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## INOX GREEN ENERGY SERVICES LIMITED

November 10, 2022



**SMC Ranking**  
★ ★ ☆ ☆ ☆ (1.5/5)

### Issue Highlights

Industry	Energy
Offer for sale (Shares)	56,923,077
Fresh Issue (Shares)	56,923,077
<b>Net Offer to the Public</b>	<b>113,846,154</b>
Issue Size (Rs. Cr.)	694-740
Price Band (Rs.)	61-65
Offer Date	11-Nov-22
Close Date	15-Nov-22
Face Value	10
Lot Size	230

### Issue Composition

	In shares
Total Issue for Sale	113,846,154
QIB	85,384,616
NIB	17,076,923
Retail	11,384,615

### About the company

Incorporated in 2012, Inox Green Energy Services Limited is one of the major wind power Operation and Maintenance ("O&M") service providers within India. The company is a subsidiary of Inox Wind Limited ("IWL") and part of the Inox GFL group of companies. Inox Green Energy services Limited provides exclusive O&M services for all WTGs sold by IWL through the entry of long-term O&M contracts between the WTG purchaser and itself for terms which typically range between five to 20 years. The company is engaged in the business of providing long-term O&M services for wind farm projects, specifically the provision of O&M services for Wind Turbine Generators ("WTGs"). As of March 31, 2022, the company has a team of 393 employees including managers with extensive experience in the O&M of WTGs and the wind industry generally. The company has a presence in Gujarat, Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, Andhra Pradesh, Kerala and Tamil Nadu. The company's total revenue (from the continuing operations i.e. the O&M business) was Rs 172 Crore, Rs 172 Crore and Rs 165 Crore for Fiscals 2022, 2021 and 2020, respectively.

### Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	93.84%	56.04%
QIB	1.57%	30.51%
NIB	4.60%	9.55%
Retail	0.00%	3.90%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

### Objects of the Issue

The net proceeds of the Fresh Issue, i.e., gross proceeds of the Fresh Issue:

- I. Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the Company including redemption of Non- Convertible Debentures in full.
- II. General corporate purposes.

### Book Running Lead Manager

- DAM Capital Advisors Limited
- Edelweiss Financial Services Limited
- Equirus Capital Private Limited
- IDBI Capital Markets & Securities Limited

### Name of the registrar

- Link Intime India Private Limited

### Strength

**Strong and diverse existing portfolio base:** As of June 30, 2022, its portfolio of O&M contracts (consisting of both comprehensive O&M contracts and common infrastructure O&M contracts) covered an aggregate of 2,792 MW of wind projects spread across eight wind-resource rich states in India with an average remaining project life of more than 20 years. The counterparties to its O&M contracts feature a mix of Independent Power Producers ("IPP") (approximately 72%), public sector undertakings (approximately 14%) and corporates (approximately 14%), as on June 30, 2022.

**Established track record, favourable national policy support and visibility for future growth:** It has an established track record in the wind energy O&M industry of more than nine years due in large part to the synergistic relationship it shares with its parent company, IWL, which commenced operations in the wind energy space in the financial year ended March 31, 2010. Its operating portfolio of O&M contracts (both comprehensive O&M contracts and common infrastructure O&M contracts) has grown at a compound annual growth rate of approximately 40.16% in the past nine years since its commencement of operations. IWL's wind energy extraction technology and access to wind sites coupled with strong industry growth prospects enable it, through its exclusive arrangement with IWL, to provide O&M services for the WTGs they manufacture and to forecast a steady growth in its O&M business over the coming years.

**Reliable cash flow supported by long-term O&M contracts with high credit quality counterparties:** The company has entered into long-term O&M contracts with its customers which range from five to 20 years (in which the first two to three years of O&M services are generally provided for free for IWL supplied WTGs) with a renewal option provided in most cases. Such contracts provide it with full revenue visibility as the price for its O&M services is pre-determined for each year of the contract. Furthermore, such contracts feature year's charges for a contractually specified number of years) which provides both its customers and it with price certainty and guarantees it a level of steady growth and inflation protection. With confidence that its O&M contracts will be maintained or renewed throughout the useful lifecycle of a WTG which is approximately between 20 to 25 years, it believes that the weighted average remaining term of the O&M contracts in its existing portfolio is more than 20 years. Supported and promoted by its parent company, IWL: its parent company, IWL, together with its group companies, is one of India's notable WTGs manufacturers which provides wind energy turnkey solutions across India. Its service offerings include wind

resource assessment, wind site acquisition, infrastructure development, EPC and it has an installed capacity of approximately 2,792 MW as of June 30, 2022.

**Established supply chain in place:** It has an established relationship with its suppliers for the parts, components and tools it requires in its provision of O&M services. As part of its synergistic relationship with IWL, it believes that it is able to obtain proprietary components and spare parts for the IWL manufactured WTGs directly from IWL and as for the other tools and parts it employs, it has an established network of external suppliers.

### Strategy

**Exploring opportunities to expand its portfolio and scale its operations:** In addition to growing its portfolio through the entry of new long-term O&M contracts with customers who purchase IWL's WTGs, it plans to expand its portfolio to also provide O&M services for WTGs which are not manufactured by IWL. It intends to do this by leveraging on both its and its parent company's existing customer base who use both IWL's WTGs as well as WTGs manufactured by other wind OEMs and adopting a targeted approach to win contracts for the provision of fleet-wide O&M services for all WTGs in their portfolio (manufactured by IWL or otherwise) on the basis of its competitive strengths and the cost savings which this entails.

**Transitioning to an asset-light model with minimal capital expenditure which it believes will result in higher EBITDA and profit margins:** Under its current business model, it develops common infrastructure facilities such as pooling substations and transmission lines and have incurred significant capital expenditure in doing so. This was partly as a result of successful project bids which required us to develop such infrastructure prior to securing investors to establish wind farms on a plug-and-play basis. While most of its common infrastructure capacity is currently utilized by such investors, there still exists some unutilized capacity for the installation of WTGs as of June 30, 2022, which it intends to fill.

**Continuing and enhancing its focus on predictive maintenance over reactive maintenance:** The company focuses its efforts on practicing predictive maintenance in order to avoid the negative impacts of reactive maintenance such as downtime stemming from the need to effect major service, repairs or overhaul which translates into lost power generation and revenue for its customers.

**Provide analytics and asset performance forecast services:** The company is keen adopters of new technologies to assist it in the provision of its O&M services which ultimately helps its clients in optimizing the use of their WTG assets. To this end, it employs the use of various software technologies such as AMSC's proprietary Supervisory Control and Data Acquisition system ("wtSCADA") to monitor 250 WTG parameters. With the data collected, it is able to provide its customers with up-to-date analytical data on the performance of their WTGs which can inform future performance of the assets.

### Risk factor

- The company has been incurring losses in the last 2 years and 3 months.
- The company is entirely dependent on Inox Wind, its promoter for its business.
- The demand for wind power projects and consequently its services is dependent on the cost of wind generated electricity compared to electricity generated from other sources.

### Peer comparison

There are no listed companies in India that are comparable in all aspects of business and services that we provide. Hence, it is not possible to provide an industry comparison in relation to our company.

## Valuation

Considering the P/Sales ratio for valuation on the upper end of the price band of Rs. 65, the stock is priced at pre issue P/S of 8.87x on its FY22 P/Sales per share of Rs. 7.33. Post issue, the stock is priced at a P/S of 11.02x on its P/Sales per share of Rs.5.90 . Looking at the P/B ratio at Rs. 65 the stock is priced at P/B ratio of 1.89x on the pre issue book value of Rs.34.32 and on the post issue book value of Rs. 39.52 the P/B comes out to 1.64x.

Considering the P/Sales ratio for valuation on the lower end of the price band of Rs. 61, the stock is priced at pre issue P/S of 8.33x on its FY22 P/Sales per share of Rs. 7.33. Post issue, the stock is priced at a P/S of 10.34x on its P/Sales per share of Rs.5.90 . Looking at the P/B ratio at Rs. 61 the stock is priced at P/B ratio of 1.78x on the pre issue book value of Rs.34.32 and on the post issue book value of Rs. 39.52 the P/B comes out to 1.54x.

## Industry Outlook

The total installed generation capacity at the end of July 2022 was 404 GW, of which approximately 97 GW of capacity was added from fiscals 2016 onwards. Coal and lignite-based installed power generation capacity has maintained its dominant position over the years and accounts for approximately 52% as of July 2022. However, renewable energy installations (including large hydroelectric projects) have reached approximately 161 GW capacity as on July 2022, compared with 25 GW as on March 2012 (Source: MNRE), constituting approximately 40% of total installed generation capacity as of date. In particular, this growth has been led by solar power, which grew at breakneck speed to approximately 58 GW from 0.9 GW over the same period. CRISIL Research expects energy requirement to grow at 5-6% CAGR over fiscals 2022 to 2027, due to healthy economic growth and expansion of the power footprint. Power demand which was expected to bounce back in Q1 of fiscal 2022, was impacted by the second wave of COVID-19 infections which resulted in partial lockdowns in major states over April-May 2021. Infection rates began subsiding in June-July 2021 due to which industrial and economic activities went back to normal in various regions of the country. Later, a less severe third wave was caused by the Omicron variant, which translated to a power demand growth of 3.8% on-year in Q4 of fiscal 2022. Overall power demand during fiscal 2022 grew at 8.2%. Q1 of fiscal 2023 saw a surge in power demand resulting from the severe heatwave in the country. This along with the continued momentum in economic activity resulted in an on-year power demand growth of 18.6% in Q1 of fiscal 2023, despite high base of Q1 of fiscal 2022. Going forward, demand is to be driven by industries due to improving utilisation levels and kick-start of the capex cycle in key sectors owing to buoyant customer sentiment. Commercial power demand is also projected to improve as offices and educational institutes resume operations, albeit in a hybrid scenario. Therefore, power demand growth is estimated to rise 6-6.5% on-year in fiscal 2023, over a high base. India's economy is expected to continue to grow after fiscal 2022, with a gradual pick-up in industrial growth over the medium term. Trickle-down effect of the Aatmanirbhar Bharat relief package, government spending on infrastructure through the National Infrastructure Pipeline, dedicated freight corridors infrastructure, service industry expansion, rapid urbanization, and higher farm income from agri-related reforms are key macroeconomic factors that will provide a boost. Various government initiatives such as Make in India, Smart Cities Mission, dedicated freight corridors, metro rail projects, railway track electrification, etc., are expected to boost power demand in the country, albeit in the medium to long term.

## Outlook

The company has strong and diverse existing portfolio base. However, it has been incurring losses in the last 2 years and 3 months. IPO proceeds contains OFS, the meaning thereby is that the amount raised won't go to the company.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	11-November-22
BID/ISSUE CLOSES ON	15-November-22
Finalisation of Basis of Allotment with the Designated Stock Exchange	18-November-22
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	21-November-22
Credit of Equity Shares to demat accounts of Allottees	22-November-22
Commencement of trading of the Equity Shares on the Stock Exchanges	23-November-22

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-22 (3 Months)	Period ended 31-Mar-22 (12 Months)	Period ended 31-Mar-21 (12 Months)
Revenue from operations	61.79	172.17	172.25
Total expenditure	44.23	89.97	90.03
<b>Operating Profit</b>	<b>17.56</b>	<b>82.19</b>	<b>82.22</b>
OPM%	28.41	47.74	47.73
Other Income	1.38	18.07	14.04
<b>PBDIT</b>	<b>18.93</b>	<b>100.26</b>	<b>96.26</b>
Depreciation	16.52	50.17	49.08
<b>PBIT</b>	<b>2.41</b>	<b>50.10</b>	<b>47.18</b>
Interest	17.99	54.80	60.53
<b>Restated Profit before tax</b>	<b>-15.59</b>	<b>-4.71</b>	<b>-13.35</b>
Share of profit/loss	0	0	-18.99
<b>Profit &amp; Loss before Share of Post-acquisition Profit of Associate</b>	<b>-15.59</b>	<b>-4.71</b>	<b>-32.34</b>
Tax	-4.00	0.25	-4.61
<b>Profit after tax</b>	<b>-11.58</b>	<b>-4.95</b>	<b>-27.73</b>

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-22	As on 31-Mar-22	As on 31-Mar-21
<b>Non-current assets</b>			
Property, plant and equipment	993.99	952.98	764.50
Capital Work-in-progress	105.50	132.83	251.00
Intangible assets	0.01	0.01	0.02
deferred tax assets	128.46	124.61	98.94
Investment financial assets	0.00	32.51	32.51
Financial assets - other non-current financial assets	494.74	509.58	473.41
Income tax assets (net)	18.11	16.41	13.45
Other non current assets	8.16	8.60	14.83
<b>Total non-current assets</b>	<b>1748.97</b>	<b>1777.53</b>	<b>1648.65</b>
<b>Current assets</b>			
Inventories	21.04	21.38	354.98
bank balances other than cash	46.24	65.65	9.28
Trade receivables	58.59	68.05	223.20
Cash and cash equivalents	9.23	44.72	120.23
Other financial assets	49.32	22.22	40.32
Loans Financial assets	35.52	31.15	8.79
Assets classified as held for sale	32.51	0.00	0.00
Other current assets	126.33	89.96	287.35
<b>Total current assets</b>	<b>378.77</b>	<b>343.12</b>	<b>1044.14</b>
<b>Total Assets</b>	<b>2127.74</b>	<b>2120.65</b>	<b>2692.80</b>
<b>Non-current liabilities</b>			
<b>Financial liabilities</b>			
Borrowings	297.63	319.45	349.19
other financial liabilities	0.00	0.00	4.80
Provisions	2.03	2.19	2.01
other non - current liabilities	236.54	238.56	58.42
<b>Total financial liabilities</b>	<b>536.20</b>	<b>560.21</b>	<b>414.42</b>
<b>Current liabilities</b>			
Borrowings	612.28	584.72	1061.84
Lease Liabilities	0.00	0.00	0.00
Total outstanding dues of creditors of micro enterprises and small enterprises	0.00	0.00	0.67
Total outstanding dues of creditors other than micro enterprises and small enterprises	94.51	80.26	518.58
Other Financial liabilities	21.87	18.28	300.01
Other current liabilities	67.78	70.46	353.85
Provisions	0.09	0.09	0.47
<b>Total current liabilities</b>	<b>796.55</b>	<b>753.81</b>	<b>2235.42</b>
<b>Total</b>	<b>1332.75</b>	<b>1314.01</b>	<b>2649.83</b>
<b>NET Worth</b>	<b>795.00</b>	<b>806.63</b>	<b>42.96</b>
Net worth represented by:			
Share capital	235.02	235.02	128.62
Equity Component of compound financial instrument	0.00	0.00	32.90
Other equity	559.98	571.62	-118.56
<b>Net Worth</b>	<b>795.00</b>	<b>806.63</b>	<b>42.96</b>

## RANKING METHODOLOGY

<b>WEAK</b>	★
<b>NEUTRAL</b>	★★
<b>FAIR</b>	★★★
<b>GOOD</b>	★★★★
<b>EXCELLENT</b>	★★★★★

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