

Institutional Equity Research

Inox Wind

Capital Goods | India

1QFY18 Result Update | August 10, 2017

CMP* (Rs)	119
Upside/ (Downside) (%)	43
Bloomberg Ticker	INXW IN
Market Cap. (Rs bn)	26.4
Free Float (%)	14.4
Shares O/S (mn)	222

BUY 

Target Price: Rs171

Major Beneficiary of Auctioning Regime; Maintain BUY

Inox Wind (INXW) has incurred Rs 390mn net loss in 1QFY18 vs. our estimates of Rs688 mn loss. Top-line fell by 75% YoY to Rs10.5bn, broadly in line with our estimate of Rs10.9bn. Notably, we expected sharp decline in revenue and profit post discontinuation of works on wind projects from Apr'17.

Meanwhile, the stock price has corrected ~70% in last 24 months owing to concerns over working capital, discontinuation of works on wind projects from Apr'17, as the states have stopped signing PPAs under feed-in-tariff regime. Looking ahead, we expect the shift to auctioning route would increase the wind market from current 4-5GW p.a. to >7GW in FY19E. **As we see INXW as the major beneficiaries of auctioning regime for being the lowest cost producer of wind turbines globally, we maintain our BUY recommendation on the stock with a revised Target Price of Rs171.**

Revenue De-growth on Expected Lines

INXW's revenue fell by 75% YoY to Rs10.5bn. Notably, we expected INXW's revenue and profit to witness sharp decline following discontinuation of works on wind projects from Apr'17, as the states have stopped signing PPAs under feed-in-tariff regime. INXW sold NIL Nacelles & Hubs in 1QFY18 vs. 40MW in 1QFY17. Further, it sold 20MW of Blades in 1QFY18 vs. 198MW in 1QFY17. Tower production stood at 2MW in 1QFY18 vs. 148 MW in 1QFY17. Transition of the wind industry from feed-in-tariff regime to auction route was the key reason for lower sales.

Lower Commissioning Drags Operating Margins

INXW's reported Rs133mn EBITDA loss in 1QFY18 compared to Rs457mn EBITDA profit in 1QFY17 owing to lower commissioning during the quarter. Notably, in line with our estimates of Rs688mn loss, INXW incurred at Rs 390mn net loss in 1QFY18. Lower revenue, higher interest and depreciation cost were the key disappointments.

Order Book at 0.3GW; Low Revenue Visibility

INXW's outstanding order book (1.3GW) has been reduced to 0.3GW in Q4FY17, as earlier order book was on feed-in-tariff (FIT) basis, which is now redundant, as the states have stopped signing PPAs on FIT basis. The Management expects execution of this 0.3GW order to start in 3QFY18.

Outlook & Valuation

Looking ahead, we expect the slowdown – caused by the transition to auction-based market regime – to persist in 2QFY18 as well. From order inflow perspective, we envisage normalisation to begin from 3QFY18 onwards, while the execution to pick-up pace from 4QFY18 onwards. We believe FY19 to be the beginning of a phase of robust growth for the wind industry enabling India to become a 60GW wind energy producer by 2022. On the back of its cost-competitive advantage of being amongst the lowest cost producer of wind turbines globally, we expect INXW to be the major beneficiary of the auctioning regime. **Hence, we maintain our BUY recommendation on the stock with a revised Target Price of Rs171.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Net sales	44,141	34,150	21,921	25,897
PAT	4,519	3,033	580	1,184
EPS (Rs)	20.4	13.7	2.6	5.3
PE (x)	5.8	8.7	45.6	22.3
EV/Ebidta (x)	5.1	6.8	18.4	12.6
Book value (Rs/share)	83.1	98.7	101.3	106.6
P/BV (x)	1.4	1.2	1.2	1.1
ROCE	21.9	14.2	5.4	7.3
RONW	24.5	13.9	2.6	5.0

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(18.5)	(39.9)	(35.3)
Relative to Nifty	(18.8)	(44.1)	(48.5)

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	85.6	85.6
Public	14.4	14.4

1 Year Stock Price Performance



Note: * CMP as on Aug 10, 2017

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Risks to the view

- ▶ Any weakness in demand owing to decline in economic activities and weak capex in wind power sector.
- ▶ Inordinate delays/defaults in receivables.
- ▶ Deterioration in net working capital days would lead to negative operating cash flows and increased debt.

Exhibit 1: Quarterly Performance

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Net Sales	1,060	4,350	(75.6%)	10,192	(89.6%)
Operating Costs	1,193	3,893	(69.4%)	7,897	(84.9%)
EBIDTA	(133)	457	(129.2%)	2,295	(105.8%)
EBIDTA Margin (%)	(12.6%)	10.5%	-	22.5%	-
Other Income	107	207	(48.3%)	143	(25.4%)
Interest	424	387	9.6%	442	(4.0%)
Depreciation	131	98	33.9%	113	15.5%
Profit Before Tax	(581)	179	-	1,883	-
Tax	(191)	60		608	
Tax Rate (%)	32.9%	33.8%		32.3%	
Reported PAT	(390)	118	-	1,275	-

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net sales	44,141	34,150	21,921	25,897
% yoy change	62.9	-22.6	-35.8	18.1
RM cost	27,433	18,897	13,481	15,901
Employee expenses	920	1,174	1,232	1,294
Other expenses	8,886	8,476	5,261	5,956
Total operating expenditure	37,239	28,547	19,975	23,151
EBITDA	6,902	5,604	1,946	2,746
EBITDA margin (%)	15.6	16.4	8.9	10.6
Depreciation	334	437	498	525
EBIT	6,569	5,166	1,448	2,221
Other income	665	653	612	590
Interest costs	960	1,551	1,244	1,144
% of total debt	6.6	8.3	8.0	8.0
PBT	6,274	4,268	816	1,667
Taxes	1,755	1,235	237	483
Tax rate (%)	28.0	28.9	29.0	29.0
PAT	4,519	3,033	580	1,184
% yoy change	52.4	-32.9	-80.9	104.2
EPS	20.4	13.7	2.6	5.3

Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Share capital	2,219	2,219	2,219	2,219
Reserves & Surplus	16,219	19,677	20,256	21,440
Total shareholder's funds	18,438	21,896	22,475	23,659
Secured loans	14,497	18,700	15,550	14,300
Other long term liabilities	24	24	24	24
Deferred tax liability	101	291	291	291
Capital employed	33,060	40,910	38,340	38,273
Gross Block	6,545	8,942	10,142	11,142
Accumulated Depreciation	856	1,293	1,791	2,316
Net Block	5,690	7,649	8,351	8,826
Capital Work in Progress	427	1,125	225	175
Net Current Assets:				
Current investment	622	2,001	2,001	2,001
Inventories	5,416	6,904	4,879	3,224
Sundry Debtors	24,143	23,824	21,921	21,581
Cash and Bank	4,788	4,374	3,676	3,530
Loans and Advances	5,402	1,027	1,096	1,295
Other Current Assets	660	4,110	4,410	4,610
Total Current Assets	41,032	42,240	37,982	36,240
Current Liabilities & Provisions:				
Current liabilities	13,746	10,529	8,644	7,394
Provision	489	107	107	107
Total current liabilities	14,235	10,636	8,751	7,501
Other non-current assets	147	-	-	-
Capital Deployed	33,060	40,910	38,340	38,273

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Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
PBT	6,274	4,268	816	1,667
Depreciation	334	437	498	525
Interest provided	960	1,551	1,244	1,144
Other non-cash adjustments	-	425	-	-
Operating CF before WC reqi.	7,567	6,682	2,558	3,336
Change in working capital	9,268	4,884	(1,675)	(346)
Tax Paid	1,755	1,235	237	483
Operating cash flow	(3,456)	563	3,996	3,198
FCF	(7,387)	(2,532)	3,696	2,248
Capex	3,931	3,095	300	950
Investing cash flow	(3,931)	(3,628)	(300)	(950)
Issue/buyback of equity	-	-	-	-
Issue/repayment of debt	6,038	4,203	(3,150)	(1,250)
Interest paid	(960)	(1,551)	(1,244)	(1,144)
Financing cash flow	5,078	2,651	(4,394)	(2,394)
Opening cash balance	7,096	4,788	4,374	3,676
Net change in cash	(2,308)	(413)	(698)	(146)
Closing cash balance	4,788	4,374	3,676	3,530

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
EBITDA margins	15.6	16.4	8.9	10.6
PBT margins	14.2	12.5	3.7	6.4
PAT margins	10.2	8.9	2.6	4.6
Depreciation Rate (%)	5.1	4.9	4.9	4.7
Tax Rate (%)	28.0	28.9	29.0	29.0
Asset Turnover	6.7	3.8	2.2	2.3
Inventory Turnover	8.1	4.9	7.0	6.8
ROCE	21.9	14.2	5.4	7.3
RONW	24.5	13.9	2.6	5.0
Debt/Equity Ratio	0.8	0.9	0.7	0.6

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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