

Improved Execution and Margins Sets Stage for Strong Growth
Est. Vs. Actual for Q1FY25: Revenue – **MISS** ; EBITDA – **BEAT** ; PAT – **BEAT**
Change in Estimates post Q1FY25:
FY25E/FY26E: Revenue: 0%/0%; EBITDA: 7%/10%, PAT: 8%/11%

Recommendation Rationale

- **Strong Order Book of >2.9 GW:** The company had a strong order book of 2,656 MW as of 31st Mar'24. It secured new orders of 210 MW (a repeat order from Hero Future Energies) in Q1FY25 and 401 MW in Q2FY25 (including 3 MW WTG orders, with 200 MW from a C&I player). Following these new orders in the first five months of FY25, the company now holds its largest-ever order book of 2,917 MW.
- **Ramp-up in Execution:** The company has been enhancing its execution capabilities, recording a 262% YoY growth in order execution in FY24 at 376 MW. In Q1FY25, execution increased to 140 MW, up 112% YoY and 9% QoQ, in line with estimates. The execution target of 800 MW for FY25 is well on track, and the 1,200 MW guidance for FY26 may be revised upwards due to a substantial order book and additional orders expected (~1 GW in the pipeline at various stages of discussion). Operating leverage from higher orders, cost optimization, and a better product mix (80-90% of 3 MW WTG) could push margins above the previous guidance range of 14-15%, towards 16%-17%.
- **Nil Interest-Bearing Debt on the Books:** A series of promoter fund infusions through stake sales has resulted in zero interest-bearing debt for Inox Wind. Management expects the net finance cost to become negligible from Q2FY25.

Sector Outlook: Positive

Company Outlook & Guidance: The company expects higher order execution from FY25 onwards, with a guidance of 800 MW and 1,200 MW for FY25 and FY26E, respectively, and a target of 2 GW of annual execution in the medium term. It has the capability and supply chain readiness to execute higher MWs. The annual capex guidance for FY25/26 remains unchanged at Rs. 50-75 Cr, and the full-year working capital is at 90 days.

Current Valuation: 30x FY26 EPS adjusted for promoter's fund infusion and minority interest. (Unchanged)

Current TP: Rs 205/share (Earlier TP: Rs 185/share)

Recommendation: We maintain our **BUY** recommendation on the stock.

Financial Performance: Inox Wind reported strong results with EBITDA and PAT exceeding both our and consensus estimates. Revenue increased to Rs. 639 Cr (up 83% YoY and 21% QoQ), driven by higher execution of 140 MW. However, it missed both our and consensus estimates by approximately 10%. Commissioning revenue for 110 MW was delayed, impacting the miss and resulting in a lower realization of Rs. 4.6 Cr/MW, compared to the guidance of Rs. 6 Cr/MW. The commissioning revenue for the 110 MW would have added an additional Rs. 150-160 Cr, leading to a realization of Rs. 6 Cr/MW in line with the guidance. EBITDA grew to Rs. 136 Cr (up 334% YoY and 33% QoQ), representing a 30% beat against our estimate and 23% against consensus. PAT increased to Rs. 50 Cr (up 37% YoY and 4% QoQ), beating our estimate by 4% and consensus by 16%.

Outlook: With a robust order book, strong execution capability, technological readiness, and net interest-free debt, along with the government's renewed focus on wind energy, Inox Wind is well-positioned to build on its growth momentum. We are revising our EBITDA margin forecast upwards for FY25/26E to 17% each, from the previous estimate of 15%, factoring in potential margin gains from higher operating leverage due to improved order execution.

Valuation & Recommendation: We assign a target P/E multiple of 30x to our FY26 EPS estimate. After adjusting for the promoter's fund infusion and minority stake in Inox Green Energy Services Ltd., we arrive at a TP of Rs. 205/share. We maintain a **BUY** rating on the stock, with a potential upside of 18% from the CMP.

Key Financials (Consolidated)

| (Rs Cr) | Q1FY25 | QoQ (%) | YoY (%) | Axis Est | Var (%) |
|-------------------|--------|---------|----------|----------|---------|
| Net Sales | 639 | 21% | 83% | 700 | -9% |
| EBITDA | 136 | 33% | 334% | 105 | 30% |
| EBITDA Margin (%) | 21% | 194bps | 1,232bps | 15% | 630bps |
| Reported PAT | 50 | 37% | NM | 48 | 4% |
| EPS (Rs) | 1.5 | 37% | NM | 1.5 | 4% |

Source: Company, Axis Securities Research

 (CMP as of 9th August 2024)

| | |
|----------------------------|-----------|
| CMP (Rs) | 174 |
| Upside /Downside (%) | 18% |
| High/Low (Rs) | 190/47 |
| Market cap (Cr) | 22,712 |
| Avg. daily vol. (6m) Shrs. | 74,84,177 |
| No. of shares (Cr) | 130 |

Shareholding (%)

| | Dec-23 | Mar-24 | Jun-24 |
|------------------------|--------|--------|--------|
| Promoter | 52.87 | 52.87 | 48.27 |
| FII | 9.49 | 9.47 | 13.37 |
| Mutual Funds / UTI | 8.94 | 8.32 | 7.75 |
| Financial Institutions | 0.00 | 0.00 | 0.00 |
| Others | 28.70 | 29.34 | 30.61 |

Financial & Valuations

| Y/E Mar (Rs Cr) | FY25E | FY26E | FY27E |
|-------------------|-------|-------|-------|
| Net Sales | 4,800 | 7,200 | 9,360 |
| EBITDA | 783 | 1,210 | 1,574 |
| Attrib Net Profit | 640 | 1,105 | 1,147 |
| EPS (Rs.) | 4.9 | 8.5 | 8.8 |
| PER (x) | 35.5 | 20.5 | 19.8 |
| P/BV (x) | 9.7 | 6.6 | 4.9 |
| EV/EBITDA (x) | 32.6 | 20.4 | 15.3 |
| ROE (%) | 31.7% | 38.3% | 28.6% |

Change in Estimates (%)

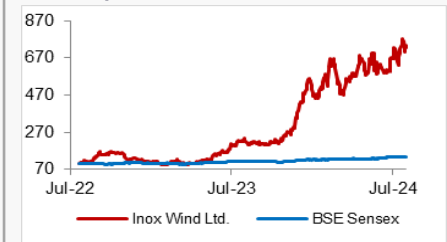
| Y/E Mar | FY25E | FY26E | FY27E |
|--------------|-------|-------|-------|
| Sales | 0% | 0% | 0% |
| EBITDA | 7% | 10% | 10% |
| PAT (Attrib) | 8% | 11% | 6% |

ESG disclosure Score**

| | |
|-----------------------------------|----|
| Environmental Disclosure | NA |
| Social Disclosure Score | NA |
| Governance Disclosure Score | NA |
| Total ESG Disclosure Score | NA |

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures, Sector average is for NSE500 companies

Relative performance


Source: Ace Equity, Axis Securities

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Key Concall Highlights

- **New Manufacturing Setup:** A new manufacturing unit for **nacelles and hubs** is set to become operational in FY25. This unit will not require additional capital expenditure from the company, as it will be operated on a lease rental basis with an annual rental expense of Rs. 4 Cr.
- **Transfer of Power Evacuation Assets:** To enable Inox Green Energy Services Limited (IGESL) to become an asset-light annuity, the company plans to demerge the power evacuation assets of IGESL to Resco Global Wind Services Private Limited, the company's EPC arm, which will be auto-listed subsequently. The management expects this to take effect within 6 to 9 months.
- **Value Unlocking:** The company aims to unlock value through various measures at its EPC - Resco Global and O&M - Inox Green verticals. At Resco, it plans to hybridize existing common infrastructure and unlock key components of the EPC supply chain, such as acquiring cranes or setting up manufacturing for transformers and cables to achieve higher margins. The company plans to provide crane services to existing captive EPC clients as well as rent them out to third parties. No other company in India offers EPC, power evacuation, and crane services under one roof. Additionally, the company targets value unlocking through the acquisition of inorganic O&M portfolios under Inox Green.
- **Status of Reverse Merger:** The company has received creditor and shareholder approval for its reverse merger with the holding company Inox Wind Energy Limited (IWEL). It is now awaiting regulatory approval for the merger, with management expecting it to take effect within 3-4 months. The post-bonus merger ratio is 632 shares of Inox Wind Limited (IWL) for every 10 shares of Inox Wind Energy Limited (IWEL). Post-merger, Inox Wind Limited will have 162 Cr outstanding shares (FV of Rs. 10/share). NCP RPS (non-cumulative participating redeemable preference shares) will be squared off post-merger of IWEL and Inox Wind. The NCP RPS outside this merger will remain at Rs. 560 Cr and will be retired as cash flows accrue in the future. The maturity of the NCP RPS is 2027.
- **4.X MW WTG Turbines:** The management has informed us that the company has secured the license for its 4.X MW wind turbine platform and targets to commercially launch the 4.X MW WTG in FY26.
- **Wind Market:** The market is expected to be ~5 GW in FY25 and could grow to 7-8 GW in FY26. The company will focus on profitability rather than market share and will target large marquee customers with strong credibility.
- **Sector Outlook:** During Q1FY25, there was a 770 MW addition of wind capacity in India. Additionally, wind-related tenders for 1.2 GW of plain vanilla wind and 6.3 GW of Hybrid/RTC/FDRE were awarded in Q1FY25.
- **Other Key Highlights:** The company will have interest earnings in addition to interest expenses, leading to negligible interest outgo from Q2FY25 onwards. With carry-forward losses, it has no tax liability until FY26. The company has quarterly contracts with steel suppliers and, with the order ramp-up, is leveraging its suppliers.

Key Risks to Our Estimates and TP

- Delay in ramp-up of execution
- Delay or under-subscription of the auctions could result in a slowdown of wind turbine markets.

Change in Estimates

| | New | | | Old | | | % Change | | |
|-----------------------|-------|-------|-------|-------|-------|-------|----------|-------|-------|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Sales | 4,800 | 7,200 | 9,360 | 4,800 | 7,200 | 9,360 | 0% | 0% | 0% |
| EBITDA | 783 | 1,210 | 1,574 | 735 | 1,102 | 1,433 | 7% | 10% | 10% |
| PAT reported (Attrib) | 640 | 1,105 | 1,147 | 592 | 997 | 1,081 | 8% | 11% | 6% |

Source: Company, Axis Securities Research

Inox Wind Q1FY25 Results Review

| Particulars (Rs Cr) | Q1FY24 | Q4FY24 | Q1FY25 | Q1FY25 | Q1FY25 | YoY (%) | QoQ (%) | Axis Sec Var (%) | Consensus Var (%) |
|--|--------|--------|--------------|-----------|--------|----------|---------|---------------------|----------------------|
| | Act | Act | Axis Sec Est | Consensus | Act | | | | |
| Execution (MW) | 66 | 129 | 140 | | 140 | 112% | 9% | 0% | NM |
| | | | | 5.0 | 4.6 | | | | |
| Net sales | 349 | 528 | 700 | 716 | 639 | 83% | 21% | -9% | -11% |
| Cost of material consumed | 191 | 328 | 420 | | 344 | 80% | 5% | -18% | NM |
| Change in inventories | 35 | (36) | | | 55 | 58% | NM | NM | NM |
| Gross Profit | 123 | 237 | 280 | | 240 | 95% | 1% | -14% | NM |
| Employee benefit expenses | 26 | 31 | 42 | | 31 | 20% | 1% | -26% | NM |
| EPC, O&M, common infrastructure facility expense | 39 | 44 | 56 | | 33 | -15% | -25% | -41% | NM |
| Other expenses | 27 | 60 | 77 | | 39 | 48% | -34% | -49% | NM |
| EBITDA | 31 | 102 | 105 | 110 | 136 | 334% | 33% | 30% | 23% |
| Depreciation & amortization | 29 | 30 | 31 | | 42 | 45% | 40% | 36% | NM |
| EBIT | 3 | 72 | 74 | | 94 | 3591% | 30% | 27% | NM |
| Finance cost | 70 | 57 | 40 | | 58 | -16% | 2% | 45% | NM |
| Other Income | 4 | 35 | 14 | | 12 | 230% | -67% | -16% | NM |
| PBT | (63) | 51 | 48 | 51 | 48 | NM | -5% | -1% | -5% |
| Tax | 1 | -1 | - | | 1 | -40% | NM | NM | NM |
| Exceptional items | - | -14 | - | | | NM | NM | NM | NM |
| PAT from continued operations | (65) | 38 | 48 | 43 | 47 | NM | 25% | -3% | 9% |
| Profit/(Loss) from discontinued operations | - | -3.2 | - | | 2.3 | NM | NM | NM | NM |
| Tax credit from discontinued operations | - | -2.3 | - | | -1.0 | NM | NM | NM | NM |
| PAT | (65) | 37 | 48 | 43 | 50 | NM | 37% | 4% | 16% |
| NCI | -1 | -10 | - | | -1 | NM | NM | NM | NM |
| Attributable PAT | (64) | 47 | 48 | | 52 | NM | 11% | 7% | NM |
| Adjusted Attrib PAT | (64) | 63 | 48 | | 50 | NM | -22% | 2% | NM |
| Number of shares | 33 | 33 | 33 | | 33 | 0% | 0% | 0% | NM |
| EPS | (2.0) | 1.1 | 1.5 | | 1.5 | NM | 37% | 4% | NM |
| Gross margins | 35% | 45% | 40% | | 38% | 223bps | -731bps | -248bps | NM |
| EBITDA margins | 9% | 19% | 15% | 15% | 21% | 1,232bps | 194bps | 630bps | 589bps |
| PAT margins | -19% | 7% | 7% | 6% | 7% | 2,599bps | 25bps | 46bps | 132bps |

Source: Company, Axis Securities Research, Bloomberg Consensus

Financials (Consolidated)

Profit & Loss

(Rs Cr)

| Y/E March | FY24A | FY25E | FY26E | FY27E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Total Operating income | 1,743 | 4,800 | 7,200 | 9,360 |
| Cost of Material consumed | 1,038 | 3,072 | 4,572 | 5,944 |
| Changes in inventory | (7) | - | - | - |
| Employees Cost | 109 | 288 | 432 | 562 |
| EPC Cost | 186 | 513 | 770 | 1,000 |
| Other Expenses | 148 | 144 | 216 | 281 |
| Total Expenditure | 1,475 | 4,017 | 5,990 | 7,786 |
| EBITDA | 269 | 783 | 1,210 | 1,574 |
| Depreciation and Amortization | 110 | 122 | 125 | 121 |
| EBIT | 159 | 661 | 1,085 | 1,453 |
| Other Income | 56 | 59 | 90 | 95 |
| Less: Interest & Fin Chg. | 248 | 80 | 70 | 70 |
| Less: Exceptional Items | 14 | - | - | - |
| Profit before tax | (47) | 640 | 1,105 | 1,478 |
| Provision for Tax | 4 | - | - | 331 |
| Reported PAT | (51) | 640 | 1,105 | 1,147 |
| EPS (Rs/sh) | (1.6) | 4.9 | 8.5 | 8.8 |

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

| Y/E March | FY24A | FY25E | FY26E | FY27E |
|-------------------------|--------------|--------------|--------------|---------------|
| Net Block | 1,494 | 1,437 | 1,382 | 1,336 |
| CWIP | 266 | 266 | 266 | 266 |
| Goodwill | 10 | 10 | 10 | 10 |
| Intangible assets | 262 | 262 | 262 | 262 |
| ROU Assets | 46 | 46 | 46 | 46 |
| Investments | - | - | - | - |
| Inventories | 1,245 | 1,578 | 1,973 | 2,564 |
| Trade Receivables | 1,137 | 1,184 | 1,775 | 2,308 |
| Cash / Bank balance | 54 | 950 | 1,716 | 2,317 |
| Misc. Assets | 2,280 | 2,280 | 2,280 | 2,280 |
| Total assets | 6,795 | 8,013 | 9,710 | 11,390 |
| Equity capital | 326 | 326 | 326 | 326 |
| Reserves | 1,371 | 2,011 | 3,117 | 4,264 |
| NCI | 494 | 494 | 494 | 494 |
| Borrowings | 3,237 | 3,237 | 3,237 | 3,237 |
| Other Liabilities | 748 | 748 | 748 | 748 |
| Provisions | 13 | 13 | 13 | 13 |
| Trade Payables | 605 | 1,184 | 1,775 | 2,308 |
| Capital employed | 6,795 | 8,013 | 9,710 | 11,390 |

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

| Y/E March | FY-24A | FY-25E | FY-26E | FY-27E |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Profit after tax | (53) | 640 | 1,105 | 1,147 |
| Depreciation | 110 | 122 | 125 | 121 |
| Interest Expenses | 248 | 80 | 70 | 70 |
| Non-operating / EO item | 164 | - | - | - |
| Change in W/C | (616) | 199 | (395) | (592) |
| Operating Cash Flow | (147) | 1,041 | 906 | 746 |
| Capital Expenditure | (726) | (65) | (70) | (75) |
| Free cash Flow | (873) | 976 | 836 | 671 |
| Other Investments | (14) | - | - | - |
| Investing Cash Flow | (740) | (65) | (70) | (75) |
| Proceeds / (Repayment) of Borrowings | 187 | - | - | - |
| Proceeds from preference shares | 1,010 | - | - | - |
| Finance cost paid | (319) | (80) | (70) | (70) |
| Financing Cash Flow | 878 | (80) | (70) | (70) |
| Change in Cash | (9) | 896 | 766 | 601 |
| Opening Cash | 21 | 54 | 950 | 1,716 |
| Closing Cash | 12 | 950 | 1,716 | 2,317 |

Source: Company, Axis Securities Research

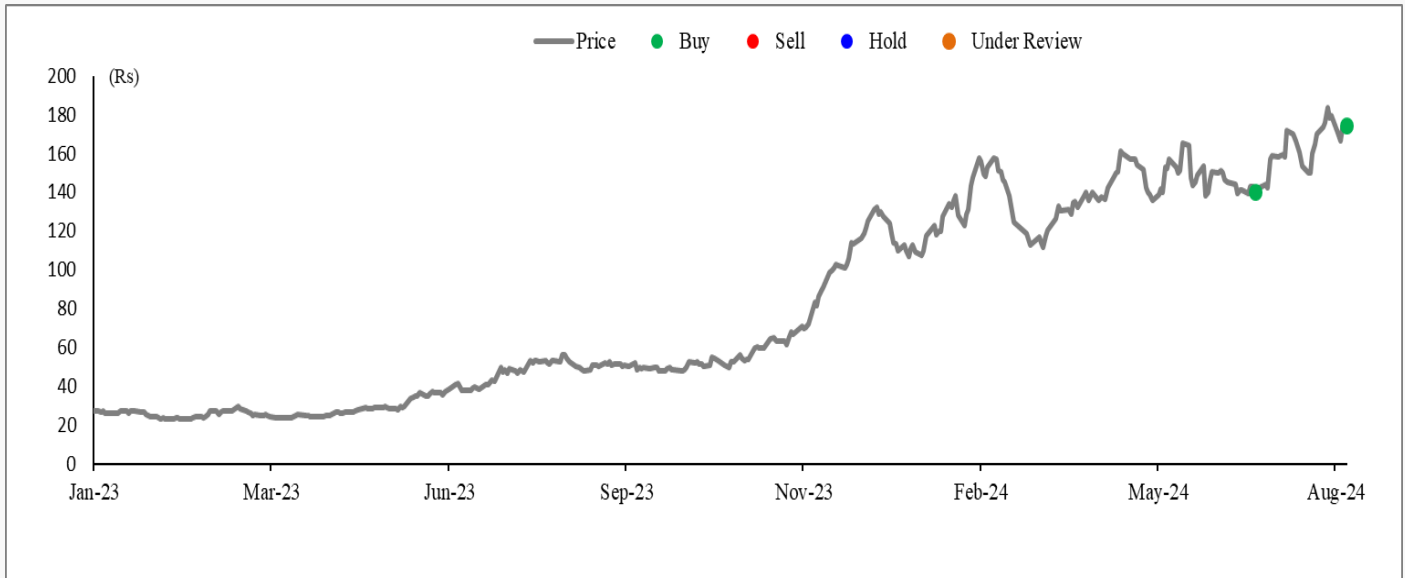
Ratio Analysis

(%)

| Y/E March | FY24A | FY25E | FY26E | FY27E |
|---------------------------|-------|-------|-------|-------|
| Operational Ratios | | | | |
| Sales growth (% YoY) | 137% | 175% | 50% | 30% |
| EBITDA Margin % | 15% | 16% | 17% | 17% |
| Net profit Margin % | -3% | 13% | 15% | 12% |
| Tax Rate % | NA | 0% | 0% | 22% |
| Efficiency Ratios | | | | |
| Total Asset Turnover (x) | 0.3 | 0.6 | 0.8 | 0.9 |
| Sales/Gross block (x) | 0.8 | 2.2 | 3.2 | 4.1 |
| Sales/Net block(x) | 1.2 | 3.3 | 5.2 | 7.0 |
| Working capital/Sales (x) | 1.0 | 0.3 | 0.3 | 0.3 |
| Valuation Ratios | | | | |
| PER (x) | NA | 35.5 | 20.5 | 19.8 |
| P/BV (x) | 10.0 | 9.7 | 6.6 | 4.9 |
| EV/Ebitda (x) | 76.1 | 32.6 | 20.4 | 15.3 |
| EV/Sales (x) | 11.7 | 5.3 | 3.4 | 2.6 |
| Dividend Yield (%) | NA | NA | NA | NA |
| Return Ratios | | | | |
| ROE | -2% | 32% | 38% | 29% |
| ROCE | 5% | 23% | 29% | 30% |
| ROIC | NA | 13% | 20% | 19% |
| Leverage Ratios | | | | |
| Debt /equity (x) | 1.48 | 1.14 | 0.82 | 0.64 |
| Net debt/ Equity (x) | 1.35 | 0.81 | 0.39 | 0.18 |
| Net debt/Ebitda (x) | 11.00 | 2.92 | 1.26 | 0.58 |

Source: Company, Axis Securities Research

Inox Wind Price Chart and Recommendation History



| Date | Reco | TP | Research |
|-----------|------|-----|---------------------|
| 30-Jun-24 | BUY | 185 | Initiating Coverage |
| 12-Aug-24 | BUY | 205 | Result Update |
| | | | |

Source: Axis Securities Research

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RATING SCALE: Definitions of ratings

| Ratings | Expected absolute returns over 12 – 18 months |
|--------------|--|
| BUY | More than 10% |
| HOLD | Between 10% and -10% |
| SELL | Less than -10% |
| NOT RATED | We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation. |
| UNDER REVIEW | We will revisit our recommendation, valuation and estimates on the stock following recent events |
| NO STANCE | We do not have any forward-looking estimates, valuation or recommendation for the stock |

Note: Returns stated in the rating scale are our internal benchmark.

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