February 28, 2023

RenewSys India Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Cash credit	57.50	140.00	[ICRA]A- (Stable); reaffirmed/assigned
Long term- Fund based- Term loan	60.00	373.06	[ICRA]A- (Stable); reaffirmed/assigned
Short term- Non-fund-based- Others	94.50	125.00	[ICRA] A2+; reaffirmed/assigned
Unallocated Limits	338.00	111.94	[ICRA]A-(Stable)/ [ICRA] A2+; reaffirmed/assigned
Total	**550.00**	**750.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the established presence of RenewSys India Private Limited (RenewSys) as one of the leading market players in the domestic solar module manufacturing industry. In addition, RenewSys is backward integrated into manufacturing of Encapsulants (EVA, POE, EPE) and Backsheet and has a small capacity for photovoltaics (PV) cells. It enjoys healthy market position in Encapsulants and Backsheet market. ICRA notes that the company is undertaking a large debt-funded capex with planned capacity enhancement to 3.5 GW in PV modules and 48.3 million square metre (Msqm) in Encapsulants, which will further cement its market position in the industry.

The ratings favourably consider the company's healthy revenue growth over the past few years, expected to be sustained over the medium term with the expansion in capacities across various segments. ICRA takes note of the conservative capital structure and healthy debt metrics with interest cover of 11.2 times and total debt /OPBIDTA of 1.8 times in FY2022. Notwithstanding the ongoing debt-funded capacity expansion that would result in some moderation in the coverage indicators in the near term, ICRA expects the credit profile to remain comfortable, supported by healthy profits and cash generation as the business scales up further.

Additionally, the rating factors in the favourable demand outlook for domestic solar module manufacturers, driven by the strong policy thrust from the Government of India (GoI). Measures such as the imposition of basic customs duty (BCD) on imported solar PV cells and modules from April 2022, the anti-dumping duty (ADD) on EVA and Backsheet, the domestic content requirement (DCR) for select projects and the requirement to procure modules from manufacturers listed in the Approved List of Module Manufacturers (ALMM) which currently enlists only domestic manufacturers, will support the growth of the module manufacturing sector. While there has been some delay in implementing ALMM supplies, besides the inventory stock up prior to the implementation of BCD that curtailed the growth in the current fiscal, the medium-term prospects for module manufacturers remain strong. However, the uncertainty around the implementation of the ALMM scheme to cater to the large solar capacity addition in pipeline that were bid prior to March 2021, continues to be a monitorable.

The ratings, however, remain constrained by RenewSys's profitability being susceptible to the volatility in the price spread between PV modules and cells, other raw material prices (including polysilicon, aluminium, wafer, glass and copper) and foreign exchange fluctuations, as most of the raw material is imported and constitute a significant portion of its cost structure. ICRA notes that the domestic module manufacturing sector is characterised by high competitive intensity and continues to attract new players, on the back of policy support to facilitate the transition towards green energy keeping the profitability under check. Further, the domestic solar module manufacturing industry also faces competition from imports, which is likely to remain with the proposed deferment of the ALMM scheme. The favourable policy environment has supported the competitiveness of the domestic industry and the continuation of the same remains critical for encouraging domestic production. Moreover, there is continuous innovation on the product side in the global market and the company needs to continuously upgrade and invest in product development to keep abreast of the evolving technology. Also, ICRA notes that RenewSys offers product warranty for 10 years and limited power output warranty for 25 years, which exposes it to risks pertaining to any devolvement of warranties, though there have been no such claims till date.

The Stable outlook reflects ICRA's expectation that RenewSys would be able to scale up its revenues, driven by commercialisation of new capacities within the expected timelines and the favourable outlook for domestic module manufacturers, while attaining healthy coverage indicators in FY2024-25.

Key rating drivers and their description

Credit strengths

Established presence in solar module manufacturing industry with backward integration- RenewSys is an established player in the manufacturing of PV cells, Encapsulants , Backsheet and Solar modules with a current installed capacity of 1,772 MW making it one of the largest solar module manufacturers in India. The company enjoys an operational track record of over 11 years catering to reputed market players such as Fourth Partner Energy Private Limited, Waree Energies Ltd and Premier Energies Ltd. among others, which indicates its comfortable market position. RenewSys's manufacturing capacity is planned to be increased to 3.5GW for PV modules by September 2023 and for Encapsulants to 48.3 Msqm by June, 2023. Further, its operations are backward integrated with manufacturing capacities of 130 MW cells, 29.0 Msqm of Encapsulants and 19.96 Msqm of Backsheet as on September 30, 2022.

Favourable demand outlook for domestic module manufacturers aided revenue growth- The company reported an OI of Rs 1194.4 crore in FY2022, demonstrating an YoY growth of 51%. The growth was supported by higher realisations from modules and components and increased demand with the various capacity expansion projects being undertaken by the company. The established presence of the company along with the enhanced capacity is expected to benefit the business in the form of high-value orders from reputed market players in the short to medium term. The management plan to use a mix of contract manufacturing and made to order business going forward, to ensure a balanced penetration for the company in the Indian market.

Further, the demand outlook for the domestic solar module manufacturers remains favourable over the medium term, driven by enhanced policy focus towards domestic manufacturing with the imposition of BCD on imported cells and modules and other Government initiatives which will further improve the cost competitiveness of the local entities. Further, the requirement of procuring solar modules from suppliers included in ALMM, which features only domestic suppliers at present, if implemented, augurs well for domestic manufacturers, including Renewsys.

Comfortable capital structure and coverage metrics even as some moderation expected in near term- The company has maintained a healthy financial risk profile with a conservative capital structure with a total debt/OPBITDA of 1.8x as on March 31, 2022 owing to the healthy equity infusion from promoters in the past and some delays in capex outlay. Lower debt levels resulted in comfortable coverage metrics with interest cover of 11.2x and NCA/TD of 51.5% in FY2022. However, the company is in the midst of a debt-funded capacity expansion, which would result in a moderation in the credit metrics. The capex outlay of around Rs. 500 crore is funded with over 70% debt. This would moderate the debt protection metrices with peak debt/OPBITDA of over 3x in the near term even as the DSCR would remain comfortable over 1.5x given the longer tenure loans and the presence of a one-year moratorium. ICRA also notes the presence of DSRA for one quarter principal and interest payments that would provide some cushion. Notwithstanding the moderation in debt metrics in FY2023, the total debt/OPBIDTA would be around 2-2.5x and interest cover at 5- 6x over the medium term for the ongoing capex plan.

Credit challenges

Profitability exposed to fluctuations in raw material prices and foreign exchange rates– RenewSys's profitability indicators remain susceptible to fluctuations in raw material prices such as polysilicon, aluminium, solar cells, wafer, glass and copper etc. that have remained volatile in the past as these contribute to a significant portion of the Operating Costs. Further, RenewSys maintains a smaller order backlog of ~45 days to mitigate the price and forex risk for most of its volumes, although it exposes the company to the risks posed by Government regulations due to significant dependence on imports from China for the sourcing of cells. RenewSys is also vulnerable to any adverse movement in foreign exchange rates even as the company's sales price negotiations are in dollar terms factoring in some contingencies.

Susceptible to intense competition and regulatory changes- The domestic solar module manufacturing industry faces competition from imports, considering the price advantage that the latter possess. The end of safeguard duty (SGD) on imports from July 2021 and the implementation of BCD of 25% on cells and 40% on modules from April 2022 have inhibited imports to an extent in H1FY2023. Additionally, EVA has enjoyed protection on account of the ADD since March 2019 for a period of five years. Further despite the imposition of ADD on backsheets in March 2022 and continuing on EVA, the operating profits contracted on the backdrop of pricing lag in raw material sourcing and finished goods orders. Further, with the proposed deferment of the ALMM scheme, due to viability/ profitability of projects awarded prior to March 2021, the competition from imports is likely to remain.

Additionally, given the significant policy push towards domestic manufacturing, the competition is likely to increase, evident from the capex plans by some of the larger players. Further, while the Government's regulations, targets and policies currently support the industry, the company remains vulnerable to changes in policies and tariff barriers.

Risk of technological obsolescence necessitates continuous upgrade of products- The PV module industry, including components such as cells is characterised by continuous product and process innovation, along with the rapid adoption of new technology. Given the risk of technological obsolescence, the industry players are required to undertake continuous upgrades and related investments to sustain the competitive advantage.

Risk of devolvement of warranties on solar modules- The operations remain exposed to risks pertaining to any devolvement of warranties provided on the solar modules. It offers an average product warranty for 10 years and limited power output warranty for 25 years. However, the company creates a provision (on present values) for the same. The warranty claims have been nil till date, which offers assurance on the quality of its products and services.

Liquidity position: Adequate

RenewSys's liquidity is adequate with ~Rs. 82 crore of liquid cash and bank balance as on September 30, 2022 with healthy generation of cash accruals, which is likely to increase with the scale up of business operations. The company has sufficient cushion available in its working capital limits, with an average utilisation of nearly 24% of fund based working capital limits during the past 15 months. Though the company is in debt funded capacity expansion phase, ICRA expects the company to comfortably meet its medium-term debt repayment obligations given the moratorium and a structured five-year repayment schedule for various loans along with the healthy cash accruals.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to demonstrate a significant scale-up in revenues while maintaining healthy profitability levels, coupled with the ongoing project implementation within the estimated timelines and project costs. A specific credit metric that could trigger an upgrade is total debt/OPBIDTA below 2 times on a sustained basis.

Negative factors – Pressure on RenewSys's rating could arise if the company is unable to scale up its operations and improve the profitability in a timely manner or if there is a reduction in the Government's support, or if there is any significant time and cost overrun in the ongoing debt-funded capital expenditure. The company's inability to maintain total debt/OPBIDTA below 2.6 times, on a sustained basis, could also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Renewsys, incorporated in 2011, is a backward-integrated manufacturer of PV modules and its key components namely Encapsulants (Ethylene Vinyl Acetate (EVA) and Polyolefin Elastomer (POE)), Backsheet and PV cells. It is a renewable energy arm of the Enpee Group, a conglomerate established nearly six decades ago having presence in packaging solutions, construction products and services, FMCG (consumer packaged products), energy and chemicals. RenewSys is one of the largest module manufacturing companies in India with 1,772 MW of modules production capacity, which is planned to be increased to 3.5GW by September 2023. Further, its operations are backward integrated with manufacturing capacities of 130 MW cells, 29.0Msqm of EVA and 19.96 Msqm of Backsheet (as on Sept 30, 2022). RenewSys has three existing manufacturing facilities in Hyderabad, Bengaluru and Patalganga, Maharashtra.

Key financial indicators (audited)

Renewsys India Private Limited (standalone)	FY2021	FY2022
Operating income (Rs. crore)	790.8	1194.4
PAT (Rs. crore)	50.3	48.0
OPBDIT/OI (%)	13.9%	8.7%
PAT/OI (%)	6.4%	4.0%
Total outside liabilities/Tangible net worth (times)	0.2	0.6
Total debt/OPBDIT (times)	0.3	1.8
Interest coverage (times)	23.7	11.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (as on Mar 31, 22) (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 28, 2023	Dec 08, 2021	-	May 23, 2019
1	**Fund based – Cash credit**	Long Term	140.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]BB+ (Positive); Withdrawn
2	**Fund based – Term loan**	Long Term	373.06	56.87	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]BB+ (Positive); Withdrawn
3	**Non-fund-based - Others**	Short Term	125.00	-	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A4+; Withdrawn
4	**Unallocated Limits**	Long Term/Short Term	111.94	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]BB+ (Positive)/ [ICRA]A4+; Withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash credit	Simple
Fund based – Term loan	Simple
Non-fund based- Others	Very Simple
Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term - Fund based- Cash credit**	-	-	-	140.00	[ICRA]A- (Stable)
NA	**Long term - Fund based- Term loan**	FY22-FY23	8.25%-9.25%	FY28-FY30	373.06	[ICRA]A- (Stable)
NA	**Short term- Non-fund-based-Others**	-	-	-	125.00	[ICRA] A2+
NA	**Unallocated Limits**	-	-	-	111.94	[ICRA]A-(Stable)/ [ICRA]A2+

Source: *Renewsys India Private Limited*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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