Inox Green Energy Services Limited
IPO Note
Date: 10.11.2022

Inox Green Energy Services is long term service provider of Operations and maintenance to WTG (Wind Turbine Generators) and infrastructure facilities to Wind farm projects. Major client of the company is NTPC. Order size of company is 1300 MW with renewal period of 7-20 years for overall client base, which makes long term client contract retainable. They have exclusive agreement with Inox wind Ltd so as to service all their wind turbines produced/sold by them. While, IWL's operating performance remained weak on account of continued lower execution during past.
Company has an asset light model and with no requirement of major capex. On valuation front, the company is available at P/Sales of 4.30x and EV/Sales (calculated-post IPO proceeds) at 4.83x for FY2022, there are no listed peers to compare valuation of the company. The Company is loss making however, EBIDTA margin has increased significantly from 41% in FY2021 to 53% in FY2022. Post repayment of debt, interest cost will reduce and subsequently profitability will improve. Thus, we recommend to subscribe for listing gains.

INOXGreen
ENERGY SERVICES LIMITED

About the Company:
Inox Green Energy Services Limited are one of the major wind power operation and maintenance ("O&M") service providers within India. Company is engaged in the business of providing long-term O&M services for wind farm projects, specifically the provision of O&M services for wind turbine generators ("WTGs") and the common infrastructure facilities on the wind farm which support the evacuation of power from such WTGs. They have stable annual income owing to the long-term O&M contracts that they enter into with customers. They are a subsidiary of Inox Wind Limited ("IWL"), a company which is listed on the National Stock Exchange of India Limited and BSE Limited, and part of the Inox GFL group of companies ("Inox GFL Group").

Issue details

Price Band (Rs in per share)	61-65
Issue size (Rs in Crore)	740
Fresh Issue size (Rs in Crore)	370
OFS Issue size (Rs in Crore)	370
Issue open date	11-11-2022
Issue close date	15-11-2022
Tentative date of Allotment	18-11-2022
Tentative date of Listing	23-11-2022
Total number of shares (lakhs)	1213.11-1138.46
No. of shares for QIBs (75%) (lakhs)	909.84-853.85
No. of shares for NII (15%) (lakhs)	181.97-170.77
No. of shares for retail investors (10%) (lakhs)	121.31-113.85
Minimum order quantity	230
Face value (in Rs)	10
Amount for retail investors (1 lot)	14030-14950
Maximum number of shares for Retail investors at lower Band	3220(14 Lots)
Maximum number of shares for Retail investors at upper band	2990(13 lots)
Maximum amount for retail investors at lower Band- upper	196420-194350
Exchanges to be listed on	BSE, NSE

RESEARCH ANALYST

Sankita V
sankita@canmoney.in | Tel 022-43603863
canmoney.in
A route to making money online

Promoters

INOX WIND LIMITED

Objective of the Offer

- Repayment and/or pre-payment, in full or part, of certain borrowings availed by the company including redemption of Non-Convertible Debentures in full up to 260 crores
- General Corporate Purposes

Financials

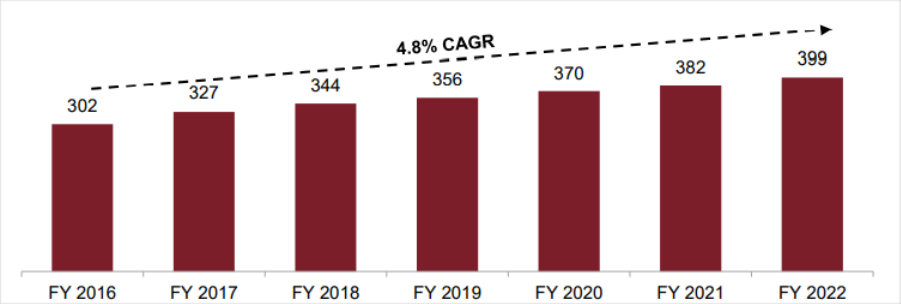
Brief Financials				
Particulars (Rs. Cr)*	**Quarter Ended June, 2022**	**FY22**	**FY21**	**FY20**
Share Capital	235.02	235.02	128.62	116.21
Net Worth	795.00	806.63	42.96	96.54
Revenue	61.79	172.17	172.25	165.32
EBIDTA	18.93	100.26	77.27	95.35
EBIDTA Margin	29.97%	52.70%	41.48%	55.39%
PAT	(11.58)	(93.20)	(153.52)	(52.26)
Basic EPS(Rs)	(0.49)	(0.25)	(2.29)	0.20
Net Asset Value (Rs)	33.83	34.32	3.34	8.31
P/E#	NA	NA	-	-
P/B#	1.92	1.89	-	-

*Source: RHP # Calculated at the upper price band, * Restated summary*

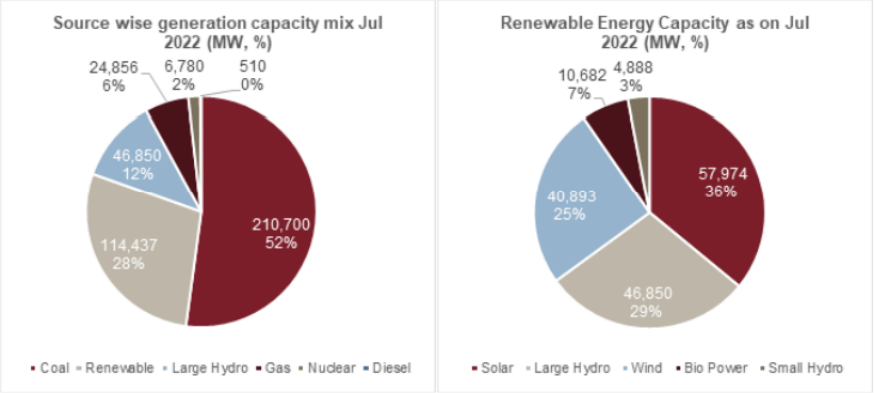
Industry Review:

The total installed generation capacity at the end of July 2022 was 404 GW, of which approximately 97 GW of capacity was added from fiscals 2016 onwards. Coal and lignite-based installed power generation capacity has maintained its dominant position over the years and accounts for approximately 52% as of July 2022. However, renewable energy installations (including large hydroelectric projects) have reached approximately 161 GW capacity as on July 2022, compared with 25 GW as on March 2012 (Source: MNRE), constituting approximately 40% of total installed generation capacity as of date. In particular, this growth has been led by solar power, which grew at breakneck speed to approximately 58 GW from 0.9 GW over the same period.

Evolution of installed generation capacity (GW)



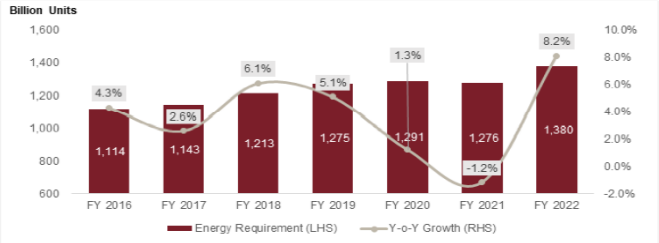
Note: 4.8% CAGR is for capacity additions growth between fiscals 2016-2022
Source: CEA, CRISIL Research



Source: CEA, CRISIL Research

The Electricity Act, 2003 coupled with competitive bidding for power procurement, implemented in 2006, encouraged the participation of private players who had announced large capacity additions. Moreover, the strong government thrust on renewable energy coupled with reducing tariffs (with falling capital costs and improving efficiency) also supported renewable energy capacity additions. Tepid rise in demand growth coupled with rising supply led to a drop in power deficit.

Trend in energy requirement



Source: CEA, CRISIL Research

The growth stood at 4.3% during fiscal 2016 and 2.6% in fiscal 2017 owing to slowdown in manufacturing activity. It improved to 6.1% in fiscal 2018, mainly driven by rising electrical connections under the rural electrification and SAUBHAGYA schemes. Power demand growth was subdued at 1.3% on-year in fiscal 2020 owing to a slowing economy, with an extended monsoon till October 2019 further dampening demand. The extended monsoon resulted in lower cooling demand from domestic consumers as well as reducing irrigation demand from agricultural consumers. Demand recovered slightly in January-February 2020 with the onset of summer, but the pandemic downed the shutters on economic activity in March 2020, thereby pulling power demand growth into negative territory. Power demand posted a decline of (1.0-2.0) % in fiscal 2021. Economic growth made a healthy comeback in fiscal 2022 coupled with a low base effect as well as Government spending on infrastructure. Consequently, power demand returned to positive territory during fiscal 2022, growing at 8.2%. Power demand surged in Q1 of fiscal 2023 due to severe heatwave and continued momentum in economic activity, thus registering a 18.6% on-year growth in the quarter. Subsequently, demand is expected to gradually pick up on the back of healthy recovery in economic growth, expansion in reach via strengthening of T&D infrastructure, and improved power quality, thereby registering a 5.0-6.0% CAGR over fiscals 2023 to 2027

Factors influencing power demand

Gradual pick-up in GDP growth and infrastructure development to support power demand

India's economy is expected to continue to grow after fiscal 2022, with a gradual pick-up in industrial growth over the medium term. Various government initiatives such as 'Make in India', 'Smart Cities Mission', dedicated freight corridors, metro rail projects, railway track electrification, etc., are expected to boost power demand in the country, albeit in the medium to long term.

Sector wise break-up of estimated cumulative capacity additions (fiscals 2023-2027)

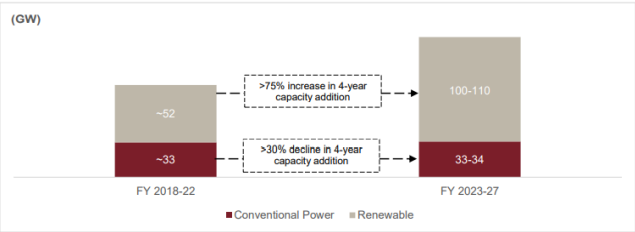
Coal-based capacities to account for approximately 70-75% of total additions. CRISIL Research expects 24-25 GW of new coal-based capacities to commission between fiscals 2023 and 2027, led by large number of planned projects and the fact that coal continues to remain the most widely available and economic source of fuel among the conventional sources. Moreover, the Government's policy for flexibility in utilization of domestic coal, new linkage policy i.e. Scheme for Harnessing and Allocating Koyla Transparently in India ("SHAKTI"), and higher domestic coal production aimed at coal import substitution would lead to significant improvement in coal availability over the next three-five years for power plants.

All-India installed capacity to reach 510-520 GW by fiscal 2027, led by renewables

Over the next five years (fiscals 2023-2027), 33-34 GW of conventional capacity is expected to be added in India. While there are approximately 52 GW of thermal power generation capacities under construction as of May 2022, CRISIL Research expects only approximately 25 GW of coal-based power to commission over fiscals 2023 to 2027. In addition, approximately 4 GW of hydro and 2-3 GW of nuclear capacities are expected to be added.

Strong growth in renewable capacity additions to continue

CRISIL Research expects 100-110 GW of renewable power generation capacities to be added between fiscals 2023 and 2027. Capacity additions in the renewable energy segment are expected to witness robust growth. Additions in both wind and solar power are expected to be driven by strong Government focus, which is evident from the fiscal and regulatory incentives, viability gap funding and execution support in terms of land and evacuation infrastructure. Improved availability of low-cost finance through various instruments / sources would also support renewable energy capacity additions.



Note: Renewables consists of Solar and Wind power capacities only.
Source: CEA, CRISIL Research

Canara Bank Securities Ltd

Competitive Strengths

Strong and diverse existing portfolio base

As of June 30, 2022, portfolio of O&M contracts (consisting of both comprehensive O&M contracts and common infrastructure O&M contracts) covered an aggregate of 2,792 MW of wind projects spread across eight wind-resource rich states in India with an average remaining project life of more than 20 years. The counterparties to O&M contracts feature a mix of independent power producers ("IPP") (approximately 72%), public sector undertakings ("PSU") (approximately 14%) and corporates (approximately 14%), as on June 30, 2022. Further, certain individual wind project sites which they have developed in collaboration with IWL have significant capacity to support the installation of additional WTGs which will further grow portfolio base. Such capacity exists due to the nature of wind project site development which requires the construction and installation of supporting infrastructure such as pooling substations and transmission lines in advance of the installation of WTGs (which are thereafter installed on a plug-and-play basis). In addition, with the transition from the feed-in tariff regime to the auction based regime having had a few years to bed in, they believe that there will be an increase in the number of WTG installations in the coming years as compared to the suboptimal number of WTG installations for the past few years which will further expand portfolio base.

Established track record, favorable national policy support and visibility for future growth

They have an established track record in the wind energy O&M industry of more than nine years due in large part to the synergistic relationship they share with parent company, IWL, which commenced operations in the wind energy space in the financial year ended March 31, 2010. As set out on in the graph below, operating portfolio of O&M contracts (both comprehensive O&M contracts and common infrastructure O&M contracts) has grown at a compound annual growth rate of approximately 40.16% in the past nine years since commencement of operations.

Supported and promoted by parent company, IWL

Parent company, IWL, together with its group companies, is one of India's notable WTGs manufacturers which provides wind energy turnkey solutions across India. Its service offerings include wind resource assessment, wind site acquisition, infrastructure development, EPC and it has an installed capacity of approximately 2,792 MW as of June 30, 2022. IWL has manufacturing facilities in Gujarat, Himachal Pradesh and Madhya Pradesh and clientele which includes various IPPs, PSUs and corporates. parent also has exclusive licenses and agreements in place to manufacture WTGs in India using WTG technology developed by American Superconductor Corporation ("AMSC"), a NASDAQ listed company, and is backed by a management team with extensive experience in the renewable energy sector. They benefit from a synergistic relationship with parent pursuant to an exclusivity agreement which enables them to provide O&M services to all customers who purchase WTGs from parent company during the relevant warranty period as part of a "one-stop shop" / turnkey solution and who, after such period, often retain them to continue providing O&M services due to expertise in operating and maintaining IWL's proprietary WTGs and the common infrastructure facilities. This enables them to build portfolio alongside parent.

Established supply chain in place.

They have an established relationship with suppliers for the parts, components and tools they require in provision of O&M services. As part of synergistic relationship with IWL, they believe that they are able to obtain proprietary components and spare parts for the IWL manufactured WTGs directly from IWL and as for the other tools and parts they employ, they have an established network of external suppliers.

Risk Factors

Dependent on Inox Wind Limited

Pursuant to an exclusivity agreement dated December 17, 2021, between Company and Inox Wind Limited, Promoter and largest shareholder, they provide exclusive O&M services for all WTGs sold by Inox Wind Limited through the entry of long-term O&M contracts between the WTG customer and ourselves which range between five to 20 years in term. Thus, they derive revenues from O&M services offered to WTGs supplied by Inox Wind Limited. While no such instance has occurred in the past, any dispute with Inox Wind Limited, including in relation to warranties and guarantees provided by them or the revocation of exclusivity agreement, may have a material impact on future support and business they seek to derive from Inox Wind Limited.

Business transfer agreement to one of the subsidiaries

On December 31, 2021, Company has executed the BTA to divest and transfer the erection and commissioning services of WTGs ("EPC Business") to one of the subsidiaries of Promoter, Resco Global Wind Services Private Limited ("Resco") as a going concern on a slump sale basis for an aggregate consideration of ₹46.98 million. Under the BTA, the EPC Business including intellectual property, contracts, insurance policies, employees, business information, accounts receivables, claims and benefits under warranties from suppliers, construction materials, project development, erection and commissioning work-in-progress, along with its liabilities such as trade payables and certain litigations ("Assumed Legal Proceedings") (collectively, "Business Undertaking") has been transferred to Resco. In terms of the BTA, Company is contractually bound to bear the cost and expenses incurred in continuing, defending and enforcing all legal proceedings pertaining to the EPC Business, barring certain Assumed Legal Proceedings (as listed out in Schedule 1 to the BTA). Accordingly, in the event any such legal proceeding is adversely adjudicated against Company, it may have an adverse impact on business and financial condition.

Security including a shortfall undertaking, guarantees

They, along with certain entities have provided security including a shortfall undertaking, guarantees, and have hypothecated assets against loans availed by Resco, which is one of the subsidiaries of Promoter. They have transferred two term loan facilities with outstanding amount aggregating to ₹650 million ("Outstanding Amount"), availed from Arka Fincap Limited ("Arka") ("Loans I and II"), to Resco, pursuant to the novation agreements dated December 28, 2021 and the business transfer agreement dated December 31, 2021. For details, see risk factor number 2 - "They have entered into a business transfer agreement by which they divested EPC business to one of the subsidiaries of Promoter, Resco Global Wind Services Private Limited ("BTA"), which imposes certain contractual obligations on Company". They have provided guarantees and have hypothecated and charged movable fixed assets (excluding current assets) ("Hypothecated Assets") in terms of the deeds of guarantee and the deeds of hypothecation, pursuant to the novation agreements dated December 28, 2021, against Loans I and II. In terms of the deeds of guarantee for Loans I and II, if the Outstanding Amount is not paid by Resco, Company will be liable to pay the Outstanding Amount to Arka.

Canara Bank Securities Ltd

Peer Comparison

There are no listed companies in India that are comparable in all aspects of business and services that they provide. Hence, it is not possible to provide an industry comparison in relation to Company

OUR VIEWS

Inox Green Energy Services is long term service provider of Operations and maintenance to WTG (Wind Turbine Generators) and infrastructure facilities to Wind farm projects. Major client of the company is NTPC. Order size of company is 1300 MW with renewal period of 7-20 years for overall client base, which makes long term client contract retainable. They have exclusive agreement with Inox wind Ltd so as to service all their wind turbines produced/sold by them. While, IWL's operating performance remained weak on account of continued lower execution during past.

Company has an asset light model and with no requirement of major capex. On valuation front, the company is available at P/Sales of 4.30x and EV/Sales (calculated-post IPO proceeds) at 4.83x for FY2022, there are no listed peers to compare valuation of the company. The Company is loss making however, EBIDTA margin has increased significantly from 41% in FY2021 to 53% in FY2022. Post repayment of debt, interest cost will reduce and subsequently profitability will improve. Thus, we recommend to subscribe for listing gains.

Sources: Company Website and red herring prospectus

Canara Bank Securities Ltd

Analyst Certification

We/I, Sankita V, MBA, Mcom Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Disclosures and Disclaimers

CANARA BANK SECURITIES LTD (CBSL), a wholly owned subsidiary of CANARA BANK, is a SEBI registered intermediary offering broking services to its institutional and retail clients; we also run a proprietary trading desk. CBSL is member of BSE & NSE. We are registered as RESEARCH ANALYST under SEBI (INH000001253). CBSL or its associates do not have an investment banking business. Hence, they do not manage or co mange any public issue. Neither CBSL nor its associates, neither the research analysts nor their associates nor their relatives (i) have any financial interest in the company which is the subject matter of this research report (ii) holds ownership of one percent or more in the securities of subject company (iii) have any material conflict of interest at the end of the month immediately preceding the date of publication of the research report OR date of the public appearance (iv) have received any compensation from the subject company in the past twelve months (v) have received any compensation for investment banking merchant banking or brokerage services from the subject company in the past twelve months (vi) have received any compensation for any other product or services from the subject company in the past twelve months (vii) have received any compensation or other benefits from the subject company or third party in connection with the research report. (viii) Research Analyst involved in the preparation of Research report discloses that he /she has not served as an officer, director, or employee of subject company (ix) is involved in market making activity of the company.

We shall adhere to SEBI guidelines from time to time.

We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. We may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of CBSL. The Research Desk does not solicit any action based on the material contained herein. It is for the general information of the clients / prospective clients of CBSL. CBSL will not treat recipients as clients by virtue of their receiving the research report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of clients / prospective clients. Similarly, the Research Desk does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive it. The securities discussed in the report may not be suitable for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive the research report should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. And such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in the research report and of evaluating the merits and risks involved in the securities forming the subject matter of the reports. All projections and forecasts in research reports have been prepared by our research team.

The client should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by CBSL For these reasons; The client should only consider the projections and forecasts described in the research reports after carefully evaluating all of the information in the report, including the assumptions underlying such projections and forecasts. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. We do not provide tax advice to our clients, and all investors are strongly advised to consult regarding any potential investment. CBSL or its research team involved in the preparation of the research reports, accept no liabilities for any loss or damage of any kind arising out of the use of these reports. The technical levels and trend etc mentioned in our reports are purely based on some technical charts/levels plotted by software used by us and these charts/levels are believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. The recommendation expressed in the reports may be subject to change. The recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. This research reports are for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of CBSL. The Research reports or any portion hereof may not be printed, sold or distributed without the written consent of CBSL. The research report is strictly confidential and is being furnished to client solely for client's information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The opinions and projections expressed herein are entirely based on certain assumptions & calculations and are given as part of the normal research activity of CBSL and are given as of this date and may be subject to change. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection. The report has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Any opinions and projections contained herein are entirely based on certain assumptions and calculations. None of the directors of the company or any other persons in the research team accepts any liability whatsoever for any loss arising from any use of the research report or its contents or otherwise arising in connection therewith. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that the client has read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India (SEBI) before investing in Securities Market. Please remember that investment in stock market is subject to market risk and investors/traders need to do study before taking any position in the market.

Research Desk
Canara Bank Securities Ltd
SEBI: RESEARCH ANALYST REGISTRATION: INH000001253
BSE: INB 011280238, BSE F&O: INF 011280238
NSE: INB 23180232, F&O: INF 231280232, CDS: 231280232
Maker Chambers III, 7th floor,
Nariman Point, Mumbai 400021
Contact No. : 1800220369/18001031369, 022 - 22802441/42, 43603841/42

Email id: researchdesk@canmoney.in Website: www.canmoney.in

Canara Bank Securities Ltd