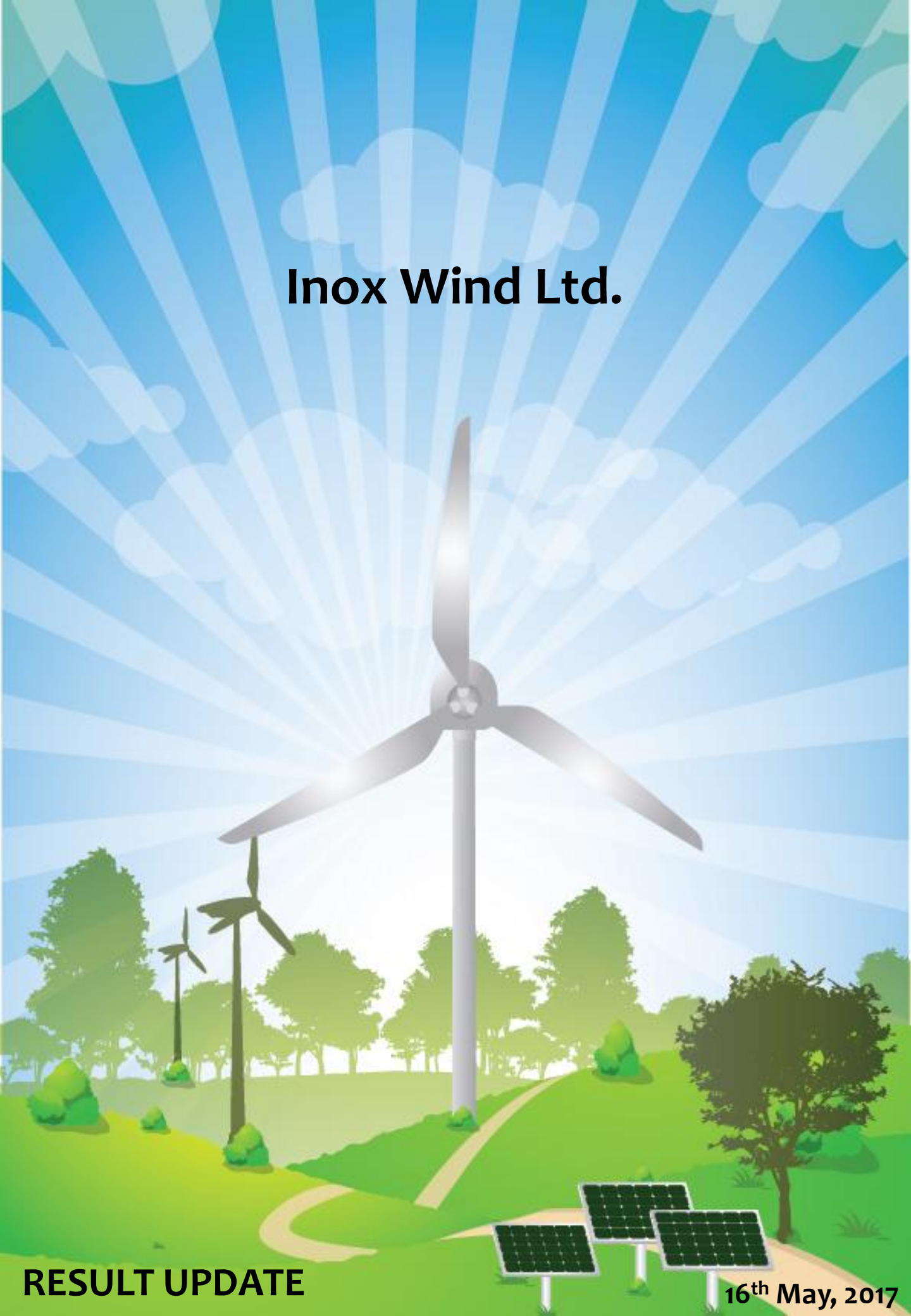


# Inox Wind Ltd.



**RESULT UPDATE**

**16<sup>th</sup> May, 2017**

# Inox Wind Ltd.

**Results Disappointed; maintain HOLD**

CMP <b>INR 167</b>	Target <b>INR 171</b>	Potential Upside <b>3%</b>	Market Cap (INR Mn) <b>37016</b>	Recommendation <b>HOLD</b>	Sector <b>Renewable Energy</b>
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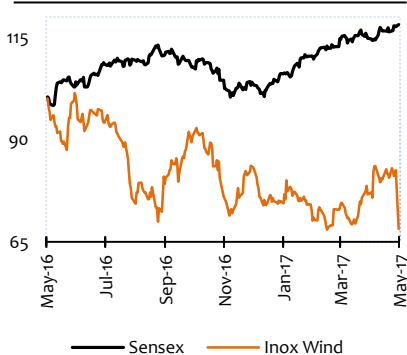
## Company Overview

Inox winds ltd is one of India's leading wind power solution providers. It manufactures wind turbine generators (WTGs) and provides turnkey solutions by supplying WTGs. IWL manufactures most of the key components of WTGs, like nacelles, hubs, rotor blade sets and towers, in-house. However, it sources gearboxes, electric control systems (ECS) and generators from some of the globally established players. It has 3 manufacturing facilities, one of which is at Una in Himachal Pradesh for Nacelles and Hubs, Barwani in Madhya Pradesh for Nacelles and Hubs, Rotor Blade Sets and Towers, third one in Rohika in Gujarat for Rotor blade sets and Towers.

## MARKET DATA

Shares outs (Mn)	222
EquityCap (INR Mn)	2219
Mkt Cap (INR Mn)	37016
52 Wk H/L (INR)	253/161
Volume Avg (3m K)	841.1
Face Value (INR)	10
Bloomberg Code	INXW IN

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	30322
NIFTY	9445

## Fall in the execution impacted top-line growth:

Inox reported a revenue decline of 45% YoY to INR 10.1bn during Q4FY17, which was dented by poor execution. Management highlighted that switch in the govt policy from FIT regime to competitive bidding has prevented states from signing new PPAs, which in turn affected WTG sales during the qtr. The WTG revenue fell by 57% YoY to INR 6.58bn. On the other side, strong O&M revenue has restricted further downside in the overall revenues. In terms of the commissioning, it has commissioned total 422MW (+5% YoY) during Q4FY17 and 656MW (-17% YoY) during FY17.

In terms of FY17, revenues fell by 23% YoY to INR 34.15bn largely affected by meager WTG sales (-26% YoY).

## OPM expanded largely owing to higher O&M share:

O&M being the margin accretive to the overall business has resulted company to report an expansion in OPM by 554bps YoY to 22.5%. This has resulted EBITDA for the qtr to fall lower than revenues by 27% YOY to INR 2.3bn. We expect that such kind of operational performance may not be sustainable in the coming future.

In terms of FY17, OPM stood at 16.4% (+38bps YoY), while EBITDA fell by 21% YoY to INR 5.6bn.

Going ahead, we expect that with competitive bidding coming into radar, the operational performance of wind players could remain subdued, however robust execution on account of strong wind capacity addition could support OPM to certain extent in the coming period.

## Subdued bottom-line performance due to higher finance cost:

PAT for the qtr declined by 37% YoY to INR 1.28bn, which was impacted by higher finance cost (+62% YoY). On yearly basis, the bottom-line de-grew by 34% YoY to INR 3.03bn. The increase in finance cost is on account of increase in LT borrowing during the year.

## SHARE HOLDING PATTERN (%)

Particulars	Mar 17	Dec 16	Sep 16
Promoters	85.62	85.62	85.62
FIIIs	1.13	1.13	0.9
DIIIs	2.56	4.58	4.98
Others	10.68	8.67	8.52
Total	100	100	100

O&M Revenue CAGR expected  
between FY17 and FY19

152%

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## Inox Wind Ltd.

### Valuation and Outlook:

With changes in the regime to competitive bidding from FIT, we expect that industry players could witness a pressure in terms of operational performance given an immense pricing pressure from solar industry. However, we expect that execution cycle can fasten under new regime and hence providing strong revenue visibility for the companies with healthy order book. Moreover, it is expected that capacity in wind sector could be added by 6 GW every year for the next 5yrs. This itself can provide large scope of opportunity for the wind players to improve their financial performance from medium to long term perspective.

In terms of Inox, the company had 1306MW of order backlog at the end of Q3FY17, however the same has been curbed to 300MW under new regime as around 1000MW of orders were without signing of PPAs. We expect these orders could get cancelled or renegotiating could happen. We expect that H1FY18 has limited revenue visibility given the opening order book is mere 300MW, however the success of H2 could be dependent on the order wins in second 1GW of SECI auction in June. Moreover, orders from windy states and IPPs could also fuel growth to the overall order book in medium to long run. In terms of the operational performance, we believe that increase in the O&M revenue share could support operating margins to certain extent; however pricing pressure under competitive bidding could keep WTG margins under pressure.

**In terms of valuation, we have valued the company on FY19 basis by providing P/E multiple of 10x, we have arrived a target price of INR 171, an upside potential of 3%. We recommend 'HOLD' rating on the stock.**

### Key Financials

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	27,027.0	44,506.7	34,150.0	27,693.5	44,608.4
EBITDA	4,249.1	7,133.7	5,603.5	3,565.3	6,525.3
PAT	2,964.3	4,611.7	3,032.9	1,757.0	3,801.8
EPS	13.4	20.8	13.7	7.9	17.1
OPM	15.7%	16.0%	16.4%	12.9%	14.6%
NPM	11.0%	10.4%	8.9%	6.3%	8.5%

Source: Company, KRChoksey Research

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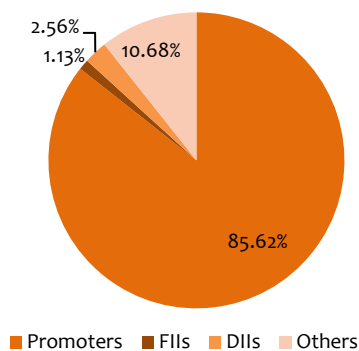
# Inox Wind Ltd.

## Management team:

Name	Designation	Executive / Non-Executive
Deepak Asher	Non Executive Director	Non-Executive
Devansh Jain	Whole-time Director	Executive
Siddharth Jain	Non Executive Director	Non-Executive
Rajeev Gupta	Whole-time Director	Executive
Shanti Prashad Jain	Independent Director	Non-Executive
V Sankaranarayanan	Independent Director	NA
Deepak Banga	Company Secretary	NA

Source: Company, KRChoksey Research

## Share Holding Pattern:



Source: Company, KRChoksey Research

## Top 5 Fund Holdings:

Fund Name (as on March 2017)	Market Value (INR Mn)	No. of Shares
Birla Sun Life Mutual Fund	32.39	190000
HSBC Mutual Fund	95.28	559000
Reliance Mutual Fund	765.38	4490324
Sundaram Mutual Fund	3.58	21000
Union KBC Mutual Fund	47.73	280000

Source: Company, KRChoksey Research

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# Inox Wind Ltd.

## Q4FY17 Result Snapshot

Particulars	Q4 FY17	Q3 FY17	Q4 FY16	Q-o-Q change %	Y-o-Y change %
<b>Net Sales &amp; Other Operating Income</b>	<b>10192.2</b>	<b>11607.7</b>	<b>18401.8</b>	-12.2%	-44.6%
Total Expenditure	7897.0	9765.4	15413.6	-19.1%	-48.8%
Cost of Raw Materials	3667.7	7890.1	10778.2	-53.5%	-66.0%
Purchase of Finished Goods	2666.0	897.0	2422.3	197.2%	10.1%
(Increase) / Decrease In Stocks	236.2	-276.2	599.7	-185.5%	-60.6%
Employee Cost	289.5	281.3	278.8	2.9%	3.8%
Other Expenses	1141.9	1004.5	1339.6	13.7%	-14.8%
<b>EBIDTA</b>	<b>2295.2</b>	<b>1842.3</b>	<b>3124.1</b>	24.6%	-26.5%
<b>EBITDA Margins (%)</b>	<b>22.5%</b>	<b>15.9%</b>	<b>17.0%</b>	<b>665bps</b>	<b>554bps</b>
Depreciation	113.4	117.9	112.6	-3.8%	0.7%
EBIT	2181.8	1724.4	3011.5	26.5%	-27.6%
Other Income	143.3	144.4	178.5	-0.8%	-19.7%
Interest	441.7	407.0	272.4	8.5%	62.2%
PBT	1883.4	1461.8	2917.6	28.8%	-35.4%
Tax	608.0	385.2	906.4	57.8%	-32.9%
<b>PAT before Exceptional</b>	<b>1275.4</b>	<b>1076.6</b>	<b>2011.2</b>	<b>18.5%</b>	<b>-36.6%</b>
<b>PAT Margin (%)</b>	<b>12.5%</b>	<b>9.3%</b>	<b>10.9%</b>	<b>324bps</b>	<b>158bps</b>
<b>EPS</b>	<b>5.75</b>	<b>4.85</b>	<b>9.06</b>	<b>18.5%</b>	<b>-36.6%</b>

Source: Company, KRChoksey Research

## Units Sold (in sets)

Particulars	Q4FY17	Q3FY17	Q4FY16	Q-o-Q	Y-o-Y
Nacelles & Hubs	47	133	164	-64.7%	-71.3%
Tower	85	90	128	-5.6%	-33.6%
Blades	72	70	148	2.9%	-51.4%

## Order Details (in MW)

Particulars	Q4FY17	Q3FY17	Q4FY16	Q-o-Q	Y-o-Y
Order inflows	300	330	360	-9.1%	-16.7%
Execution	94	266	328	-64.7%	-71.3%
Commissioning	422	40	402	955.0%	5.0%
Order backlog	300	1,306	1,104	-77.0%	-72.8%

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## Inox Wind Ltd.

### Concall Comments:

- The sales of the company during the qtr was impacted on account of stoppage in the signing of PPAs after SECI auctions which impacted annual commissioning and execution
- The company did commissioning of 422MW during the qtr, which was up by 5% YoY
- The sales for different products stood as follows: Nacelles & Hub: 94MW (-71% YoY), Tower: 170MW (-34% YoY) and Blades: 144MW (-51% YoY)
- INOX is launching “Power Booster” technology, which can increase output by 6-7%.
- In FY17, O&M revenue is 3% of the overall revenue, which stands at INR 1025mn (+345% YoY). The management expects that O&M revenues could post robust growth owing to increase in the fleet size.
- In terms of order inflows, Inox won a 250 MW project in 1<sup>st</sup> reverse auction, 50 MW already tied up and 250GW under negotiation.
- Market will be adding more than 7GW capacity annually which includes: Central Govt. 4 GW, State Govt. 3GW and PSU/Others 1GW.
- Management expects working capital to ease going ahead largely on account of PPA security, which could result in better production and inventory management.

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# Inox Wind Ltd.

## Consolidated Financials

Profit & Loss (INR Mn)	FY14	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	15668	27090	44507	34150	27694	44608
Cost Of Revenues (incl Stock Adj)	12185	20347	32842	23771	19663	31673
<b>Gross Profit</b>	<b>3483</b>	<b>6743</b>	<b>11664</b>	<b>10379</b>	<b>8031</b>	<b>12936</b>
Employee Cost	384	549	919	1174	1189	1308
Other Operating Expenses	1354	1945	3534	3790	3277	5103
EBITDA	1745	4249	7134	5604	3565	6525
Other Income	91	468	698	653	609	753
<b>EBITDA, including OI</b>	<b>1837</b>	<b>4717</b>	<b>7832</b>	<b>6257</b>	<b>4175</b>	<b>7278</b>
Depreciation	116	204	360	437	485	568
Net Interest Exp.	460	622	978	1551	1215	1356
Other exceptional items	17	0	0	0	0	0
<b>EBT</b>	<b>1278</b>	<b>3891</b>	<b>6494</b>	<b>4268</b>	<b>2475</b>	<b>5355</b>
Taxes	-45	927	1882	1235	718	1553
Tax Rate	-3.5%	23.8%	29.0%	28.9%	29.0%	29.0%
<b>Net Income</b>	<b>1323</b>	<b>2964</b>	<b>4612</b>	<b>3033</b>	<b>1757</b>	<b>3802</b>
Basic EPS (INR)	6.6	13.4	20.8	13.7	7.9	17.1

Source: Company, KRChoksey Research

Balance Sheet (INR Mn)	FY14	FY15	FY16	FY17	FY18E	FY19E
<b>SOURCES OF FUNDS</b>						
Share Capital	2000	2219	2219	2219	2219	2219
Reserves	2278	11700	16649	19677	21434	25235
<b>Total Shareholders Funds</b>	<b>4278</b>	<b>13919</b>	<b>18868</b>	<b>21896</b>	<b>23653</b>	<b>27455</b>
Long Term Borrowings	550	789	549	1862	1733	1641
Net Deferred Tax liability	212	209	0	124	124	124
Other long term liabilities	24	24	448	930	930	930
Long term provisions	14	25	50	78	78	78
<b>Current Liabilities and Provisions</b>						
Short term borrowings	4254	7671	13825	13416	10416	11916
Trade Payables	4217	7112	11863	9687	7739	12221
Other Current Liabilities	1273	1900	2161	3524	2124	3422
Short Term Provisions	37	523	18	29	76	122
Total Current Liabilities	9781	17206	27867	26656	20356	27682
<b>Total Liabilities</b>	<b>14858</b>	<b>32172</b>	<b>47781</b>	<b>51546</b>	<b>46873</b>	<b>57909</b>
<b>APPLICATION OF FUNDS :</b>						
Net Block	1722	2011	5268	7649	5895	6640
Capital Work in Progress	255	491	427	1125	562	0
Non-current investments	0	0	0	533	533	533
Deferred tax assets	61	224	227	51	51	51
Long term loans and advances	913	1081	118	159	159	159
Other Non Current Assets	105	46	2454	2651	2651	2651
<b>Current Assets, Loans &amp; Advances</b>						
Current Investments	450	0	629	2001	2001	2001
Inventories	2707	4238	5597	6904	5159	7333
Sundry Debtors	7096	14322	24090	23824	18209	26887
Cash and Bank	40	7096	4938	4374	10059	9089
Loans and Advances	1116	2355	3040	868	683	1100
Other Current assets	377	290	995	1408	910	1467
<b>Total Current Assets</b>	<b>11786</b>	<b>28302</b>	<b>39288</b>	<b>39379</b>	<b>37022</b>	<b>47876</b>
<b>Total Assets</b>	<b>14858</b>	<b>32172</b>	<b>47781</b>	<b>51546</b>	<b>46873</b>	<b>57909</b>

Source: Company, KRChoksey Research

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## Inox Wind Ltd.

Cash Flow (INR Mn)	FY14	FY15	FY16	FY17	FY18E	FY19E
PBT & Extraordinary	1278	3891	6494	4268	2475	5355
Depreciation	116	204	360	437	485	568
(Inc) / Dec in Working Capital	(2270)	(4607)	(7239)	(350)	4741	(5998)
Taxes	(334)	(800)	(1362)	(1235)	(718)	(1553)
Others	451	252	118	1012	1215	1356
<b>Cash from Ops.</b>	<b>(760)</b>	<b>(1060)</b>	<b>(1629)</b>	<b>4132</b>	<b>8198</b>	<b>(273)</b>
Purchase of Fixed Assets	(440)	(1039)	(4038)	(3517)	1831	(750)
Others	(1)	(444)	(5658)	(532)	0	0
<b>Cash from Investing</b>	<b>(441)</b>	<b>(1483)</b>	<b>(9696)</b>	<b>(4049)</b>	<b>1831</b>	<b>(750)</b>
Proceeds from issue of shares	(72)	6923	0	0	0	0
Borrowings (Net)	1741	3255	5981	905	(3129)	1408
Others	(465)	(593)	(966)	(1551)	(1215)	(1356)
<b>Cash from Financing</b>	<b>1204</b>	<b>9585</b>	<b>5014</b>	<b>(646)</b>	<b>(4344)</b>	<b>53</b>
Net Change in Cash	3	7042	(6311)	(563)	5685	(970)
BF Cash	15	40	7096	4938	4374	10059
<b>END Cash &amp; Bank</b>	<b>40</b>	<b>7096</b>	<b>4938</b>	<b>4374</b>	<b>10059</b>	<b>9089</b>

Source: Company, KRChoksey Research

Ratio Analysis	FY14	FY15	FY16	FY17	FY18E	FY19E
<b>Profitability</b>						
Return on Assets (%)	8.9	9.2	9.7	5.9	3.7	6.6
Return on Capital (%)	33.9	30.2	37.5	23.4	13.9	22.2
Return on Equity (%)	30.9	21.3	24.4	13.9	7.4	13.8
<b>Margin Trend</b>						
Gross Margin (%)	22.2	24.9	26.2	30.4	29.0	29.0
EBITDA Margin (%)	11.1	15.7	16.0	16.4	12.9	14.6
Net Margin (%)	8.4	10.9	10.4	8.9	6.3	8.5
<b>Liquidity</b>						
Current Ratio	1.2	1.6	1.4	1.5	1.8	1.7
Quick Ratio	0.9	1.4	1.2	1.2	1.6	1.5
Debtor Days	167	193	198	255	240	220
Inventory Days	64	57	46	74	68	60
Creditor Days	99	96	97	104	102	100
Working Capital Days	136	158	161	211	198	172
<b>Solvency</b>						
Total Debt / Equity	1.1	0.6	0.8	0.7	0.5	0.5
Interest Coverage	3.7	7.3	7.6	3.8	3.0	4.9
<b>Valuation Ratios</b>						
EV/EBITDA	21.8	9.0	6.5	8.6	11.0	4.8
P/E	25.2	12.5	8.0	12.2	21.1	9.7
P/B	7.8	2.7	2.0	1.7	1.6	1.3

Source: Company, KRChoksey Research

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# Inox Wind Ltd.

## Analyst Certification

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