



LONG TERM SUBSCRIBE

IPO Report

10th Nov' 22

Snapshot

Inox Green Energy Services Ltd is 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. Company have stable annual income owing to the long-term O&M contracts that company enter into with its customers.

VALUATION

Company is bringing the issue at price band of Rs 61-65 per share at p/b multiple of 1.92x on FY22 basis. Company has strong and diverse existing portfolio base with established track record. Also, favourable national policy support and visibility for future growth is working positively for company. Company with reliable cash flow supported by long-term O&M contracts with high credit quality counterparties is supported and promoted by its parent company, IWL. Also, company has established supply chain in place and has strong and experienced management team. But looking after present financials of company, we recommend “Subscribe” on issue for long term.

Price Band (Rs./Share)	61-65
Opening date of the issue	11th Nov 2022
Closing Date of the issue	15th Nov'2022
No of shares pre issue	235016258 Eq Shares
Issue Size	Rs 740 Cr
Fresh Issue	Rs 370 Cr
Offer For Sale	Rs 370 Cr
Face Value (Rs/ share)	Rs 10/share
Bid Lot	230

BIDDING DETAILS

QIBs (Including Anchor)	75% of the offer (Approx 85384615 Eq Shares)
Non-Institutional	15% of the offer (Approx 17076922 Eq Shares)
Retail	35 % of the offer (Approx 11384615 Eq Shares)
Lead managers	Edelweiss Financial Services Ltd, DAM Capital Advisors Ltd, Equirus Capital Private Ltd, IDBI Capital Markets & Securities Ltd, Systematix Corporate Services Ltd
Registrar to the issue	Link Intime India Pvt Ltd.

WHAT WE LIKE

Strong and diverse existing portfolio base

As of June 30, 2022, company’s 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 company’s 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.

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

Company 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 company share with its parent company, IWL, which commenced operations in the wind energy space in the financial year ended March 31, 2010.

Reliable cash flow supported by long-term O&M contracts with high credit quality counterparties.

Company enter into long-term O&M contracts with its customers which range from five to 20 years (in which the first two to three years of O&M services are generally provided for free for IWL supplied WTGs) with a renewal option provided in most cases. Such contracts provide company with full revenue visibility as the price for its O&M services is pre-determined for each year of the contract. Furthermore, such contracts feature a built-in fixed price escalation formula of approximately 5% per annum .



COMPANY BACKGROUND

Company is 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”). Company’s subsidiaries are engaged in the business of power generation through renewable sources of energy with Nani Virani Wind Energy Private Limited being the only subsidiary which has commenced power generation. Company enjoy synergistic benefits as a subsidiary of IWL, which is principally engaged in the business of manufacturing WTGs and providing turnkey solutions by supplying WTGs and offering a variety of services including wind resource assessment, site acquisition, infrastructure development, EPC of WTGs, and, through Company, providing long-term O&M services for wind power projects. Pursuant to an exclusivity agreement between IWL and company, it provide exclusive O&M services for all WTGs sold by IWL through the entry of long-term O&M contracts between the WTG purchaser and company for terms which typically range between five to 20 years. Due to this exclusivity agreement. As of June 30, 2022, IWL had entered into binding contracts for the supply of 2 MW capacity WTGs with an aggregate capacity of 964 MW. Further, IWL had also received letters of intent, which are non-binding and which therefore may not lead to execution of any form of binding contract, for its new 3.3 MW capacity WTGs with an aggregate capacity of 524.7 MW.

As of June 30, 2022, company’s O&M services portfolio consisted of an aggregate 2,792 MW of wind farm capacity and 1,396 WTGs. This included a total capacity of 1,220 MW for various customers in Mahidad, Rojmal, Sadla, Savarkundla, Rajkot and Dayapar in Gujarat; a total capacity of 632 MW for various customers in Kukru, Nipaniya, Jaora and Lahori in Madhya Pradesh; a total capacity of 560 MW for various customers in Dangri, Rajasthan; and a total capacity of 196 MW for various customers in Vaspet, Bhendewade and South Budh in Maharashtra. Of the 2,792 MW capacity, 1,964 MW was attributable to company’s contracts for comprehensive O&M services and 828 MW was attributable to company’s common infrastructure O&M contracts. In general, company’s comprehensive O&M contracts cover the provision of O&M services to both WTGs installed on a wind farm and the common infrastructure facilities, such as electrical substations and transmission lines, which support the wind farm; company’s common infrastructure O&M contracts relate only to the provision of O&M services on the common infrastructure facilities.

Customers

Company have a diversified customer base, some of whom with company have enjoyed business relationships with between five and nine years, comprising private companies, independent wind power producers, power utilities and government organizations in India, to whom company provide wind farm O&M services. Company’s customers comprise large IPPs, PSUs and retail customers, such as Gujarat Fluorochemicals Limited, Continuum Power Trading (TN) Private Limited, Gujarat Industries Power Company Limited, Torrent Power Limited, Shree Cement Ltd., Integrum Energy, Sri KPR Infra & Projects Limited, Markdata Green Energy Private Limited, Roha Dyechem Pvt. Ltd. and Amrit Bottlers Private Limited Ltd.



INVESTMENT RATIONALE

<p><i>Supported and promoted by parent company, IWL</i></p>	<p>Inox Green Energy’s 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. Company’s 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. Company benefit from a synergistic relationship with its parent pursuant to an exclusivity agreement which enables company to provide O&M services to all customers who purchase WTGs from its parent company during the relevant warranty period as part of a “one-stop shop” / turnkey solution and who, after such period, often retain company to continue providing O&M services due to its expertise in operating and maintaining IWL’s proprietary WTGs and the common infrastructure facilities. This enables company to build its portfolio alongside its parent. As a result, the order book of IWL is an important indicator for Inox Green as it provides with visibility on future O&M contracts and revenue.</p>
<p><i>Established supply chain in place</i></p>	<p>Company have an established relationship with its suppliers for the parts, components and tools it require in company’s provision of O&M services. As part of company’s synergistic relationship with IWL, company is able to obtain proprietary components and spare parts for the IWL manufactured WTGs directly from IWL and as for the other tools and parts company employ, company have an established network of external suppliers.</p>
<p><i>Strong and experienced management team</i></p>	<p>As of June 30, 2022, company have a team of 401 employees which include managers who have extensive experience in the O&M of WTGs and in the wind industry generally. Company’s senior managers in charge of, among others, project management, business development, customer relationship management, project coordination, wind farm management, testing of turbines and process improvement are well educated in the fields of engineering, design and business management and have an average of more than 10 years of experience in their respective fields and considerable experience in the wind energy industry</p>



OBJECTS OF OFFER

The Offer comprises of the Fresh Issue by Company and the Offer for Sale by Inox Wind Limited, the Selling Shareholder.

Offer for Sale: The Selling Shareholder is offering up to ₹3,700 million in the Offer for Sale.

Objects of the Fresh Issue : The net proceeds of the Fresh Issue are proposed to be utilised in the following manner:

- I. Repayment and/ or pre-payment, in full or part, of certain borrowings availed by company including redemption of Secured NCDs in full; and
- II. General corporate purposes.

RISKS

Company is currently entirely dependent on Inox Wind Limited, its Promoter for its business and if they were to choose another service provider for operation and maintenance services of their wind turbine generators, company's business, financial condition and prospects may be adversely affected.

Source:RHP

INDUSTRY OVERVIEW

Opportunities for wind energy O&M service providers

Wind-solar hybrid segment New opportunities have emerged in the wind sector in India with SECI coming up with newer kinds of project tenders in the form of hybrid, round-the-clock, and peak power supply projects. Although the exact split of wind vs solar for hybrid projects is based on developer choice and technical design, they tend to have a higher share of solar energy due to lower capital costs and ease of installation. In order to be considered a hybrid project, at least 33.0% of the project must consist of and use a secondary technology. As such and in order to maintain the cost effectiveness of the project, 33.0% of the rated power capacity of hybrid projects typically consists of wind energy. Similarly, RTC and peak power supply projects also generate substantial demand for wind capacity addition as developers require a good mix of sources (solar, wind and/or energy storage) to get maximum possible efficiency. So far SECI has auctioned 3,600 MW hybrid tenders, under ISTS Tranches I, II, and III of which approximately 2,800 MW were allocated. Similarly, 1,200 MW peak power supply and 400 MW of RTC tender has been allocated with 2,500 MW RTC tender in the pipeline. As per industry interaction, these new tenders combined are expected to add 1-1.5 GW wind capacity. Thus, offering new areas for O&M service providers to utilize their existing capabilities for maintaining larger and hybrid capacity.

Aging capacity Wind turbines are expected to lose 1.0-1.5% of their output per year thereby requiring consistence optimization, service and upgrades. In India, Tamil Nadu has the oldest wind energy capacity which requires the repowering of turbines. Repowering refers to replacement of a high number of old and smaller turbines with newer highcapacity and larger turbines. This increases the efficiency of the system and further reduces the generation losses.

The aged fleet also boosts the need for condition-based monitoring pre and post repowering. There is already a policy in place for the repowering of turbines by the Ministry of New and Renewable Energy. Moreover, compared to a new project, repowering would cost less, since existing land and infrastructure are being used. It also reduces the risks associated with worn out assets. Thus, aged assets and repowering poses a great opportunity for O&M service providers. Until fiscal 2002, wind generation accounted for 1,666.8 MW of installed capacity, with Tamil Nadu having more than 50.0% of this capacity. This capacity had an average service life of 15 years and sizes well below 1 MW. These turbines, if replaced with modern day turbines, could easily derive 30.0% or more CUF from the current 10.0-14.0% CUF. Furthermore, the capacity additions post 2002 involved low-capacity turbines below 1 MW which are or can become eligible for repowering thereby increasing the overall opportunity of repowering of turbines. States like Gujarat, Andhra, Karnataka, and Tamil Nadu have come up (or are under advisement) with policies for the repowering of wind turbines. However, repowering policies do not address key concerns such as model, mandatory repowering and incentivization. Therefore, the repowering scheme has seen low traction/activity till date. Moreover, the capacity or turbines supplied by the inactive OEM players accounted for more than 9 GW or 14,633 turbines. These accounted for 41.0% of the cumulative capacity by the end of fiscal 2021 thereby posing an opportunity for the O&M service providers in the country.

Solar segment Wind O&M service providers utilize various techniques for continuous monitoring of the assets. These techniques or technologies can be implemented on other renewable generation assets such as solar or battery systems. In the case of hybrid or RTC systems the monitoring, diagnostics, etc. such services can be employed. While the services relating to hydraulics or mechanical parts can be implemented if required. Furthermore, technological driven basic solutions for forecasting and scheduling involving the implementation of AI and ML are common to various sources of generation in the renewable energy space. Hence, wind O&M service providers can enter the solar segment with the help of hybrid capacities and further develop a specific service suite for it. Along with this, large OEMs offering O&M services for wind can utilize their presence and supply chains to target solar capacities as well.

Global demand for O&M service for renewable energy

Wind energy generation is likely to reach 938 GW of the installed capacity by 2022 globally. Wind generation O&M service demand is likely to follow the same trend to reach ₹2,900-3,100 billion by 2022. Compared to solar photovoltaics (PV), the maintenance cost of the wind generators is higher due to continuous wear and tear of the movable parts resulting in higher replacement of equipment.



Consolidated Financials

(Rs in Mn)

Financials	FY20	FY21	FY22	Q1FY23
Total Revenue (A)	1653.15	1722.48	1721.66	617.88
Total Expenditure (B)	770.6	900.28	899.72	442.32
EBIDTA	882.55	822.20	821.94	175.56
EBIDTA Margin	53.39	47.73	47.74	28.41
Other Income	68.49	140.39	180.66	13.75
Depreciation	396.05	490.83	501.65	165.24
EBIT	554.99	471.76	500.95	24.07
Interest	529.83	605.27	548.02	179.93
PBT	25.16	-133.51	-47.07	-155.86
Share of profit in Associate	2.39	-189.91	0.00	0.00
PBT	27.55	-323.42	-47.07	-155.86
Tax	0.00	0.00	0.00	0.00
PAT	27.55	-323.42	-47.07	-155.86
NPM%	1.67	-18.78	-2.73	-25.22
ROE %	2.85	-75.28	-0.58	-1.57
EPS	0.24	-2.51	-0.20	-0.66
Eq Cap	1,162.13	1,286.20	2,350.16	2,350.16
Net Worth	966.17	429.62	8,066.33	7949.97

(Source: RHP)



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