PhillipCapital

Inox Wind (INXW IN)

The wind is on its side…

INDIA | Capital Goods and Engineering | Initiating Coverage

14 May 2015

We initiate coverage on Inox Wind with a BUY rating and a target price of Rs535 (16x FY17E EPS). Inox Wind, among the top-four wind-turbine-generator (WTG) suppliers in the country is well positioned to capture the strong growth in the wind sector because of the government's focus on renewable energy. The government's target is to grow renewable capacity to 175GW by FY22 from current 33GW with wind power to 60GW, ~2.5x current 25GW.A strong order book and existing project sites for 4GW of wind projects gives Inox Wind strong visibility over the next few years. The stock currently trades at 14x FY17EPS vs. the Capital goods sector at 22x FY17E EPS.

Increased government thrust towards renewable energy. The government's target for FY22 is 175GW of renewable power with wind power at 60GW. To give an impetus to the sector, it has introduced measures such as generation-based incentives, accelerated depreciation and renewable energy certificates; more recently, it has given renewables priority-sector status (upto Rs0.15bn) to ensure cheaper funding. The amendment to the Electricity Act (approved by the cabinet and pending approval in parliament) has proposed (1) forming a National Renewable Energy policy, (2) mandating at least 10% of total power generated by thermal plants to come from renewables (renewable generation obligation), (3) bundling of renewable power with thermal, (4) removal of open-access surcharge for renewables and, (5) stiff penalties for noncompliance with renewable purchase obligations by discoms. Additionally, to enable evacuation of renewable power, a green energy corridor is being constructed at a cost of Rs430bn with equal share by PGCIL and states.

Large order book gives strong visibility on sales over next 1.5 years. Inox Wind had an order book of ~1450MW as of March 2015, which provides good sales visibility over the next 1.5 years. It has supplied ~600MW of WTGs in FY15 and targets ~1GW in FY16. It intends to expand capacity to 1.6GW by the end of FY16 at an expected capex of ~Rs2bn. It is enhancing capacity for rotor-blade sets and tower at Rohika (Gujarat) and has set up a new factory at Barwani (Madhya Pradesh) for nacelle and towers.

Sizeable project site assures strong visibility on growth; limits competition. In India, the WTG provider fulfils the following roles—wind assessment, land acquisition, setting up infrastructure, erecting and commissioning the WTG and O&M services. Inox Wind's project sites total 4GW (~2.1GW leased until December 2014 and balance in the process of being acquired) across Rajasthan, Gujarat, Madhya Pradesh and Andhra Pradesh, which it can develop over the next few years. It plans to acquire land to develop an additional ~1.2GW. Availability of project sites is a huge competitive advantage for existing players; it works against pure-equipment suppliers who are unable to compete.

Earnings and valuations: We model a 64% growth in EPS over FY15-17 and expect earnings to be driven by higher WTG supplies and margin expansion. We see EBITDA margins growing to 19% in FY17 (+300bps over FY15) driven by higher volumes, lower royalty payments on <110metre WTGs, and higher pricing. The stock currently trades at a FY17 P/E of 14x and P/B of 4x. We value the stock at 16x FY17 EPS (capital goods sector at 22x) to get our target price of Rs535. Our target multiple is at a 10% discount to listed domestic and global peers and captures the limited trading history for the stock.

Key risks to our BUY rating: (1) removal of generation-based incentives and/or accelerated depreciation benefits for wind-power producers, (2) further deterioration in the working-capital cycle leading to higher borrowings and interest burden, (3) reduced focus of the government towards renewables in turn leading to a fall in demand for wind and solar power, (4) weak financial health of discoms preventing them from buying renewable power.

BUY

CMP RS 450

TARGET RS 535 (+18%)

COMPANY DATA

O/S SHARES (MN) :	222
MARKET CAP (RSBN) :	98
MARKET CAP (USDBN) :	1.5
52 - WK HI/LO (RS) :	495 / 325
PAR VALUE (RS) :	10

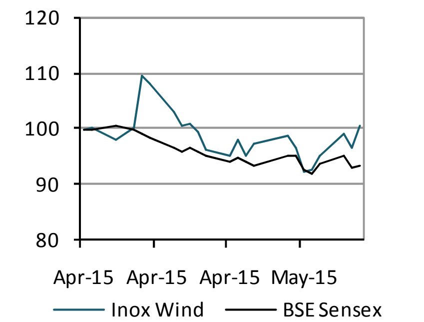
SHARE HOLDING PATTERN, %

PROMOTERS :	85.6
FII / NRI :	3.5
FI / MF :	3.7
NON PROMOTER CORP. HOLDINGS :	6.2

PRICE PERFORMANCE, %

	1MTH
ABS	2.7
REL TO BSE	8.9

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Net Sales	27,644	52,295	60,182
EBIDTA	4,449	9,661	11,573
Net Profit	2,738	6,228	7,394
EPS, Rs	12.3	28.1	33.3
PER, x	36.7	16.1	13.6
EV/EBIDTA, x	22.8	10.7	8.7
P/BV, x	3.7	2.0	1.7
ROE, %	20.6	34.5	31.2
Debt/Equity (%)	67.7	74.3	70.2

Source: PhillipCapital India Research Est.

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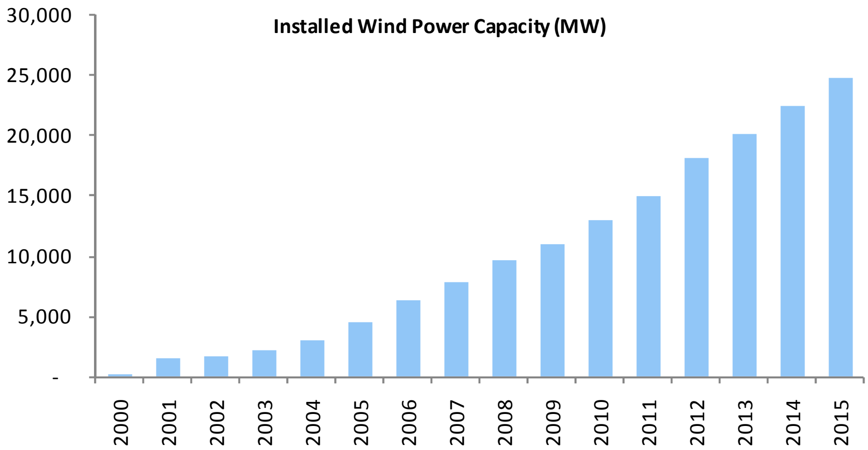
Govt.FY22 target: 175GW renewables, 60GW wind

As of March 2015, India has an installed capacity of 261GW of which renewables constitute 33GW and wind energy installation ~25GW. National Institute of Wind Energy estimates that India has a wind-energy potential of 102GW at 80m (height) and 49GW at 50m.

The Indian government has an ambitious target to increase its renewable capacity to 175GW from current 33GW and wind to 60GW from current 25GW by 2022; this implies an annual capacity addition of ~5GW each year. To put it in perspective, India installed only 2.3GW of wind capacity in FY15.

Installed wind energy installed capacity (mw)



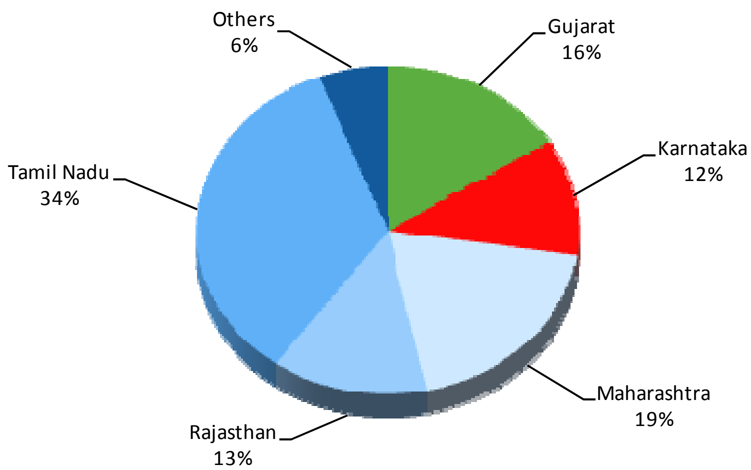
Source: MNRE, PhillipCapital India Research

Capacity addition has grown at 15% CAGR during FY06-15

In India, wind-power capacity saw 15% CAGR during FY06-15 led by favourable policy environment. However, in FY13, the sector had a minor blip when the government removed accelerated depreciation (AD) benefit. With AD benefits being reintroduced, the sector should resume its capacity addition pace. The government has also introduced generation-based incentives to encourage IPPs to set up new wind energy projects.

Historically, wind power installation was largely concentrated in Tamil Nadu, Rajasthan, Karnataka, Maharashtra, and Gujarat. These five states accounted for 94% of installed capacity as of FY14.

Capacity installations by state (% of total, FY14, 22GW)



Source: Company, PhillipCapital India Research

The table below highlights the state-wise target for renewables by FY22— the states that are cumulatively targeting wind power capacity of 60GW are Rajasthan, Gujarat, Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Karnataka, and Maharashtra. Inox Wind's project sites are primarily in Rajasthan (2610MW) and Madhya Pradesh (920MW); its total project sites are 4,052MW.

State wise target for 175GW of renewable by 2022

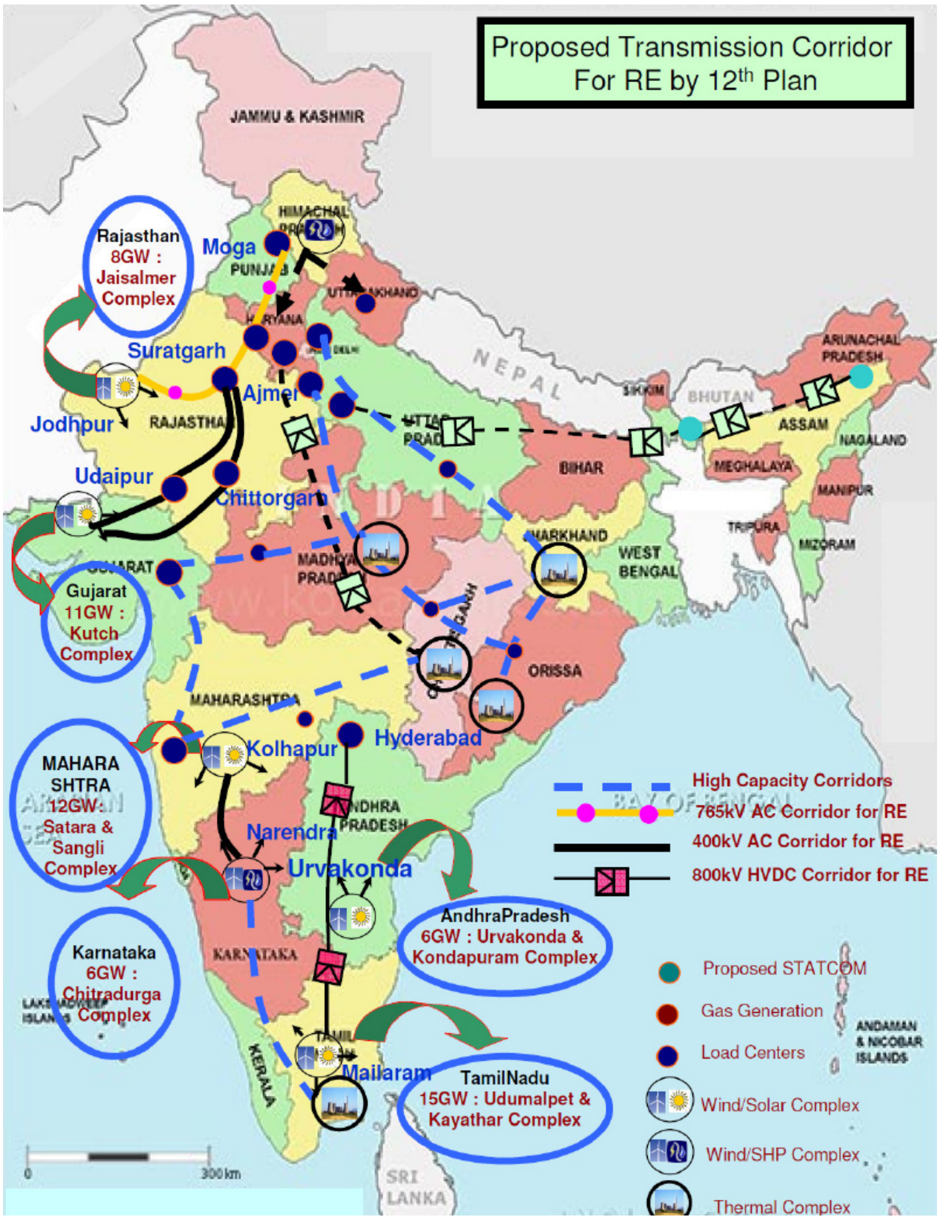
Name of State	Solar Power (MW)	Wind (MW)	Small Hydro Power (MW)	Biomass Power (MW)
Delhi	2762			
Haryana	4142		25	209
Himachal Pradesh	776		1500	
Jammu & Kashmir	1155		150	
Punjab	4772		50	244
Rajasthan	5762	8,600		
Uttar Pradesh	10697		25	3499
Uttrakhand	900		700	197
Chandigarh	153			
Northern Region	**31120**	**8600**	**2450**	**4149**
Goa	358			
Gujarat	8020	8800	25	288
Chhattisgarh	1783		25	
Madhya Pradesh	5675	6200	25	118
Maharashtra	11926	7600	50	2469
D. & N. Haveli	449			
Daman & Diu	199			
Western Region	**28410**	**22600**	**125**	**2875**
Andhra Pradesh	9834	8100		543
Telangana		2000		
Karnataka	5697	6200	1500	1420
Kerala	1870		100	
Tamil Nadu	8884	11900	75	649
Puducherry	246			
Southern Region	**26531**	**28200**	**1675**	**2612**
Bihar	2493		25	244
Jharkhand	1995		10	
Orissa	2377			
West Bengal	5336		50	
Sikkim	36		50	
Eastern Region	**12237**		**135**	**244**
Assam	663		25	
Manipur	105			
Meghalaya	161		50	
Nagaland	61		15	
Tripura	105			
Arunachal Pradesh	39		500	
Mizoram	72		25	
North Eastern Region	**1205**		**615**	
Andaman & Nicobar Islands	27			
Lakshadweep	4			
Other (New States)		600		120
All India	**99533**	**60000**	**5000**	**10000**

Source: Company, PhillipCapital India Research

Green-energy corridors to evacuate renewable power

To evacuate power generated from renewable (RE), in the 12th plan(2012–17), a green energy corridor has been proposed to be made in the key RE states of Tamil Nadu, Karnataka, AP, Maharashtra, Himachal Pradesh, and Rajasthan. The corridor is necessary to evacuate large-scale wind and solar power in these states and ensure accurate generation and scheduling forecasts by the load-dispatch centre.

Proposed renewable energy corridor for evacuation



Source: Company

The aim is to synchronize the power generated from renewables into the national grid. Currently, the grid faces difficulties in absorbing electricity because of varying voltage and supply and the transmission system needs to be dynamic to handle the variations leading to an integrated grid across the country.

The total spend on developing the green-energy corridor is Rs430bnwith PGCIL incurring a capex of Rs210bn and the balance by the states. Orders for this corridor have already begun and a €1bn loan has also been tied up with German bank KfW to fund this project.

Large order book provides strong visibility

As of March 2015, Inox Wind had an order book of ~1450MW, which provides strong visibility on sales over the next 1.5 years (order book was at 300MW in March 2014). The company supplied 600MW of WTGs in FY15 and is looking at supplying 1,000MW of WTGs in FY16.

Inox Wind had a capacity of 800MW as of December2014 and is looking to double this to 1600MW by the end of FY16. It is expanding capacity at its existing Rohika facility near Ahmedabad to take its rotor blade sets to 400p.a (currently 256p.a) and towers to 300p.a (currently 150p.a). It is also setting up a new factory at Barwani in Madhya Pradesh to manufacture 400 nacelles p.a (800MW as each nacelle is ~2.1MW) and 300 towers. After expansion, its total capacity would reach 950 nacelle and hubs, 800 rotor blade sets, and 600 towers. Inox Wind also makes use of sub-contractors for manufacturing towers.

Inox Wind's capacity addition plans for FY16

Description	No. of units(Dec, 14)	No. of units(FY16e)
Rotor Blade Sets- Rohika(Gujarat)	256	400
Towers – Rohika (Gujarat)	150	300
Nacelle – Una (HP)	550	550
Hubs – Una (HP)	550	500
Nacelle - Barwani (MP)	0	400
Towers - Barwani (MP)	0	300

Source: Company, Prospectus

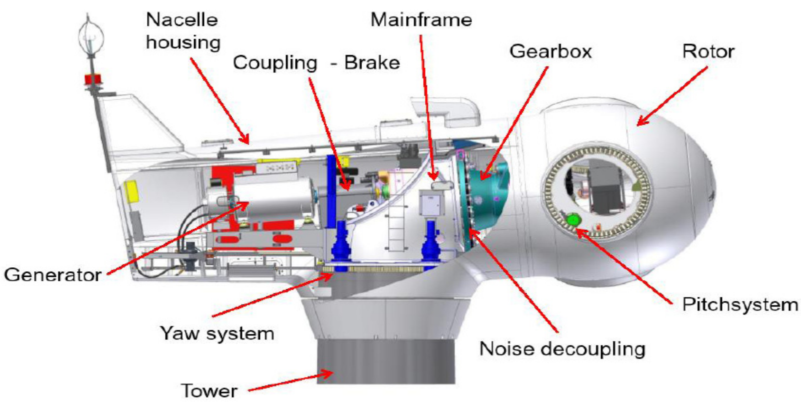
The company has tied up with AMSC for the supply of the core electronic control system (ECS), which is at the heart of the wind turbine. This has also enabled it to benefit from AMSC's approved supplier chain, where there are two suppliers for every major component of the WTG that in not manufactured in house by Inox Wind (see table below).

Key component suppliers for Inox Wind

Component	Supplier	Location
Electric Control System (ECS)	American Superconductor Corporation	US
Generators	Emerson Industrial	India
	ABB	India
Gearbox	DHHI (pursuant to a design by Romax Technology Limited, based in the United Kingdom)	China
	Wikov Industry a.s.	Czech Republic
Towers	Fedder Lloyd	India

Source: Company, PhillipCapital India Research

Key parts going into a Wind Turbine Generator

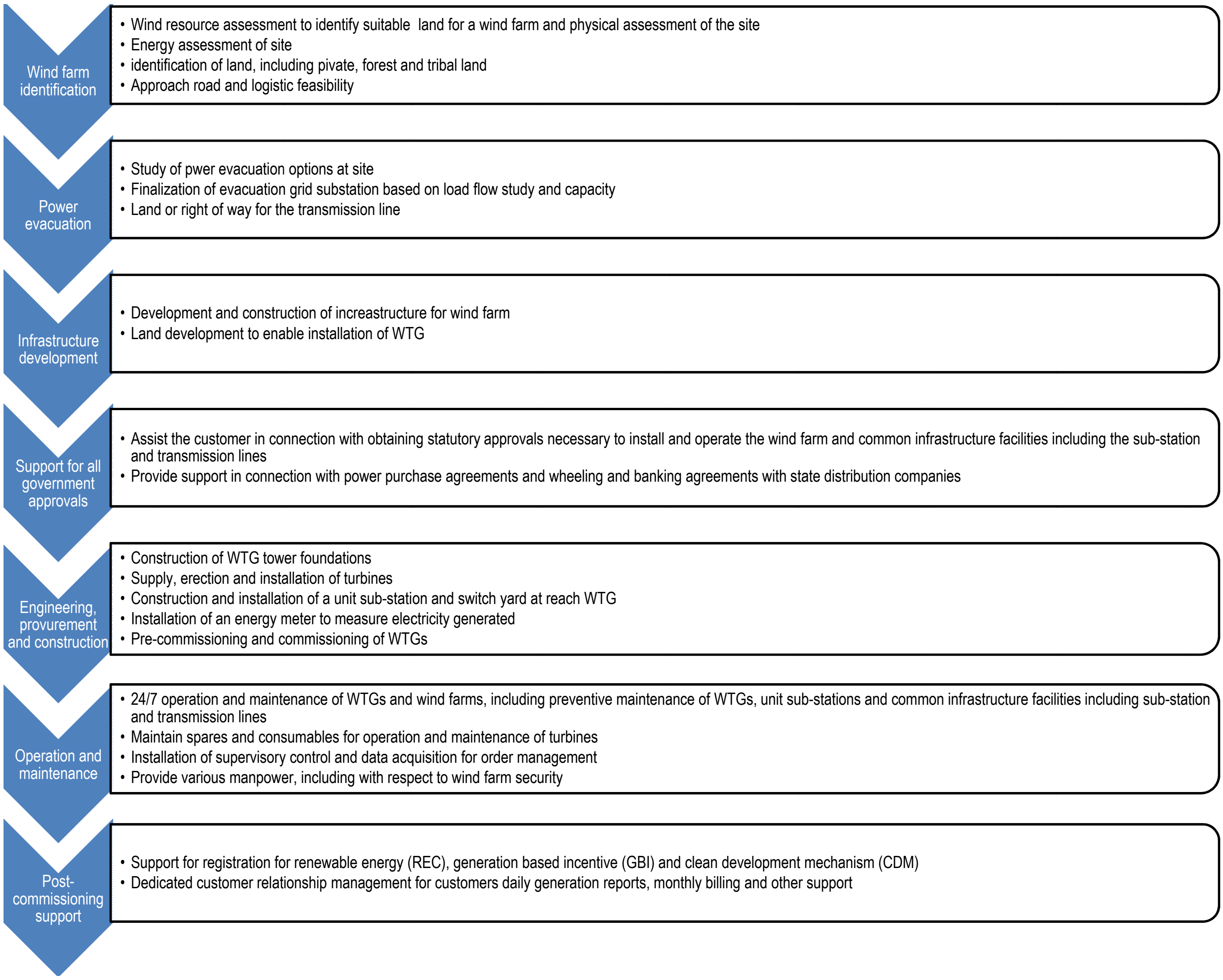


Source: Company

Sizeable project sites = strong visibility, limited competition

In India, the WTG provider also fulfils the role of wind assessment, land acquisition, setting up of infrastructure (roads, transmission lines), erecting and commissioning the WTG and O&M services (see chart below for details).

Role of a Wind Turbine manufacturer in India



Source: Company

Inox Wind has project sites totalling 4GW (~2.1GW have been leased) across Rajasthan, Gujarat, MP and AP, which can be developed over the next few years and drive top line growth. It is currently looking to acquire land to develop an additional ~1.2GW of wind farms.

As noted earlier, key states where wind power of 60GW capacity is being targeted by FY22 are Rajasthan, Gujarat, Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Karnataka and Maharashtra. Inox Wind has project sites primarily in Rajasthan (2610MW) and Madhya Pradesh (920MW) of its total 4GW of project sites.

Inox Wind's existing project sites in India

Source: Company

As seen in the table below, ~2.1GW has been leased from the state while another 1.9GW is currently under the process of being acquired.

Wind sites with Inox Wind/Group companies

State name	MW
Rajasthan (IRL)	1,415.0
Gujarat(IRL)	154.0
Gujarat(GFL)	212.0
Gujarat(IWISL)	44.0
MP (IWISL/MSEIL)	285.0
Andhra Pradesh	20.0
Total already leased (a)	2,130.0
Sites which are yet to be acquired by them	
Rajathan(IWISL/IRL)	1,194.0
Gujarat	74.0
Madhya Pradesh (IWISL/MSEIL/IWL)	634.0
Andhra Pradesh	20.0
Total (b)	1,922.0
Total	**4,052.0**

Source: Company, PhillipCapital India Research

IRRs in key states where Inox has a presence

Of the 4GW of project sites with Inox Wind, ~2.5GW is in Rajasthan and another ~0.9GW in Madhya Pradesh. We have looked at the feed in tariffs declared by the respective SERCs to analyse the IRRs made by wind projects being set up in these states. We highlight the results below:

Wind Tariff Order (Summary)

	Unit	Gujarat	MP	Rajasthan
Capital Cost	**Rs mn/MW**	60.6	59.6	56.5
Debt Equity	**%**	70%-Debt and 30% equity	70%-Debt and 30% equity	70%-Debt and 30% equity
CUF	**%**	24%	20%	21%
O&M	Rs mn/MW	0.8	1% ofcapital cost	0.787
O&M escalation	%	5.72%	5.72%	5.85%
Depreciation		6% per annum for the first 10 years and balance spread over useful life	7% per annum for the first 10 years and balance spread over useful life	5.83% for first 12 years and balance spread over useful life
Interest rate		13%	12.75%	12.71%
Working capital				
Interest on Working capital		12%	13.25%	12.21%
O&M charges	Month	1	1	1
Maintenance and Spares (% of O&M)		15.00%	15.00%	15.00%
Debtors	Month	2	2	1.5
RoE		14%	14%	16%
Levellised tariff	Rs /Kwh	4.61	5.92	5.64
Levellised tariff with AD	Rs /Kwh	4.23		5.31

Source: Company, PhillipCapital India Research

Our analysis of tariff orders indicates, wind projects will accrue IRR of 14%-15% based on normative tariffs. However we highlight with generation based incentives and refinancing of loans, developers could accrued additional 300-350bps RoE in projects.

Lack of project sites limits competition, especially from overseas

There is limited competition within Indian WTG suppliers with the top 4-5 players holding almost 88% of the market. Key players operating in the industry are Inox Wind, Suzlon Energy, Gamesa, GE, and ReGen Powertech.

List of wind turbine generator manufacturers and capacity in India

Sl No	Manufacturer Name	Capacity	Rating	Technology
1	Gamesa Wind Turbine Private Limited	1,500	800/850/2000	Gamesa Innovation and Technologies, Spain
2	GE India	450	1,500/1,600	GE Infrastructure Technology International, USA
3	Inox Wind Ltd.	1,100	2,000	AMSC- Austria GmbH
4	Kenersys India Pvt. Ltd.	400	2,000	Kenersys Gmbh, Germany
5	Leitner Shiram Manufacturing Ltd.	250	1,350/1,500	WindFin B.V. The Netherlands
6	ReGen Powertech Pvt. Ltd.	750	1,500	VENSYS Energy AG Technology, Germany
7	Suzlon Energy Limited	3,700	600/1,250/1,500/ 2,100	Suzlon Energy Gmbh /SudWind, Germany
8	Vestas Wind Technology India Pvt. Ltd.	1,000	1,650/1,800/2,000	Vestas Wind System, Denmark
9	WinWinD Power Energy Pvt. Ltd.	1,000	1,000	WinWinD, Finland
10	Others	1,850		
	Total	**12,000**		

Source: Company, PhillipCapital India Research

One of the key factors limiting competition is the unique nature of the Indian WTG market, where the WTG supplier also needs to have access to land, arrange for the related infrastructure (evacuation facilities, road infrastructure), and arrange for the power offtake with the discom. This limits competition from overseas players (Chinese, Koreans) who do not have the wherewithal to arrange all this.

Cost structure of a wind turbine project

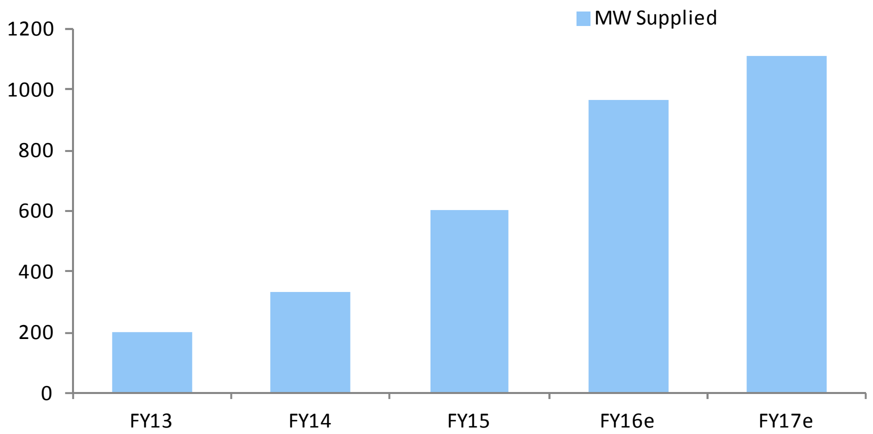
Description	% of total
Tower and transformer	21%
EPC	19%
Land	4%
Nacelle (Gearbox and Generator)	34%
Hubs, rotors, blades	22%
Total	**100%**

Source: Company, PhillipCapital India Research

Earnings and valuation

With a strong order book of 1.5GW as of March 2015, we expect strong growth in Inox Wind's supplies and sales over the next two years. We build in WTG supplies of 970MW in FY16 and 1100MW in FY17.

WTG supplies over FY13-17e



Source: Company, PhillipCapital India Research Estimates

In turn, the sharp increase in WTG supplies should lead to an increase in sales to Rs 60.1bn in FY17E from Rs 28bn in FY15E (48% CAGR). A healthy backlog of 1.5GW gives us reasonable comfort that Inox Wind can achieve this number. It is interesting that there is a sharp reduction in sales to captive units—down to ~4% in FY15 from 100% 4-5 years ago.

Revenues from captive/group companies has come down

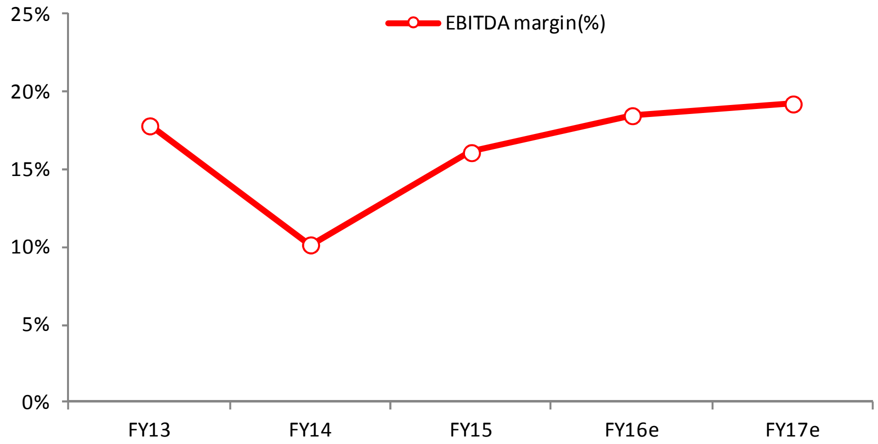
Year wise	% of sales
FY10	100
FY11	100
FY12	100
FY13	34
FY14	15
FY15E	4

Source: Company, PhillipCapital India Research

We model in margins growing to 19% by FY17 (+300bps over FY15E) as a result of:

a. Higher operating leverage from supplies increasing to 1000MW in FY17 from 600MW in FY15
b. Savings in royalty (1.5% of sales)—Inox had to pay royalties to ASMC for the first 450 WTGs of less than 110m;since it has already produced 526 WTGs it will not have to pay royalties anymore
c. Higher margins on larger rotor blades with Inox Wind moving to 100m blade (diameter) vs. 93mearlier.

EBITDA margins FY13-17e



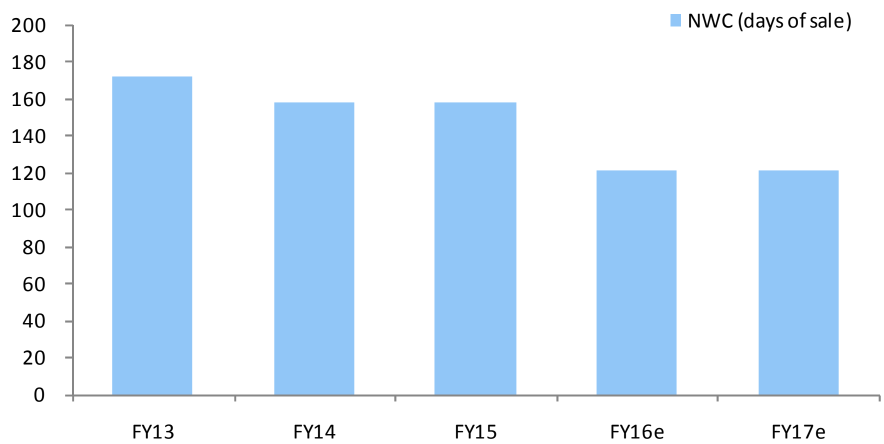
Source: Company, PhillipCapital India Research Estimates

High NWC is a concern: needs careful monitoring

In our view, one of the key issues for Inox Wind is the high net working capital—NWC days stood at 160 as of 9M15/FY14 primarily due to high receivables (Rs12.5bn as of 9M15, 186 days of sales). This is also the primary reason that the company has negative operating cash flows and working capital-related debt.

We are building in a reduction in the NWC days as the company increases its focus on faster collections and hence, lower working capital. Part of the high debtor days is also because the customer withholds the last 8-10% of the payment for 4-6 months until trials are successful.

NWC expected to come down over FY16-17e



Source: Company, PhillipCapital India Research Estimates

At CMP of Rs 450, Inox Wind trades at 14x FY17 P/E and 4x FY17P/B. We model:(1) 64% EPS CAGR over FY15-17Edriven by higher WTG supplies and margin expansion, and (2) EBITDA margins growing to 19% in FY17 (+300bps over FY15) driven by higher volumes, lower royalty payment on <110metre WTGs, and higher pricing. We value the company at 16x FY17 EPS (capital goods sector at 22x) to arrive at our target price of Rs535. Our target multiple is at a 10% discount to listed domestic and global peers and captures the limited trading history for the stock

We initiate coverage on the stock with a BUY rating. Key risks include a sharp slowdown in capex and/or capitalization and increase in competition in competitive bidding.

Peers to Inox Wind

Name	Mkt Cap (INR)	P/BV FY17	RoE FY17	P/E FY17	Dividend Yield FY17
Inox Wind	100	4.2	31.2	13.5	1.5
Suzlon	91	NA	NA	16	NA
Gamesa Corp Tecnologica SA	271	2.0	12.4	16.9	1.5
Vestas Wind Systems SA	711	2.9	15.3	20.8	1.9
Nordex SE	128	2.7	16.9	17.5	1.5

Source: Company, PhillipCapital India Research Estimates

Key risks to our BUY call

- Weak financials of discoms: Inox Wind installations are concentrated in Rajasthan, Gujarat, MP, and AP. Financials of discoms remain weak, especially in Rajasthan and AP; these states have also been part of the FRP programme initiated by Power Ministry. This can have significant bearing on demand for wind power in these states.

Discom-wise losses of key RE states: FY06-13

States (Rs bn)	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13
Rajasthan	-2	0	-24	-82	-118	-95	-198	-125
Madhya Pradesh	4	-9	-18	-28	-41	-24	-30	-45
Maharashtra	-3	6	7	-7	-6	-9	0	7
Andhra Pradesh	18	17	-1	-57	-33	-18	-34	-167
Gujarat	8	7	1	1	3	5	6	5

Source: Company, PhillipCapital India Research

- Removal of generation-based incentives and/or accelerated depreciation benefits for wind power producers

- Further deterioration in the working capital cycle leading to higher borrowings and interest burden

- Reduced focus by the government towards renewables in turn leading to a fall in demand for wind and solar power.

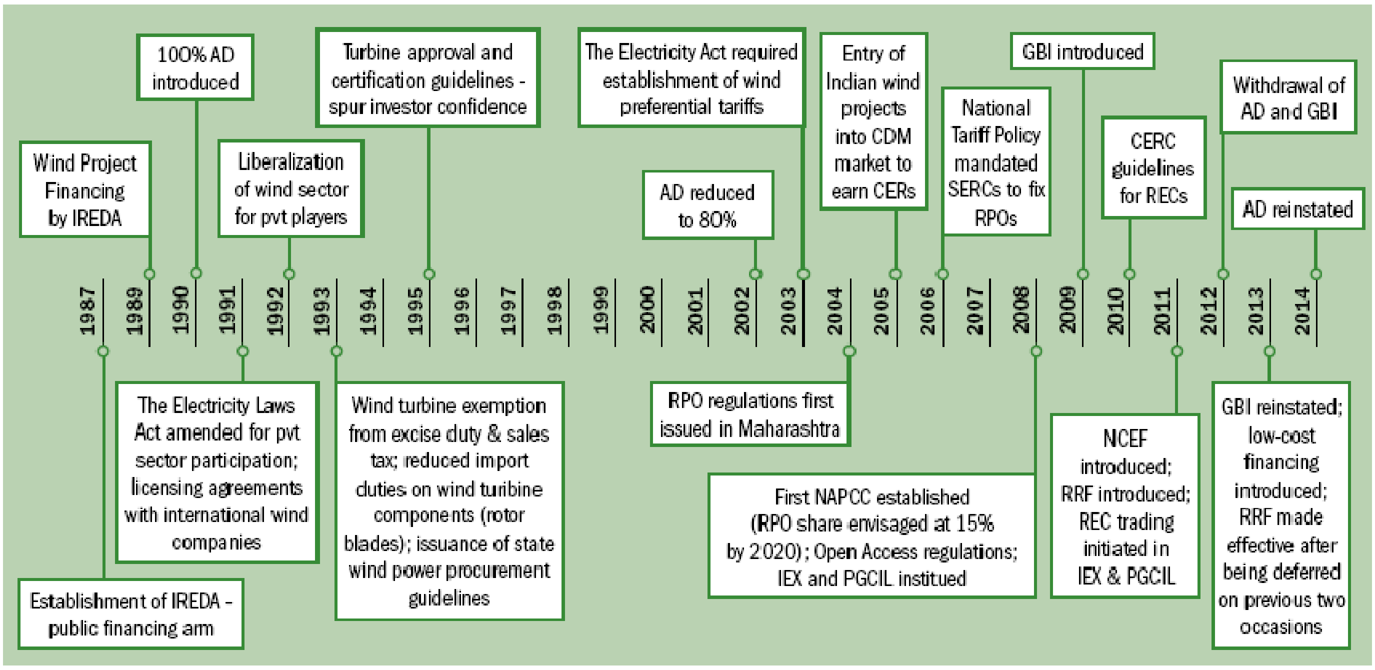
- In case ASMC goes bankrupt upgrading to 3GW will be a challenge to Inox wind.

Renewables policy framework: historical perspective

Before the Electricity Act, 2003 (EA 2003), legislation had no specific provisions that would promote renewable or nonconventional sources of energy. Despite this shortcoming, the Ministry for New and Renewable Energy has worked towards supporting the sector through policy guidelines since 1994-1995, with mixed results. However, EA 2003 changed the legal and regulatory framework for the renewable energy sector in India.

The act mandates policy formulation to promote renewable sources of energy by the central government, the state governments, and the respective agencies within their jurisdictions. The SERCs determine the tariff for all renewable energy projects across the states, and the state-owned power distribution companies (DISCOMs) ensure grid connectivity to the renewable energy project sites. By June 2012, as mandated under Electricity Act20, 26 SERCs had fixed quotas (in terms of percentage of electricity being handled by the power utility) to procure power from renewable energy sources. The mandate, called a Renewable Purchase Specification (RPS), varies from 0.5% to 10% in various states.

Historical perspective on policy framework for renewables



Source: Company, PhillipCapital India Research

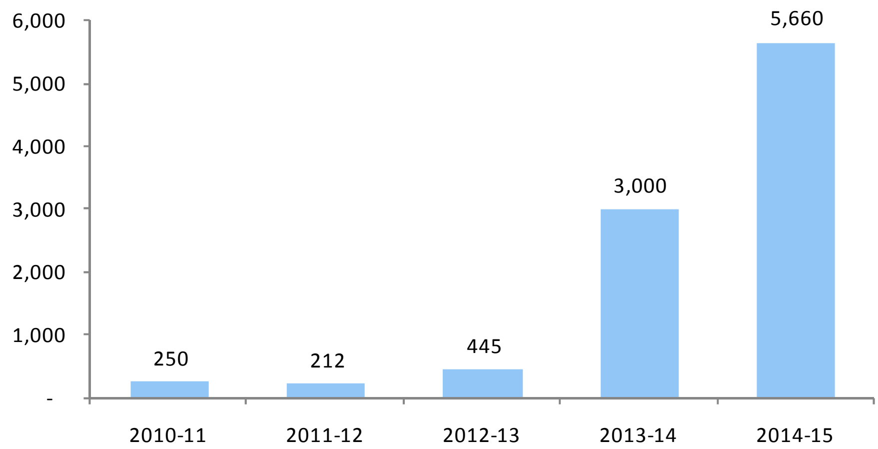
Over the last decade, the federal government has offered three key incentives—Accelerated Depreciation (AD), Generation-Based Incentive (GBI) since 2009, and Renewable Energy Certificates (REC) mechanism since 2010.

Generation-based incentives

To broaden investor base and incentivize actual generation, GBI scheme was extended for the 12th plan period. Under the scheme, a GBI will be provided to wind electricity producers at Rs. 0.50 per unit of electricity fed into the grid for a period not less than four years and a maximum period of 10 years with a cap of Rs 10mn per MW. Every 1MW can generate ~2mn units each year at 24-25% PLF, which implies Rs1mn, can be claimed annually for the next 10 years.

GBI is provided by the Ministry of New and Renewable Energy (MNRE), which in turn is funded by the union budget and the National Clean Energy fund. For FY14, Rs5.6bn was paid to wind producers as GBI, with Rs3bn coming from the union budget and the balance from the National Clean Energy fund.

Generation based incentives FY11-15(Rs mn)

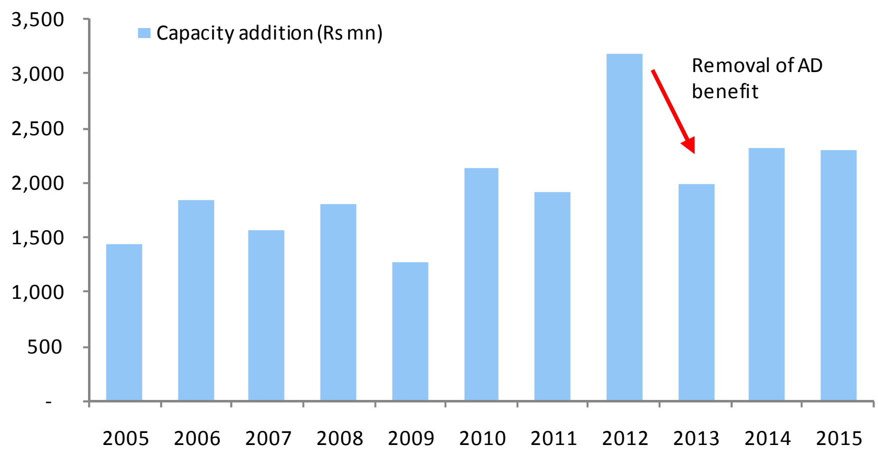


Source: MNRE

Accelerated depreciation

The government reintroduced accelerated depreciation as capacity addition pace reduced due to its removal in 2012—~3GW was added in FY12 and capacity addition dropped to 1.5GW once benefit was removed. AD benefit has been the key reason for increase in participation from captive players and SMEs. With the benefits being restored from FY15, we expect renewed interest in wind power from FY16.Currently, 80% of capital cost is allowed as depreciation in the first year and for following years, 80% of the written-down value is allowed.

Wind power: Yearly capacity addition (MW)



Source: Company, PhillipCapital India Research

Renewable Purchase Obligation (RPO) and REC

The Electricity Act 2003 proposed mandatory Renewable Purchase Specification (RPS) for all states—26 states have specified targets for the uptake of electricity from renewable energy sources. With the introduction of the Renewable Energy Certificate (REC) scheme in 2010, states could look at fulfilling the RPS under this provision by procuring equivalent RECs. Both these measure failed due to lack of regulatory authority to ensure compliance at the state level.

Renewable Purchase Obligation by state (FY14)

Name of state	Non Solar RPO	Solar RPO
Maharashtra	8.5%	0.5%
MP	4.7%	0.8%
T Nadu	9%	0.1%
Rajasthan	8.2%	1.0%
Haryana	3%	0.1%
Gujarat	6%	1.0%
Chhattisgarh	5.3%	0.5%
Karnataka	10%	0.3%
Andhra Pradesh	4.8%	0.3%
Odisha	5.8%	0.3%

Source: Media articles

New renewable energy policy to give a boost to the sector

The amendment to the Electricity Act (approved by the cabinet and pending approval in parliament) has proposed:

- Formulation of a National Renewable Energy policy
- Making at least 10% of total power generated by thermal plants to be from renewables (Renewable Generation Obligation)
- Bundling of renewable power with thermal with the State Regulators allowed to modify the existing PPAs to account for the same
- Removal of open access surcharge for renewables
- Stiff penalties in case of noncompliance with RPOs by discoms

We note despite favourable policy framework, wind energy continues to face issues such as:

- Lack of an appropriate regulatory framework to facilitate purchase of renewable energy from outside the host state
- Inadequate grid connectivity despite the creation of the Green Energy Corridor, which is being made to evacuate power generated from renewables
- High-wheeling and open-access charges in some states
- Delays in acquiring land and obtaining statutory clearances

In our view, the new renewable energy policy would address quite a few of these issues and lead to a spurt in growth in renewable capacity.

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Net sales	**15,490**	**27,644**	**52,295**	**60,182**
Growth, %	48	78	89	15
Total income	15,490	27,644	52,295	60,182
Raw material expenses	-9,678	-17,876	-32,770	-37,111
Employee expenses	-384	-564	-869	-1,147
Other Operating expenses	-4,136	-4,755	-8,995	-10,351
EBITDA (Core)	**1,292**	**4,449**	**9,661**	**11,573**
Margin, %	8.3	16.1	18.5	19.2
Depreciation	-116	-174	-265	-365
EBIT	**1,176**	**4,275**	**9,396**	**11,208**
Margin, %	7.6	15.5	18.0	18.6
Interest paid	-460	-741	-1,285	-1,724
Other Non-Operating Income	273	117	539	785
Pre-tax profit	**989**	**3,651**	**8,650**	**10,270**
Tax provided	44	-913	-2,422	-2,875
Net Profit	**1,034**	**2,738**	**6,228**	**7,394**
Growth, %	(24.3)	164.9	127.5	18.7
Net Profit (adjusted)	**1,034**	**2,738**	**6,228**	**7,394**
Wtd avg shares (m)	200	222	222	222

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Cash & bank	40	8,001	10,094	16,250
Debtors	7,100	14,170	21,491	24,732
Inventory	2,707	3,316	6,273	7,219
Loans & advances	2,028	3,619	6,847	7,879
Other current assets	410	731	1,383	1,591
Total current assets	12,284	29,837	46,088	57,672
Investments	451	451	451	451
Gross fixed assets	2,041	2,291	4,291	4,791
Less: Depreciation	-319	-493	-758	-1,123
Add: Capital WIP	255	255	255	255
Net fixed assets	1,977	2,053	3,788	3,922
Total assets	**14,728**	**32,357**	**50,342**	**62,061**
Current liabilities	5,526	9,861	18,655	21,468
Provisions	49	49	49	49
Total current liabilities	5,575	9,910	18,704	21,517
Non-current liabilities	4,955	9,151	13,572	16,813
Total liabilities	10,529	19,061	32,275	38,331
Paid-up capital	2,000	2,219	2,219	2,219
Reserves & surplus	2,198	11,076	15,847	21,511
Shareholders' equity	4,198	13,295	18,066	23,730
Total equity & liabilities	**14,727**	**32,356**	**50,342**	**62,061**

Source: Company, PhillipCapital India Research Estimates

Cash Flow

	FY14	FY15e	FY16e	FY17e
Pre-tax profit	989	3,651	8,650	10,270
Depreciation	116	174	265	365
Chg in working capital	-1,773	-5,256	-5,364	-2,615
Total tax paid	0	-913	-2,422	-2,875
Cash flow from operating activities	**-668**	**-2,344**	**1,130**	**5,144**
Capital expenditure	-486	-250	-2,000	-500
Chg in investments	-450	0	0	0
Cash flow from investing activities	**-953**	**-250**	**-2,000**	**-500**
Free cash flow	-1,620	-2,594	-870	4,644
Equity raised/(repaid)	1,600	219	0	0
Debt raised/(repaid)	1,437	4,196	4,421	3,241
Dividend (incl. tax)	0	-641	-1,457	-1,730
Other financing activities	-1,391	6,781	0	0
Cash flow from financing activities	**1,645**	**10,555**	**2,964**	**1,511**
Net chg in cash	25	7,961	2,093	6,156

Valuation Ratios

	FY14	FY15e	FY16e	FY17e
Per Share data				
EPS (INR)	5.2	12.3	28.1	33.3
Growth, %	(84.9)	138.8	127.5	18.7
Book NAV/share (INR)	21.0	59.9	81.4	107.0
FDEPS (INR)	5.2	12.3	28.1	33.3
CEPS (INR)	5.7	13.1	29.3	35.0
CFPS (INR)	(4.7)	(11.1)	2.7	19.6
DPS (INR)	-	2.5	5.6	6.7
Return ratios				
Return on assets (%)	11.0	13.6	17.0	15.1
Return on equity (%)	24.6	20.6	34.5	31.2
Return on capital employed (%)	16.9	20.3	26.0	23.5
Turnover ratios				
Asset turnover (x)	2.0	2.4	3.0	2.7
Sales/Total assets (x)	1.3	1.2	1.3	1.1
Sales/Net FA (x)	8.6	13.7	17.9	15.6
Working capital/Sales (x)	0.4	0.4	0.3	0.3
Working capital days	158.3	158.1	121.0	121.0
Liquidity ratios				
Current ratio (x)	2.2	3.0	2.5	2.7
Quick ratio (x)	1.7	2.7	2.1	2.4
Interest cover (x)	2.6	5.8	7.3	6.5
Dividend cover (x)		5.0	5.0	5.0
Total debt/Equity (%)	114.4	67.7	74.3	70.2
Net debt/Equity (%)	113.5	7.5	18.4	1.7
Valuation				
PER (x)	87.1	36.5	16.0	13.5
Price/Book (x)	21.4	7.5	5.5	4.2
Yield (%)	-	0.5	1.2	1.5
EV/Net sales (x)	6.1	3.6	2.0	1.7
EV/EBITDA (x)	73.4	22.7	10.7	8.7
EV/EBIT (x)	80.6	23.6	11.0	8.9

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