

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
28241	8741
<b>Bloomberg</b>	<b>INXW IN</b>
Equity Shares (m)	221.9
M.Cap.(INRb)/(USDb)	37.6 / 0.6
52-Week Range (INR)	307 / 161
1, 6, 12 Rel. Per (%)	-8/-17/-54
Avg Val, INRm	106
Free float (%)	14.4

## Financials & Valuations (INR b)

Y/E MAR	2016	2017E	2018E
Net Sales	44.1	43.9	41.7
EBITDA	6.9	6.6	5.4
Adj PAT	4.6	4.3	3.7
EPS (INR)	20.7	19.4	16.5
EPS Gr. (%)	73.2	-6.2	-15.1
BV/Sh. INR	83.1	100.2	114.7
RoE (%)	27.9	21.2	15.3
RoCE (%)	18.9	14.6	11.6
P/E (x)	9.1	9.7	11.4
P/BV (x)	2.3	1.9	1.6

Estimate change

TP change

Rating change



**CMP: INR184**

**TP: INR175 (-5%)**

**Neutral**

## 3QFY17 operating performance above estimates

- Inox Wind's (INXW) 3QFY17 sales increased 22% YoY to INR11.6b, above our estimate of INR10.3b. Sales volumes increased 60% YoY to 266MW, but commissioning declined 76% YoY to 40MW (as logistics was impacted by demonetization and, thus, 200MW could not be commissioned). EBITDA increased 9% YoY to INR1.8b, with margin down 190bp YoY to 15.5% (est. of 16.0%) due to change in product mix. Adj. PAT of INR1.0b (-5.4% YoY) was marginally below our estimate of INR1.1b.
- Order book stable at 1.3GW:** Order intake in 3QFY17 stood at 330MW (+200% YoY), supplies at 266MW and commissioning at 40MW. This, in turn, improved the order book to 1.3GW (+14% YoY), providing visibility for ~12-15 months. Management expects central government tender of 1GW to be opened by end-4QFY17. Inox has participated for 250MW in the 1000MW SECI tender, which it expects to be finalized in FY17.
- Net working capital (NWC) remains elevated:** NWC marginally improved to 170 days in 3QFY17 from 185 days in 2QFY17, but still remained at elevated levels. Inventory days increased to 65 from 61 in 2QFY17, as demonetization impacted delivery. Debtor days improved marginally to 215 from 220 in 2QFY17. Payable increased to 60 days from 46 days in 2QFY17.
- Maintaining Neutral, revising TP to INR175:** We raise our FY17 estimates by 11% to factor in preponement in commissioning on account of expiry in GBI by March 2017. We, however, cut our earnings by 18% for FY18E to factor in higher base effect, muted volumes led by GBI expiry and lower margins due to negative leverage. We maintain **Neutral**, but cut TP to INR175, applying 10x multiple. Key upside risks to our rating are: (1) pick-up in execution and margins, (2) slowdown in solar installations, (3) sharp improvement in NWC and (4) expansion of wind market despite GBI expiry.

## Quarterly Performance

(Consolidated)	FY16				FY17				(INR Million)			
Y/E March	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY16	FY17E	MOSL 3Q Est	Var. Vs Est
<b>Sales</b>	<b>6,418</b>	<b>10,059</b>	<b>9,481</b>	<b>18,277</b>	<b>4,350</b>	<b>7,977</b>	<b>11,591</b>	<b>19,970</b>	<b>44,065</b>	<b>43,887</b>	<b>10,260</b>	<b>13</b>
Change (%)	111.7	86.0	1.9	96.9	-32.2	-20.7	22.3	9.3	63.0	-0.4	9.2	
<b>EBITDA</b>	<b>1,014</b>	<b>1,402</b>	<b>1,652</b>	<b>3,002</b>	<b>433</b>	<b>958</b>	<b>1,794</b>	<b>3,427</b>	<b>6,894</b>	<b>6,612</b>	<b>1,642</b>	<b>9</b>
Change (%)	143.0	73	7	111	(57)	(32)	9	14	64.7	(4.1)	4.9	
As of % Sales	15.8	13.9	17.4	16.4	10.0	12.0	15.5	17.2	15.6	15.1	16.0	
Depreciation	69	79	93	106	98	108	118	119	334	443	110	
Interest	221	284	201	254	387	316	407	-42	960	1,067	250	
Other Income	214	230	138	211	207	184	159	520	741	767	197	
Extra-ordinary Items	98	55.5	45.6	-112.0	-23.7	-29.0	-31.3	0.0	267	0	0	
<b>PBT</b>	<b>839</b>	<b>1,214</b>	<b>1,451</b>	<b>2,964</b>	<b>179</b>	<b>747</b>	<b>1,460</b>	<b>3,870</b>	<b>6,075</b>	<b>5,868</b>	<b>1,479</b>	<b>-1</b>
Tax	235	323	393	872	60	182	385	1,045	1,755	1,566	399	
Effective Tax Rate (%)	28.0	26.6	27.1	29.4	33.8	24.4	26.4	27.0	28.9	26.7	27	
<b>Reported PAT</b>	<b>604</b>	<b>891</b>	<b>1,058</b>	<b>2,092</b>	<b>118</b>	<b>565</b>	<b>1,075</b>	<b>2,825</b>	<b>4,320</b>	<b>4,303</b>	<b>1,079</b>	
Change (%)	157.2	63.6	4.3	77.5	(80.4)	(36.6)	1.6	35.0	45.7	(0.4)	5	
<b>Adj PAT</b>	<b>702</b>	<b>947</b>	<b>1,103</b>	<b>1,980</b>	<b>94</b>	<b>536</b>	<b>1,043</b>	<b>2,825</b>	<b>4,587</b>	<b>4,303</b>	<b>1,079</b>	<b>-3</b>
Change (%)	261.8	87.0	5.8	116.8	-86.5	-43.4	-5.4	42.7	73.2	(6.2)	1	
Order Book (MW)	1,220	1,202	1,146	1,104	1,240	1,346	1,306	0	1,104	1,319	0	
Order Intake (MW)	162	194	110	286	184	322	330	164	752	1,000	200	
BTB - TTM basis (x)	1.5	1	1	1	1	1	1	0	1.3	1.7	0	

E: MOSL Estimates

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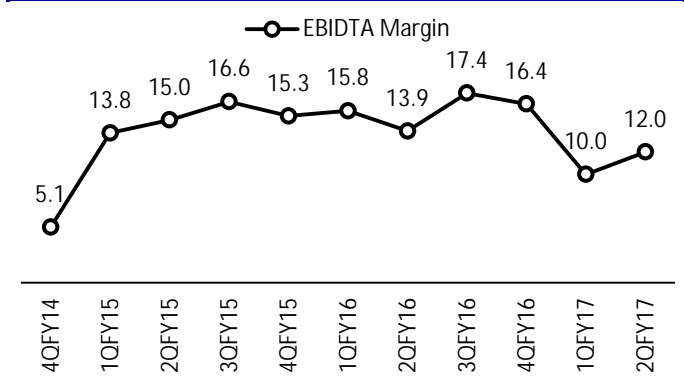
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### Results above estimates at operating level; Net working capital cycle remains at elevated levels

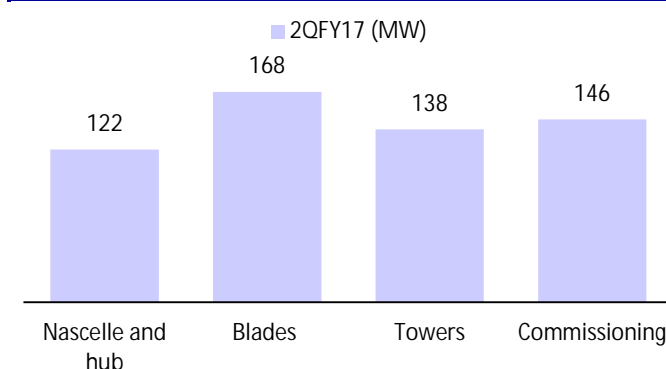
- n 3QFY17 sales increased 22% YoY to INR11.6b, above our estimate of INR10.3b. Sales volumes increased to 266MW (up 60% YoY) however commissioning in 3Q stood at 40MW (-76% YoY). Commissioning suffered on account of logistics being impacted by demonetization, 200MW could not be commissioned and Management expects the commissioning to pick up in 4QFY17.
- n EBITDA increased 9% YoY to INR1.8b with margins down 190bp YoY to 15.5% (v/s est. of 16.0%). Margins were impacted on account of change in product mix.
- n Adj. PAT of INR1.0b (-5.4% YoY) marginally below our estimate of INR1.1b.
- n Supplies stood at 260MW (up 60% YoY) whereas commissioning during the quarter stood at 40MW (-76% YoY).
- n Order intake in 3QFY17 stood at 330MW (+200% YoY), supplies at 266MW and commissioning at 40MW. This, in turn, improved the order book to 1.3GW (+14% YoY), providing visibility for ~12-15 months. Management expects central government tender of 1GW to be opened by end-4QFY17.
- n The management expects the execution momentum to pick up in 4QFY17 as commissioning activity has picked up post getting impacted temporarily by demonetization. INXW's land bank pipeline for project installation stands at 4.5GW, and is also expanding pipeline into new states (Andhra Pradesh and Kerala in FY16).

**Exhibit 1: Margin decline YoY led by weak product mix**



Source: Company, MOSL

**Exhibit 2: Sales and commissioning Volume break up**



Source: Company, MOSL

### Net working Capital cycle remains elevated at 170 days

- n NWC marginally improved to 170 days in 3QFY17 from 185 days in 2QFY17. Inventory days increased to 65 days from 61 days in 2QFY17, led by demonetization. Debtor days improved marginally to 215 from 220 in 2QFY17. Payable increased to 60days as compared to 46days in 2QFY17.
- n The blade manufacturing plant at Madhya Pradesh (for 100 metres) has commenced production, and is amongst the largest in Asia. WT-100 yields 20% higher yield vs WT-93, and WT-113 has 20% higher yield vs WT-100; the WT-113 will be introduced in FY16 and should drive improved margins. INXW is also launching WTGs with higher hub height (120m hybrid tower), which should also lead to improved PLF.

**Exhibit 3: Cash conversion cycle stays at elevated level**

Balance Sheet	FY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Inventory Days	57	59	52	101	45	172	61.	65.
Receivables Days	193	189	188	179	200	197	221	215
Payable Days	97	74	84	112	98	125	81	60
<b>Net Working Capital</b>	<b>153</b>	<b>174</b>	<b>156</b>	<b>168</b>	<b>147</b>	<b>180</b>	<b>185</b>	<b>170</b>

Source: Company, MOSL

**Exhibit 4: Blade Plant in MP commences operations; capacity to reach 1.6GW by FY16 end**

Component(s)	Plant Location	Installed Annual Production Capacity	Post Proposed Expansion
Nacelles and Hubs	Himachal Pradesh	550	550
Nacelles and Hubs	Madhya Pradesh	-	400
Rotor blade sets	Madhya Pradesh	-	400
Towers	Madhya Pradesh	-	300
Rotor blade sets	Gujarat	256	400
Towers	Gujarat	150	300

Source: Company, MOSL

**Valuation and view – Maintain Neutral with revised target price of INR175**

Given weak execution during the quarter and stretched balance sheet led by deteriorating working capital cycle and continued fall in wind tariffs would put downward pressure on execution and margins.

We cut our earnings by 18% for FY18 and lower our target price to INR175. We apply 10x multiple to arrive at a target price of INR175. Key upside risks to our **Neutral** rating are: (1) Pick up in execution and margins, (2) slowdown in solar installations and (3) sharp improvement in NWC.

**Exhibit 5: Change in Estimate**

Description	New Estimates		Old Estimates		% change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Sales	43,887	41,674	41,492	46,208	6%	-10%
EBITDA	6,612	5,394	6,036	6,419	10%	-16%
Margin (%)	15.1%	12.9%	14.7%	14.0%	0.3%	-1.1%
PAT	4,303	3,652	3,881	4,437	11%	-18%
EPS	19.4	16.5	17.5	20.0	11%	-18%

Source: Company, MOSL

**Exhibit 6: Operating mix**

INR M	FY13	FY14	FY15	FY16E	FY17E	FY18E	FY19E
Order Book (MW)		300	1,178	1,104	1,319	1,463	1,692
Order Inflow (MW)	198	630	1,162	752	1,000	850	935
Execution (MW)	198	330	578	826	785	706	706
<b>Realizations (INR M/MW)</b>							
WTG	48	42	43	46	48	51	51
OMS	10	12	8	9	11	11	12
Cumulative Installed (MW)	318	468	742	1,528	2,263	2,919	3,575
<b>Sales bifurcation (%)</b>							
- Equipment Supplies	0%	13%	12%	16%	25%	28%	28%
- Trunkey	100%	87%	88%	84%	75%	72%	72%
<b>Revenues</b>	<b>10,495</b>	<b>15,206</b>	<b>26,874</b>	<b>44,065</b>	<b>43,887</b>	<b>41,674</b>	<b>42,302</b>
WTG Equipment	9,485	13,734	24,772	38,723	37,666	36,018	36,018
Turnkey Services	1,010	1,429	2,055	5,087	5,847	5,062	5,062
O&M	0	43	47	254	374	594	1,222
<b>Revenues, % YoY</b>		<b>44.9%</b>	<b>76.7%</b>	<b>64.0%</b>	<b>-0.4%</b>	<b>-5.0%</b>	<b>1.5%</b>
WTG Equipment		44.8%	80.4%	56.3%	-2.7%	-4.4%	0.0%
Turnkey Services		41.5%	43.8%	147.6%	14.9%	-13.4%	0.0%
O&M			9.3%	442.4%	47.2%	58.5%	105.9%
Gross Margin %	26.3%	21.7%	24.7%	25.6%	26.7%	25.6%	26.7%
EBIDTA	1,884	1,757	4,187	6,894	6,612	5,394	5,471
EBIDTA %	17.9%	11.6%	15.6%	15.6%	15.1%	12.9%	12.9%
Net Debt (INR M)	3,352	4,764	1,354	9,710	4,976	1,015	(2,160)
NWC (Days)	170	157	172	178	168	168	168

## Financials and valuations

Y/E March	2013	2014	2015	2016	2017E	2018E	2019E
<b>Total Revenues</b>	<b>10,495</b>	<b>15,490</b>	<b>27,027</b>	<b>44,065</b>	<b>43,887</b>	<b>41,674</b>	<b>42,302</b>
Change (%)		47.6	74.5	63.0	-0.4	-5.0	1.5
Raw Materials	6,789	9,397	16,711	27,433	26,702	26,254	26,254
Staff Cost	250	384	549	920	1,161	1,215	1,340
Other Expenses	1,572	3,952	5,580	8,818	9,412	8,810	9,237
<b>EBITDA</b>	<b>1,884</b>	<b>1,757</b>	<b>4,187</b>	<b>6,894</b>	<b>6,612</b>	<b>5,394</b>	<b>5,471</b>
% of Total Revenues	18.0	11.3	15.5	15.6	15.1	12.9	12.9
Other Income	142	273	215	741	767	1,249	1,555
Depreciation	89	116	204	334	443	492	532
Interest	387	460	623	960	1,067	1,031	1,031
Exceptional Items							
<b>PBT</b>	<b>1,550</b>	<b>1,454</b>	<b>3,575</b>	<b>6,342</b>	<b>5,868</b>	<b>5,121</b>	<b>5,463</b>
Tax	33	-44	927	1,755	1,566	1,469	1,567
Rate (%)	2.1	-3.0	25.9	27.7	26.7	28.7	28.7
<b>Adjusted PAT</b>	<b>1,518</b>	<b>1,499</b>	<b>2,648</b>	<b>4,587</b>	<b>4,303</b>	<b>3,652</b>	<b>3,896</b>
Extra-ordinary Income (net)	-14	-184	316	-68	0		
<b>Reported PAT</b>	<b>1,504</b>	<b>1,315</b>	<b>2,964</b>	<b>4,519</b>	<b>4,303</b>	<b>3,652</b>	<b>3,896</b>
Change (%)		(12.6)	125.4	52.5	(4.8)	(15.1)	6.7

### Balance Sheet

(INR M)

Y/E March	2013	2014	2015	2016	2017E	2018E	2019E
Share Capital	400	2,000	2,219	2,219	2,219	2,219	2,219
Reserves	2,556	2,198	11,700	16,219	20,018	23,243	26,683
<b>Net Worth</b>	<b>2,956</b>	<b>4,198</b>	<b>13,919</b>	<b>18,438</b>	<b>22,237</b>	<b>25,462</b>	<b>28,902</b>
<b>Minority Intetest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Loans	3,367	4,804	8,450	14,497	14,497	13,497	11,497
Deferred Tax Liability	195	151	-15	101	101	101	101
<b>Capital Employed</b>	<b>6,518</b>	<b>9,153</b>	<b>22,354</b>	<b>33,036</b>	<b>36,835</b>	<b>39,060</b>	<b>40,501</b>
Gross Fixed Assets	1,796	2,041	2,534	6,798	7,598	8,398	8,898
Less: Depreciation	230	319	522	856	1,298	1,790	2,322
<b>Net Fixed Assets</b>	<b>1,566</b>	<b>1,722</b>	<b>2,011</b>	<b>5,942</b>	<b>6,299</b>	<b>6,607</b>	<b>6,576</b>
Capital WIP	41	255	491	0	0	0	0
Investments	1	451	0	622	622	622	622
Goodwill	0	16	16	174	174	174	174
<b>Curr. Assets</b>	<b>7,895</b>	<b>12,284</b>	<b>29,429</b>	<b>40,557</b>	<b>43,943</b>	<b>45,168</b>	<b>46,837</b>
Inventory	795	2,707	4,238	5,416	5,394	5,122	5,200
Debtors	5,002	7,100	14,322	24,143	22,843	21,691	22,018
Cash & Bank Balance	15	40	7,096	4,788	9,521	12,482	13,658
Loans & Advances	1,964	2,028	3,436	5,534	5,512	5,234	5,313
Other Current Assets	119	410	337	675	673	639	648
<b>Current Liab. &amp; Prov.</b>	<b>2,983</b>	<b>5,575</b>	<b>9,594</b>	<b>14,259</b>	<b>14,203</b>	<b>13,512</b>	<b>13,708</b>
Creditors	2,278	4,228	7,208	11,778	11,730	11,139	11,307
Other Liabilities	705	1,346	2,386	2,481	2,473	2,373	2,402
<b>Net Current Assets</b>	<b>4,912</b>	<b>6,710</b>	<b>19,836</b>	<b>26,298</b>	<b>29,740</b>	<b>31,656</b>	<b>33,129</b>
<b>Application of Funds</b>	<b>6,519</b>	<b>9,154</b>	<b>22,355</b>	<b>33,036</b>	<b>36,835</b>	<b>39,060</b>	<b>40,500</b>

## Financials and valuations

### Ratios

Y/E March	2013	2014	2015	2016	2017E	2018E	2019E
<b>Basic (INR)</b>							
Adj EPS	37.9	7.5	11.9	20.7	19.4	16.5	17.6
Cash EPS	40.2	8.1	12.9	22.2	21.4	18.7	20.0
Book Value	73.9	21.0	62.7	83.1	100.2	114.7	130.2
DPS	0.0	0.0	0.0	0.0	1.9	1.6	1.8
Payout (incl. Div. Tax.)	0.0	0.0	0.0	0.0	10.0	10.0	10.0

### Valuation (x)

P/E	5.0	25.1	15.8	9.1	9.7	11.4	10.7
EV/EBITDA	5.8	24.1	10.3	7.5	7.1	7.9	7.2
EV/Sales	1.0	2.7	1.6	1.2	1.1	1.0	0.9
Price/Book Value	2.5	9.0	3.0	2.3	1.9	1.6	1.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	1.0	0.9	0.9

### Profitability Ratios (%)

RoE	50.9	36.8	32.7	27.9	21.2	15.3	14.3
RoCE	29.1	23.3	21.8	18.9	14.6	11.6	11.7
RoIC	27.2	22.7	24.9	21.8	16.4	13.1	13.3

### Turnover Ratios

Debtors (Days)	174	167	193	200	190	190	190
Inventory (Days)	28	64	57	45	45	45	45
Creditors. (Days)	79	98	76	80	85	85	0
Asset Turnover (x)	1.6	1.7	1.2	1.3	1.2	1.1	1.0

### Leverage Ratio

Debt/Equity (x)	1.1	1.1	0.6	0.8	0.7	0.5	0.4
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### Cash Flow Statement

Y/E March	2013	2014	2015	2016	2017E	2018E	2019E
<b>PBT before EO Items</b>	<b>1,550</b>	<b>1,454</b>	<b>3,891</b>	<b>6,342</b>	<b>5,868</b>	<b>5,121</b>	<b>5,463</b>
Depreciation	89	116	204	334	443	492	532
Interest	387	463	623	960	1,067	1,031	1,031
Direct Taxes Paid	-269	-305	-927	-1,755	-1,566	-1,469	-1,567
(Inc)/Dec in WC	-3,357	-2,016	-4,445	-9,346	1,291	1,044	-297
<b>CF from Operations</b>	<b>-1,600</b>	<b>-288</b>	<b>-655</b>	<b>-3,466</b>	<b>7,104</b>	<b>6,219</b>	<b>5,162</b>
Others	692	1,111	-370	0	0	0	0
<b>CF from Oper. Incl. EO Items</b>	<b>-908</b>	<b>823</b>	<b>-1,025</b>	<b>-3,466</b>	<b>7,104</b>	<b>6,219</b>	<b>5,162</b>
(Inc)/Dec in FA	-286	-347	-1,039	-3,931	-800	-800	-500
<b>Free Cash Flow</b>	<b>-1,194</b>	<b>476</b>	<b>-2,064</b>	<b>-7,397</b>	<b>6,304</b>	<b>5,419</b>	<b>4,662</b>
Investment and Others	-1,371	-1,784	-444	0	0	0	0
<b>CF from Investments</b>	<b>-1,657</b>	<b>-2,130</b>	<b>-1,483</b>	<b>-3,931</b>	<b>-800</b>	<b>-800</b>	<b>-500</b>
Change in Networth	0	0	6,923	0	0	0	0
(Inc)/Dec in Debt	2,562	1,789	3,255	6,048	0	-1,000	-2,000
Interest Paid	-375	-457	-593	-960	-1,067	-1,031	-1,031
Dividend Paid & Others	3	0	0	0	-503	-427	-456
<b>CF from Fin. Activity</b>	<b>2,191</b>	<b>1,332</b>	<b>9,585</b>	<b>5,088</b>	<b>-1,571</b>	<b>-2,458</b>	<b>-3,486</b>
<b>Inc/Dec of Cash</b>	<b>-375</b>	<b>25</b>	<b>7,077</b>	<b>-2,309</b>	<b>4,733</b>	<b>2,961</b>	<b>1,176</b>
Add: Beginning Balance	390	15	19	7,096	4,788	9,521	12,482
<b>Closing Balance</b>	<b>15</b>	<b>40</b>	<b>7,096</b>	<b>4,788</b>	<b>9,521</b>	<b>12,482</b>	<b>13,657</b>

## Corporate profile: Inox Wind

### Company description

Inox Wind (INXW), an Inox Group company, is India's fourth-largest wind turbine generator (WTG) manufacturer, with a market share of 7% in FY14. INXW commenced operations in March 2010, and manufactures key components of WTGs – nacelles, hubs, rotor blade sets, and towers. It provides turnkey solutions for wind farm projects through its wholly-owned subsidiaries

Exhibit 8: Sensex rebased



Exhibit 8: Shareholding pattern (%)

	Dec-16	Sep-16	Dec-15
Promoter	85.6	85.6	85.6
DII	4.6	5.0	4.5
FII	1.1	0.9	3.1
Others	8.7	8.5	6.8

Note: FII Includes depository receipts

Exhibit 9: Top holders

Holder Name	% Holding
Reliance Capital Trustee Co.Ltd A/C Reliance Equity	2.0

Exhibit 10: Top management

Name	Designation
Deepak Asher	Director
Siddharth Jain	Director

Exhibit 11: Directors

Name	Name
Deepak Asher	Shanti Prashad Jain*
Siddharth Jain	Devansh Jain
S Rama Iyer*	Rajeev Gupta

\*Independent

Exhibit 12: Auditors

Name	Type
Patankar & Associates	Statutory
Dayal & Maur	Secretarial Audit
Aseem Jain & Associates	Cost Auditor

Exhibit 13: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	19.4	19.8	-1.8
FY18	16.5	21.4	-22.7
FY19	17.6	24.3	-27.7



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