



17/03/2015

## Inox wind Limited

Recommendation: Avoid



### Issue Summary

<b>Price Band (Rs)</b>	315	325
<b>Market Lot</b>	45 Equity shares	
<b>Face Value</b>	Rs 10	
<b>Opens on</b>	18 <sup>th</sup> Mar' 15	
<b>Closes on</b>	20 <sup>th</sup> Mar' 15	
<b>Fresh Issue</b>	~Rs. 700 crores	
<b>Offer for sale</b>	Additional 1 cr equity shares by GFL	
<b>P/E LATEST YEAR</b>	47.95	49.47

### Company & Business Profile

Inox wind is one of India's leading wind power solution providers. Incorporated in April 2009, commenced operations in March 2010. It manufactures the key components of WTGs in-house with a view of ensuring high quality, advanced technology and reliability while maintaining cost competitiveness. It has a perpetual license from AMSC Austria GmbH, a leading wind energy technology company, to manufacture 2 MW WTGs. It has 2 manufacturing units located in the Una district of Himachal Pradesh and Ahmedabad district of Gujarat. It has a total manufacturing capacity of 800MW which will be expanded to 1600MW in FY16.

### Objects of the Issue

**Offer For Sale:** Company will not receive any proceeds from the Offer for Sale by the Selling Shareholder and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.

**The Fresh Issue:** Company proposes to utilise the Net Proceeds towards funding the following objects:

1. Expansion and upgradation of existing manufacturing facilities;
2. Long term working capital requirements;
3. Investment in co's Subsidiary, IWISL, for the purpose of development of power evacuation infrastructure and other infrastructure development; and
4. General Corporate Purposes.

### Investment Positives

- **Focus on renewable energy:** The Ministry of New and Renewable Energy is keen to ensure that the share of energy generation from renewables increases significantly in comparison to growth in power generation from conventional sources, over a period of time. Therefore, the government is announcing second-generation policy measures for promotion of renewable-based generation. The generation-based incentive for wind and solar technologies is the first step towards this direction. Further, to increase the acceptability and tradability of renewable energy, Ministry of New and Renewable Energy along with the CERC has introduced the Renewable Energy Certificate (REC) mechanism in India. Additionally, the government has reintroduced accelerated depreciation for wind projects, which had been withdrawn in March 2012.

### Issue break-up

Net Issue	No. of Shares (Lacs)	%
<b>QIB's</b>	~160.63	50
<b>NIB</b>	~48.19	15
<b>Retail</b>	~112.44	35
<b>Total</b>	~321.26	100

**BRLM**

- Axis Capital Ltd
- DSP Merrill Lynch Ltd
- Edelweiss Financial Services Ltd
- Yes Bank Ltd

**Listing**

BSE, NSE

- Under the National Action Plan on Climate Change (NAPCC), the Government of India has set a target of having 15% renewable energy in the electricity generation mix by 2020, implying a total installed base of approximately 100 GW of renewable energy generation capacity. The table below sets forth renewable energy capacity additions and targets for India under the five year plans indicated.

Capacity addition/target during five year plan, MW				
	10th	11th	12th	13th
	(2002-07)	(2007-12)	(2012-17)	(2017-22)
Wind power	5,464	10,260	15,000	20,000
Small hydro power	542	1,419	2,100	
Biomass power			500	5,000
Bagasse cogeneration	795	2042	1,400	
Waste to energy			500	
Solar power	01	938	10,000	20,000
Total	6,802	14,659	29,500	45,000
Average annual capacity addition, MW	1,360	2,931	5,900	9,000

- **Good order book:** As of December 31, 2014, company’s order book included orders for WTGs with aggregate capacity of 1,258 MW, comprising orders for supply and erection of WTGs with aggregate capacity of 694 MW, including 50 MW ordered by IRL, a Group Company.

**Concerns**

- The renewable energy technology sector faces several impediments, including, among others, the high rate of interest for debt including working capital borrowings, challenges associated with land acquisition and clearance, and the lack of regulatory enforcement of renewable purchase obligations.
- As such, there can be no assurance that the orders will be confirmed, that binding contracts will be executed, and that binding contracts or other orders will not be cancelled or reduced or result in revenues or that we will receive payment as per the indicative terms of any such orders. Furthermore, company’s binding agreements may be subject to contingencies, such as the timing and receipt of necessary government authorizations, or financing conditions which provide that the agreements can be terminated without penalty in the event the customer cannot obtain financing for the project.
- Top 5 clients account for 65% of order book.
- High trade receivables resulting in negative cash flow from operations is our prime concern.

## Financials

### Restated Consolidated Financial Information of Profits and Losses:

Particulars	For the period/year ended			
	December	December	March	March
	31, 2014	31, 2013	31, 2014	31, 2013
<b>Rs. In Crores</b>				
<b>Income</b>				
Revenue from Operations				
- Sale of Products	1621	858	1373	948
- Sale of Services	153	14	176	101
- Other Operating Income	6	6	18	9
Other Income	15	8	9	5
<b>Total (a)</b>	<b>1795</b>	<b>885</b>	<b>1576</b>	<b>1064</b>
<b>Expenses:</b>				
Cost of Materials Consumed	1165	649	1053	688
Changes in Inventories of finished goods & work-in-progress	-13	-70	-113	-9
EPC, O&M, Cand Site Development expenses	173	56	273	94
Employee Benefits Expense	39	29	38	25
Other expenses	132	94	142	64
Less: Expenditure capitalised	-	-1	-2	-
<b>Total (b)</b>	<b>1497</b>	<b>757</b>	<b>1392</b>	<b>862</b>
<b>Restated profit before interest, depreciation &amp; amortization and tax</b>	<b>298</b>	<b>129</b>	<b>185</b>	<b>201</b>
Depreciation and amortization expense	15	9	12	9
<b>Restated operating profit before interest and tax</b>	<b>284</b>	<b>120</b>	<b>173</b>	<b>192</b>
Finance costs	46	38	46	39
<b>Restated profit before tax</b>	<b>237</b>	<b>82</b>	<b>127</b>	<b>154</b>
<b>Tax expense:</b>				
Current tax	69	21	31	31
MAT Credit Entitlement	-	-21	-31	-30
Deferred tax charge/(credit)	-11	-3	-4	2
Total tax expense	58	-3	-4	3
<b>Restated profit after tax</b>	<b>179</b>	<b>85</b>	<b>131</b>	<b>150</b>

\*Source: RHP, Inox wind Limited

**Restated Consolidated statement of assets and liabilities:**

S.N.	Particulars	Rs. In Crores			
		December		March	
		31, 2014	31, 2013	31, 2014	31, 2013
<b>A</b>	<b>Non-current assets</b>				
	(a) Goodwill on consolidation	2	2	2	-
	(b) Net Fixed Assets				
	(i) Tangible Assets	152	159	156	140
	(ii) Intangible Assets	14	17	16	17
	(iii) Capital work-in-progress	45	15	25	4
		211	191	198	161
	(c) Non-Current Investments	0	0	0	0
	(d) Deferred tax assets (Net)	15	5	6	0
	(e) Long-term loans and advances	101	79	91	63
	(f) Other non-current assets	12	5	3	-
	<b>Total non-current assets</b>	<b>340</b>	<b>281</b>	<b>300</b>	<b>223</b>
<b>B</b>	<b>Current assets</b>				
	(a) Current Investments	-	45	45	-
	(b) Inventories	312	234	271	79
	(c) Trade receivables	1251	613	710	500
	(d) Cash and bank balances	19	2	4	2
	(e) Short-term loans and advances	240	149	112	134
	(f) Other Current assets	27	10	38	12
	<b>Total current assets</b>	<b>1850</b>	<b>1053</b>	<b>1179</b>	<b>727</b>
	<b>Total assets (A + B)</b>	<b>2190</b>	<b>1335</b>	<b>1479</b>	<b>950</b>
<b>C</b>	<b>Non-current liabilities</b>				
	(a) Long-term borrowings	58	60	55	131
	(b) Deferred tax liabilities (Net)	19	22	21	20
	(c) Other Long term liabilities	2	2	2	2
	(d) Long-term provisions	2	1	1	1
	<b>Total non-current liabilities</b>	<b>81</b>	<b>85</b>	<b>80</b>	<b>154</b>
<b>D</b>	<b>Current liabilities</b>				
	(a) Short-term borrowings	671	473	425	205
	(b) Trade payables	574	225	423	228
	(c) Other current liabilities	253	174	127	65
	(d) Short-term provisions	12	4	4	3
	<b>Total current liabilities</b>	<b>1511</b>	<b>875</b>	<b>979</b>	<b>501</b>
	<b>Total liabilities (C + D)</b>	<b>1592</b>	<b>960</b>	<b>1059</b>	<b>655</b>
	<b>Net Worth (A + B - C - D)</b>	<b>598</b>	<b>374</b>	<b>420</b>	<b>296</b>
<b>E</b>	<b>Represented by</b>				
	(a) Share capital				
	Equity share capital	200	200	200	40
	(b) Reserves and surplus	0	0	0	0
	Capital reserve	0	0	0	0
	Surplus in the statement of profit and loss	406	181	227	255
		406	181	227	256
	Less: Miscellaneous expenditure (to the extent not written off or adjusted) - IPO Expenses	-9	-7	-7	-
		398	174	220	256
	<b>Net worth</b>	<b>598</b>	<b>374</b>	<b>420</b>	<b>296</b>

\*Source: RHP, Inox wind Limited

## Restated Consolidated statement of cash flows:

Particulars	For the period/year ended			
	December	December	March	March
	31, 2014	31, 2013	31, 2014	31, 2013
<b>Cash flow from operating activities</b>				
Net Profit before tax	237	82	127	154
<b>Adjustments for:</b>				
Depreciation & Amortization	15	9	12	9
Interest income	-6	-6	-7	-5
Dividend income	-	-	-	0
Profit on sale of non-current investments	-4	-	-	-
Profit on sale of current investments	-	-2	-2	-
Provision for doubtful advances	-	-	0	-
Finance costs	46	38	46	39
Unrealised Foreign Exchange (gain)/loss (net)	8	6	8	-3
<b>Operating profit before working capital changes</b>	<b>296</b>	<b>126</b>	<b>184</b>	<b>194</b>
<b>Adjustments for:</b>				
Long term provisions	1	0	1	0
Trade payables	153	-10	181	120
Other current liabilities	177	48	20	13
Short term provisions	0	0	0	0
Long term loans and advances	0	0	0	0
Other non-current assets	-1	-7	-7	-
Inventories	-41	-148	-184	20
Trade receivables	-543	-117	-210	-426
Short term loans and advances	-46	-75	-16	-7
Other current assets	8	1	-22	-8
<b>Cash generated from /(used in) operations</b>	<b>3</b>	<b>-181</b>	<b>-55</b>	<b>-92</b>
Income-tax paid	-48	-21	-33	-29
<b>Net cash generated from /(used in) operating activities</b>	<b>-45</b>	<b>-202</b>	<b>-88</b>	<b>-121</b>
<b>Cash flow from investing activities</b>				
Purchase of fixed assets (including changes in capital advances)	-54	-32	-44	-35
Inter corporate deposits given (net)	-81	63	41	-101
Interest received	35	8	9	1
Dividend received	-	-	-	0
Purchase of current investments	-	-345	-345	-125
Redemption of current investments	-	347	347	125
Purchase of other non-current investment	-	-45	-45	0
Redemption of non-current investments	49	-	-	-
Purchase of shares of subsidiary company	-	-2	-2	-
Movement in bank deposits maturity of more than 3 months	-20	-5	-4	-
<b>Net cash generated from/(used in) investment activities</b>	<b>-71</b>	<b>-11</b>	<b>-44</b>	<b>-135</b>
<b>Cash flow from financing activities</b>				
Proceeds from /(Repayment of) Long Term Loans (net)	-48	-15	-39	170
Proceeds from/(Repayment of) Short Term Loans (net)	239	265	218	86
Finance costs	-71	-38	-46	-38
<b>Net cash generated from/(used in) financing activities</b>	<b>120</b>	<b>212</b>	<b>132</b>	<b>219</b>
<b>Capital receipt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>
<b>Opening cash and cash equivalents</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>39</b>
<b>Cash and cash equivalents on subsidiary acquired</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4</b>	<b>-1</b>	<b>0</b>	<b>-37</b>
<b>Closing cash and cash equivalents</b>	<b>6</b>	<b>1</b>	<b>2</b>	<b>2</b>

\*Source: RHP, Inox wind Limited

**Shareholding pattern of Promoter and Promoter group as on date of Red Herring Prospectus:**

Sr. No.	Name of the shareholder	Pre-Issue		Post-Issue		No. of Equity Shares Pledged
		No. of Equity Shares	Percentage of Holding (%)	No. of Equity Shares	Percentage of Holding (%)	
1	Gujarat Fluorochemicals Limited	150,000,000*	75.00	[•]	[•]	Nil
2	Devansh Trading and Finance Private Limited	12,500,000	6.25	[•]	[•]	Nil
3	Inox Chemicals Private Limited	12500000	6.25	[•]	[•]	Nil
4	Siddhapavan Trading and Finance Private Limited	12,500,000	6.25	[•]	[•]	Nil
5	Siddho Mal Investments Private Limited	12500000	6.25	[•]	[•]	Nil
<b>Total</b>		200,000,000	100.00	[•]	[•]	

\*Including the 500 Equity Shares each, held by Mr. Deepak Asher and Mr. Mukesh Patni as nominees of GFL

**Valuations\***

The company is bringing the issue at price band of Rs. 315-325 (Rs. 15 per share discount to retail and Employee) at price/earnings (PE) ratio of 49.47x the upper price band of Rs 325 and 47.95x the lower price band of Rs 315 on FY2014 earnings. Valuation in our view are on higher side. High trade receivables resulting in negative cash flow from operations is our prime concern.

**Recommendation**

**We recommend long term investors to AVOID the IPO.**

**# Those who are looking for listing gains can subscribe to the IPO.**

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