's financial performance would be dependent on the performance of commissioned capacities as any negative deviation in the performance of the turbines could lead to penalties and loss of trust among the customers.

Analytical approach: CARE has taken a consolidated view of IWL.

Applicable Criteria

[Rating Methodology: Manufacturing Companies](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[Financial ratios – Non-financial sector](#)

[CARE's Policy on Default Recognition](#)

About the Company

IWL was incorporated in April 2009 by Gujarat Fluorochemicals Limited (GFL), the flagship company of the INOX group. INOX group is having presence in various businesses including Industrial Gases, Engineering Plastics, Refrigerants, Chemicals, Cryogenic Engineering, Renewable Energy and Entertainment sectors. Besides IWL and GFL, other key companies in the INOX Group include Inox Air Products Limited, Inox India Limited and Inox Leisure Limited. IWL is engaged in manufacturing of WTGs and in providing turnkey solutions for wind power projects including wind resource assessment, site acquisition, and infrastructure development, supply of WTG, erection and commissioning, and long term operations and maintenance. Since commencing operations in March 2010, IWL has emerged as one of the leading WTG manufacturers in India.

Brief Financials – IWL Consolidated (Rs. crore)	FY17 (A)	FY18 (Brief Audited)
Total operating income	3484.85	504.20
PBILDT	611.80	-56.97
PAT	302.76	-187.61
Overall gearing (times)	0.77	0.41
Interest coverage (times)	4.11	NM

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.

Analyst Contact:

Name: Mr Gautam Bafna

Tel: 011-4533 3256

Mobile: +91-98914 93443

Email: gautam.bafna@careratings.com

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

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	Mar-2022	223.33	CARE A-; Negative

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	223.33	CARE A-; Negative	-	1)CARE A-; Stable (03-Jan-18) 2)CARE A-; Negative (18-Aug-17) 3)CARE AA-; Negative (21-Jul-17) 4)CARE AA-; Stable (23-May-17)	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaia Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691