

BSE Code: 539083
NSE Code: INOXWIND
Reuters Code: INWN.NS
Bloomberg Code: INXW: IN

Incorporated in 2009, Inox Wind Ltd (IWL). is India's fourth largest wind power solution provider. The company is primarily engaged in the manufacturing of wind turbine generators (WTGs). It has facilities dedicated to manufacturing nacelles, hubs, rotor blade sets and towers at Una Unit (Himachal Pradesh and Rohika Unit, located in the Ahmedabad district of Gujarat. IWL has a technical collaboration with AMSC Austria GmbH to manufacture 2 MW WTGs in India.

Investment Rationale

Revenue expected to grow at a CAGR of 40% by FY17E: Over FY12-FY15, IWL registered order inflows CAGR of ~76% from Rs. 120 Crore to 1,162 Crore. Going forward, we expect order inflows to grow by 21% to ~Rs. 1400 Crore on account of factors like capacity expansion and increasing government thrust on the development of the wind energy segment, which will catalyse revenue growth. We estimate the revenue to grow at a CAGR of 40% to Rs. 5,315 Crore by FY17E.

Changes in the macro landscape to aid growth: The government's target of increasing the installed wind capacity from the current level of 24 GWs to 60 GWs by 2022 is expected to translate into incremental order inflows for the industry to the tune of 5,000-6,000 MW per annum as against the current addition of 2,000 MW per annum. Additionally various incentives such as finalization of feed-in tariff and regulatory support provided by state governments, inclusion of renewable generation obligation (RGO) in the Electricity Act, National offshore Wind Policy, Green Energy transmission corridor, etc, bode well for the overall sectoral growth. Moreover, Renewable Purchase Obligation (RPO) is being implemented throughout the country and State Electricity Regulatory Commission (SERC)s are obliged to purchase certain percentage of their power consumption from renewable energy sources making room for the growth of the renewable energy segment.

Reaping benefits of strategic association: IWL has a technical collaboration with Austrian wind major AMSC, to manufacture a 2 Mw WTG in India. Inox has an exclusive and perpetual licence from AMSC, with current combined manufacturing capacity of 800 Mw at two manufacturing facilities — at Una in Himachal Pradesh and Ahmedabad in Gujarat. There are more than 7,000 turbines with an aggregate capacity of more than 15,000MW successfully operating across the globe based on AMSC technology. With this association, IWL has access to the best technology in the industry.

Addition to existing capacity to aid growth: During FY15, the company expanded its rotor blade capacity from 256 sets to ~400 sets at its Rohika unit in Gujarat. It is also establishing an integrated green field plant in Barwani, with a capacity of 400 Nacelles and Hubs, 400 sets of rotor blades, and 300 towers. The rotor blades capacity will commence production during Q2FY16, while tower plant will commission during H2FY16. Post expansion, the total capacity would be 950 Nacelles and Hubs, 800 sets of rotor blade, and 600 towers.

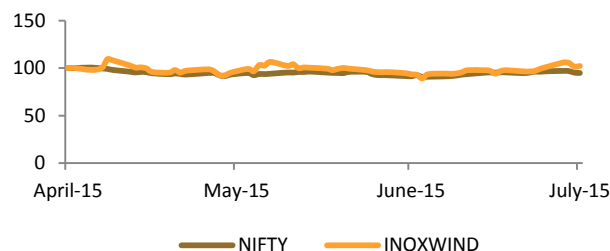
Market Data

Rating	BUY
CMP (Rs.)	449
Target (Rs.)	544
Potential Upside	~21%
Duration	Long Term
Face Value (Rs.)	10
52 week H/L (Rs.)	494.4/385.6
Adj. all time High (Rs.)	495
Decline from 52WH (%)	9.1
Rise from 52WL (%)	16.3
Beta	1.3
Mkt. Cap (Rs.Cr)	9,964
Enterprise Value (Rs.Cr)	10,100

Fiscal Year Ended

Y/E	FY14A	FY15A	FY16E	FY17E
Revenue (Rs.Cr)	1,566.8	2,709.9	4,621.9	5,315.2
Net profit (Rs.Cr)	132.3	296.4	526.6	732.0
EPS (Rs.)	6.6	13.4	23.7	33.0
P/E (x)	67.9	33.6	18.9	13.6
P/BV (x)	21.0	7.2	5.2	3.8
ROE (%)	36.6	32.6	31.8	32.0

One year Price Chart



Shareholding Pattern

	Mar-15
Promoters	85.6
FII	3.5
DII	3.7
Others	7.2

Inox Wind Ltd. is India's fourth largest wind power solution provider with business interests in turnkey projects and equipment supply arrangements.

Inox Wind Ltd: India's fourth largest Wind Power Solution Provider

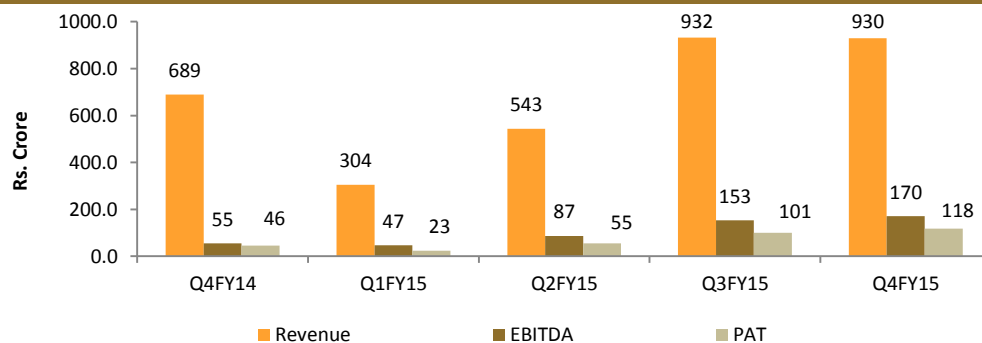
Incorporated in 2009, Inox Wind Ltd. is India's fourth largest wind power solution provider. It is a part of the Inox Group of companies having diversified interests in industrial gases, engineering plastics, refrigerants, chemicals, cryogenic engineering, renewable energy and entertainment sectors. The company is primarily engaged in the manufacturing of wind turbine generators. It has facilities dedicated to manufacturing nacelles, hubs, rotor blade sets and towers. It manufactures nacelles and hubs at its Una Unit (Himachal Pradesh). Its rotor blade and tower manufacturing facility are housed in its Rohika Unit, located in the Ahmedabad district of Gujarat. The company has also commenced construction of a new integrated manufacturing facility at Barwani, Madhya Pradesh to produce nacelles and hubs, rotor blade sets and towers. IWL has a technical collaboration with AMSC Austria GmbH to manufacture 2 MW WTGs in India. It derives ~85% of its revenues from repeat orders. Its top clientele includes Tata Power Renewable Energy Limited, SembCorp IDFC, Continuum (Morgan Stanley), Bhilwara Energy and CESC.

It operates in two segments viz; Turnkey Solutions and Equipment Supply Model. The former contributes ~13% of the revenues while the latter accounts for the rest 87%. Turnkey projects take care of all the aspects related to development of wind power project from concept to commissioning including operation and maintenance. This includes wind studies, energy assessment, land acquisition, site infrastructure development, power evacuation, statutory approvals, and supply of WTG, erection and commissioning and long term operation and maintenance of the wind farms. Under the Equipment Supply arrangement, Inox supplies the WTG and other associated equipments to customers for erection on sites owned by them. The rest of the project development work is in the customers' scope. Erection and commissioning and long term operation and maintenance of the wind farms remain in IWL's scope. Civil works could either be in IWL's scope or the customers' scope, on a case to case basis.

Volume growth drove Q4FY15 numbers higher

The company witnessed a robust growth of 35% YoY in top-line at Rs. 930 Crore during Q4FY15 owing to 50% increase in its sales volume. It sold 198 MWs worth of turbines in Q4FY15 as compared to 132 MWs worth of turbines in the corresponding quarter of the last year. EBITDA reported at Rs. 170 Crore registered a growth of 212% YoY as a function of operating leverage and economies of scale attained due to jump in sales volumes, lower EPC cost and other expenses. Hence, the EBITDA margin improved by 1,040bps YoY to 18%. Despite higher tax payment, the net profit improved by 157% YoY to Rs. 118 Crore, notwithstanding a considerable rise in depreciation by 89 % YoY and 103 % YoY increase in its interest costs.

Quarterly performance trend

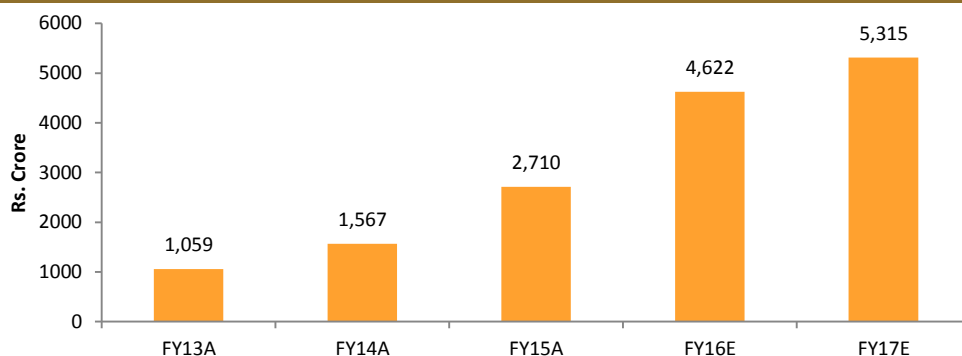


Increase in sales volumes led to revenue growth of 74% in FY15 to Rs. 2,710 Crore.

Impressive performance in FY15

IWL reported a topline of Rs. 2,710 Crore registering a growth of 74% in FY15 as compared to the last year because of an increase in the sales volumes. It delivered a strong volume growth of 75% during FY15, wherein it has sold 578MW of WTGs as against 330MW sold during FY14. EBITDA stood at Rs. 457 Crore in FY15 growing at a rate of 159% from the last year supported by various initiatives undertaken by the company like new product launches and factors like improved logistics and supply chain benefits, lower royalty expenses, improved realizations, recent duty benefits, etc. EBITDA margin for the year stood at 17%. In line with robust EBITDA growth, the bottom-line rose to Rs. 296 Crore.

Top-line expected to register a CAGR of 40% over FY15-FY17E



Favourable regulatory environment: A key growth enabler

Indian wind energy segment is placed amidst a promising environment given the state of regulatory transitions imposed by the government. With its ambitious target of increasing the wind energy capacity of the country to 60 GWs by 2022, the government has resorted to implementing aggressive fiscal and regulatory incentives for the sector, which include finalization of feed-in tariff and regulatory support provided by state governments, inclusion of renewable generation obligation (RGO) in the Electricity Act, and long-term opportunities arising from offshore wind power installation and repowering of old WTG sites.

Regulatory changes to boost sectoral growth

Accelerated Depreciation (AD)	Withdrawn in Mar 2012, reintroduced in Jul 2014 and notified in Sep' 14
Generation Based Incentives (GBI)	Withdrawn in Mar 2012, reintroduced in Mar 2013 and notified in Sep 2013. Rs. 0.50/unit incentive to generators with a cap of Rs. 1 Cr/MW, up from Rs. 0.62 cr/MW for 4-10 th year
Access to low cost funding	National Clean Energy cess doubled to Rs. 200/mt
Mandatory CSR (Renewable)	Under new Companies Act, eligible companies have to spend 2% of its average net profit on CSR activities. Renewable energy / WTG qualifies under mandatory CSR spend
Renewable Purchase Obligation	Distribution companies are required to procure a percentage of all electricity from renewables
Other incentives	Fast tracking of implementation of Green Corridor will address evacuation constraints. Long term funding to infrastructure projects (up to 25 years). 4% SAD on parts and RM for WTG manufacturing removed.

With its ambitious target of increasing the wind energy capacity of the country to 60 GWs by 2022, the government has resorted to implementing aggressive fiscal and regulatory incentives for the sector which is expected to impact Inox favourably.

With the government reintroducing generation-based incentives, the environment for renewable energy sector has improved. The wind energy business in India is now seeing investments from government companies and independent power producers.

We expect the aforementioned initiatives to facilitate growth in the sector by creating conducive environment for setting up of new facilities and low cost funding.

Highly untapped wind energy potential: A big positive

Wind energy in India caters to ~9% of the total energy requirement. In its recent National Action Plan for Climate Change, the Indian Government has set a target of adding 132 GW of renewable energy sources to the generation mix bringing it to 175 GWs by 2022; out of which 60 GW is the Wind energy estimation. This makes room for ~5GWs worth of capacity addition in the sector. Moreover, at 21,445 MWs India's installed capacity is roughly 5% of the world's total installed capacity creating massive opportunities of growth. As per National Institute of Wind Energy, wind energy potential in India has been estimated at 102 GWs at 80 meters height and 49 GWs at 59 meters. According to Global Wind Energy Council's (GWEC), the Asian subcontinent contributes ~40-45% of the total global wind requirement. This is expected to grow at a CAGR of 10% by 2019 and India and Japan are the front-runners of this expansion. We believe that being India's 4th largest player in the wind energy segment, IWL is favourably placed to receive the benefits ensuing from the aforementioned transitions.

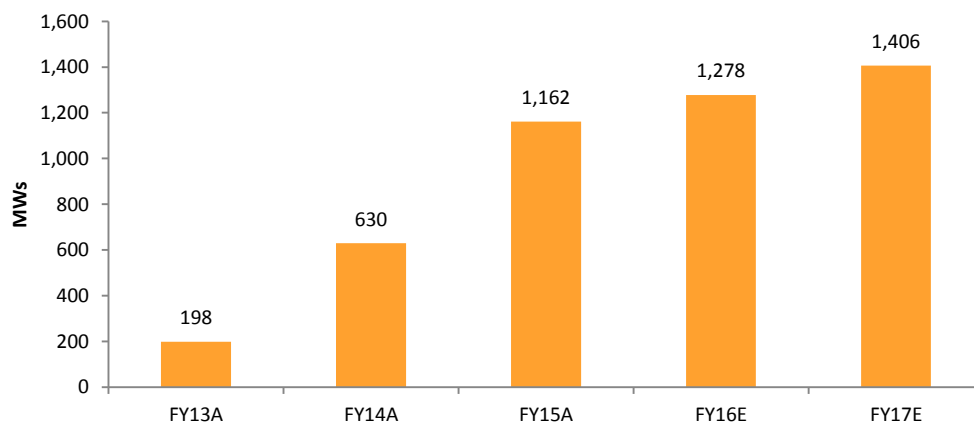
Strong order book provides high revenue visibility

Over FY12-FY15, the company has witnessed a four-fold rise in its executed order book registering a CAGR of 150% in its top-line from ~Rs. 450 Crore to Rs. 2,710 Crore. The realisations have been ~ Rs. 5 Crore/MW. Order inflow has improved from 120 MWs to 1,162 MWs for the period under review. Meanwhile the company is eyeing an order inflow of ~1,500 MWs for the next 1-2 years. Its order book at the end of FY15 stood at 1,178 MWs and is expected to be executed over next 12-15 months. Additionally it plans to increase capacity for Nacelles, Blades and Tower manufacturing by 1.6 GW by the end of 2016, the benefits for which are expected to accrue by FY17E. At the current realisation rate and the expected order inflows, the company exhibits strong revenue visibility for the coming two years. We expect the company to report a top-line of Rs. 5315 Crore registering a CAGR of 40% by FY17E.

Being the fourth largest player in the wind energy segment in India, IWL is favourably placed to receive the benefits of the highly untapped wind energy potential.

IWL's revenues are expected to grow on the back of increasing order inflows and higher execution rate.

Order Inflows to report a CAGR of 10% over FY15-FY17E



Collaboration with AMSC resulting in technical efficacies

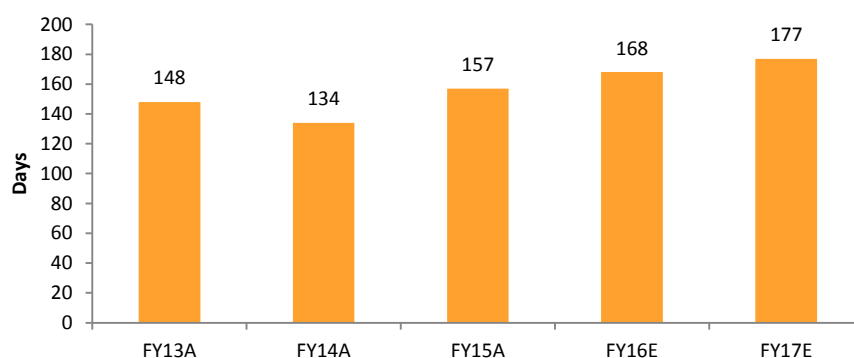
IWL has a perpetual exclusive license from AMSC to manufacture 2 MW WTGs, with rotor diameter between 75 meters and 120 meters, using its proprietary technology. Under the license agreement, IWL is required to purchase all Electron Control Systems (ECS) from AMSC. There are more than 7,000 turbines with an aggregate capacity of more than 15,000 MW successfully operating across the globe based on AMSC technology. IWL's WTGs are equipped with double fed induction gear (DFIG) technology. The swept area of the WTG is also one of the highest, which makes the WTGs ideally suited for low wind sites such as those prevalent across India. This collaboration not only gives IWL a technological advancement, it also reduces the company's R&D expenditure substantially.

NWC days: A key concern for IWL

A major concern surrounding IWL is its current level of net working capital (NWC) days. Its' NWC days have been very high at 148 days in FY13 and had increased to 157 days in FY15 due to the company's inability to ensure faster collections. Also, the industry has witnessed deterioration in its net working capital cycle since FY13. The market for accelerated depreciation (AD) collapsed and had resulted in an increase in the bargaining power of IPPs. We expect the company to have a net working capital cycle of 168 days in FY16 and of 177 days in FY17. As per our estimates, net working capital days are a big concern for the company that can hamper the profitability going forward if it increases at this pace. IWL can direct its efforts to reduce its NWC days capitalizing on factors like the increasing willingness of banks to fund RE projects and the increasing bargaining power of equipment manufacturers in the long term. If achieved it will drive meaningful improvement in cash flows from operations for the company.

IWL's inability to ensure faster collections from its debtors remains a key risk factor which can hamper the company's progress if not carefully monitored.

NWC days continue to remain a concern



Other risks

- Inability to obtain requisite environmental and other approvals, resulting in delays and increased costs
- Currency rate fluctuations adversely affect the revenues as the technology fee payment can rise substantially
- Intense competition

Balance Sheet (Consolidated)

Y/E (Rs.Cr)	FY14A	FY15A	FY16E	FY17E
Share Capital	200.0	221.9	221.9	221.9
Reserve and surplus	227.8	1,170.0	1,696.6	2,428.7
Net Worth	427.8	1,391.9	1,918.6	2,650.6
Total Debt	480.4	845.0	642.17	641.97
Other non-current liabilities	18.9	3.4	1.4	1.6
Capital Employed	927.1	2,240.3	2,562.1	3,294.1
Fixed Assets	197.7	250.3	476.5	536.8
Investments	45.0	0.0	0.0	0.0
Net Current Assets	580.9	1,875.7	1,971.2	2,642.9
Other non-current assets	103.5	114.4	114.4	114.4
Capital Deployed	927.1	2,240.3	2,562.1	3,294.1

Profit & Loss Account (Consolidated)

Y/E (Rs.Cr)	FY14A	FY15A	FY16E	FY17E
Net Sales	1,566.8	2,709.9	4,621.9	5,315.2
Expenses	1,390.5	2,252.5	3,848.0	4,267.3
EBITDA	176.3	457.4	773.9	1,047.9
Other Income	9.1	14.3	15.7	17.3
Depreciation	11.6	20.4	33.7	39.7
EBIT	173.8	451.4	755.8	1,025.5
Net Interest cost	46.0	62.3	64.5	64.5
Profit Before Tax	127.8	389.1	691.3	961.0
Tax	(4.5)	92.7	164.7	229.0
Net Profit	132.3	296.4	526.6	732.0

Key Ratios (Consolidated)

Y/E	FY14A	FY15A	FY16E	FY17E
EBITDA Margin (%)	11.3	16.9	16.7	19.7
EBIT Margin (%)	11.1	16.7	16.4	19.3
NPM (%)	8.4	10.9	11.4	13.8
ROCE (%)	22.6	28.7	31.5	35.0
ROE (%)	36.6	32.6	31.8	32.0
EPS (Rs.)	6.6	13.4	23.7	33.0
P/E (x)	67.9	33.6	18.9	13.6
P/BVPS (x)	21.0	7.2	5.2	3.8
EV/Operating Income (x)	57.4	23.1	14.2	9.9
EV/EBITDA (x)	53.6	22.1	13.6	9.6

Valuation and view

We forecast IWL's top-line to grow at a CAGR of 40% during FY15-17E, on the back of aggressive capacity expansion, strong order book and large project sites. Also, EBITDA margin is expected to improve to 19.7% by FY17E on the basis of higher realizations. Moreover, it stands to be a key beneficiary of government's thrust on improving the stature of renewable energy in India with a big market share and access to sophisticated technologies.

We expect IWL's net profit to grow at a CAGR of ~57% during FY15-FY17E and the RoE and RoCE to improve to 32.0% and 35.0% respectively. At the current market price (CMP) of Rs. 449, the stock trades at a P/E multiple of 18.9x FY16E and 13.6x FY17E. We recommend 'BUY' with a target price of Rs. 544 assigning a forward P/E multiple of 16.5x, which implies a potential upside of ~21% to the CMP from 12-18 months perspective.

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