

Press Release

Waaree Energies Ltd (WEL).

March 7, 2019

Rating

Instrument / Facility	Amount	Rating	Rating Action
NCD Series – II	Rs.55.00 crore	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Revised from IVR BB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)
NCD Series – I	Rs.45.00 crore	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Withdrawn

Details of Facility are in Annexure 1

Detailed Rationale

The revision in the rating factors in the substantial reduction in the exposure to group entities by WEL, thereby improving its gearing significantly. The rating derives strength from presence of experienced promoter with long track record, profitable operations with moderate gearing, satisfactory order book position and government’s thrust on the solar energy sector. The ratings are however, constrained by the volatility in the raw material prices and high competition and rapidly changing landscape of solar power industry. Scale of operations, profitability margins and capital structure are the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter with long track record

The group was promoted by Mr. Hitesh Doshi and his brother Mr. Viren Doshi, in the year 1989. It was initially set up as a trading company dealing in instrumentation and pressure gauges and shifted its focus to solar power business in 2007, when WEL was incorporated. The company manufactures solar photovoltaic (PV) modules in Surat, Gujarat, with an installed capacity of 1500 MW, of which 1000 MW capacity was commissioned in August 2018. Apart from this, the company also undertakes EPC projects. They have till now installed solar power

plants with generation capacity of over 500 MW. The promoters have more than a decades satisfactory track record in the in the line of business.

Profitable operations with moderate gearing

The company has consistently posted profits over the last three years and had a PAT margin of 2.05% for FY18 (FY17 – 4.38%). The EBITDA margin stood at 4.49% for FY18, down from 6.65% for FY17, on account higher administration and factory overheads. It had a long term debt to equity ratio of 0.55x as on March 31, 2018 (0.02x as on March 31, 2017). The overall gearing ratio and interest coverage were 0.72x and 4.23x, respectively as on March 31, 2018. With the sale of its subsidiary Waneep Solar Private Ltd (WSPL), the company's overall risk profile has improved considerably.

Satisfactory order book position

The company has an order book of Rs.1103.2 crore as on December 31, 2018, of which Rs.792.5 crore pertain to EPC contracts and Rs.307.2 crore pertain to PV module supply contracts. The outstanding order book has to be executed over the period of January 2019 to July 2019.

Reduction in exposure to group entities

The total exposure to group companies in the form of investments and loans stood at Rs.357.2 crore as on March 31, 2018 (Rs.296.3 crore as on March 31, 2017). The main investment was in Waaneep Solar Private Limited (WSPL), in which the share of JV partner NEEPCO Ltd (a central PSU) was taken over by WEL in FY18. Waaneep Solar Private Ltd (WSPL) is an independent solar power producer with installed capacity of 100 MW (50 MW in Ichhawar, Madhya Pradesh, 25 MW in Gurrankonda, Andhra Pradesh and 25 MW in Nagari, Andhra Pradesh). The projects in Madhya Pradesh and Gurrankonda, Andhra Pradesh were sold for a total consideration of Rs.226.43 crore to Hero Solar Energy Private Ltd (HSEPL), of which Rs.108.50 crore was received in July 2018 and Rs.84.11 crore was received in December 2018. The balance consideration (~Rs.34 crore) is to be received shortly. The Nagari project is also being off loaded to HSEPL through a slump sale. The consideration for the asset shall be decided post completion of due diligence.

Government's thrust on the solar energy

The Government of India has provided a thrust on developing renewable energy generation including solar power. The cumulative solar capacity in India as of September 2018 was 24

GW of which nearly half was installed since April 2017. Government of India has targeted nearly 100 GW of solar power capacity by FY 2022. The CAGR of solar capacity in the last five years is 70%. It is estimated that around 41 GW of grid scale solar capacity will be added between FY18 and FY22 apart from an additional capacity of 11 GW of solar rooftop taking the total installed capacity to more than 64 GW including the existing capacity of over 12 GW.

Key Rating Weaknesses

Volatility in raw material prices

The main input in the manufacture of PV modules are the silicon wafers. Solar cells are made up of these silicon wafers, volatility in the prices may impact the profitability of the company. Further, most of the raw materials are imported and hence, the company is exposed to foreign exchange fluctuations that are managed through hedging contracts.

The GoI had levied Safeguard Duty of 25% on the import of raw materials in H1FY19. The levy was challenged by the manufacturers and a stay was obtained, which was subsequently lifted by the Supreme Court in September 2018. The duty would be gradually phased out over the next two years. This uncertainty led to a slowdown in production and sales in H1FY19 across the industry.

High competition and rapidly changing landscape of solar power industry

The growth of renewable energy industry backed by the government push has also meant there is increased competition. A number of new and small players in the solar power industry has increased, while the favourable environment has also attracted international giants to foray in to the Indian solar market. However, the policy changes by the government in the form of levy of Safeguard Duty on import of components of PV modules has meant that the landscape of the solar power industry is ever changing. Established players such as WEL, would be in a position to benefit by earning better returns as compared to the smaller contractors.

Analytical Approach and Applicable Criteria

Standalone Approach

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation – non-financial companies

About the Company

Infomerics Valuation And Rating Pvt. Ltd.



Incorporated in 2007, Waaree Energies Ltd (WEL) was promoted by Mr. Hitesh Doshi and his brother Mr. Viren Doshi. It was initially set up as a trading company dealing in instrumentation and pressure gauges and shifted its focus to solar power business in 2007, when WEL was incorporated. The company manufactures solar photovoltaic (PV) modules in Surat, Gujarat, with an installed capacity of 1500 MW, of which 1000 MW capacity was commissioned in FY19. Apart from this, the company also undertakes EPC projects. They have till now installed solar power plants with generation capacity of over 500 MW.

Financials (Standalone)

For the year ended / As on	(Rs. Crore)	
	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	1065.0	1277.3
EBITDA	72.8	57.4
Interest	11.9	13.6
PAT	34.7	26.4
Total Debt	95.9	155.1
Tangible Net worth	197.9	218.9
<u>Ratios</u>		
<u>Profitability Ratios (%)</u>		
a. EBIDTA Margin	6.84	4.49
b. PAT Margin	4.37	2.05
<u>Solvency Ratios</u>		
<u>Long Term</u>		
a. Long Term Debt Equity ratio	0.02	0.55
b. Overall Gearing ratio	0.25	0.71

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1	NCD (Series – I)	Long Term	45.00	Rating Withdrawn	IVR BB+/Stable outlook [IVR Double B Plus with Stable Outlook] (December 8, 2017)	--	--

2	NCD (Series – II)	Long Term	55.00	IVR BBB- /Stable outlook [IVR Triple Minus with Stable Outlook]	IVR BB+/Stable outlook [IVR Double Plus with Stable Outlook] (December 8, 2017)	--	--
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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facility

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
NCD (Series – II)	December 6, 2017	15.5%	December 10, 2020	55.00	IVR BBB- with Stable Outlook (IVR Triple B minus with Stable Outlook)