

Inox Wind

IPO Note – Strong growth prospects; Subscribe

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 (WTG's) in India. The company also provides turnkey solutions, and operation and maintenance services for wind power projects. Currently, IWL has an installed capacity of 550 nacelles and hubs, 256 rotor blade sets and a capacity of 150 towers. The company is setting up a new integrated capacity which would take the total nacelles and hubs capacity to 950 units, rotor blades capacity to 800 sets and tower capacity to 600 units.

Strong order book: IWL has shown a strong growth during FY2014 and 9MFY2015 periods, wherein it sold 330MW and 380MW of WTGs during the period; plus, it also has a strong order book (as of December 2014). Currently IWL has an order book of 1,136MW, as against Suzlon's order book of 1,148MW, and Gamesa India Pvt Ltd's order inflow of 850MW (as of December 2014). These provide strong revenue visibility for FY2016.

IWL has access to wind project sites which have been acquired or are under the acquisition process by its group companies - GFL and IRL - and its subsidiary IWISL. Currently the wind sites acquired have an aggregate power project capacity of 2,130MW, while the wind sites which are under the acquisition process have a power project capacity of 1,922MW. Thus, it provides healthy revenue visibility for IWL in the medium term.

Government focus on renewable energy: The government has set a target of installed wind power capacity of 60,000MW till FY2022 from the current capacity of 21,150MW. This will create a huge opportunity for the company in the upcoming period. Hence we expect order inflow to increase at a faster pace during the next few years. We expect industry order flow to come in at the run rate of 5,000-6,000MW per annum as against the current run rate of 2,000MW per annum. The government has provided various incentives and framed several rules and regulations to increase demand for renewable energy.

Outlook and Valuation: On EV/sales, the company is valued at 3.3x (at the upper end of the price band) on the basis of 9MFY2015 annualized numbers. **Looking at the strong order book of the company and government focus on the sector, we recommend a Subscribe on the issue.**

Key Financials

Y/E March (₹ cr)	FY2013	FY2014
Net Sales	1059	1567
Net Profit	150	131
OPM (%)	18.6	11.2
EPS (₹)	6.8	5.9
P/E (x)*	48.0	54.9
P/BV (x)*	4.4	15.5
EV/Sales (x)*	7.1	4.9

Source: Company, Angel Research; Note: *The above numbers are considering subscription at the upper end of the price band

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Issue Open: March 18, 2015
 Issue Close: March 20, 2015

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹200cr

Fresh Issue**: 2.12cr Shares

Offer for Sale: 1.0cr Shares

Post Eq. Paid up Capital**: ₹221.54cr

Issue size (amount)**: ₹1,014cr - ₹1,046cr

Price Band**: ₹315-325

Post-issue implied mkt. cap**: ₹6,999.3cr-7,221.5cr

Promoters holding Pre-Issue: 100.0%

Promoters holding Post-Issue: 85.5%

Note:**at Lower and Upper price band respectively

Book Building

QIBs	50% of issue
Non-Institutional	At least 15%
Retail	At least 35%

Post Issue Shareholding Pattern

Promoters Group	85.5
MF/Banks/Indian Fls/FIs/Public & Others	14.5

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Issue details

The company's issue consists of fresh issue of equity shares of ₹10 each via the book building process in the price band of ₹315-325, aggregating up to ₹700cr; and offer for sale by promoters group of 1.0cr shares. Further, the company has offered a discount of ₹15 per share to employees and retail investors. The issue will constitute 14.5% of the post-issue paid-up equity share capital of company.

Exhibit 1: Share Holding pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoter group	200,000,000	100.0	190,000,000	85.8
Others	-	-	31,538,460	14.2
Total	200,000,000	100.0	221,538,460	100.0

Source: RHP, Angel Research

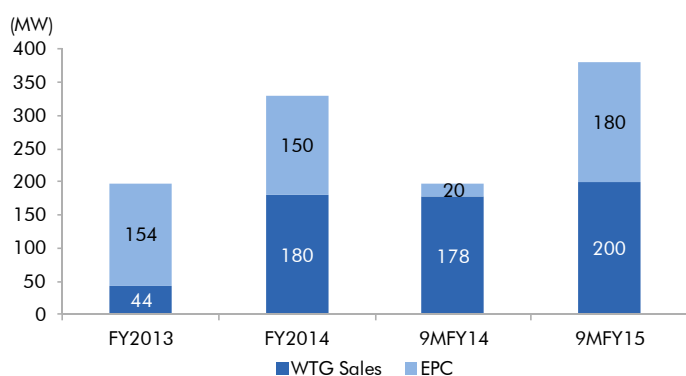
Objects of the issue

- Expansion and up gradation of existing manufacturing facilities. Amount to be financed from the net proceeds will be ₹147.5cr.
- Long term working capital requirements. Amount to be financed from the net proceeds will be ₹290cr.
- Investment in subsidiary (IWISL) for the purpose of development of power evacuation infrastructure and other infrastructure development. Amount to be financed from the net proceeds will be ₹131.5cr.

Key investment arguments

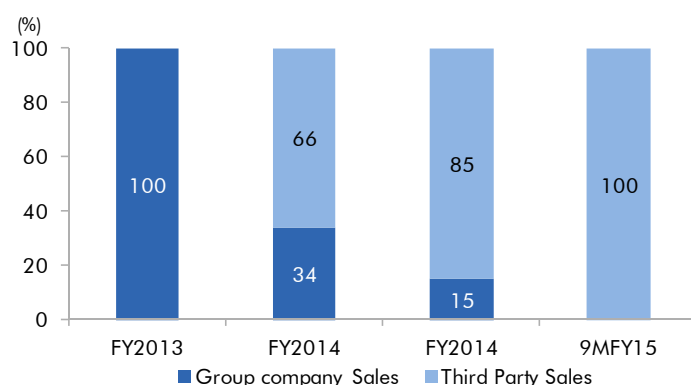
Strong order book and ready pipeline of project sites: IWL has shown a strong growth during FY2014 and 9MFY2015 period wherein it has sold 330MW and 380MW of WTGs during the period; plus, it has a strong order book (as of December 2014). In the initial years of business, IWL's orders were only from the group companies, but now it has orders from major corporates like Oil India, Tata Power, CESE, Welspun, Bangur and Hero group companies. Currently IWL has an order book of 1,136MW (only 50MW is from group companies) as against Suzlon's order book of 1,148MW and Gamesa India Pvt Ltd's order inflow of 850MW, as of December 2014. These provide us strong revenue visibility for FY2016. Out of this order book 694MW orders are turnkey orders where it has to supply WTGs and carry out wind studies, energy assessment, land acquisition, infrastructure development, erection and commissioning of the projects. The remaining 564MW order is only for the supply of WTGs. IWL has already executed 122MW and revenue in respect of this has been booked as of December 2014.

Exhibit 2: Inox WTG sales/commissioning in India (MW)



Source: RHP, Angel Research

Exhibit 3: Declining in house contribution in net sales



Source: RHP, Angel Research

Exhibit 4: Peers companies order book as on December 2014

Company Name	MW
Inox Wind Ltd	1136
Suzlon Ltd	1148
Gamesa Corp*	850

Source: RHP, Angel Research; Note: *Order inflow from India during 2014.

IWL has access to wind sites which have been acquired or are under the acquisition process by its group companies - GFL and IRL - and its subsidiary IWISL. Currently the wind sites acquired have an aggregate power project capacity of 2,130MW, while the wind sites which are under the acquisition process have a power project capacity of 1,922MW. All these sites are located in Rajasthan, Gujarat, Madhya Pradesh and Andhra Pradesh. IWL has made an agreement with group companies under which they get access to the wind sites for construction of wind power projects. IWL would reimburse the cost incurred by group companies on site acquisition along with markup equal to 10% p.a.

Procedure for Acquisition of Wind Sites

- A project developer is required to apply to the government to obtain leasehold rights in government land for the development of wind farms.
- After that the project developer does the survey (collection of wind availability data and project feasibility study) for selection of potential sites for project.
- Once the site is identified then the project developer would register the project in its name.
- After that, the project developer is required to make certain payments pursuant to the rules, following which the government makes a recommendation to the district collector to allot the specified land to the project developer for wind farm development.
- Upon the land being allotted to the project developer, the project developer enters into a lease deed with the relevant authority, and acquires possession of the land.
- The project developer is required to ensure that the project commences operation within certain period of time (differs from state to state) following the date of allotment of land. For acquisition of land, the project developer doesn't require much funds as the same is provided by the government or is provided at a nominal lease rental.

The company has acquired healthy amount of wind sites (2,130MW) so far, which is likely to convert in sales and moreover, the process for acquiring additional 1,922MW wind sites is under process. In our view the company has a strong potential to convert this additional sites into order book. Thus this gives us a medium term revenue visibility for the company going forward.

Exhibit 5: Visibility of Project Pipeline

Acquired Wind sites	MW	Wind Sites under acquisition process	MW
Rajasthan	1,415	Rajasthan	1,194
Gujarat-IRL	154	Gujarat	74
Gujarat-GFL	212	Madhya Pradesh	634
Gujarat-IWISL	44	Andhra Pradesh	20
Madhya Pradesh	285		
Andhra Pradesh	20		
Total	2,130	Total	1,922

Source: RHP, Angel Research

Capacity addition to drive growth

The strong order book shows the medium term revenue visibility for the company. To improve the utilization levels of its nacelles and hubs plant, IWL is increasing rotor blade and tower production capacity from 256 to 400 rotor blade sets and 150 to 300 towers per annum at its Rohika unit, Ahmedabad, Gujarat. The company is also constructing new integrated manufacturing unit at Barwani, Madhya Pradesh with nacelles and Hubs capacity of 400 units, rotor blades capacity of 400 sets and tower capacity of 300 units. This new plant is expected to

commence operations during 2HFY2016. Thus, IWL's total capacity of nacelles and hubs will increase to 950 units, rotor blade capacity to 800 sets and tower capacity to 600 units.

Exhibit 6: Manufacturing Capacity

Component(s)	Plant Location	Installed Annual Production Capacity	Post Proposed Expansion
Nacelles and Hubs	Himachal Pradesh	550	550
Nacelles and Hubs	Madhya Pradesh	-	400
Rotor blade sets	Madhya Pradesh	-	400
Towers	Madhya Pradesh	-	300
Rotor blade sets	Gujarat	256	400
Towers	Gujarat	150	300

Source: RHP, Angel Research

Government focus on renewable energy: The government has set a target of installed wind power capacity of 60,000MW till FY2022 from the current capacity of 21,150MW. This will create a huge opportunity for the company in the upcoming period. Hence we expect order inflow to increase at a faster pace during the next few years. We expect industry order flow to come in at the run rate of 5,000-6,000MW per annum as against the current run rate of 2,000MW per annum. The government has reintroduced the accelerated depreciation and generation based incentives scheme which are the major demand drivers for the wind energy sector. Furthermore, in order to increase the demand for renewable energy, Renewable Purchase Obligation (RPO) is being implemented throughout the country and SERCs are obliged to purchase certain percentage of their power consumption from renewable energy sources.

Exhibit 7: Potential versus currently installed wind capacity (MW)

State / UTs	Installable Potential		Installed Capacity
	at 50 meter hub height	at 80 meter hub height	
Andhra Pradesh	5,394	14,497	748
Gujarat	10,609	35,071	3,454
Karnataka	8,591	13,593	2,324
Kerala	790	837	35
Madhya Pradesh	920	2,931	423
Maharashtra	5,439	5,961	4,086
Rajasthan	5,005	5,050	22,802
Tamil Nadu	5,374	14,152	7,273
Others	7,008	10,336	4
Total	49,130	102,788	21,489

Source: RHP, Angel Research

Availability of high quality technology and ability to provide turnkey solution

IWL has perpetual license from ASMC, a leading wind technology company from Austria, to manufacture 2MW WTGs in India. The company also provides turnkey solution services to its customers as it is preferred by wind farm developers and independent power producers as they do have capabilities to undertake such large project development.

Strong financials: Typically WTG manufacturers require large working capital, mainly due to higher receivables. Therefore companies with well capitalized balance sheets are likely to be in a position to manage their working capital requirement and successfully expand business going forward. IWL plans to utilize ₹290cr from this IPO issue for long term working capital so as to expand business activity going forward.

Outlook and Valuation

IWL has shown a strong growth in its initial stage of business operation. Given the government thrust on renewable energy sector and the company's strong order book, we think the company is well positioned to grow at a healthy rate in the coming years. Currently it is attractively placed in terms of financial stability as its margins are quite strong and has healthy balance sheet as compared to its closely listed peer Suzlon Energy. On EV/sales, the company is valued at 3.3x (at the upper end of the price band) on the basis of 9MFY2015 annualized numbers. **Looking at the strong order book of the company and government focus on the sector, we recommend a Subscribe on the issue.**

Exhibit 8: Valuation table (9MFY2015 annualized)

	Inox Wind	**Suzlon Energy
Sales	2,373	5,276
EV	7,910	16,446
Order Book (MW)	1,136	1,148
EV/Sales	3.3	3.1

Source: Company, Angel Research, Note: Considered upper price band to arrive at implied market cap, EV and Book value.** Suzlon valuation is based on sale of overseas business and fresh equity infusion.

Key investment concerns

Wind energy potential of the country is limited

Centre of Wind Energy Technologies, a research organization in wind energy, has said in a report (released in March 2014) that India has a wind power potential of 102,788MW on 80 meter hub height. Currently 20.5% of wind energy potential has been exploited. Moreover, based on government target of wind capacity addition by 2022, 60% of the potential would be exhausted.

Increase in competition might put pressure on margin

The WTG manufacturing capacity in India currently is estimated to be 12,000MW per annum, and we expect competition to increase in this segment in the coming years. IWL competes with players like Suzlon Energy, Gamesa Wind Turbine Pvt Ltd, Vestas and Win Wind Power Energy Pvt Ltd. Moreover, some more international players are eyeing the Indian market. Therefore, competition is likely to remain high. In order to gain market share, the company might have to reduce the prices of its product and services. This might put pressure on its margins going forward.

Exhibit 9: WTG manufacturing Capacity

Manufacturer name	MW (per annum)
Gamesa Wind Turbine Private Limited	1,500
GE India	450
Leitner Shiram Manufacturing Ltd	1,100
Kenersys India Pvt. Ltd	400
Leitner Shiram Manufacturing Ltd	250
ReGen Powertech Pvt. Ltd.	750
Suzlon Energy Limited	3,700
Vestas Wind Technology India Pvt. Ltd.	1,000
WinWinD Power Energy Pvt. Ltd.	1,000
Inox Wind Ltd	1,100
Total Industry	12,000

Source: Company, Angel Research

Profit & Loss

Y/E March (₹ cr)	FY2013	FY2014	9MFY14	9MFY15
Net Sales	1,058.9	1,567.2	877.4	1,779.5
% chg	70.3	48.0	(44.0)	102.8
Total Expenditure	862.4	1,391.7	756.6	1,496.7
Raw Materials	678.9	939.7	578.4	1,152.6
(% of Net Sales)	64.1	60.0	65.9	64.8
Employee Cost	25.0	38.4	29.4	39.1
(% of Net Sales)	2.4	2.5	3.3	2.2
EPC, O&M, Common Inf Facility and Site Dev exp.	94.1	273.4	56.4	172.6
(% of Net Sales)	8.9	17.4	6.4	9.7
Other Expenses	64.4	140.2	92.4	132.4
(% of Net Sales)	6.1	8.9	10.5	7.4
EBITDA	196.5	175.5	120.8	282.8
(% of Net Sales)	18.6	11.2	13.8	15.9
Depreciation	8.9	11.6	8.6	14.7
EBIT	187.6	163.9	112.2	268.1
Interest	38.7	46.0	38.0	46.4
Other Income	4.8	9.1	7.9	15.5
PBT before exceptional items	153.7	127.0	82.1	237.1
PRT	153.7	127.0	82.1	237.1
Tax	3.3	(4.4)	(3.2)	57.8
(% of PBT)	2.1	(3.5)	(3.9)	24.4
PAT	150.4	131.5	85.3	179.3
Adj. Net Profit	150.4	131.5	85.3	179.3
Margin (%)	14.2	8.4	9.7	10.1
yoy growth (%)	50.7	(12.6)		110.3
EPS	6.8	5.9	3.8	8.1

Balance sheet

Y/E March (₹ in cr)	FY2013	FY2014	9MFY14	9MFY15
SOURCES OF FUNDS				
Equity Share Capital	40	200	200	200
Reserve and Surplus	256	220	174	398
Net Worth	296	420	374	598
Loans	337	480	533	729
Other Long term liabilities	2	2	2	2
Deferred tax liabilities	20	15	16	4
Total Liabilities	654	918	926	1,333
APPLICATION OF FUNDS				
Fixed Assets	157	174	177	168
Capital Work-in-Progress	4	25	15	45
Investments	-	45	45	-
Current Assets	789	1,228	1,092	1,962
Inventories	79	271	234	312
Sundry Debtors	500	710	613	1,251
Cash	2	4	2	19
Loans & Advances	196	203	228	341
Other Assets	12	41	15	40
Current Liabilities	296	555	403	842
Net Current Assets	494	673	688	1,120
Total Assets	654	918	926	1,333

Cash flow statement

Y/E March (₹ in cr)	FY2013	FY2014	9MFY14	9MFY15
Profit before tax	154	127	82	237
Depreciation	9	12	9	15
Change in Working Capital	(286)	(238)	(307)	(292)
Interest / Dividend (Net)	34	39	32	40
Direct taxes paid	(29)	(33)	(21)	(48)
Others	(3)	6	4	4
Cash Flow from Operations	(121)	(88)	(202)	(45)
(Inc.)/ Dec. in Fixed Assets	(351)	(44)	(32)	(54)
(Inc.)/ Dec. in Investments	216	(0)	21	(17)
Cash Flow from Investing	(135)	(44)	(11)	(71)
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	256	179	250	191
Dividend Paid (Incl. Tax)	0	0	0	0
Interest / Dividend (Net)	(38)	(46)	(38)	(71)
Cash Flow from Financing	219	132	212	120
Inc./(Dec.) in Cash	(37)	0	(1)	4
Opening Cash balances	39	2	2	2
Closing Cash balances	2	2	1	6

Key Ratios

Y/E March	FY2013	FY2014
Valuation Ratio (x)		
P/E (on FDEPS)	48.0	54.9
P/CEPS	45.3	50.5
P/BV	4.4	15.5
EV/Sales	7.1	4.9
EV/EBITDA	38.4	43.5
EV / Total Assets	11.5	8.3
Debt/Equity	1.1	1.1
EPS (fully diluted)	6.8	5.9
Cash EPS	7.2	6.4
Book Value	73.9	21.0
Turnover ratios (x)		
Inventory / Sales (days)	27	63
Receivables (days)	172	165
Payables (days)	125	146
WC cycle (ex-cash) (days)	170	156

Note: Valuation Ratio at the upper price band

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