

INOX Wind

TAILWIND ahead

Inox Wind is India's leading wind energy solutions provider servicing IPPs, Utilities, PSUs, Corporates and Retail Investors. Inox Wind is a fully integrated player in the wind energy market with three state-of-the-art manufacturing plants in Gujarat, Himachal Pradesh and Madhya Pradesh with a cumulative manufacturing capacity of 1,600MW.

Significant revenue improvement: Wind energy sector has seen tectonic transformation in FY2018 due to changes in Auction regime from FIT regime to Reverse auction regime, which removes counterparty risks and default in payments. Owing to reduction in uncertainty like PPA (Power Purchase Agreement) and connectivity, we expect participation in bidding to increase along with the increasing effort of GoI for auctioning of 10GW wind energy every year till 2028. This would create strong revenue visibility for wind turbine manufactures like Inox Wind going forward. We expect Inox Wind to report ₹3,360cr and ₹3,971cr revenue in FY2019E and FY2020E respectively owing to majority of executions from SECI-I and SECI-II orders.

Strong order book: Inox Wind bagged orders from all the central wind power auctions conducted by the Solar Energy Corporation of India (SECI) during FY2018 under the auction regime. It also bagged 50 MW in the Maharashtra State auction, which has enhanced its auction based order book to a sector leading candidate with 950 MW in the Indian wind power industry. This provides Inox Wind with strong execution visibility over the next 12-18 months.

Outlook & Valuation: We expect Inox Wind to report exponential growth in top-line and bottom-line over FY2019-20E. The growth would be led by changing renewable energy industry dynamics in favor of wind energy segment viz. changes in auction regime from Feed-In-Tariff (FIT) to reverse auction regime and Government's guidance for increasing wind energy capacity from 34GW currently to 140GW by 2030. We believe INOX Wind is in a sweet spot to tap the upcoming opportunity in renewable energy segments. At the CMP of ₹101, Inox Wind is trading at 6x FY2020E EPS of ₹17.4. Considering the above positives, we recommend BUY on Inox Wind and assign a multiple of 7.5x on FY2020EPS to arrive at a Target Price of ₹130 (potential upside of 29% over a period of next 12-18 months).

Key Financials

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	4,451	3,415	480	3,360	3,971
% chg	65	(23)	(86)	600	18
Net Profit	461	303	(188)	273	385
% chg	(30)	(34)	(162)	(246)	41
EBITDA (%)	16.0%	16.4%	-17.0%	14.3%	15.3%
EPS (Rs)	21	14	(8)	12	17
P/E (x)	5	8	(12)	8	5.9
P/BV (x)	1.2	1.0	1.1	1.0	0.9
RoE (%)	24.4	13.9	(9.4)	12.0	14.5
RoCE (%)	20.4	13.9	(4.7)	13.7	15.7
EV/EBITDA	4.2	5.5	(32.2)	5.8	4.0

Source: Company, Angel Research; Note: CMP as of August 17, 2018

BUY

CMP ₹101

Target Price ₹130

Investment Period 12 Months

Stock Info	
Sector	Capital goods-Wind Turbine
Market Cap (₹ cr)	2,251
Beta	0.9
52 Week High / Low	158.4/75
Avg. Daily Volume	55,482
Face Value (₹)	10
BSE Sensex	37,974
Nifty	11,470
Reuters Code	INOX.BO
Bloomberg Code	INOX IN

Shareholding Pattern (%)	
Promoters	75.0
MF / Banks / Indian FIs	0.4
FII / NRIs / OCBs	7.8
Indian Public / Others	16.8

Abs.(%)	3m	1yr	3yr
Sensex	8.0	19.4	35.2
INOXWI	3.8	(8.8)	(74.6)

3 Years price performance



Source: C-line, Angel Research

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Company background

Inox Wind is India's leading wind energy solutions provider servicing IPPs, Utilities, PSUs, Corporates and Retail Investors. Inox Wind is a fully integrated player in the wind energy market with three state-of-the-art manufacturing plants in Gujarat, Himachal Pradesh and Madhya Pradesh with a cumulative manufacturing capacity of 1,600MW.

Inox Wind manufactures three variants of the 2 MW WTG:

- Rotor diameter of 93 meters with hub height of 80 meters
- Rotor Diameter of 100 meters with hub height of 80 / 92 meters
- Rotor Diameter of 113 meters with hub height of 92 meters
- Rotor Diameter of 113 meters with hub height of 120 meters

Inox Wind owns a 100% subsidiary, Inox Wind Infrastructure Services, which does the project development in respect of wind power projects, including wind studies, energy assessments, land acquisition, site infrastructure development, power evacuation, statutory approvals, erection and commissioning and long term operation and maintenance of the wind farms.

Exhibit 1: Installed capacity

CURRENT CAPACITY (MW)				
Plant Location	Una, Himachal Pradesh	Rohika, Gujarat	Barwani, Madhya Pradesh	Total
Nacelles & Hubs	1,100	-	-	1,100
Blades	-	800	800	1,600
Towers	-	300	300	600

Source: Company, Angel Research

Sector outlook

Overview of renewable energy sector in India

Renewable energy capacity in India has grown at a CAGR of 24% over FY2012-18. The installed renewable energy generation capacity in India was 69GW as of March 2018, which represented 20% of the total installed generation base in India.

However, total electricity generated from the installed renewable energy capacities (or renewable energy penetration in the grid) still remains low at approximately 7%, with wind energy garnering maximum share of 4% of the total energy supplied in the country as on February 2018. There is a significant amount of potential for renewable energy capacity installations in India.

Exhibit 2: Renewable energy Potential

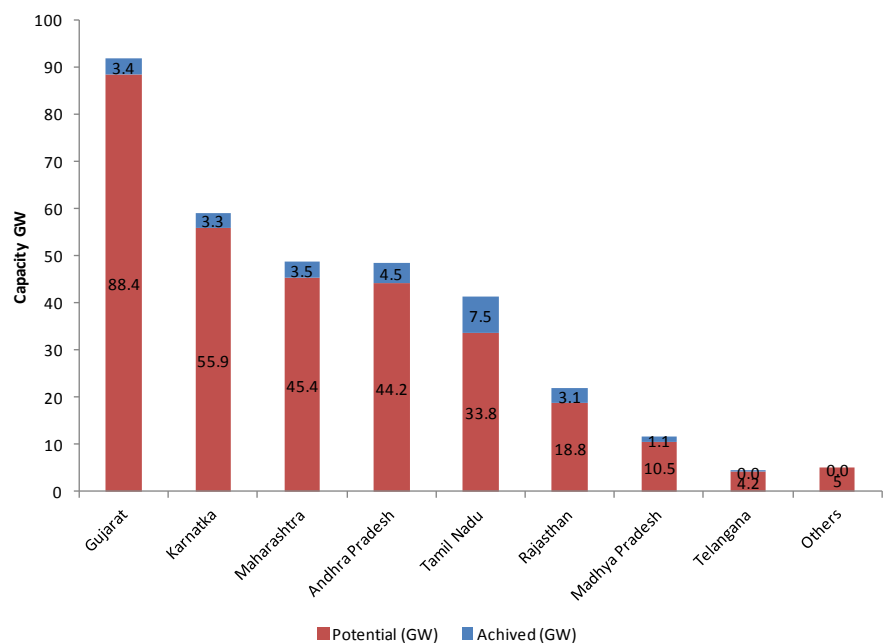
Technology	Potential GW	Cumulative Capacity as of March 18 GW
Wind	302	34.04
Solar ground mounted	749	20.59
Solar Rooftop*#	210	1.06
Biomass+bagasse cogeneration	22.5	8.7
Small Hydro (upto 25MW)	19.5	4.49
Waste to Energy	NA	0.14

Source: Renew Power Limited (DRHP), Angel Research

*The economically feasible market potential for rooftop solar PV in urban settlements of India; excludes offgrid/ captive solar capacities

#Excludes estimates of ~1.0 GW of roof top capacities which is not subsidised by the MNRE

Exhibit 3: State wise estimated potential

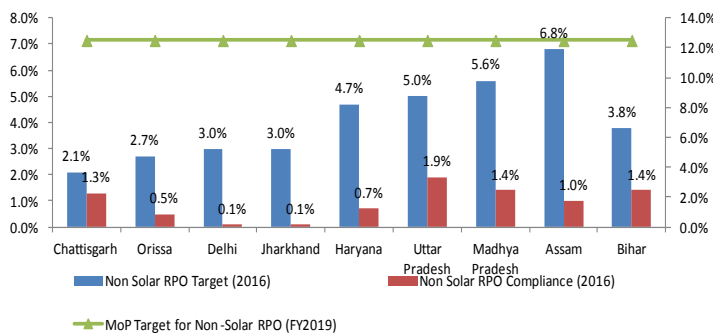


Source: Company, Angel Research

Expected improvement in RPO compliance

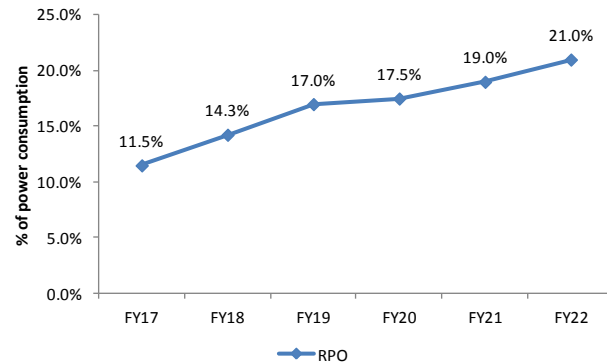
Going forward, there is likely to be pressure on state discoms to improve RPO (Renewable Purchase Obligation) compliance to support demand for wind energy. In fact, under its revised guidelines on the RPO obligations (released in June 2018), the government has proposed a sharp ramp up in total non-solar-based RPOs to 10.5% by FY22 from 8.75% in FY17, which will drive the demand for cheaper wind power.

Exhibit 4: Current RPO and compliance



Source: CRISIL, Angel Research

Exhibit 5: RPO target

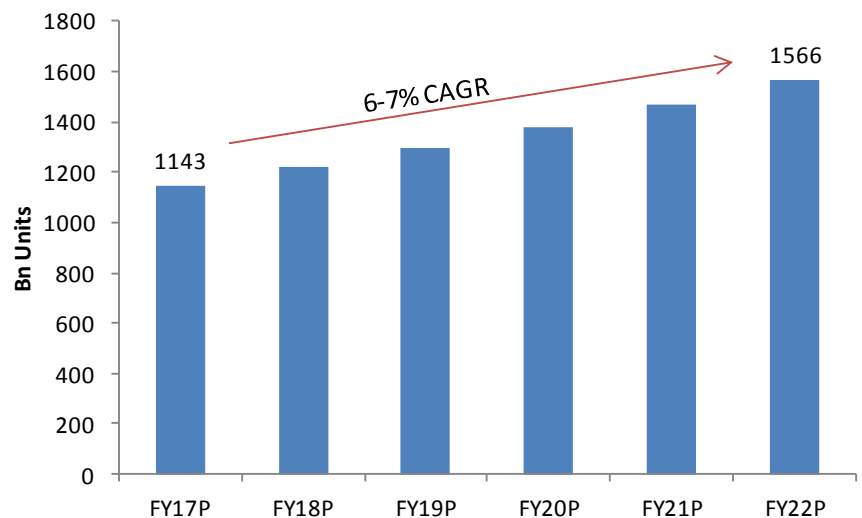


Source: MoP (14th June 2018), Angel Research

Power demand to grow at 6-6.5% CAGR over FY2019-22

Power demand is expected to register a healthy growth CAGR of 6-6.5% over the next 5 years i.e. FY2018-22. Industrial demand is expected to grow at a moderate pace, in-line with GDP growth and gradual pick-up in economic activity. However, residential demand is expected to witness stronger growth on account of higher latent demand and rapid urbanization coupled with impetus from government for rural electrification. Electricity consumption in domestic segment is estimated to increase at a rapid pace of around 8.5-9% over FY2018-22 and its share in total electricity consumption is expected to increase to 25% in FY2021 from 23% in FY2016.

Exhibit 6: Power demand



Source: CRISIL, Angel Research

Shift from feed-in-tariff regime to auction based tariff regime

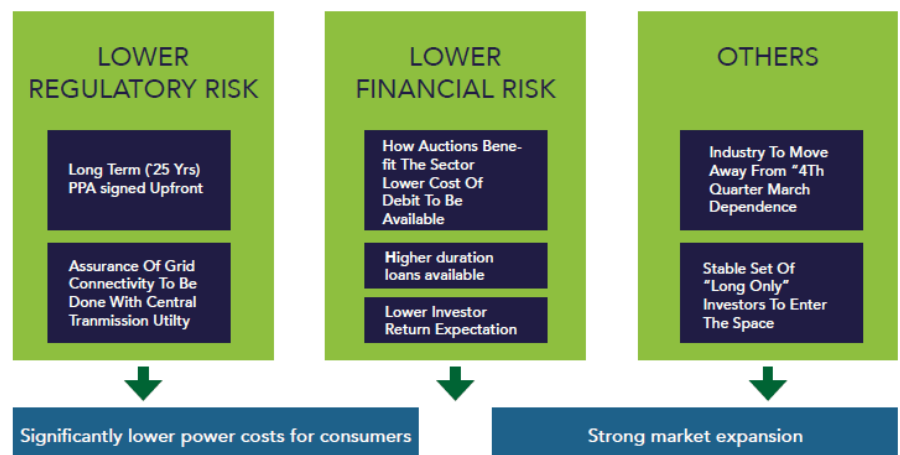
The Wind Power industry witnessed a major transition or disruption in FY2018 owing to the migration from a feed-in-tariff (FIT) regime with regulated state announced tariffs to a reverse auction-based addition of wind capacity, which encourages competitive bidding and better price discovery. The auction-based

regime has led to reduction of power tariffs for the discoms and brought in greater transparency into the marketplace. It is also expected to expand the wind turbine market considerably to a 10 GW per annum market compared to a 3-4GW per annum market historically.

The main advantages of an auction based market include:

- Increased market size
- Reduced regulatory risks for power producers by ensuring upfront signing of Power Purchase Agreements
- Evacuation of power produced through the central grid ensuring 99%+ availability of the grid
- Increased payment security, given payment from central government bodies rather than state discoms

Exhibit 7: Reverse auction benefits



Source: Company, Angel Research

Key Investment Argument

Leadership across wind rich states

Inox Wind is the largest project site allottees in Gujarat, Rajasthan and Madhya Pradesh. It has also expanded presence in Andhra Pradesh, Karnataka and Kerala. Company owns sufficient project site inventory for the installation of an aggregate capacity of over 5,000MW.

Strong order book

Inox Wind bagged orders from all the central wind power auctions conducted by the Solar Energy Corporation of India (SECI) during FY2018 under the auction regime. It also bagged 50MW in the Maharashtra State auction, which has enhanced its auction-based order book to a sector-leading 950MW in the Indian wind power industry. This provides Inox Wind with strong visibility of execution over the next 12-18 months.

Extending product offering

Inox Wind is working on a 3MW wind turbine suited for the Indian conditions. The 3MW turbine will eventually extend product offerings in India and reinforce Inox

Wind's position as the leading wind turbine manufacturer across the nation. The development of the 3MW turbines reiterates firm commitment to provide the clients with superior, energy efficient, resource saving technologies. It will ensure that Inox Wind continues to play a pioneering role in India's wind turbine industry.

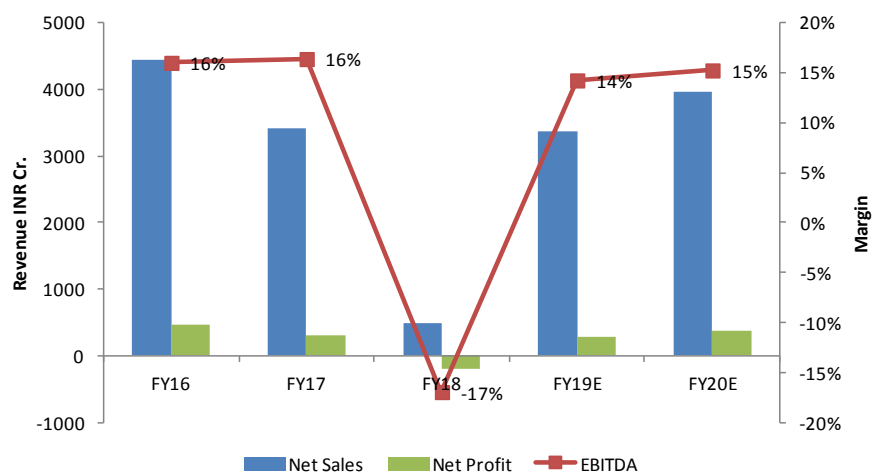
Increasing O&M credibility and capabilities going forward

We expect O&M revenue to improve significantly as installed capacity of wind turbine is increasing every year. Currently, Inox Wind has 2.4GW of wind turbine installed capacity with multiyear O&M agreements with ~5% escalation clause. A large part of this fleet has already gone off their two-year warranty period, and hence the O&M revenues in terms of cash flows would have started flowing in. Further, O&M revenues are noncyclical in nature. They have steady cash flow generation and have significantly higher margins than average company margins and hence would help in the company's margin profile as well.

Revenue expected to improve significantly

Wind energy sector has seen tectonic transformation in FY18 due to changes in Auction regime from FIT regime to Reverse auction regime. This removes counterparty risks and default in payments. Owing to reduction in uncertainty like PPA and connectivity, we expect participation in bidding to increase along with increasing effort of GoI for auctioning of 10GW wind energy every year till 2028, which creates strong revenue visibility for wind turbine manufactures like Inox Wind going forward. We expect Inox Wind to report ₹3,360cr and ₹3,971cr revenue in FY19E and FY20E respectively owing to majority of execution from SECI-I and SECI-II orders.

Exhibit 8: Revenue trend



Source: Company, Angel Research

Outlook & Valuation: We expect Inox Wind to report exponential growth in top-line and bottom-line over FY2019-20E. The growth would be led by changing renewable energy industry dynamics in favor of wind energy segment viz. changes in auction regime from Feed-In-Tariff (FIT) to Reverse auction regime and Government's guidance for increasing wind energy capacity from 34GW currently to 140GW by 2030. We believe INOX Wind is in a sweet spot to tap the upcoming opportunity in renewable energy segments. At the CMP of ₹101, Inox Wind is trading at 6x FY2020E EPS of ₹17.4. Considering the above positives, we recommend BUY on Inox Wind and assign a multiple of 7.5x on FY2020EPS to arrive at a Target Price of ₹130 (potential upside of 29% over a period of next 12-15 months).

Risk and Concern**Delay in auction**

Any delay in auction of wind energy may lead to slowdown in sector hence create an uncertainty in revenue visibility.

Lower bidding

Due to introduction of reverse auction bidding which reduces the uncertainty with respect to PPA and connective issues, encourages the participation of Investor which may increase the probability of lower bidding in future.

Income Statement

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
Total operating income	4,451	3,415	480	3,360	3,971
% chg	65	(23)	(86)	600	18
Total Expenditure	3,737	2,855	561	2,881	3,364
Raw Material	2,716	1,920	47	1,983	2,303
Personnel	92	117	100	168	199
Selling and Administration Expenses	21	-19	-1	-9	-11
Others Expenses	908	836	416	739	874
EBITDA	713	560	-81	479	606
% chg	(22)	(21)	(115)	(689)	26
(% of Net Sales)	16.0%	16.4%	-17.0%	14.3%	15.3%
Depreciation& Amortisation	36	44	52	55	59
EBIT	677	517	-134	425	547
% chg	(25)	(24)	(126)	(418)	29
(% of Net Sales)	15	15	-28	13	14
Interest & other Charges	98	155	171	82	56
Other Income	70	65	24	27	29
Extraordinary Items	-	-	-		
Recurring PBT	649	427	-280	369	520
% chg	(24)	(34)	(166)	(232)	41
Tax	188	124	-93	96	135
PAT (reported)	461	303	-188	273	385
% chg	(46)	(34)	(162)	(246)	41
(% of Net Sales)	10.4	8.9	-39.1	8.1	9.7
Basic & Fully Diluted EPS (Rs)	21	14	-8	12	17
% chg	(97)	(34)	(162)	(246)	41

Source: Company, Angel Research

Balance sheet

Y/E March (₹cr)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Equity Share Capital	221.9	221.9	221.9	221.9	221.9
Reserves& Surplus	1,665	1,968	1,782	2,056	2,441
Shareholders Funds	1,887	2,190	2,004	2,278	2,663
Total Loans	1,437	1,528	831	831	831
Other Liabilities	50	113	33	355	355
Total Liabilities	3374	3831	2868	3463	3848
APPLICATION OF FUNDS					
Net Block	569	765	985	1,062	1,098
Capital Work-in-Progress	43	112	20	20	20
Investments	-	53	0	-	-
Long Term Loans & Advances	12	16	15	15	15
Current Assets	3,895	3,938	2,708	3,424	4,028
Inventories	560	690	929	690	816
Sundry Debtors	2,409	2,382	1,339	2,302	2,393
Cash	494	437	127	170	500
Loans & Advances	304	87	0	0	0
Investments & Others	128	341	313	262	318
Current liabilities	1,404	1,324	1,230	1,261	1,514
Net Current Assets	2,491	2,614	1,478	2,164	2,514
Other Non Current Asset	260	270	370	203	203
Total Assets	3374	3831	2868	3463	3848

Source: Company, Angel Research

Cash flow

Y/E March (₹cr)	FY16	FY17	FY18	FY19E	FY20E
Profit before tax	649	427	(280)	369	520
Depreciation	36	44	52	55	59
Change in Working Capital	283	(436)	(669)	525	(215)
Interest / Dividend (Net)	98	155	171	82	56
Direct taxes paid	188	124	(93)	96	135
Others	(1,418)	(200)	1,088	(785)	129
Cash Flow from Operations	(163)	114	269	342	686
(Inc.)/ Dec. in Fixed Assets	(404)	(290)	(186)	(272)	(99)
(Inc.)/ Dec. in Investments	(31)	(111)	302	0	-
Cash Flow from Investing	(968)	(5)	332	(272)	(99)
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	1,403	90	-697	-	-
Others	(901)	(71)	(63)	55	(256)
Cash Flow from Financing	501	19	(760)	55	(256)
Inc./(Dec.) in Cash	(630)	128	(159)	124	331
Opening Cash balances	706	76	204	46	170
Closing Cash balances	76	204	46	170	500

Source: Company, Angel Research

Valuation Ratios

Y/E March	FY16	FY17	FY18	FY19E	FY20E
P/E (on FDEPS)	5	8	-12	8	6
P/CEPS	5	7	-17	7	5
P/BV	1	1	1	1	1
EV/Sales	1	1	5	1	1
EV/EBITDA	4	6	-32	6	4
EV / Total Assets	6	6	5	5	4
Per Share Data (₹)					
EPS (Basic)	21	14	-8	12	17
EPS (fully diluted)	21	14	-8	12	17
Cash EPS	22	16	-6	15	20
DPS	0	0	0	0	0
Book Value	85	99	90	103	120
Returns (%)					
ROCE	20	14	-5	14	16
Angel ROIC (Pre-tax)	24	16	-5	13	16
ROE	24	14	-9	12	14
Turnover ratios (x)					
Inventory / Sales (days)	46	74	707	75	75
Receivables (days)	198	255	1018	250	220
Payables (days)	97	104	408	110	110
Working capital cycle (ex-cash) (days)	146	225	1317	215	185

Source: Company, Angel Research

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2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No