

Inox Wind

Performance Highlights

Quarterly Data (Consolidated)

(₹ cr)	4QFY16	4QFY15	% chg (yoy)	3QFY16	% chg (qoq)
Total Income	1,829	930	96.6	941	94.2
EBITDA	312	170	83.3	155	102.1
EBITDA margin (%)	17.1	18.3	(124bp)	16.4	67bp
Reported PAT	209	118	77.5	103	103.1

Source: Company, Angel Research

Inox Wind Ltd. (IWL) reported below than expected set of revenue and bottom-line numbers. IWL reported top-line of ₹1,828cr, below our expectations. Inox reported 96.9% yoy top-line increase, reflecting 328MW of Turnkey sale volume. On the back of strong execution IWL reported 83.3% yoy increase in EBITDA to ₹312cr. Reported EBITDA is below our expectations. Led by operating leverage, IWL reported EBITDA margins of 17.1%. On excluding impact of non-recurring line-items, Inox reported adj. EBITDA margins of 16.4%. IWL reported 17bps yoy decline in Adj. PAT margins to 10.8%, which is below our expectations. Adj. PAT of the company grew 67.4% yoy to ₹197cr. High tax rate of 29.4% in 4QFY2016 restricted Adj. PAT growth.

Strong Order Book, gives better revenue visibility: Order book of IWL at 4QFY2016-end stands at 1,104MW (down 6.3% yoy), having an execution of 12-15 months. Company Management has maintained optimism about future order inflows, on the back of government's focus on Renewable sector, IWLs strong market positioning and capex pipeline of Independent Power Producers (IPPs).

Outlook and Valuation: We forecast IWL's top-line to grow at CAGR of 19.3% during FY2016-18, on the back of recent capacity expansion, strong order book of 1,104MW (gives revenue visibility for next 12-15 months), larger project sites. With addition of more efficient products to portfolio, we expect Adj. EBITDA margins to improve from 15.4% in FY2016 to 16.4% in FY2018E. Increase in depreciation expenses, and conservative other income estimates, restrict Adj. PAT margin expansion during FY2016-18E to 10.6%. Post 17% correction in IWL stock after 4QFY2016 results were announced, the stock is now trading at FY2017E and FY2018E, P/E multiple of 9.8x and 8.1x, respectively. Considering the 4QFY2016 Order Book, expected strong order inflow trends and profitability growth, IWL stock is trading at attractive valuations. On assigning, 9.5x P/E multiple to our FY2018E, EPS estimate of ₹30.0, we arrive at price target of ₹286, which gives 18% upside from the current levels. **Given the upside, we maintain our BUY rating on the stock.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Operating income	1,567	2,710	4,406	5,605	6,267
% chg	48.0	73.0	62.6	27.2	11.8
Adj PAT	132	296	452	549	666
% chg	(12.0)	124.1	52.4	21.6	21.3
EBITDA (%)	11.3	16.9	15.5	15.7	16.4
EPS (₹)	6.6	13.4	20.4	24.8	30.0
P/E (x)	36.6	18.1	11.9	9.8	8.1
P/BV (x)	11.3	3.9	2.9	2.2	1.8
RoE (%)	36.6	32.6	27.9	25.9	24.4
RoCE (%)	20.8	27.4	23.1	23.9	25.5
EV/Sales (x)	3.4	2.0	1.4	1.1	0.9
EV/EBITDA (x)	29.9	12.0	9.2	6.9	5.6

Source: Company, Angel Research; Note: CMP as of May 10, 2016

BUY

CMP	₹242
Target Price	₹286

Investment Period 12 months

Stock Info

Sector	Capital Goods
Market Cap (₹ cr)	5,426
Net debt (₹ cr)	971
Beta	1.3
52 Week High / Low	495/217
Avg. Daily Volume	621,492
Face Value (₹)	10
BSE Sensex	25,773
Nifty	7,888
Reuters Code	INWN NS
Bloomberg Code	INXW IN

Shareholding Pattern (%)

Promoters	85.6
MF / Banks / Indian Fls	4.7
FII / NRIs / OCBs	2.0
Indian Public / Others	7.6

Abs. (%) 3 Months

Sensex	3.9
Inox Wind	(11.7)

3 year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly Performance (Consolidated)

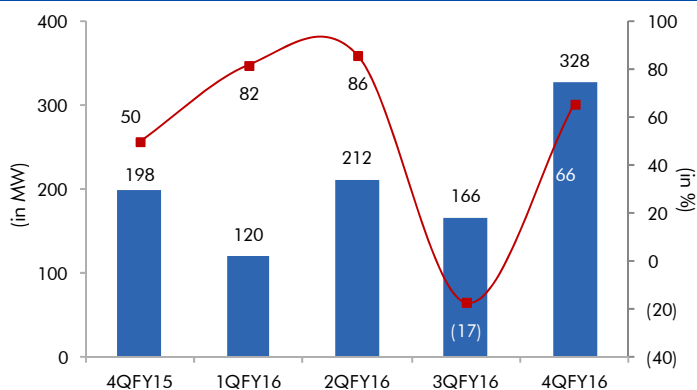
(₹ Cr)	4QFY16	4QFY15	% chg (yoy)	3QFY16	% chg (qoq)	FY2016	FY2015	% chg (yoy)
Net Sales	1,828	928	96.9	939	94.6	4,407	2,703	63.0
Other Operating Income	1	2	(41.8)	2	(59.5)	8	6	21.5
Total Income	1,829	930	96.6	941	94.2	4,414	2,709	62.9
Stock Adjustments	60	(134)		(18)		29	(144)	
Raw Material	1,077	650	65.7	550	96.0	2,715	1,815	49.6
(% of total income)	62.2	55.4		56.5		62.1	61.7	
Employee Cost	28	16	76.6	25	10.4	92	55	67.5
(% of total income)	1.5	1.7		2.7		2.1	2.0	
EPC cost	237	194	22.1	146	61.7	535	364	47.0
(% of total income)	12.9	20.8		15.6		12.1	13.4	
Other Expenses	127	34	267.8	84	51.5	366	163	124.6
(% of total income)	6.9	3.7		8.9		8.3	6.0	
Total Expenditure	1,528	760	101.2	787	94.2	3,736	2,253	65.9
Exp. Capitalized & Goodwill written-off	12	0		0		12	0	
EBITDA	312	170	83.3	155	102.1	690	456	51.2
(EBITDA %)	17.1	18.3		16.4		15.6	16.9	
Interest	25	16	60.6	20	26.7	96	62	54.2
Depreciation	11	6	88.3	9	23.3	33	20	63.9
Other Income	20	4	422.9	15	34.3	66	15	335.6
PBT	296	153	77.3	141	92.3	627	389	61.2
PBT (%)	16.2	16.4		15.0		14.2	14.4	
Total Tax	87	35	(149.9)	38	130.4	176	93	(89.3)
(% of PBT)	29.4	22.8		26.9		28.0	23.8	
Rep. PAT	209	118	55.8	103	78.3	452	296	52.4
PAT Margins (%)	11.4	12.7		10.9		10.2	10.9	
Adj. PAT	197	118	67.4	103	91.5	440	296	48.4
Adj. PAT Margins (%)	10.8	12.7		11.0		10.0	11.0	
Rep. EPS (₹)	9.4	5.3	77.5	4.6	103.1	20.4	13.4	52.4

Source: Company, Angel Research

Strong quarterly execution, but below our expectation...

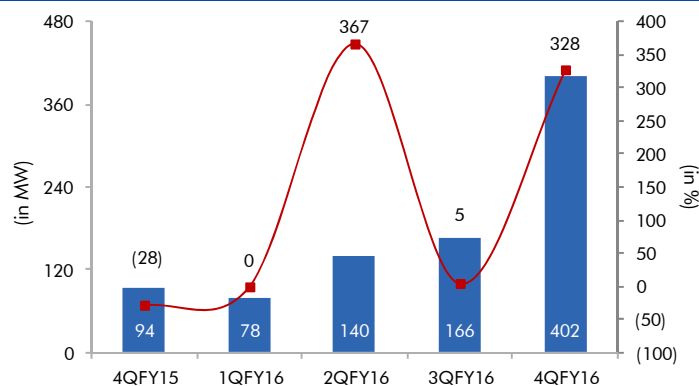
IWL reported a top-line of ₹1,828cr, below our expectations. Lower than expected revenues for the quarter is on account of delays in decision making by some of the clients. Inox reported 94.6% yoy increase in revenues, reflecting (1) strong Turnkey sale volume of 328MW (vs 198MW of volume in 4QFY2015), and (2) deliveries taken for earlier deferment by some of the clients in 3QFY2016.

Exhibit 2: Sale Volumes (Turnkey+Equipment Supply)



Source: Company, Angel Research

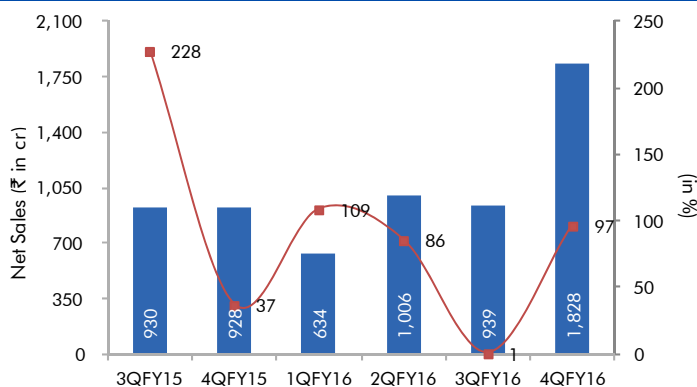
Exhibit 3: Commissioning (Turnkey+Equipment Supply)



Source: Company, Angel Research

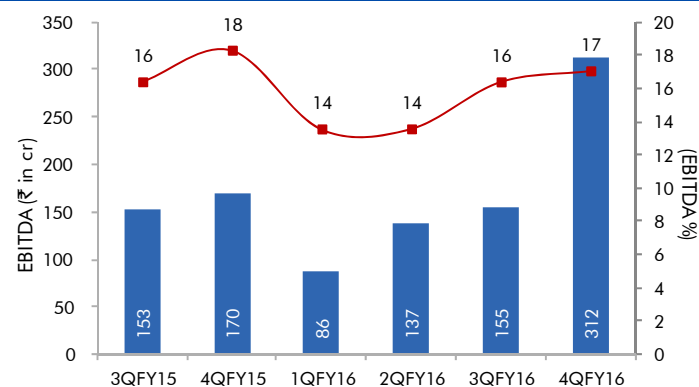
For the full year, IWL reported 63.0% yoy increase in revenues to ₹4,407cr, reflecting 43% increase in sale volumes to 826MW. Notably, commissioning for FY2016 witnessed sharp 195% yoy increase to 786MW.

Exhibit 4: Strong Revenue Growth



Source: Company, Angel Research

Exhibit 5: EBITDA Margins continue to expand



Source: Company, Angel Research

EBITDA numbers disappoint...

On the back of strong execution IWL reported 83.3% yoy increase in EBITDA to ₹312cr. Reported EBITDA is below our expectations. Operating leverage helped IWL report 17.1% EBITDA margins for the quarter. On adjusting for (1) capitalization of expenses and (2) goodwill on consolidation written-off, the Adj. EBITDA margins of IWL were at 16.4%, which were flat on yoy basis.

For FY2016 EBITDA margins declined 121bps yoy to 15.6%, mainly owing to 124.6% increase in other expenses.

PAT also disappoints us...

IWL reported 17bps yoy decline in Adj. PAT (adjusted for exp. Capitalization and goodwill write-off) margins to 10.8%, which is below our expectations. Adj. PAT of the company grew 67.4% yoy to ₹197cr. High tax rate of 29.4% in 4QFY2016 restricted Adj. PAT growth.

In-line with EBITDA margin movement, Adj. PAT margins of the company declined from 11.0% in FY2015 to 10.0% in FY2016.

Strong Order Book & ready pipeline of Project sites

Order book of IWL at 4QFY2016-end stands at 1,104MW (down 6.3% yoy), having an execution of 12-15 months. Company Management has maintained optimism about future order inflows, on the back of government's strong focus on Renewable sector, IWLs strong market positioning and strong capex pipeline of Independent Power Producers (IPPs).

IWL has project sites in excess of 5,000MW, which have been acquired in various stages. These sites are located across Rajasthan, Gujarat, Madhya Pradesh, Andhra Pradesh and Maharashtra. Thus, it provides healthy revenue visibility for IWL in the next few years.

Capex completed...

IWL has completed its capacity expansion exercise, resulting in increase in WTGs capacity to 1,600MW. Blade plant integrated at their Madhya Pradesh facility has commenced production. Also, IWL has built capabilities to manufacture 100m and 113m rotor diameter variants, now.

Actual capex for FY2016 stood at ₹160cr. IWL capitalized its Power Evacuation Infrastructure facilities, resulting in over ₹350cr increase in Balance Sheet capex (shown under the Goss Block).

Working Capital cycle further gets stretched...

IWL surprised the street by reporting further stretch in its working capital cycle (WC as % of sales increased from 47.2% in FY2015 to 49.0% in FY2016). Key reason for such expansion in Working capital cycle has been stretch in the AR days, which increased from 144 days in FY2015 to 159 days in FY2016. Stretch in the AR days is attributed to the back-ended sales (4QFY2016 revenues contributed 41.4% of the yearly revenues). Management in the 4QFY2016 concall commented that the risk of bad debts for IWL is minimal, as 90% of the receivables outstanding is less than 6 months old.

Given that the company's business is expected to grow its top-line by 19.3% CAGR during FY2016-18E, we expect further stretch in working capital cycle from 142 days in FY2016 to 151 days in FY2018E.

Outlook and Valuation

We forecast IWL's top-line to grow at CAGR of 19.3% (lowering our earlier estimates considering the overhang on feed-in tariffs for wind) during FY2016-18, on the back of recent capacity expansion, strong order book of 1,104MW (gives revenue visibility for next 12-15 months), larger project sites.

Recently, IWL expanded its Turbine capacity to 113m (from the earlier 100m). As a result, management expects 5% increase in the costs, but efficiency is expected to increase by 20%. Further, realization of large rotor blades would increase. Considering shift in business mix (where high capacity Turbines would contribute more to the financials), we expect efficiency improvement. As a result, we expect the Adj. EBITDA margins to improve from 15.4% in FY2016 to 16.4% in FY2018E. Increase in depreciation expenses, and our conservative other income estimates, restrict the Adj. PAT margin expansion during FY2016-18E to 10.6%.

Post the 17% correction in the IWL stock after 4QFY2016 results were announced, the stock is now trading at FY2017E and FY2018E, P/E multiple of 9.8x and 8.1x, respectively. Considering the 4QFY2016 Order Book, and expected strong order inflow trends, IWL stock is trading at attractive valuations. On assigning, 9.5x P/E multiple to our FY2018E, EPS estimate of ₹30.0, we arrive at price target of ₹286, which gives 18% upside from the current levels. **Given the upside, we maintain our BUY rating on the stock.**

Company Background

Inox Wind Ltd (IWL), incorporated in 2009 and a part of the Inox Group, is one of the leading manufacturers of wind turbine generators in India. The company also provides turnkey solutions, and operation and maintenance services for wind power projects. Currently, IWL has an installed capacity of 950 Nacelles & Hubs at Una, Himachal Pradesh and Barwani, Himachal Pradesh, 400 Rotor Blade sets, and capacity of 600 towers at Rohika, Gujarat and Barwani, Himachal Pradesh.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Net Sales	1,059	1,567	2,710	4,406	5,605	6,267
% Chg	70.3	48.0	73.0	62.6	27.2	11.8
Total expenditure	862	1,391	2,252	3,736	4,725	5,239
Net Raw Materials	679	940	1,671	2,743	3,464	3,811
EPC and O&M exp.	94	273	364	535	706	771
Employee expenses	25	38	55	92	112	132
Other expenses	64	139	163	366	443	526
EBITDA	196	176	457	671	880	1,028
% Chg	38.5	(10.3)	159.5	49.2	28.9	16.8
EBITDA %	18.6	11.3	16.9	15.2	15.7	16.4
Exp. Cap. & Goodwill written-off	0	0	0	12	0	0
Depreciation	9	12	20	33	43	49
EBIT	188	165	437	649	837	978
% Chg	39.7	(12.2)	165.4	48.5	28.9	17.0
Interest Charges	39	46	62	96	110	87
Other Income	5	9	14	74	36	34
(% of Net Sales)	0.5	0.6	0.5	1.7	0.6	0.5
PBT	154	128	389	627	763	925
Tax	3	(4)	93	176	214	259
% of PBT	2.1	(3.5)	23.8	28.0	28.0	28.0
PAT	150	132	296	452	549	666
% Chg	50.6	(12.0)	124.1	52.4	21.6	21.3
PAT %	14.2	8.4	10.9	10.3	9.8	10.6
Diluted EPS	7.5	6.6	13.4	20.4	24.8	30.0

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Sources of Funds						
Equity Capital	40	200	222	222	222	222
Reserves Total	256	228	1,170	1,622	2,171	2,837
Networth	296	428	1,392	1,844	2,393	3,059
Total Debt	337	480	846	1,450	1,207	909
Other long term Liab.	2	2	5	7	7	7
Deferred Tax Liability	20	15	21	45	45	45
Total Liabilities	654	926	2,264	3,346	3,652	4,020
Application of Funds						
Gross Block	177	204	253	624	724	824
Accumulated Dep.	21	32	52	85	129	129
Net Block	157	172	201	539	595	695
Capital WIP	4	25	49	55	65	25
Goodwill	0	2	2	17	17	17
Investments	0	45	0	62	12	12
Deferred Tax Assets	0	0	22	35	35	35
Current Assets						
Inventories	79	271	424	542	845	944
Sundry Debtors	500	710	1,432	2,414	2,416	2,615
Cash and Bank Balance	2	4	710	479	490	487
Loans, Advances and Deposits	196	203	344	553	779	877
Other Current Asset	12	48	34	68	78	81
Current Liabilities	296	554	954	1,419	1,681	1,770
Net Current Assets	494	681	1,989	2,637	2,927	3,235
Misc. Expenditure	0	0	0	0	0	0
Total Assets	654	926	2,264	3,346	3,652	4,020

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	154	128	389	627	763	925
Depreciation	9	12	20	33	43	49
Change in WC	(286)	(185)	(602)	(879)	(278)	(312)
Int. / Dividend (Net)	34	46	62	96	110	87
Direct taxes paid	(29)	(4)	93	176	214	259
Other income	(3)	9	14	74	36	34
Cash Flow from Oper.	(121)	(5)	(238)	(372)	388	457
(Inc.)/ Dec. in Fixed Assets	(351)	(48)	(73)	(377)	(110)	(60)
(Inc.)/ Dec. in Inv.	216	(45)	45	(62)	50	0
Other income	(3)	9	14	74	36	34
Cash Flow from Inv.	(135)	(84)	(14)	(365)	(24)	(26)
Issue of Equity	0	160	22	0	0	0
Inc./(Dec.) in loans	256	144	368	606	(243)	(298)
Dividend Paid (Incl. Tax)	0	0	0	0	0	0
Others	(38)	(213)	567	(100)	(110)	(136)
Cash Flow from Fin.	219	91	957	506	(353)	(434)
Inc./(Dec.) in Cash	(38)	2	706	(230)	11	(3)
Opening Cash bal.	39	1	4	709	479	490
Closing Cash bal.	1	4	709	479	490	487

Key Ratios (Consolidated)

Y/E March	FY2014	FY2015E	FY2016E	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	36.6	18.1	11.9	9.8	8.1
P/CEPS	33.6	16.9	11.1	9.1	7.5
P/BV	11.3	3.9	2.9	2.2	1.8
EV/Sales	3.4	2.0	1.4	1.1	0.9
EV/EBITDA	29.9	12.0	9.2	6.9	5.6
EV / Total Assets	5.7	2.4	1.9	1.7	1.4
Per Share Data (₹)					
EPS (fully diluted)	6.6	13.4	20.4	24.8	30.0
Cash EPS	7.2	14.3	21.9	26.7	32.3
Book Value	21.4	62.7	83.1	107.8	137.9
Returns (%)					
RoCE (Pre-tax)	20.8	27.4	23.1	23.9	25.5
Angel RoIC (Pre-tax)	22.0	37.1	30.5	28.7	29.7
RoE	36.6	32.6	27.9	25.9	24.4
Turnover ratios (x)					
Asset Turnover (Gross Block)	8.2	11.9	10.0	8.3	8.1
Inventory / Sales (days)	41	47	40	45	52
Receivables (days)	141	144	159	157	146
Payables (days)	112	122	116	120	120
WC cycle (ex-cash) (days)	136	132	142	150	151
Solvency ratios (x)					
Net debt to equity	1.0	0.1	0.5	0.3	0.1
Net debt to EBITDA	2.4	0.3	1.3	0.8	0.4
Interest Coverage (EBIT / Int.)	3.6	7.0	6.8	7.6	11.2

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Disclosure of Interest Statement	Inox Wind
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15%)