

Rating: Subscribe for Long Term

Issue Offer

Fresh Issue of 56,923,077 equity shares up to INR 370Cr and OFS of 56,923,077 shares by Promoters group taking the total issue size at INR 740 cr.

Issue Summary

Price Band (INR)	61-65
Face Value (INR)	10
Implied Market Cap (INR Cr)	1,898
Market Lot	230
Issue Opens on	Nov, 11, 2022
Issue Close on	Nov, 15, 2022
No. of share pre-issue	2350,16,258
No. of share post issue	2919,39,335
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	≤ 75
NIB Portion	≥ 15
Retail Portion	≥ 10

Book Running Lead Managers

Edelweiss Financial, DAM Capital
Equirus Capital, IDBI Capital
Systematix Corporate

Registrar

Link Intime India Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	93.84%	56.04%
Public & Others	6.16%	43.96%

Objects of the issue

- Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the Company including redemption of Non- Convertible Debentures in full.
- General corporate purposes

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Inox Green Energy Services Ltd (Inox green) is one of the major wind power operation and maintenance (O&M) service providers within India. It's a subsidiary of Inox Wind Ltd (IWL). The company is engaged in providing long-term O&M services for wind farm projects, specifically O&M services for wind turbine generators (WTGs). The company offers exclusive O&M services for all WTGs sold by IWL through the entry of long-term O&M contracts between the WTG purchaser and terms that typically range between 5 to 20 years. The company has a portfolio of 2,792 MW as of Q1FY23. The order book stood at 1,489 MW as of Q1FY23. The company has presence in 8 states; Gujarat, Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, Andhra Pradesh, Kerala, and Tamil Nadu.

Investment Rationale

Strong and diverse existing portfolio base: Inox green portfolio of O&M contracts covered an aggregate of 2,792 MW of wind projects spread across 8 wind-resource-rich states in India with an average remaining project life of more than 20 years. The mix of the contracts is independent power producers (IPP) – ~72%, public sector undertakings (PSU) – ~14%, and Corporates – ~14%. Certain Individual wind project sites have developed in collaboration with IWL; IWL has significant capacity to support the installation of additional WTGs which will further grow the portfolio base.

Established track record, favourable national policy support, and visibility for future growth: Inox green has an established track record in the wind energy O&M industry of more than 9 years. The portfolio of O&M contracts grew at a CAGR of 40.2% over the past 9 years. The wind energy extraction technology and access to wind sites coupled with strong industry growth prospects would lead to steady growth for the O&M business going forward.

Reliable cash flow supported by long-term O&M contracts with high credit quality customers: Inox green enters into long-term O&M contracts with customers, ranging from 5 to 20 years with a renewal option provided in most cases. These contracts show revenue visibility for the longer term. The contracts are in-built with a price escalation formula of ~5% per annum. The company has the ability to maintain and renew the contracts. The customers are Gujarat Fluorochemicals, Gujarat Industries Power, Shree Cements, Torrent Power etc.

Established supply chain in place: Inox green has an established relationship with suppliers for the parts, components, and tools for O&M services. The company has a synergistic relationship with IWL and is able to obtain proprietary components and spare parts for the IWL-manufactured WTGs directly from IWL.

Valuation and View: Inox green has 7% market share in O&M portfolios and having opportunity in inorganic growth through acquisitions of inactive players. The O&M contracts are long term contracts with price clauses which provide long term revenue visibility. A synergistic relationship with IWL, long term O&M contracts, established supply chain and industry growth are expected to drive the business going forward. Post IPO, Inox green is expected to clear the debt which will reduce the interest cost substantially and improve bottom levels. At the upper band of INR 65, the issue is valued at a EV/EBITDA of 22x based on FY22 EBITDA. We are recommending "Subscribe for Long Term" for this issue.

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22
Revenue	165	172	172
Net Raw Materials	56	54	63
Employee Cost	18	19	22
Other Expenses	3	17	6
EBITDA	88	82	82
EBITDA Margin (%)	53.4%	47.7%	47.7%
Depreciation	(40)	(49)	(50)
Interest expense	(53)	(61)	(55)
Other income	7	14	18
Profit before tax	3	(32)	(5)
Taxes	(1)	5	(0)
Net profit	2	(28)	(5)
Reported Netprofit Margin (%)	1.0%	-16.1%	-2.9%
Other Comprehensive income	0	0	0
Net profit	2	(28)	(5)
EPS (INR)	0	(2)	(0)

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22
Equity capital	116	129	235
Reserves	(20)	(86)	572
Net worth	97	43	807
Provisions	2	2	2
Debt	1,461	1,716	922
Other non-current liabilities	46	58	239
Total Liabilities	1,606	1,820	1,970
Fixed assets	772	765	953
Capital Work In Progress	26	251	133
Other Intangible assets	4	0	0
Investments	480	506	542
Other non current assets	121	127	150
Net working capital	140	1	60
Inventories	359	355	21
Sundry debtors	250	223	68
Loans & Advances	8	9	31
Other current assets	256	287	90
Sundry creditors	(411)	(519)	(80)
Other current liabilities & Prov	(323)	(354)	(70)
Cash	18	130	110
Other Financial Assets	45	40	22
Total Assets	1,606	1,820	1,970

Source: Company Reports, Arihant Capital Research

Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22
Profit before tax	3	(32)	(5)
Depreciation	40	49	50
Tax paid	(1)	5	(0)
Working capital Δ	(140)	139	(59)
Operating cashflow	(99)	160	(13)
Capital expenditure	(838)	(266)	(120)
Free cash flow	(937)	(106)	(134)
Equity raised	95	(26)	769
Investments	(480)	(26)	(36)
Others	(170)	2	(4)
Debt financing/disposal	1,461	255	(793)
Other items	48	12	180
Net Δ in cash	18	112	(19)
Opening Cash Flow	-	18	130
Closing Cash Flow	18	130	110

Source: Company Reports, Arihant Capital Research

Ratio analysis

Y/e 31 Mar (INR cr)	FY20	FY21	FY22
Growth matrix (%)			
Revenue growth		4.2%	0.0%
Op profit growth		-6.8%	0.0%
Profitability ratios (%)			
RoCE	4.3%	2.4%	3.0%
RoNW	3.3%	-39.7%	-1.2%
RoA	0.1%	-1.5%	-0.3%
Per share ratios (INR)			
EPS	0.1	(2.2)	(0.2)
Cash EPS	3.6	1.7	1.9
Book value per share	8.3	3.3	34.3
Valuation ratios (x)			
P/E	444	(30)	(327)
P/CEPS	18	39	34
P/B	8	19	2
EV/EBITDA	19	23	22
Payout (%)			
Tax payout	39.4%	14.3%	-5.2%
Liquidity ratios			
Debtor days	552	501	309
Inventory days	2,341	2,419	1,095
Creditor days	1,947	1,886	1,216
WC Days	946	1,035	188

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 1: Inox green has 7% market share in terms of O&M portfolios. The industry O&M portfolio stood at 40,324 MW. The in-active players provides significant opportunity for inorganic growth.

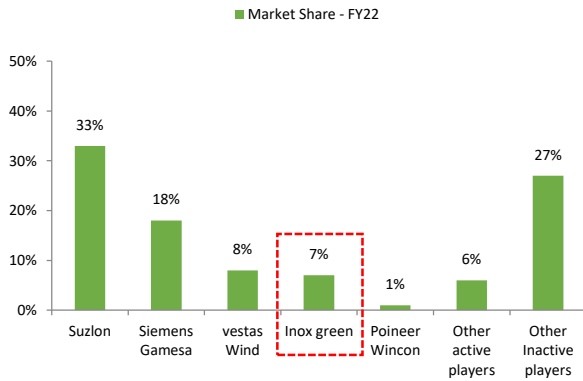


Exhibit 2: In FY22, Gross margins were impacted due to higher O&M and common infrastructure facility expense and purchase on stock in-trade

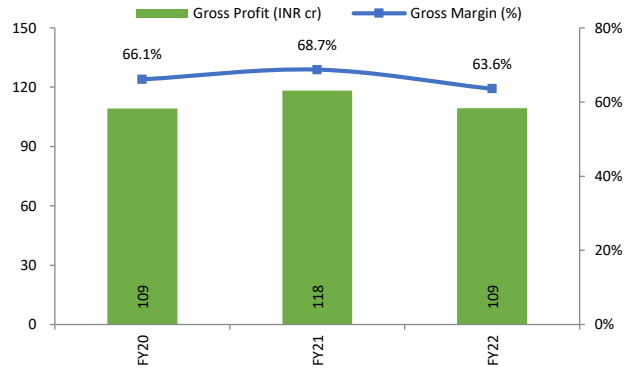


Exhibit 3: In FY22, EBITDA margin were impacted due to higher RM costs and PAT margins were impacted due to higher interest costs.

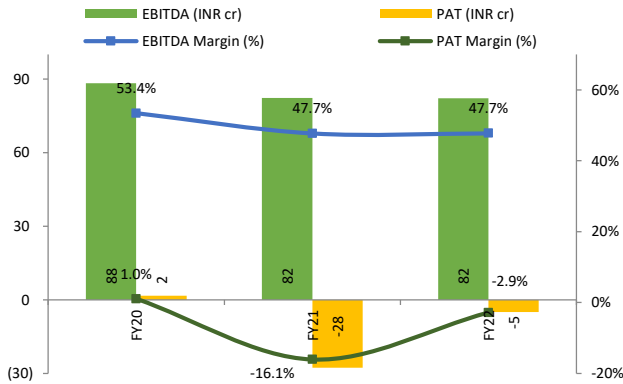


Exhibit 4: Working capital has reduced in terms of sales.

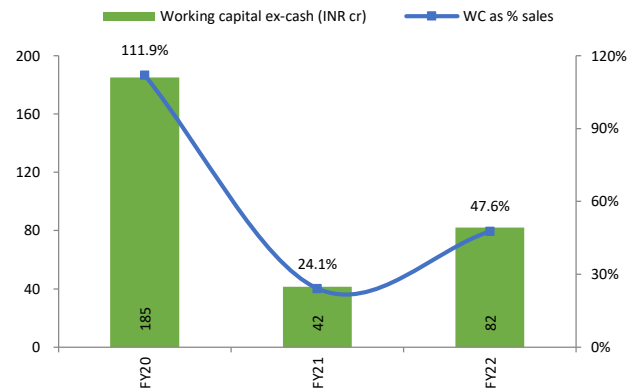


Exhibit 5: Return ratios were impacted; Post IPO, the company is expected to clear the debt which will lead to improve profitability and return ratios.

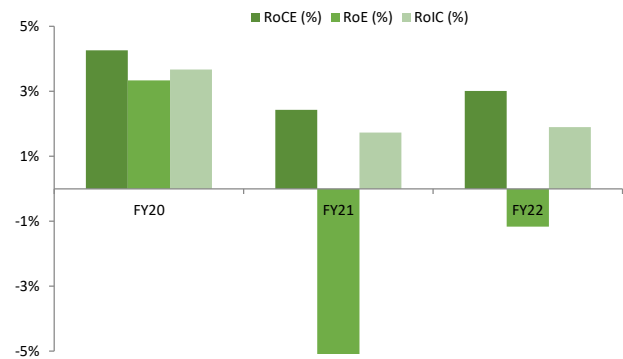
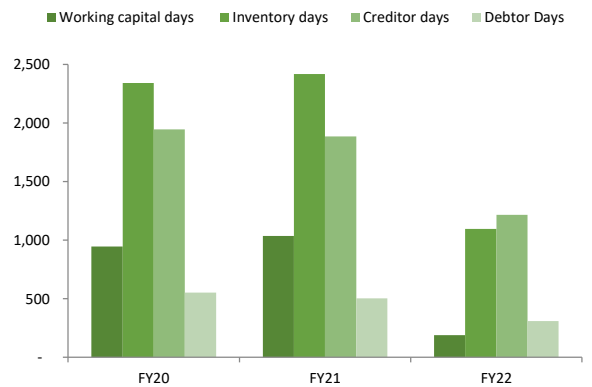


Exhibit 6: Working capital days were reduced.



Source: RHP, Company Reports, Arihant Capital Research

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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