

Inox Wind (INXW IN)

Strong execution continues...

INDIA | CAPITAL GOODS & ENGINEERING | Quarterly Update

28 July 2015

Inox Wind's Q1FY16 PAT at Rs 587mn was above our estimate led by strong execution. Order book stood at 1.2GW and expansion of capacity to 1600MW from current 800MW lends visibility for growth in FY16. Management highlighted that the increase in government's focus on renewables and Inox Winds' strategy to target the accelerated depreciation (AD) market will drive growth in order book. Increased commissioning over the next two quarters would also support margins as construction/erection revenues have lagged behind WTG supplies in FY15. We maintain our BUY rating on the stock with target price of Rs 525 (Rs 535 earlier).

Q1FY16 highlights

- Sales at Rs 6.3bn (+109% yoy) was higher than our estimate of Rs 4.5bn, driven by supply of 120MW during Q1FY16 as against 66MW in Q1FY15. Blended realization was at Rs 53mn/MW (+15% yoy) driven by higher commissioning. Of the 120MW, 78MW was equipment supply and balance was sales on turnkey basis.
- Gross margins at 38% were up 800bps yoy leading to EBITDA at Rs 925mn (+122% yoy) higher than our estimate of Rs 740mn. EPC expense was higher than expectation, hence EBITDA margins at 14.6% (+600bps yoy) was lower than our estimate of 16.5%.
- PAT at Rs 587mn (+202% yoy) was higher than our estimate driven by higher other income (Rs 128mn, +350% yoy).
- Order book stood at 1.2GW (+4% qoq) with execution period of 12-15 months and order inflow stood at 162MW. With land site of 4.5GW, management expects order inflows to remain robust driven by government's focus on renewables, regulatory changes (implementation of RGO/RPO) and higher capex from IPP's. Management intends to participate in orders from plants to be installed with accelerated depreciation benefits. It also highlighted that pace of order in few states such as Maharashtra and Rajasthan has been slow in FY16, but that this was offset by strong order inflow MP, AP and TN. Management expects wind capacity addition of 3-4GW during FY16. Inox Wind will upgrade its technology and introduce WT113 in FY16, which it expects to drive growth.
- Net working capital was up to 174 days from 157 days in Q1FY15. This was due to increase in receivables to Rs 15bn (189 days) as against Rs 14bn in Q4FY15 (193 days) and Rs 7.6bn (175 days) in Q1FY15.

Estimates and target price: We believe Inox Wind would be a key beneficiary of the government's focus on renewable energy through change in regulation. With ~4.5GW land site and a 1.2GW order book, we expect the company to report 66% CAGR during FY15-17. We marginally cut our FY16E/17 earnings by 4%/1% to reflect lower commissioning in FY16. Although execution is likely to remain strong in FY16, order inflow remains the key factor to monitor. We value Inox Wind at 16x FY17 (10% discount to global and domestic listed peers) to arrive at target price of Rs 525 (Rs 535 earlier). We maintain Buy.

BUY

CMP RS 438

TARGET RS 525 (+20%)

COMPANY DATA

O/S SHARES (MN) :	222
MARKET CAP (RSBN) :	94
MARKET CAP (USDBN) :	1.5
52 - WK HI/LO (RS) :	495 / 325
LIQUIDITY 3M (USDMN) :	3.3
PAR VALUE (RS) :	10

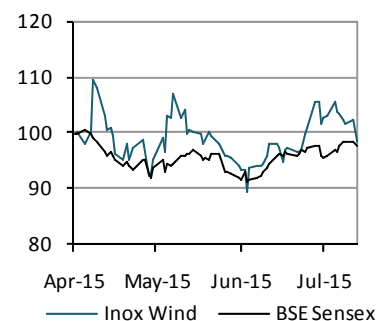
SHARE HOLDING PATTERN, %

PROMOTERS :	85.6
FII / NRI :	3.5
FI / MF :	3.7
NON PROMOTER CORP. HOLDINGS :	1.1
OTHERS :	6.2

PRICE PERFORMANCE, %

	1MTH	3MTH
ABS	2.1	0.5
REL TO BSE	0.7	-1.9

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Net Sales	27,027	46,134	57,390
EBIDTA	4,187	8,391	10,822
Net Profit	2,649	6,016	7,284
EPS, Rs	11.9	27.1	32.8
PER, x	36.0	15.9	13.1
EV/EBIDTA, x	23.1	11.9	9.2
P/BV, x	3.6	2.2	1.7
ROE, %	19.0	32.5	30.2
Debt/Equity (%)	60.7	46.1	35.5

Source: PhillipCapital India Research Est.

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Quarterly results snapshot

(Rs mn)	Q1FY16	Q1FY15	YoY, %
Net Sales	6,338	3,031	37.1%
Raw Material	3,916	2,105	42.7%
% of sales	61.8%	69.4%	2.2%
Employee cost	188	117	74.0%
% of sales	3.0%	3.8%	0.4%
Other Expenses	576	281	107.8%
% of sales	9.1%	9.3%	2.2%
EBITDA	925	417	134.2%
EBITDA Margin(%)	14.6%	13.8%	6.4%
Depreciation	63	43	89.4%
EBIT	862	374	136.5%
EBIT margins(%)	13.6%	12.3%	6.2%
Interest	221	157	98.0%
Other Income	128	28	-76.9%
PBT	769	246	72.2%
Tax	182	52	-2911.4%
PAT	587	235	22.5%

Source: Company, PhillipCapital India Research

Change in estimates

Y/E Mar, Rs mn	NEW estimates		Old estimates		% change	
	2016e	2017e	2016e	2017e	2016e	2017e
Sales	46,134	57,390	49,208	57,952	-6%	-1%
EBITDA	8,391	10,822	8,908	10,950	-6%	-1%
Margins (%)	18.2%	18.9%	18.1%	18.9%	0.1%	0.0%
PAT	6,016	7,284	6,247	7,314	-4%	0%
EPS	27.1	32.8	28.2	33.0	-4%	-1%

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Net sales	15,490	27,027	46,134	57,390
Growth, %	48	74	71	24
Total income	15,490	27,027	46,134	57,390
Raw material expenses	-9,397	-16,711	-28,525	-35,037
Employee expenses	-384	-549	-846	-1,116
Other Operating expenses	-3,952	-5,580	-8,372	-10,415
EBITDA (Core)	1,757	4,187	8,391	10,822
Margin, %	11.3	15.5	18.2	18.9
Depreciation	-116	-204	-319	-425
EBIT	1,641	3,983	8,072	10,397
Margin, %	10.6	14.7	17.5	18.1
Interest paid	-460	-623	-968	-974
Other Non-Operating Income	273	215	1,129	693
Pre-tax profit	1,454	3,576	8,233	10,116
Tax provided	44	-927	-2,217	-2,833
Net Profit	1,499	2,649	6,016	7,284
Growth, %	8.7	76.7	127.1	21.1
Net Profit (adjusted)	1,499	2,649	6,016	7,284
Wtd avg shares (m)	200	222	222	222

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Cash & bank	40	7,096	3,890	4,631
Debtors	7,100	14,322	23,183	28,839
Inventory	2,707	4,238	7,234	9,000
Loans & advances	2,028	3,436	3,970	4,938
Other current assets	410	337	575	715
Total current assets	12,284	29,429	38,851	48,123
Investments	451	0	0	0
Gross fixed assets	2,041	2,771	4,771	5,271
Less: Depreciation	-319	-523	-842	-1,267
Add: Capital WIP	255	255	255	255
Net fixed assets	1,977	2,503	4,184	4,259
Total assets	14,728	31,948	43,051	52,398
Current liabilities	5,526	9,046	15,441	19,208
Provisions	49	548	548	548
Total current liabilities	5,575	9,594	15,989	19,756
Non-current liabilities	4,955	8,659	8,759	8,759
Total liabilities	10,529	18,253	24,748	28,515
Paid-up capital	2,000	2,219	2,219	2,219
Reserves & surplus	2,198	11,700	16,308	21,887
Shareholders' equity	4,198	13,919	18,527	24,107
Total equity & liabilities	14,728	31,948	43,051	52,398

Source: Company, PhillipCapital India Research Estimates

Cash Flow

	FY14	FY15	FY16e	FY17e
Pre-tax profit	1,454	3,576	8,233	10,116
Depreciation	116	204	319	425
Chg in working capital	-1,773	-6,070	-6,234	-4,763
Total tax paid	0	-869	-2,217	-2,833
Cash flow from operating activities	-203	-3,159	101	2,946
Capital expenditure	-486	-729	-2,000	-500
Chg in investments	-450	451	0	0
Cash flow from investing activities	-953	-279	-2,000	-500
Free cash flow	-1,155	-3,438	-1,899	2,446
Equity raised/(repaid)	1,600	219	0	0
Debt raised/(repaid)	1,437	3,646	100	0
Dividend (incl. tax)	0	0	-1,408	-1,704
Other financing activities	-1,856	6,853	0	0
Cash flow from financing activities	1,180	10,718	-1,308	-1,704
Net chg in cash	25	7,281	-3,207	741

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Per Share data				
EPS (INR)	7.5	11.9	27.1	32.8
Growth, %	(78.3)	59.3	127.1	21.1
Book NAV/share (INR)	21.0	62.7	83.5	108.6
FDEPS (INR)	7.5	11.9	27.1	32.8
CEPS (INR)	8.1	12.9	28.5	34.7
CFPS (INR)	(2.4)	(15.2)	(4.6)	10.2
DPS (INR)	-	-	5.4	6.6
Return ratios				
Return on assets (%)	14.8	13.1	17.7	16.5
Return on equity (%)	35.7	19.0	32.5	30.2
Return on capital employed (%)	22.8	18.8	26.0	25.8
Turnover ratios				
Asset turnover (x)	2.0	2.2	2.3	2.2
Sales/Total assets (x)	1.3	1.2	1.2	1.2
Sales/Net FA (x)	8.6	12.1	13.8	13.6
Working capital/Sales (x)	0.4	0.5	0.4	0.4
Working capital days	158.3	179.4	154.4	154.4
Liquidity ratios				
Current ratio (x)	2.2	3.3	2.5	2.5
Quick ratio (x)	1.7	2.8	2.0	2.0
Interest cover (x)	3.6	6.4	8.3	10.7
Dividend cover (x)	-	-	5.0	5.0
Total debt/Equity (%)	114.4	60.7	46.1	35.5
Net debt/Equity (%)	113.5	9.7	25.2	16.3
Valuation				
PER (x)	57.4	36.0	15.9	13.1
Price/Book (x)	20.5	6.9	5.2	4.0
Yield (%)	-	-	1.3	1.5
EV/Net sales (x)	5.9	3.6	2.2	1.7
EV/EBITDA (x)	51.7	23.1	11.9	9.2
EV/EBIT (x)	55.3	24.3	12.4	9.6

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