Inox Green Energy Services Ltd (INOGRE)

Price Band: ₹ 61-65

UNRATED

November 10, 2022

Growth hinges on wind sector revival…

About the Company: Inox Green Energy Services (IGESL) was incorporated on May 11, 2012. Subsidiary of Inox Wind (IWL), IGESL is one of the major wind power operation and maintenance (O&M) service providers within India.

- 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) and common infrastructure facilities on the wind farm, which support the evacuation of power from such WTGs

Key triggers/Highlights:

- IGESL enjoys synergistic benefits as a subsidiary of IWL, which is principally engaged in the business of manufacturing WTGs and providing turnkey solutions by supplying WTGs and offering a variety of services
- The company 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 themselves for terms, which typically range between five and 20 years
- As of June 30, 2022, IWL had entered into binding contracts for the supply of 2 MW capacity WTGs with an aggregate capacity of 964 MW. Further, IWL had also received letters of intent, which are non-binding and which, therefore, may not lead to execution of any form of binding contract, for its new 3.3 MW capacity WTGs with aggregate capacity of 524.7 MW
- As of June 30, 2022, its O&M services portfolio consisted of an aggregate 2,792 MW of wind farm capacity and 1,396 WTGs

What should investors do? During FY20-22, IGESL registered CAGR revenue, EBITDA and PAT growth of 2.1%, 8.8% and 246.4%, respectively. Dependence on the parent company for most O&M contracts may lead to muted growth in future order inflows. Total debt on the books was at ~₹ 900 crore; though the management expects to become net debt free in the coming period through (IPO proceeds and selling a SPV), we see uncertainty on this and future profitability.

- We assign a **UNRATED** rating to the IPO

Key risk & concerns

- Delayed, modified or cancelled order for Inox Wind
- Dependence on Inox Wind for its business, negative credit ratings
- Contingent liabilities may adversely impact financial conditions

Key Financial Summary

₹ crore	FY20	FY21	FY22	CAGR FY20-22 (%)
Total Revenues	165.3	172.2	172.2	2.1%
Adjusted EBITDA	88.3	82.2	104.4	8.8%
EBITDA Margins (%)	53.4%	47.7%	60.6%	
PAT	1.4	-8.7	17.2	246.4%
EPS (₹)	0.4	-1.7	3.1	
P/E (x)	158.9	-37.1	20.9	
P/B (x)	0.7	1.5	0.1	
RoE (%)	1.5	-20.3	2.1	
RoCE (%)	4.2	2.5	3.4	
P/S	11.5	11.0	11.0	

Source: RHP, Ricardo Analysis, ICICI Direct Research

INOXGreen ENERGY SERVICES LIMITED

IPO Details

Issue Details	
Issue Opens	11th Nov 2022
Issue Closes	15th Nov 2022
Issue Size (₹ crore)*	740
Price Band (₹)	₹ 61 - ₹ 65
No. of Shares on Offer (in crore)	11.38
QIB (%)	75
Retail (%)	10
Face Value (₹)	10
Listing price Market Cap @ Upper Price (₹ Crore)	1898
Minimum lot size (no of shares)	230

Shareholding pattern

	Pre-Issue	Post-Issue
Promoter Group	93.8	56.0
Public	6.2	44.0

Objects of the issue

Objects of issue	₹ crore
Repayment of Debt	260.00
General Corporate Purpose	-

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Vijay Goel
vijay.goel@icicisecurities.com

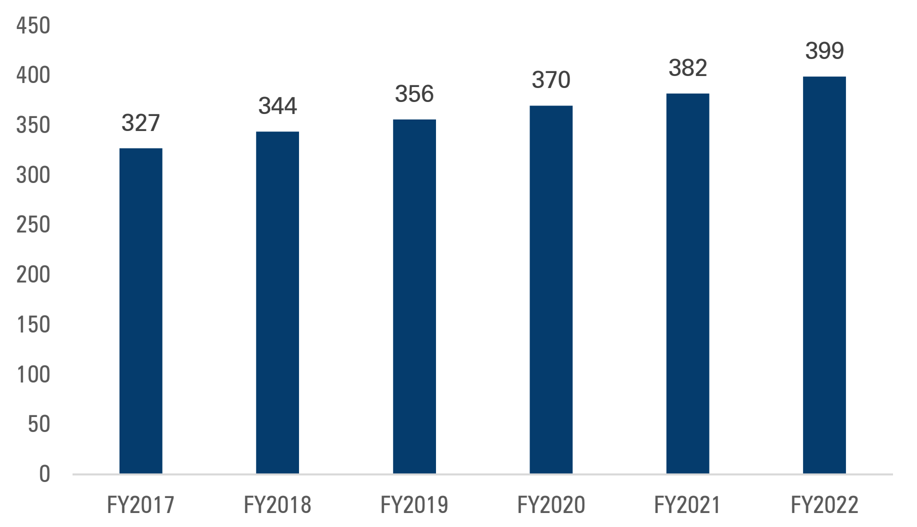
Yash Panwar
yash.panwar@icicisecurities.com

Industry Overview

Demand and Supply Review of the Indian power sector

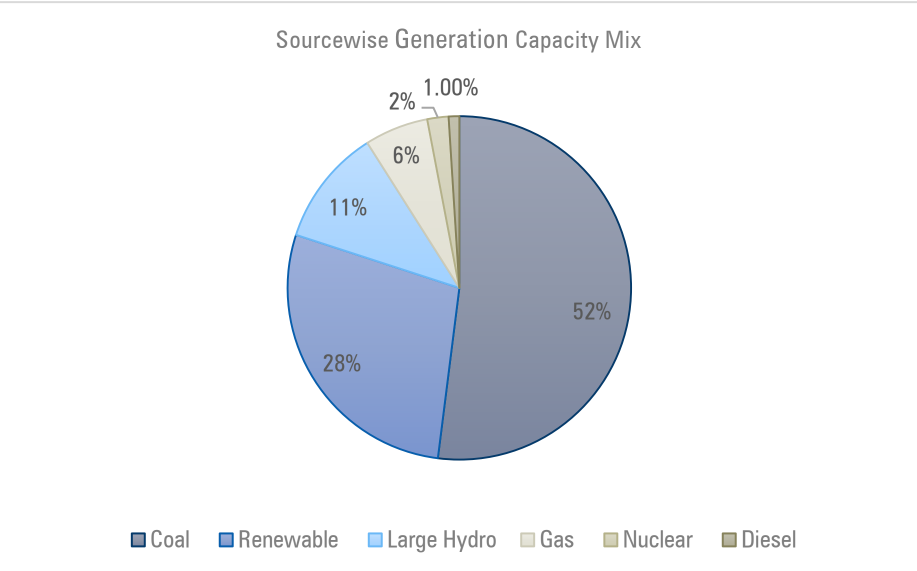
The total installed generation capacity at the end of July 2022 was 404 GW, of which ~97 GW of capacity was added from fiscals 2016 onwards. Coal and lignite-based installed power generation capacity has maintained its dominant position over the years and accounts for ~52% as of July 2022. However, renewable energy installations (including large hydroelectric projects) have reached ~161 GW capacity as on July 2022, compared with 25 GW as on March 2012 (source: MNRE), constituting ~40% of total installed generation capacity as of date. In particular, this growth has been led by solar power, which grew at a breakneck speed to ~58 GW from 0.9 GW over the same period.

Exhibit 1: India installed generation capacity (GW)



Source: RHP, Ricardo Analysis, ICICI Direct Research

Exhibit 2: Source-wise generation capacity in India

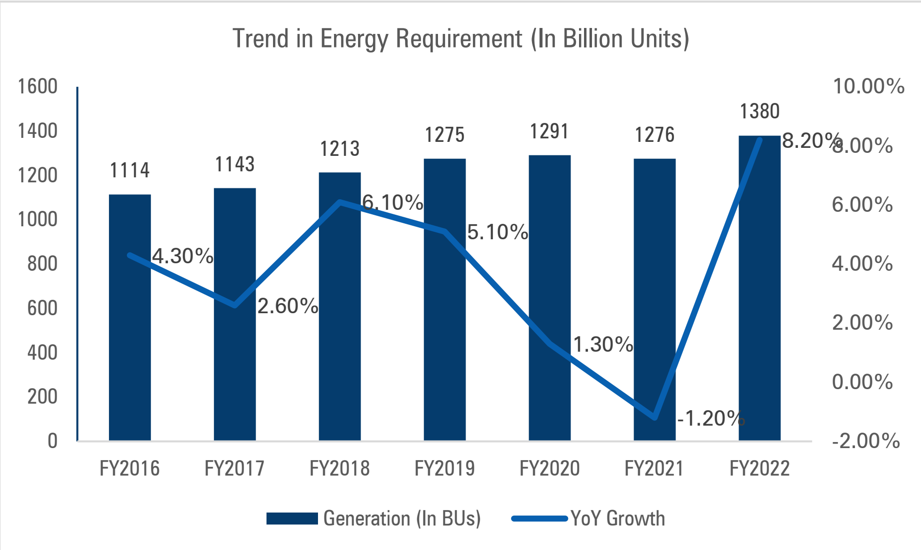


Source: RHP, Ricardo Analysis, ICICI Direct Research

Trend in energy requirement

Growth was at 4.3% during FY16 and 2.6% in FY17 owing to slowdown in manufacturing activity. It improved to 6.1% in FY18, mainly driven by rising electrical connections under the rural electrification and Saubhagya schemes. Power demand growth was subdued at 1.3% YoY in FY20 owing to a slowing economy, with extended monsoons till October 2019 further dampening demand. The extended monsoon resulted in lower cooling demand from domestic consumers as well as reducing irrigation demand from agricultural consumers. Demand recovered slightly in January-February 2020 with the onset of summer but the pandemic downed the shutters on economic activity in March 2020, thereby pulling power demand growth into the negative territory. Power demand posted a decline of 1-2% in FY21. Economic growth made a healthy comeback in FY22 coupled with a low base effect as well as government spending on infrastructure. Consequently, power demand returned to the positive territory in FY22, growing at 8.2%. Power demand surged in Q1FY23 due to severe heatwave and continued momentum in economic activity, thus registering 18.6% YoY growth in the quarter. Subsequently, demand is expected to gradually pick up on the back of a healthy recovery in economic growth, expansion in reach via strengthening of T&D infrastructure and improved power quality, thereby registering 5-6% CAGR over FY23 to FY27-29.

Exhibit 3: Trend In energy requirement

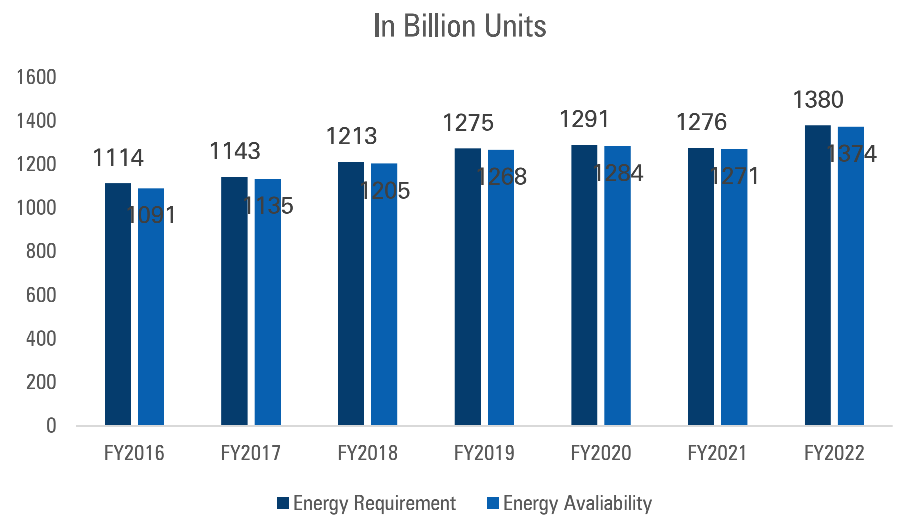


Source: RHP, Ricardo Analysis, ICICI Direct Research

Aggregate power demand supply (in billion units)

India's electricity requirement is estimated to have grown at a CAGR of ~3.6% between FY16 and FY22 while power availability rose quicker at ~3.9% CAGR on the back of strong capacity additions, both in the generation and transmission segments. As a result, the energy deficit declined to 0.4% in FY22 from 2.1% in FY16. The decline was sharp, particularly in FY17, on account of muted demand growth of 2.6%. The low demand was the result of a decline in consumption across categories owing to energy efficiency measures, T&D loss reduction in key states driven by adoption of the Ujwal Discom Assurance Yojana (Uday) scheme. In FY18 and FY19, power demand grew at 6.1% and 5.0% YoY, respectively, led by a low base and gradual pickup in consumption across categories with impetus from electrification of not electrified households, transmission and distribution network expansion, healthy economic activity, etc. Strengthening of inter-regional power transmission capacity over the past five years has supported the rapid fall in deficit levels as it reduced supply constraints on account of congestion and lower transmission corridor availability, thereby lowering the deficit to 0.6% in FY19. However, in FY20, power demand grew at a slower 1.3% due to weakening economic activity and extended monsoons, whereby at the end of FY20, economic activity and capacity addition (both generation and transmission) slowed down due to the ongoing pandemic. Gradual recovery was experienced post FY21, as construction activity and demand recovered post the pandemic and lifting of Covid-19 restrictions.

Exhibit 4: Power demand and supply

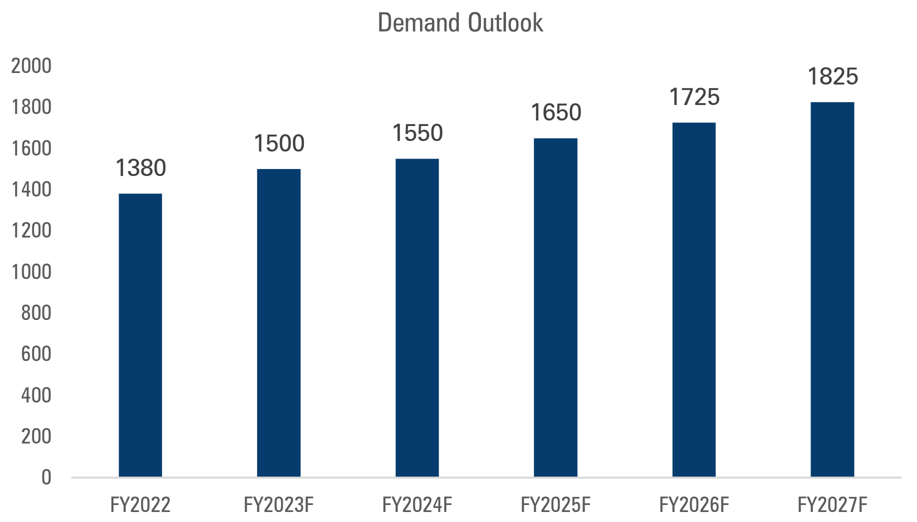


Source: RHP, Ricardo Analysis, ICICI Direct Research

Demand and supply outlook

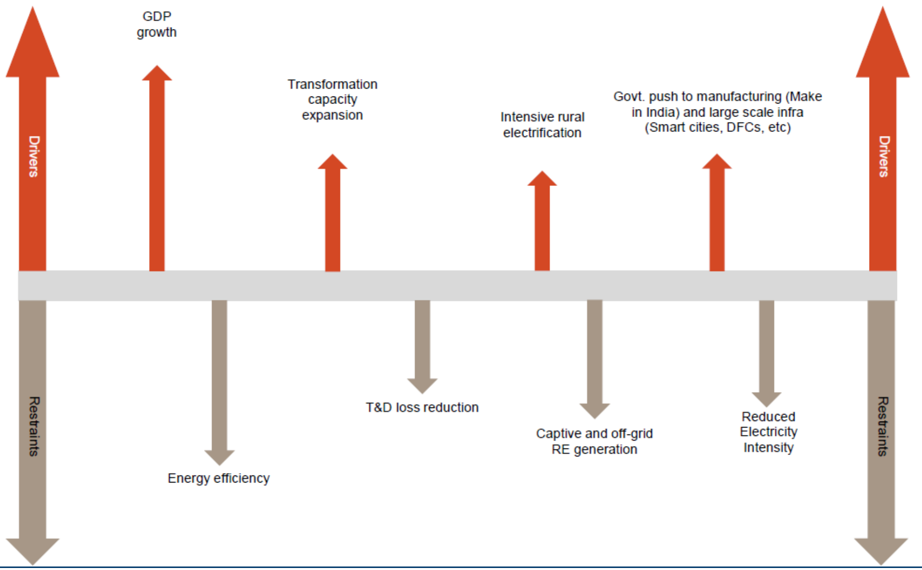
Crisil Research expects energy requirements to grow at 5-6% CAGR over FY22-27, due to healthy economic growth and expansion of the power footprint. Power demand, which was expected to bounce back in Q1FY22, was impacted by the second wave of Covid-19 infections, which resulted in partial lockdowns in 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% YoY in Q4 FY22.Overall power demand during FY22 grew at 8.2%. Q1 FY23 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 Q1FY23, despite the high base of Q1FY22. Going forward, demand is expected to be driven by industries due to improving utilisation levels and kick-starting of the capex cycle in key sectors owing to buoyant customer sentiments. 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% YoY in FY23, over a high base.

Exhibit 5: Electricity to grow at 5.5% CAGR over FY22-27E



Source: RHP, Crisil Research, ICICI Direct Research

Exhibit 6: Factors Influence power demand

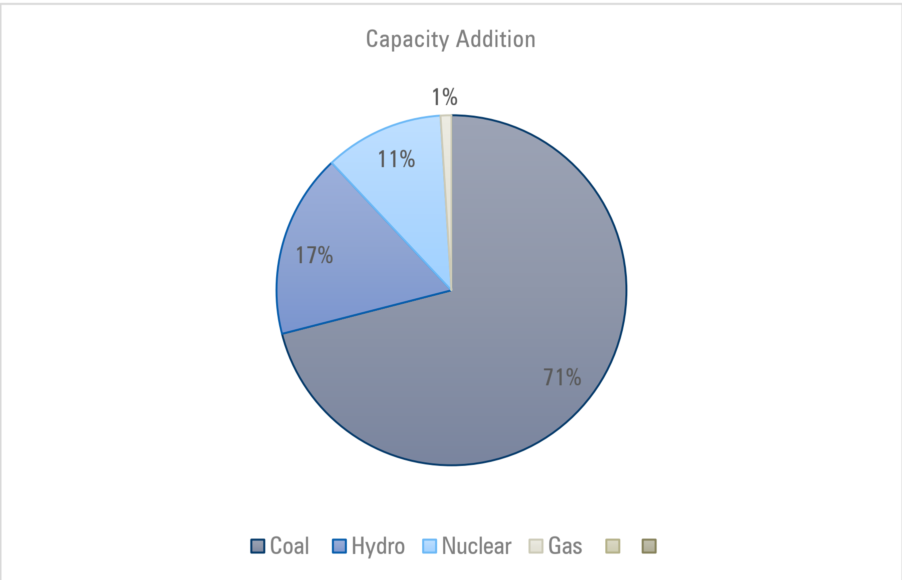


Source: RHP, Company websites, Crisil Research, ICICI Direct Research;

Sector wise break-up of estimated cumulative capacity additions (FY23-27)

During FY23-27, conventional capacity addition of ~33-34 GW is expected, in line with ~33 GW added over the past five years. However, investments in the segment are expected to increase on account of higher nuclear capacity additions to the tune of 3.5 GW over the forecast period coupled with higher capex per unit capacity across fuels. Coal-based capacities to account for ~70-75% of total additions. Crisil Research expects 24-25 GW of new coal-based capacities to be commissioned between FY23 and FY27, led by large number of planned projects and the fact that coal continues to remain the most widely available and economic source of fuel among conventional sources. Moreover, the government's policy for flexibility in utilisation of domestic coal, new linkage policy i.e. Scheme for Harnessing and Allocating Koyla Transparently in India (SHAKTI) and higher domestic coal production aimed at coal import substitution would lead to significant improvement in coal availability over the next three to five years for power plants.

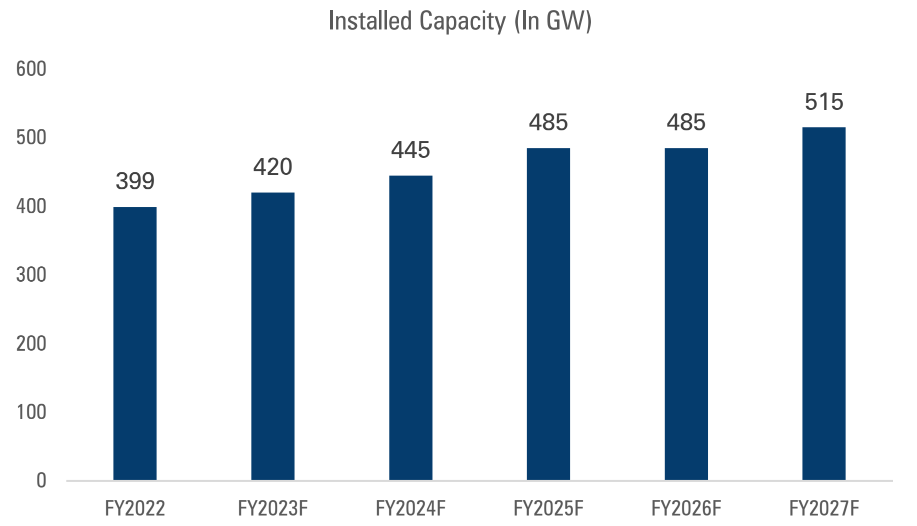
Exhibit 7: Capacity addition by type in FY23-27



Source: RHP, Company websites, Crisil Research, ICICI Direct Research;

Over the next five years (FY23-27), 33-34 GW of conventional capacity is expected to be added in India. While ~52 GW of thermal power generation capacity is under construction as of May 2022, Crisil Research expects only ~25 GW of coal-based power to be commissioned over FY23-27. In addition, ~4 GW of hydro and 2-3 GW of nuclear capacity is expected to be added.

Exhibit 8: Indian installed capacity to grow at 5.5% CAGR over FY22-27E

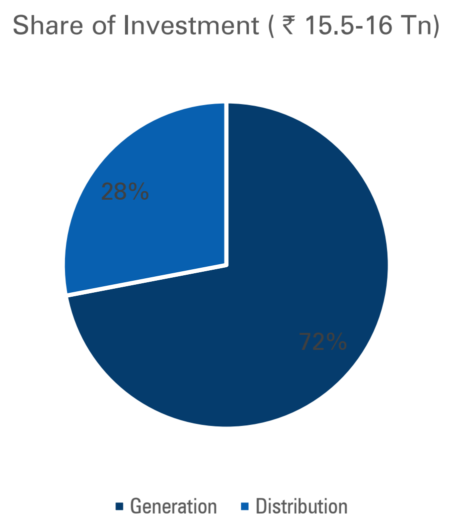


Source: RHP, Company websites, Crisil Research, ICICI Direct Research;

Investments in power sector

Indian investments on the generation sector are estimated to increase from ~56% to ~72%, mainly due to renewable energy capacity additions and conventional capacity additions led by coal accounting for 70-75% of conventional capacity. Investments on the distribution sector are expected to increase due to reforms and Revamped Distribution Sector Scheme (RDSS) envisaged from FY2327. Crisil Research projects investments of ₹ 15.5-16 lakh crore over the next five years. Share of investments in generation is expected to increase, resulting in a fall in share of the distribution segment over the next five fiscals.

Exhibit 9: Share of investment across power sector value chain in FY23-27E



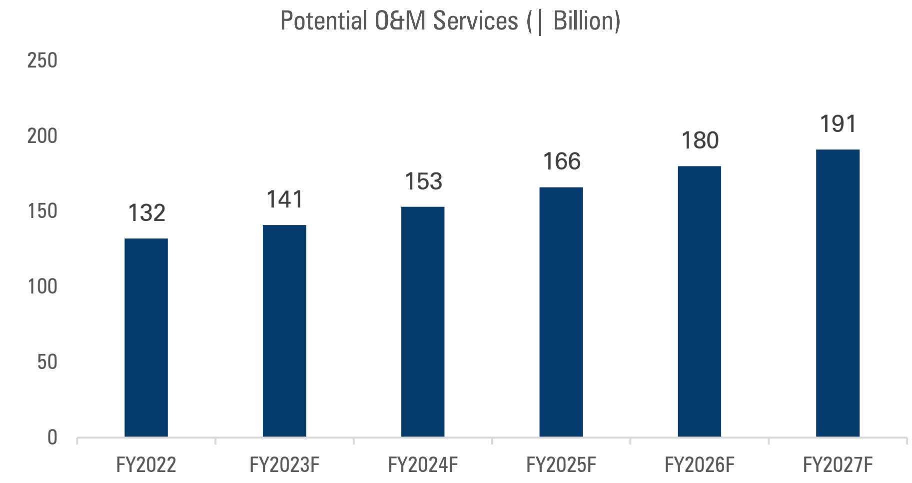
Source: RHP, Company websites, Crisil Research, ICICI Direct Research;

Outlook on potential of O&M services market for wind energy

Crisil Research expects the wind capacity addition to be in the range of 17-20 GW during the forecast period thereby taking the total installed capacity over 50 GW. The growth is likely to be on account of hybrid capacity allocation along with an existing pipeline of 10-11 GW for pureplay wind. As a result of this, the demand for O&M services is expected to be in the range of ₹ 17,000-21,000 crore by FY26.

Exhibit 10: O&M services to grow at 5.5% CAGR over FY22-27E

.



Source: RHP, Company websites, Crisil Research, ICICI Direct Research;

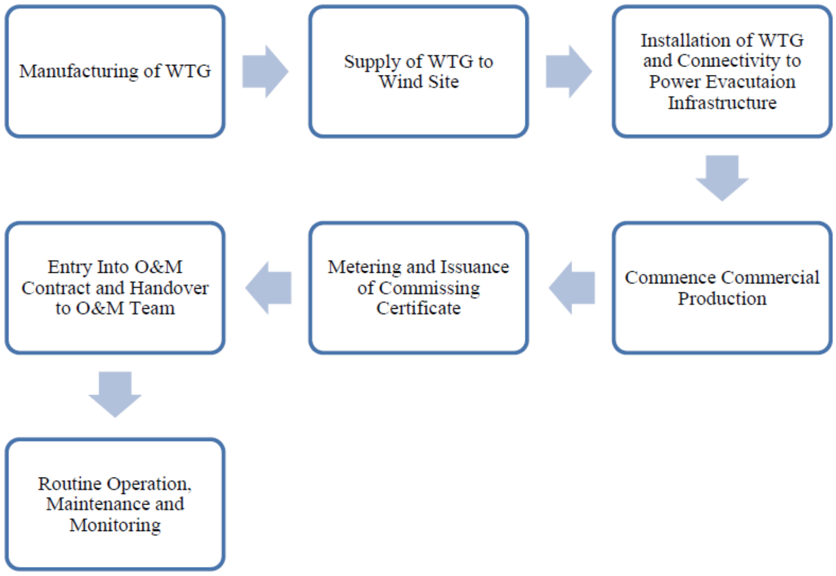
Company Background

Inox Green Energy (IGESL) is one of the major wind power operation and maintenance (O&M) service providers within India. IGESL 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) and the common infrastructure facilities on the wind farm, which support the evacuation of power from such WTGs. The company has a stable annual income owing to the long-term O&M contracts that it enters into with its customers.

IGESL is a subsidiary of Inox Wind (IWL), a company which is listed on the National Stock Exchange of India Ltd and BSE Ltd, and part of the Inox GFL group of companies (Inox GFL Group). The company's subsidiaries are engaged in the business of power generation through renewable sources of energy with Nani Virani Wind Energy Pvt Ltd being the only subsidiary, which has commenced power generation as on date.

The company enjoy synergistic benefits as a subsidiary of IWL, which is principally engaged in the business of manufacturing WTGs and providing turnkey solutions by supplying WTGs and offering a variety of services including wind resource assessment, site acquisition, infrastructure development, EPC of WTGs, and, through the company, providing long-term O&M services for wind power projects. Pursuant to an exclusivity agreement between IWL and the company, IGESL provide exclusive O&M services for all WTGs sold by IWL through the entry of long-term O&M contracts between the WTG purchaser and company for terms, which typically range between five and 20 years.

Exhibit 11: Summary of general process from manufacturing of WTG by, e.g., IWL, to point where provision of IGESL services commences



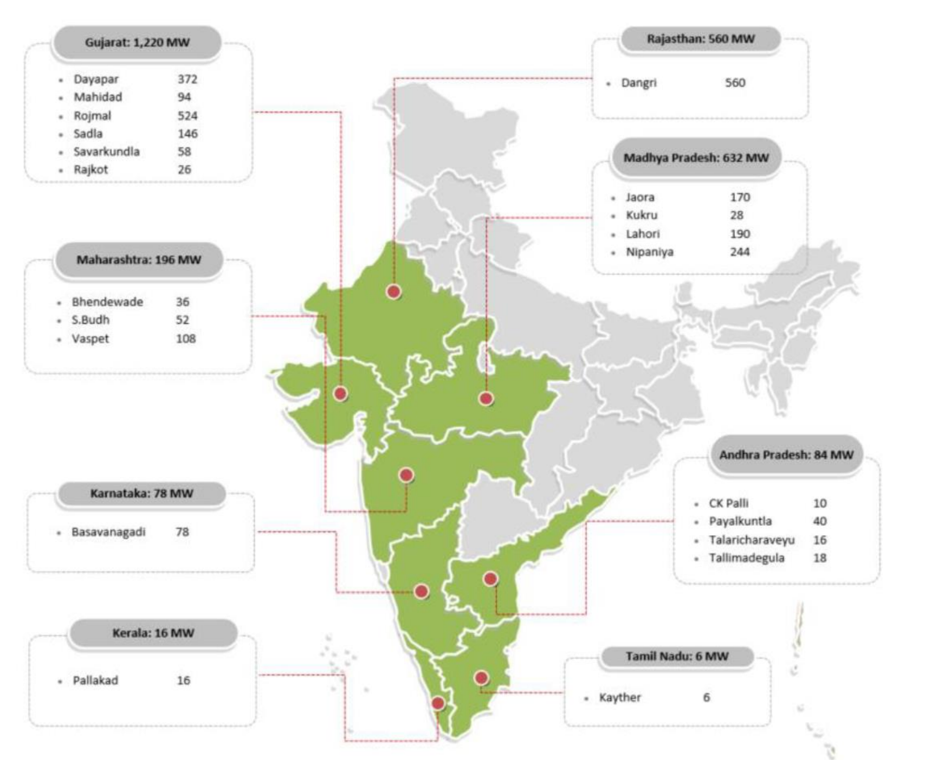
Source: RHP, ICICI Direct Research

Due to this exclusivity agreement, IWL's order book is an important indicator of future revenue and growth for the company. As of June 30, 2022, IWL had entered into binding contracts for the supply of 2 MW capacity WTGs with an aggregate capacity of 964 MW. Further, IWL had also received letters of intent, which are non-binding and which, therefore, may not lead to execution of any form of binding contract, for its new 3.3 MW capacity WTGs with an aggregate capacity of 524.7 MW. sector.

As of June 30, 2022, O&M services portfolio consisted of an aggregate 2,792 MW of wind farm capacity and 1,396 WTGs. This included a total capacity of 1,220 MW for various customers in Mahidad, Rojmal, Sadla, Savarkundla, Rajkot and Dayapar in Gujarat; a total capacity of 632 MW for various customers in Kukru, Nipaniya, Jaora and Lahori in Madhya Pradesh; a total capacity of 560 MW for various customers in Dangri, Rajasthan; and total capacity of 196 MW for various customers in Vaspet, Bhendewade and South Budh in Maharashtra.

Of the 2,792 MW capacity, 1,964 MW was attributable to contracts for comprehensive O&M services and 828 MW was attributable to common infrastructure O&M contracts. In general, the company's comprehensive O&M contracts cover the provision of O&M services to both WTGs installed on a wind farm and the common infrastructure facilities, such as electrical substations and transmission lines, which support the wind farm; the company's common infrastructure O&M contracts relate only to the provision of O&M services on the common infrastructure facilities. IGESL is present in the wind-resource rich states in India as of June 30, 2022.

Exhibit 12: Breakdown of wind power capacity



Source: RHP, ICICI Direct Research

Services

Operation Services: IGESL have a dedicated onsite O&M team to provide 24/7 operation services for customers' wind farms to help ensure their WTGs are generating the highest yield possible under prevailing weather conditions as well as a dedicated client relationship management team, which provides customers with a direct point-of-contact with the company.

In addition, to provide customers with peace of mind in relation to the security of their WTG assets as well as to maintain the security of the common infrastructure facilities, the company provides round the clock watch and ward security services which include conducting surveillance through CCTVs, which are centrally monitored. A team operates the wind power plant's infrastructure (that includes the WTGs) and the power evacuation facilities.

With Supervisory Control and Data Acquisition system (wtSCADA), the company always has an overview of WTG power production at any time and in real-time. This enables it to monitor the status of and, if necessary, control the WTGs remotely for all wind projects.

Maintenance services: The maintenance of WTGs (i.e. WTG O&M) is generally categorised into predictive and reactive maintenance. In reactive maintenance, repairs are undertaken once a component fails and often results in long downtimes for the affected WTG. In predictive maintenance, efforts are taken to detect potential component failures in advance so as to be able to resolve any issues early and minimise such downtime.

The company focuses on predictive maintenance through the scheduling of regular inspections and maintenance (which are enhanced during peak wind seasons) as well as employing advanced tools such as wtSCADA to monitor the conditions of the WTGs and common infrastructure facilities in the company's portfolio to allow for early detection and resolution of issues.

Customer Base

The company has a diversified customer base, some of whom have enjoyed business relationships between five and nine years, comprising private companies, independent wind power producers, power utilities and government organisations in India, to whom it provides wind farm O&M services. Its customers comprise large IPPs, PSUs and retail customers.

- Continuum Power Trading (TN) Pvt Ltd,
- Gujarat Industries Power Company Ltd,
- Torrent Power Ltd,
- Gujarat Fluorochemicals Ltd,
- Shree Cement Ltd,
- Integrum Energy,
- Sri KPR Infra & Projects Ltd,
- Markdata Green Energy Pvt Ltd,
- Roha Dyechem Pvt. Ltd,
- Amrit Bottlers Pvt Ltd

Investment Rationale

Strong and diverse existing portfolio base

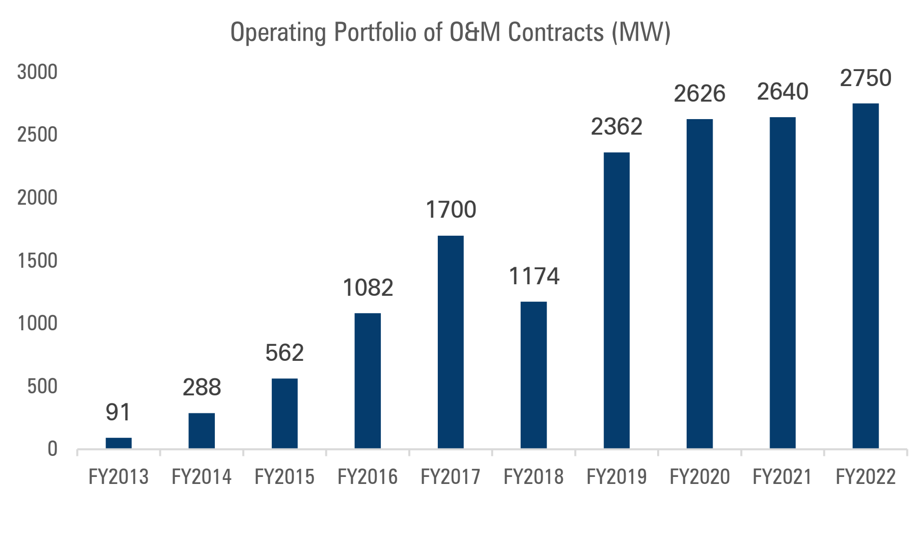
As of June 30, 2022, IGESL's portfolio of O&M contracts (consisting of both comprehensive O&M contracts and common infrastructure O&M contracts) covered an aggregate of 2,792 MW of wind projects spread across eight wind-resource rich states in India with an average remaining project life of more than 20 years. The counterparties to O&M contracts feature a mix of independent power producers (IPP) (~72%), public sector undertakings (PSU) (~14%) and corporates (~14%), as on June 30, 2022.

Further, certain individual wind project sites, which the company has developed in collaboration with IWL have significant capacity to support the installation of additional WTGs, which will further grow the company's portfolio base. Such capacity exists due to the nature of wind project site development, which requires the construction and installation of supporting infrastructure such as pooling substations and transmission lines in advance of the installation of WTGs (which are thereafter installed on a plug-and-play basis). In addition, with the transition from the feed-in tariff regime to the auction based regime having had a few years to bed in, we believe there will be an increase in the number of WTG installations in the coming years compared to the suboptimal number of WTG installations for the past few years, which will further expand company's portfolio base.

Established track record, favourable national policy support, visibility for future growth

IGESL have an established track record in the wind energy O&M industry of more than nine years due in large part to the synergistic relationship that the company share with parent company, IWL, which commenced operations in the wind energy space in the financial year ended March 31, 2010. As set out on in the exhibit below, operating portfolio of O&M contracts (both comprehensive O&M contracts and common infrastructure O&M contracts) has grown at a CAGR of ~40.16% in the past nine years since the company's commencement of operations.

Exhibit 13: Operating portfolio of O&M contracts



Source: RHP, Company websites, Crisil Research, ICICI Direct Research;

According to the International Energy Agency (IEA), India is the third largest energy consuming country in the world and has become one of the largest sources of energy demand growth globally.

In its recent India Energy Outlook 2021 report published in February 2021, the IEA predicts that by 2040, India could add 900 GW of wind and solar capacity. This is buttressed by the commitment made by Prime Minister Narendra Modi in the recent COP26 global climate summit held in Glasgow in November 2021 to have 50% of India's power generated by renewable energy by 2030 and for India to achieve carbon neutrality by 2070. Therefore, the growth prospects of the wind sector in India are promising with capacity additions of 17-20 GW expected over the next five years (i.e., between FY23 and FY27), which would entail investments of ~₹ 1.4 lakh crore over the period (Source: Crisil Report). The growth is likely to be on account of hybrid capacity allocation along with the existing pipeline of 10-11 GW for pure play wind. As a result of this, the demand for O&M services is expected to be in the range of ₹ 17,000-21,000 crore by FY26 (Source: Crisil Report). IWL's wind energy extraction technology and access to wind sites coupled with strong industry growth prospects enable the company, through exclusive arrangement with IWL, to provide O&M services for the WTGs they manufacture and to forecast a steady growth in O&M business over the coming years.

Supported, promoted by parent company

Parent company, IWL, together with its group companies, is one of India's notable WTGs manufacturers which provides wind energy turnkey solution across India. Its service offerings include wind resource assessment, wind site acquisition, infrastructure development, EPC and has an installed capacity of ~2,792 MW as of June 30, 2022.

IWL has manufacturing facilities in Gujarat, Himachal Pradesh and Madhya Pradesh and clientele, which includes various IPPs, PSUs and corporates. Its parent also has exclusive licenses and agreements in place to manufacture WTGs in India using WTG technology developed by American Superconductor Corporation (AMSC), a Nasdaq listed company, and is backed by a management team with extensive experience in the renewable energy sector.

IGESL will benefit from a synergistic relationship with parent pursuant to an exclusivity agreement, which enables the company to provide O&M services to all customers who purchase WTGs from its parent company during the relevant warranty period as part of a "one-stop shop"/ turnkey solution and who, after such period, often retain the company to continue providing O&M services due to the company's expertise in operating and maintaining IWL's proprietary WTGs and the common infrastructure facilities. This enables the company to build a portfolio alongside its parent. As a result, the order book of IWL is an important indicator for IGESL as it provides us with visibility on future O&M contracts and revenue. Furthermore, the parent has an order book with notable customers.

Exhibit 14: IWL order book

Particulars WTG Capacity (MW)	WTG Capacity (MW)	Order Book Capacity (MW)
Binding Contracts		
SECI 1	2	50
SECI 2	2	200
SECI 3	2	200
SECI 4	2	100
Maharastra	2	50
PSU Order	2	150
PSU Order 2	2	200
Others	2	14
Total Binding Contract	-	964
Non Binding Contracts	-	
Letters of intent to purchase new 3.3 MW WTGs*	3.3	524.7

Source: RHP, Company websites, Crisil Research, ICICI Direct Research;

Established supply chain in place

IGESL have an established relationship with its suppliers for the parts, components and tools that are required in provision of O&M services. As part of the company's synergistic relationship with IWL, the company believe they are able to obtain proprietary components and spare parts for the IWL manufactured WTGs directly from IWL and as for the other tools and parts that are employ, IGESL have an established network of external suppliers.

Business Strategy

It is exploring opportunities to expand the portfolio and scale up operations. In addition to growing the portfolio through the entry of new long-term O&M contracts with customers who purchase IWL's WTGs, the company plan to expand the portfolio to also provide O&M services for WTGs, which are not manufactured by IWL. It intends to do this by leveraging both itself 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 its portfolio (manufactured by IWL or otherwise) on the basis of the company's competitive strengths and the cost savings which this entails.

The company's plans also include the recovery of contracts for the provision of WTG O&M services (which is part of company's comprehensive O&M contracts and amounts to an aggregate of 1,964 MW in wind power capacity) from a few large IPPs that had previously entered into comprehensive O&M contracts with the company but have recently opted to internalise their WTG O&M services.

Transitioning to an asset-light model with minimal capital expenditure, which the company believe will result in higher EBITDA and profit margins. Moving forward, we believe the business model of entering into long-term O&M contracts, which allows the company to generate steady and predictable income, coupled with future low capital expenditure and costs, among others, will enable the company to enjoy higher EBITDA and profit margins, which can be utilised to fund future expansion plans and/or for dividend payments.

Continuing, enhancing focus on predictive maintenance over reactive maintenance: The company focuses the 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 customers.

Key Risk

Dependent on Inox Wind, promoter for business

Pursuant to an exclusivity agreement dated December 17, 2021, between IGESL and Inox Wind Limited, The Promoter and largest shareholder, company provide exclusive O&M services for all WTGs sold by Inox Wind Limited through the entry of long-term O&M contracts between the WTG customer and the company which range between five to 20 years in term. Thus, IGESL derive its revenues from O&M services offered to WTGs supplied by Inox Wind Limited.

Enters into business transfer agreement by which IGESL divested its erection, procurement, commissioning business to one of the subsidiaries of its promoter

In terms of BTA, the company is contractually bound to bear the cost and expenses incurred in continuing, defending and enforcing all legal proceedings pertaining to the EPC business, barring certain assumed legal proceedings (as listed out in Schedule 1 to the BTA). Accordingly, in the event any such legal proceeding is adversely adjudicated against the company, it may have an adverse impact on the company's business and financial condition. Further, in terms of the BTA, the company is also obligated to discharge an indemnity obligation to Resco for losses attributable to a breach of a representation or warranty under the BTA as well as non-compliance with applicable laws by the company.

Sale of services may decline in future

In general, comprehensive O&M contracts cover the provision of O&M services to both WTGs installed on a wind farm and the common infrastructure facilities, such as electrical substations and transmission lines, which support the wind farm; common infrastructure O&M contracts relate only to the provision of O&M services on common infrastructure facilities. These contracts are typically entered into for a term of between five and 20 years, with certain contracts stipulating an option to renew for a further period of 25 years.

A decline in sale of services resulting from, for example, more of the company's customers electing to terminate their WTG O&M contracts or common infrastructure O&M contracts or both i.e., comprehensive O&M contracts, with the company or decline in margins that the company derives from the sale of its services could have a material adverse effect on the company's business, financial condition, cash flows and results of operations.

Renewal rate of service contracts may reduce in future

There is also a risk that customers may not renew its service contracts or that renewal terms may be less favourable to the company than current contracts with it or that competition from other service providers may negatively impact prices at which it can successfully contract for services. Additionally, certain turbine manufacturers, may expand their service capabilities to be able to service turbines from the portfolio. Further, a reduction in the sale of services resulting from a decline in the rate of service renewal could have a material adverse effect on the business, financial condition, cash flows and results of operations.

Financial Summary

Exhibit 11: Profit and loss statement ₹ crore

Revenue (₹ crore)	FY20	FY21	FY22
Revenue from operations	165.3	172.2	172.2
Other income	6.8	14.0	18.1
Total revenue	**172.2**	**186.3**	**190.2**
EPC,O&M and Common Infrastructure Facality expenses	56.0	53.9	48.3
Changes In Inventory	0.0	0.0	-7.8
Employee expense	18.2	18.8	21.7
Other expenses	2.8	17.3	5.6
Total Expenses	77.1	90.0	67.8
Adjusted EBITDA	**88.3**	**82.2**	**104.4**
Finance costs	53.0	60.5	54.8
Depreciation and amortisation expens	39.6	49.1	50.2
Profit before tax and exceptional item	2.5	-13.4	17.5
Exceptional items	0.0	0.0	0.0
Profit before tax	**2.5**	**-13.4**	**17.5**
Total Tax	1.1	-4.6	0.2
Profit after tax before Minority interes	1.4	-8.7	17.2
Profit after tax	**1.4**	**-8.7**	**17.2**

Source: RHP, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

Cash Flow (₹ crore)	FY20	FY21	FY22
PBT	1.7	-27.7	-5.0
Operating profit before working capita	90.0	164.6	51.7
Changes in working capital	-55.5	-78.5	88.7
Income tax paid	-12.0	14.6	4.3
CF from operating activities	**22.5**	**100.7**	**144.8**
(Purchase)/Sale of Fixed Assets	-293.9	-90.6	-146.7
Interest Received	-6.6	-1.7	-49.8
Investment in bank deposits	-8.1	2.1	43.1
CF from investing activities	**-308.6**	**-90.2**	**-153.4**
Adj. of Loan	407.5	338.7	72.7
Interest Paid	-119.0	-231.9	-139.6
CF from financing activities	**288.5**	**106.9**	**-66.9**
Net Cash Flow	2.4	117.4	-75.5
Opening Cash	0.4	2.7	120.0
Closing Cash Flow	**2.7**	**120.0**	**44.7**

Source: RHP, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore

Balance Sheet (₹ crore)	FY20	FY21	FY22
Equity and liabilities			
Shareholders' funds			
Share capital	116.2	128.6	235.0
Reserves and surplus	-19.7	-85.7	571.6
Minority interest	0.0	0.0	0.0
Non-current liabilities			
Long-term borrowings	302.4	349.2	319.4
Other non-current liabilities	59.8	65.2	240.8
Current liabilities			
Short-term borrowings	782.5	1,061.8	584.7
Trade payables	410.3	518.6	80.3
Dues to micro and small enterprises	410.3	518.6	80.3
Dues to others	0.0	0.0	0.0
Other current liabilities	687.8	654.5	88.7
Short-term provisions	0.5	0.5	0.1
Total	**2339.86**	**2692.80**	**2120.65**
Assets			
Fixed assets			
Tangible assets	772.2	764.5	953.0
Investment In assosiate	69.6	32.5	32.5
Capital work in progress	26.3	251.0	132.8
Intangible assets	3.7	0.0	0.0
Intangible assets under development	0.0	0.0	0.0
Non-current investments	0.0	0.0	0.0
Deferred tax assets (net)	88.1	112.4	141.0
Other financial assets	410.6	473.4	509.6
Other non-current assets	33.0	14.8	8.6
Current assets			
Inventories	359.5	355.0	21.4
Trade receivables	249.9	223.2	68.0
Cash and bank balances	17.9	129.5	110.4
Other current assets	309.2	336.5	143.3
Total	**2339.9**	**2692.8**	**2120.6**

Exhibit 14: Key ratios

Ratio Sheet	FY20	FY21	FY22
Per share data (₹)			
Diluted EPS	0.4	-1.7	3.1
Cash EPS	11.7	8.1	12.2
BV per share	27.5	8.6	145.7
Cash Per Share	5.1	25.9	19.9
Operating Ratios (%)			
Gross Profit Margins	66.1	68.7	71.9
EBITDA Margins	53.4	47.7	60.6
PAT Margins	0.9	-5.1	10.0
Inventory days	793.7	752.2	45.3
Debtor days	551.7	473.0	144.3
Creditor days	905.9	1,098.9	170.2
EBITDA Conversion Rate	25.5	122.4	138.7
Return Ratios (%)			
RoE	1.5	-20.3	2.1
RoCE	4.2	2.5	3.4
RoIC	4.3	3.1	3.7
Valuation Ratios (x)			
EV / Sales	17.9	18.5	15.6
EV/EBITDA	33.6	38.7	25.8
Market Cap / Sales	11.5	11.0	11.0
P/E	158.9	-37.1	20.9
Price to Book Value	0.7	1.5	0.1
Solvency Ratios			
Debt / EBITDA	12.3	17.2	8.7
Debt / Equity	11.2	32.8	1.1
Net Debt/ Equity	11.1	29.8	1.0
Current Ratio	0.5	0.5	0.5
Quick Ratio	0.3	0.3	0.4
Asset Turnover	0.2	0.2	0.2

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to companies that are coming out with their initial public offerings and then categorises them as Subscribe, Subscribe for the long term and Avoid.

Subscribe: Apply for the IPO

Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Chirag Shah PGDBM, Vijay Goel, PGDBM, Yash Panwar PGDM (Finance, IT), MBA Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.