AMBIT
Acumen at work

Inox Wind

NOT RATED

VISIT NOTE | **INWX IN EQUITY** | **June 17, 2015**

No more tailwinds

Given its size and recent performance, Inox Wind appears to be an investible company in the renewable sector, the key focus area of the Central Government. Although Inox is a new entrant, it has reached a market share of 12% in FY15 (vs NIL in FY10) alongside EBITDA margin of 17% (the highest in the industry). However, key headwinds in Inox gaining market share post FY16 are: (1) Suzlon's renewed aggression post the recent recapitalisation (it won 278MW orders YTD vs 350MW in FY15) and (2) growth deceleration in the Indian wind sector post FY16, given rising focus on solar. Moreover, Inox's EBITDA margin expansion post FY16 may be at risk due to likely provisioning on warranty claims (NIL, at present), as installations of non-related party rise (80% until now). Valuation at 12.4x FY17 consensus EPS looks attractive but this has to be viewed keeping in mind the downgrade risks to FY17 EPS.

Competitive position: MODERATE   Changes to this position: NEGATIVE

Inox is prone to losing market share to Suzlon

MNCs' (except Gamesa) aversion to the turnkey model and Suzlon's financial woes led to market share gains for Inox (12% in FY15 vs NIL in FY11). This is despite a limited range of WTGs and limited execution history outside Rajasthan and with non-related parties. Suzlon, on the other hand, has a full range of WTGs, experienced track record and integrated manufacturing. With the recent equity infusion of ₹18bn, Suzlon is well placed to gain share.

Minimal in-house R&D is a risk

Inox may fall behind the technology curve in case of its technology partner's (AMSC) bankruptcy; whilst Inox will get the technology code from AMSC, Inox currently lacks in-house R&D to upgrade this, which is critical given the fast-changing technology in the wind industry. Secondly, it will not have any technological support in the event of any technical issues with the already installed WTGs.

Risk to EBITDA margins given likely provisions for warranty claim

Inox does not provide for warranty claims, as 100% of its revenues were from related parties until FY12 and it had back-to-back warranty arrangements with vendors. However, the warranties provided by suppliers may be for shorter periods and the extent of losses can exceed the limits of that provided by the vendor/insured by the insurance company. Peers provide 4-5% of revenue as warranty provisions despite similar vendor arrangement as Inox.

Valuations – Expect consensus downgrades to earnings

Inox's valuation of 12.4x FY17 consensus P/E, a 31% discount to global peers, is attractive based on consensus EPS CAGR of 48% over FY15-17 (vs peers' 45%; however, CY11-14 EPS CAGR was only 8%) and FY17 RoE of 30% (vs peers' 17%). Inox's revenue and earnings face downgrades given the risk of market share loss to Suzlon (and industry slowdown) and decline in EBITDA margin (consensus assumes growth) due to high R&D and warranty claims.

Key financials

YE March (₹ mn)	FY11	FY12	FY13	FY14	FY15
Operating income	719	6,214	10,589	15,668	27,099
EBITDA (%)	15.3	23.6	18.6	11.1	16.9
EPS (₹)	0.2	4.5	6.8	5.9	13.4
RoE (%)	15.8	74.7	50.9	30.5	21.3
RoCE (%)	6.7	59.3	39.2	20.4	20.7
P/E (x)	1658.8	88.8	59.5	68.5	30.2
P/BV (x)	261.9	66.3	30.3	20.9	6.4

Source: Company, Ambit Capital research

Capital Goods

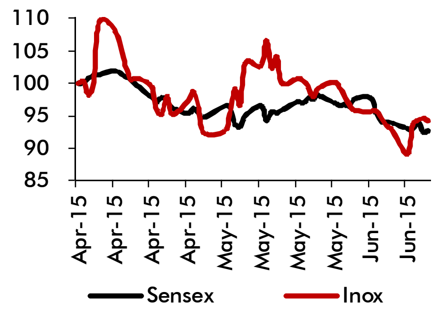
Recommendation

Mcap (bn):	₹91/US$1.4
5 day ADV (mn):	₹175/US$2.7
CMP:	₹412

Flags

Accounting:	AMBER
Predictability:	GREEN
Earnings Momentum:	GREEN

Performance (%)



Source: Bloomberg, Ambit Capital research

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Inox Wind - Background

About the group companies

The Inox Group is owned by the Jain Family (Mr Devendra Kumar Jain and family). Whilst the Jain family has been in the business since 1923, the Inox Group came into existence in 1963 with the establishment of a manufacturing company called 'Industrial Oxygen' (INOX). Today, the Group has diversified into businesses like fluoro chemicals, industrial gases, multiplexes, wind power equipment, renewables and cryogenic equipment.

Inox Wind is the largest company in the Group, with a market cap of ₹90bn; Gujarat Fluorochemicals is the most-profitable company in the Group with FY15 PAT of ₹3.8bn

Inox Wind (Inox), with a market-cap of ₹90bn (as on 16 June 2015), is the largest company in the Group. Gujarat Fluorochemicals (GF) is the most-profitable company in the Group, with FY15 PAT of ₹3.8bn, but its market cap, at ₹68bn (as on 16 June 2015) is lower than Inox's, as it earned a miniscule RoE of 14.2% vs 27% for Inox. Inox Leisure, with market-cap of US$243mn is a relatively smaller company.

Exhibit 1: Snapshot of the listed companies of the Inox Group

Company	Mcap (US$ mn)	Promoter's stake (%)		Incorporated in	FY15					Business description
		As per BSE	Excl. minority interest#		Revenue (₹mn)	EBITDA margin (%)	PAT (₹mn)	Net debt: equity (x)	RoE (%)	
Inox Wind	1,406	85.6	65.6	2010	27,099	16.9%	2,964	0.1	27%**	It is one of the largest WTG manufacturers in India despite commencing operations in 2010.
GF*	1,062	68.3	68.3	1987	13,210	21.4%	3,824	0.1	14.2%	It is primarily into the fluoro chemicals business - refrigerants and Teflon (PTFE) manufacturing. In refrigerants, it is one of the top-3 manufacturers in R22. In Teflon, it is one of the largest manufacturers in India. It is also getting further downstream into specialty fluoro chemicals.
Inox Leisure^	243	48.7	33.5	1999	10,168	12.1%	47	0.30	0.8%	It is the second-largest multiplex player in India with 96 properties, 372 screens and 98,782 seats spread across 52 cities in India. It enjoys box office collection share of 7-8%.

*Source: Company, Ambit Capital research; Note: # We calculate the promoter shareholding in Inox and Inox Leisure by excluding the share of minority shareholders of GF (the holding company) in Inox and Inox Leisure; * We take the standalone financials for GF; ^ We adjust FY15 PAT of Inox Leisure for prior-period items **We have calculated the RoE by excluding the IPO proceeds from the capital employed as the money was received in March 2015*

Inox Wind is one of India's largest WTG manufacturers

Inox has garnered 12% market share in FY15 despite commencing operations in FY10

Inox Wind is one of India's largest wind turbine generator (WTG) manufacturers, despite commencing operations in FY10. Inox has established a strong market positioning for itself, with a market share of 12% in FY15. Inox has sourced technology from AMSC, Austria (100% subsidiary of US-based American Superconductor Corporation) under a perpetual license for manufacturing and selling 2MW WTGs in India. Globally, more than 9,300 WTGs and ~15GW of aggregate WTG production capacity are based on AMSC's technology. Unlike other WTG manufactures in India, Inox has certain restrictions on export of WTG from India given that its technology is outsourced from AMSC.

Inox manufactures all the critical WTG components in-house like nacelles, hubs, blades and towers at its two operational facilities at Una in Himachal Pradesh and Rohika in Gujarat. With the commissioning of the third facility in Madhya Pradesh in 1HFY16, the per annum manufacturing capacity of Inox is likely to increase from 800MW (i.e. 400 wind turbines) currently to 1.6GW (800 wind turbines).

Exhibit 2: Inox is doubling its manufacturing facility…

Location	Capacity	Comment
Operational		
Himachal Pradesh (Una)	550 nacelles and hubs	
Gujarat (Rohika)	400 blades and 150 towers	Expansion to 300 towers by end-FY16
Under-construction		
Madhya Pradesh facility	400 nacelles and hubs, 400 rotor blades and 300 towers	Expected by end-1HFY16

Source: Company, Ambit Capital research

Exhibit 3: …to 1.6GW from 800MW currently

Particulars	Capacity	Comment
Current installed capacity per annum		
- In absolute units	400 wind turbines	By purchasing tower from outside
- In MW	**800 MW***	
Proposed installed capacity per annum by the end of 1HFY16		
- In absolute units	800 wind turbines	
- In MW	**1,600 MW**	

*Source: Company, Ambit Capital research, Note: * Based on blade capacity; Inox's capacity is 800MW; on nacelles, the capacity is 1100MW*

Exhibit 4: Segmental snapshot

Key segment	Description	Revenue	
		₹ mn	**Share in total (%)**
Equipment supply	It includes the WTG supplied by Inox. In FY15, Inox supplied 578MW of WTG equipment.	13,730	91%
EPC services	It includes the EPC-related revenues on turnkey orders executed during the year. Inox takes many orders on turnkey basis (in FY15, ~88% of the projects executed by Inox were on turnkey basis) which includes providing EPC services alongside supplying wind mills.	1,429	9.1%
O&M services and common facility services	This segment includes scheduled and unscheduled maintenance, spare parts and technical upgradation.	326	2.1%
Other operating income		182	1.2%
Total revenue		**15,668**	**100%**

Source: Company, Ambit Capital research

Inox Wind – Not the best placed in our competitive mapping

Despite being the fastest-growing WTG manufacturer with revenue CAGR of 179% over FY11-14 and despite having the highest average EBITDA margin/ROIC of 17%/35% over FY11-14, Inox is worst placed in our competitive mapping. This is because: (a) Inox's average cash conversion days at 179 over FY11-14 was the highest amidst peers; (b) Inox's market share in FY14 on commissioning basis at 7% was the lowest amidst peers; (c) it is dependent on third party (AMSC) for technology vs in-house/MNC parent technology for peers; (d) it has one of the smallest range of WTG amidst peers; and (e) its manufacturing capacity at 0.8GW was the second lowest amidst its peers.

Exhibit 5: Competitive mapping – Gamesa best placed; Inox worst placed

Sr.no.	₹mn unless specified	Inox	Vestas*	Gamesa	Suzlon	ReGen	Remarks
I	**Brand strength**						
a.	FY14 revenue	15,668	7,951	35,298	30,647	22,843	Inox with 179% revenue CAGR over FY11-14 has been the fastest-growing WTG manufacturer. However, the growth trajectory for Inox may come down, as it is no more a new entrant. In absolute revenues, Gamesa is the largest player.
	Ranking	4	5	1	2	3	
	Revenue CAGR over FY11-14	179%	-33%	26%	-11%	25%	
	Ranking	1	5	2	4	3	
b.	Cash management						
	FY14 cash conversion cycle	179	130	(33)	(155)	14	Inox has the worst cash conversion cycle given its high receivable days of 141 in FY14 vs peers' 72 days. Moreover, the cash conversion cycle deteriorated from average of 170 days over FY11-14 to 179 days in FY14. Whilst the poor cash conversion cycle for Inox can be attributed to the higher share of turnkey projects (87% of projects executed in FY14), industry participants highlight that Gamesa is also an aggressive player in turnkey projects; still its cash conversion cycle stood at 1 day in FY14. Note that we have excluded Suzlon from this analysis, as its negative cash conversion cycle is due to its inability to pay its creditors.
	Ranking	4	3	1	NA	2	
	Average cash conversion cycle over FY11-14	170	168	9	(28)	32	
	Ranking	4	4	1	NA	2	
c.	Profitability						
	FY14 EBITDA margin (%)	11%	5%	5%	-15%	14%	Inox is the most-profitable company amidst peers despite being a relatively new entrant. However, we have doubts over its sustainability, as it does not provide for warranties and had NIL R&D spend over FY11-14 (vs 1.7% of revenue for peers).
	Ranking	2	3	3	5	1	
	Average EBITDA margin over FY11-14	17%	4%	1%	-22%	11%	
	Ranking	1	3	4	5	2	
d.	Return ratios						Despite the weak cash conversion cycle, Inox earned the best RoIC over FY11-14 due to the highest EBITDA margin earned over FY11-14. However, with the decline in EBITDA margin in FY14, Inox's ROIC halved from 42% in FY13 to 21% in FY14. After Inox, only ReGen managed to earn a respectable RoIC of 17% in FY14.
	FY14 RoIC	21%	-6%	10%	-6%	17%	
	Ranking	1	4	3	4	2	
	Average RoIC over FY11-14	35%	3%	12%	-4%	24%	
	Ranking	1	4	3	4	2	
	Overall ranking	2	4	2	5	1	
II	**Market Positioning**						
	Market share (%) in FY14^	7%	3%	19%	19%	16%	Gamesa has outstripped Suzlon to become the market leader in FY14. Suzlon has seen a decline in its market share from 41% in FY11 to 19% in FY14 and 19% in FY15, given the financial constraints on the working capital. Whilst Inox's market share in the capacities commissioned declined from 16% in FY13 to 7% in FY14, it has sharply recovered to 12% in FY15.
	Ranking	4	5	1	2	3	
	Increase / (Decrease) in market share in FY14 (ppts.)^	-8%	-1%	13%	-5%	0%	
	Ranking	5	3	1	4	2	
	Overall ranking	5	4	1	3	2	

Sr.no.	₹mn unless specified	Inox	Vestas*	Gamesa	Suzlon	ReGen	Remarks
III	**Product range**						
	WTG rating (KW)	2,000	1,650/1,800/2,000	800/850/2000	600/1,250/ 1,500/ 2,100	1,500	Suzlon has the strongest product portfolio given its presence in four different ratings of WTGs and suitability of its product to both class II and class III sites. Inox scores the second last due to single rating of WTG and suitability of its WTG only to class III sites.
	Ranking (higher rank for better range)	4	2	3	1	5	
	WTG suitable for	Class III sites	Class II and III sites	Class II and III sites	Class II and III sites	Class III sites	
	Ranking	4	1	1	1	4	
	Overall ranking	4	2	3	1	5	
IV	**Manufacturing strength**						
	Installed Capacity in FY14	0.8GW	1GW	1.5GW	3.7GW	0.75GW	
	Ranking	4	1	2	1	5	Suzlon is again the best placed amidst peers, as it has the largest manufacturing capacity of 3.7GW vs 1.5GW for Gamesa (second-largest installed capacity), in-house technology and in-house manufacturing of all the critical components. Inox scores the second last given its dependence on technology from AMSC, its low installed capacity of 0.8GW and outsourcing of towers (insufficient in-house manufacturing).
	Technology license	License with AMSC	MNC parent	MNC parent	In-house	License agreement with Vensys	
	Ranking (In-house - 1, Parent - 2, third party - 3)	3	2	2	1	3	
	Overall ranking	4	2	3	1	5	
	Final ranking	5	3	1	2	4	

Source: Company, MCA, Industry

Note: We have calculated income statement related items for Vestas, Gamesa, and Regen from the balance sheet, cash flow and directors' report, as the income statement of these companies are restricted for public viewing at MCA;

** CAGR and average for Vestas refers to FY12-14, as FY11 financials are not available;*

We take standalone financials for Vestas, Gamesa and Regen, as consolidated financials of Indian operations are not available; we take standalone financials for Suzlon given the large size of its international revenue in the consolidated income statement; Class II site refers to moderately windy site and class III site refers to low windy sites;

^ We take the market share data from Inox Wind's DRHP; market share refers to the WTG commissioned and not supplied;

We have excluded Wind World India (erstwhile Enercon India) from the above analysis as the financials for the same are not available on MCA

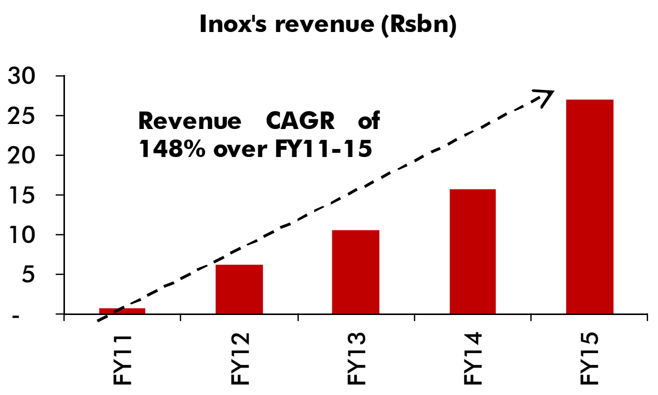
On the cusp of becoming the new market leader

Market share increased to 12% in FY15 vs 0% in FY11

Share of related parties since FY14 has declined to NIL vs 100% before FY13 and geographical presence has increased to four states in FY15 vs one state in FY13

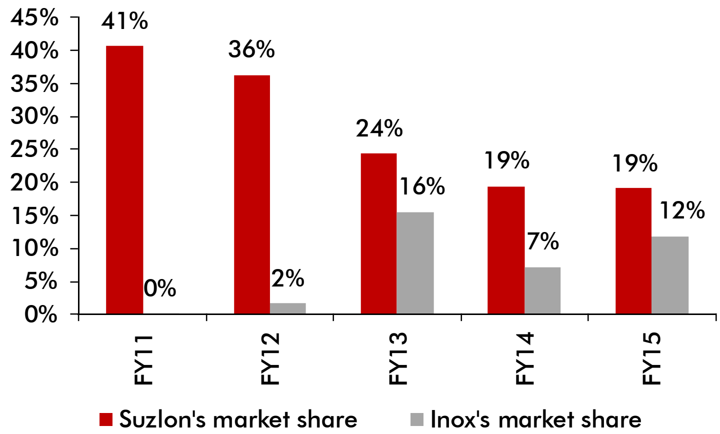
In FY15, Inox emerged as one of India's leading WTG manufacturers, with a market share of 12%. In the last five years, Inox has come a long way, with: **(a)** Revenue CAGR of 148% over FY11-15 led by market share gain from 0% in FY11 to 12% in FY15; **(b)** client diversification, with share of third-party sales increasing from NIL in FY11 to 100% in FY14 and share of IPP sales increasing from NIL in FY11 to 91% in FY15; and **(c)** geographical diversification, with a presence in four states as on FY15 vs one state as on FY13.

Exhibit 6: Strong revenue CAGR of 148% over FY11-15 led by…



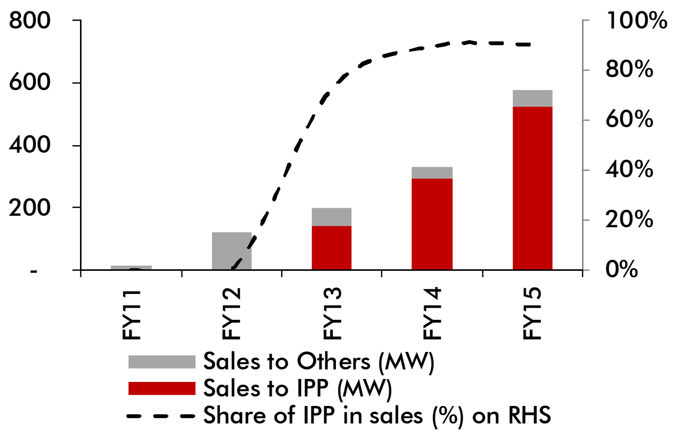
Source: Company, Ambit Capital research

Exhibit 7: …market share gains largely from Suzlon



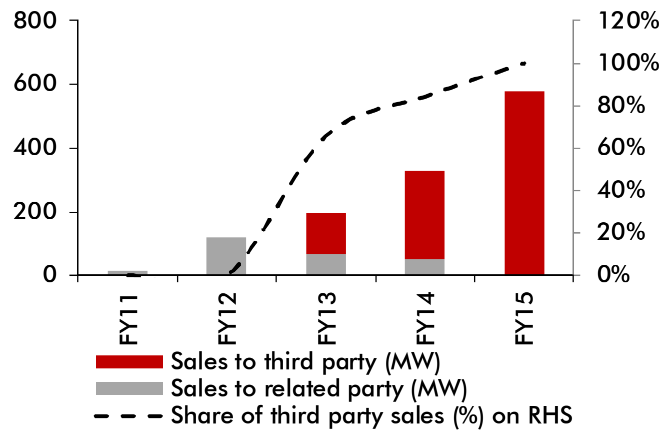
Source: Company, MNRE, Ambit Capital research; Note: Market share is based on capacity commissioned and not sold

Exhibit 8: Share of IPP sale increased from NIL in FY11 to 91% in FY15



Source: Company, Ambit Capital research

Exhibit 9: Share of third-party sales increased from NIL in FY11 to 100% in FY15



Source: Company, Ambit Capital research

Exhibit 10: Inox has increased its geographical diversification, with a presence in four states in FY15 vs one state in FY13

Capacity in MW	WTG commissioned					Order book
	FY11	FY12	FY13	FY14	9MFY15	Mar-15
Maharashtra	-	-	-	110	2	-
Rajasthan	-	-	264	-	116	567
Gujarat	-	-	-	40	34	241
Tamil Nadu	2	52	-	-	-	-
Madhya Pradesh	-	-	-	-	28	320
Unclassified	-	-	-	40	8	-
Total	**2**	**52**	**264**	**190**	**188**	**1,129**

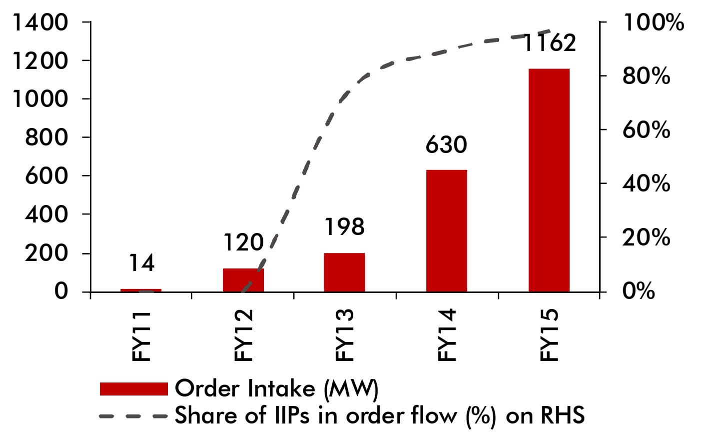
Source: Company, Ambit Capital research

Strong order book of 1.2GW provides strong revenue visibility for FY16

Inox has a strong order book of 1.2GW as on 31st March 2015 led by an 84% YoY increase in order intake (1.2GW) in FY15. The execution period for this order book is 12-15 months; consequently, the likely execution in FY16 is likely to be 1.1GW (up 90% YoY). The surge in order intake was led by 1.1GW orders received from the IPPs; the share of IPP in the order book has increased from 90% in FY14 to 97% in FY15.

Order book of 1.2GW as on March 2015 vs sales of 578MW provides strong revenue visibility for FY16

Exhibit 11: Surge in order intake from IPPs...



Source: Company, Ambit Capital research

Exhibit 12: ...led to more than doubling of the order book in FY15

Order book (MW)	FY14	FY15
IPP orders	344	1148
Other orders	26	30
Total order book	370	1178
YoY growth (%)		218%

Source: Company, Ambit Capital research; Note: Order book data prior to FY14 is unavailable

Our discussions with consultants and IPPs suggest that Suzlon's weakness on execution (leveraged balance sheet) front helped Inox in gaining market share, because: (1) IPPs need faster execution, as majority of the IPPs are funded by private equity investors. Thus, many IPPs prefer WTG manufacturers that offer turnkey solutions, as it reduces the gestation period to 12-15 months vs 20-24 months in green-field expansion. (2) Approval for environment clearances for the project and power evacuation from the discom is a bigger challenge in wind than conventional coal-based power plants. Inox stood out as a beneficiary because, after Suzlon, Inox is the other main WTG manufacturer offering turnkey solutions. Apart from Suzlon, Inox and Gamesa, hardly any other MNC WTG manufacturer offers turnkey solutions.

Our discussion with consultants and IPPs suggests that Suzlon's weakness allowed Inox to gain market share, as it is one of the few WTGs which offers turnkey solutions to IPPs

Majority of wind IPPs are funded by private equity investors; hence they need turnkey solutions due to faster execution

Strong pipeline of 4.4GW across India's key states

Inox has a strong pipeline of 4.4GW across India's key states like Rajasthan, Gujarat, Madhya Pradesh, Maharashtra and Andhra Pradesh. This is an improvement over the sales booked in FY15 in Rajasthan, Madhya Pradesh and Gujarat.

Inox has a well-diversified inventory of 4.4GW spread across India's best states for wind power like Rajasthan, Maharashtra, Andhra Pradesh, Gujarat and Madhya Pradesh

Exhibit 13: Strong pipeline of 4.4GW across India's key states

State	Project site (MW)	Site under Acquisition (MW)	Total (MW)
Rajasthan	1,355	1,194	2,549
Gujarat	430	164	594
Madhya Pradesh	285	634	919
Maharashtra	-	300	300
Andhra Pradesh	20	20	40
Total	**2,090**	**2,312**	**4,402**

Source: Company, Ambit Capital research

Rajasthan, Gujarat, Madhya Pradesh, Maharashtra and Andhra Pradesh are one of India's best states for wind power, given the attractive preferential feed-in tariff (FIT), good track record of complying with the Renewable Performance Obligation (RPO) and above average PLFs. Whilst Tamil Nadu, which has the highest installed capacity in wind, is missing from the above list, there are several challenges in offtake which led to only 406MW getting installed in Tamil Nadu in the last three years vs 2.7GW over FY10-12.

Several headwinds

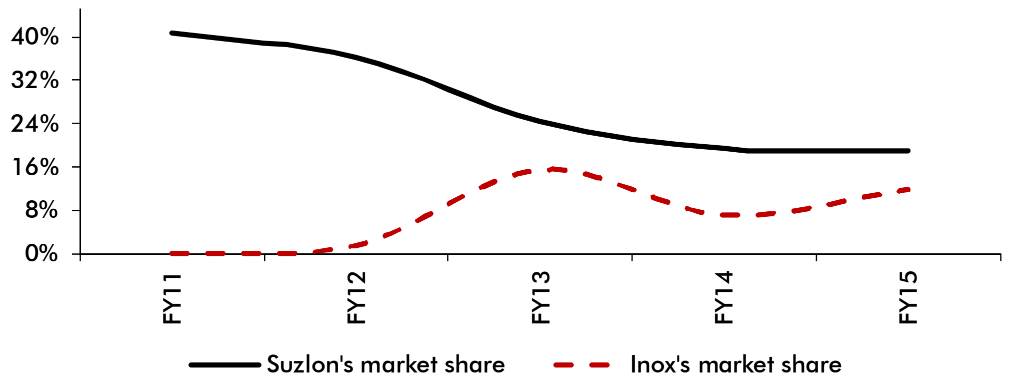
(I) Suzlon, the erstwhile market leader, is back given the capital infusion by DSA

Sustained losses and leveraged balance sheet led to Suzlon's market share loss in the domestic market

Our discussions with consultants, IPPs and wind equipment manufacturers suggest that Suzlon's weakness (due to working capital constraints) was one of the main reasons for Inox's significant market share gain over the last two years. Consistent losses over FY10-15 led to significant erosion of net worth and massive increase in debt; Suzlon's consolidated net worth declined from ₹85bn in FY10 to –₹73bn in FY15 and consolidated gross debt increased from ₹127bn in FY10 to ₹170bn in FY15. Consequently, Suzlon had to forego many orders from retail as well as IPPs, as Suzlon was financially constrained to accept orders. Also, Suzlon's customers lost the confidence in its execution capabilities, given its distressed balance sheet.

Consistent losses at Suzlon led to significant erosion of its networth alongside increase in gross debt from ₹127bn to ₹170bn in FY15; hence Suzlon had to forego many orders from IPPs and many IPPs also lost faith in Suzlon's execution capabilities

Exhibit 14: Suzlon's market share loss led to Inox gaining market share…



Source: Company, MNRE, Ambit Capital research; Note: Market share is based on capacity commissioned and not sold

Exhibit 15: …as consistent losses and leveraged balance sheet hampered Suzlon's execution capabilities and customer confidence

₹mn unless specified	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Networth	81,038	85,342	66,038	65,281	49,841	9,080	(3,759)	(73,164)
Gross debt	99,346	148,696	126,679	96,558	104,504	123,561	135,300	169,640
Net debt	29,744	117,997	97,637	69,699	78,180	103,970	110,820	144,211
Gross debt:equity (x)	1.2	1.7	1.9	1.5	2.1	13.6	NA	NA
Net debt: equity (x)	0.4	1.4	1.5	1.1	1.6	11.5	NA	NA
Revenue	136,794	260,817	206,197	180,902	213,592	189,135	204,029	199,544
EBITDA margin (%)	14.8%	10.7%	4.9%	5.5%	8.5%	-6.9%	-0.7%	1.6%
PAT	10,172	4,289	(9,897)	(13,169)	(4,726)	(47,320)	(35,482)	(91,577)
RoE (%)	18%	5%	-13%	-20%	-8%	-161%	NA	NA

Source: Ace Equity, Ambit Capital research; Note: We have taken consolidated financials

DSA invests ₹18bn in Suzlon in February 2015 and agrees to provide credit enhancements to Suzlon's lenders for additional working capital facilities

DSA in February 2015 infused ₹18bn as life support in addition to providing credit enhancements to Suzlon's lenders for additional working capital

In February 2015, Dilip Sanghvi and Associates (DSA) signed an agreement with Suzlon to infuse capital into the company. The agreement comprises:

- An equity investment of ₹18bn (implies 23% shareholding). Suzlon issued 1bn shares to DSA at ₹18/share.
- DSA and Suzlon will form an equal JV for the wind farm development business. The JV will develop 450MW wind farms within a stipulated period of time. DSA

will also assist in providing an incremental project-specific non-fund-based working capital facility to Suzlon for the execution of the said project.

- Lastly, DSA will also provide credit enhancement to the lenders of Suzlon for additional project-specific working capital facilities. This move should help Suzlon in getting the working capital financing support and should act as a catalyst for a volume ramp-up.

Suzlon's gross debt after the fund infusion will reduce from ₹170bn in FY15 to ₹82bn at the end of 1QFY16; already this has improved confidence amidst IPPs, as order intake since fund infusion has improved to 278MW vs 350MW total order intake in FY15

Post this fund infusion and the 100% stake sale in Senvion (wherein Suzlon will get proceeds of ₹70bn), Suzlon's consolidated gross debt at the end of 1QFY16 is likely to reduce to ₹82bn vs ₹170bn at the end of FY15.

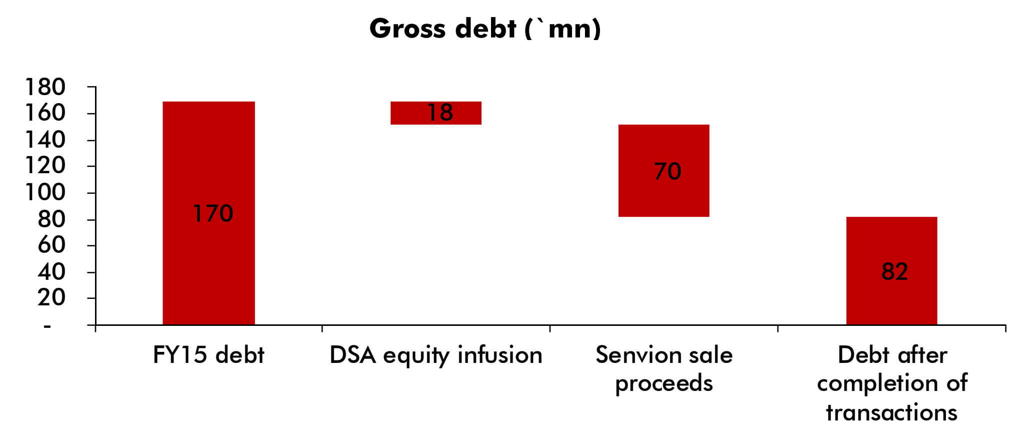
Post the completion of both these transitions, Suzlon has won orders worth 278MW from IPPs like ReNew Power and Mytrah vs 350MW total order intake in FY15. The management's guidance is to restore market share to 35% from 19% in FY15. Suzlon is targeting to install 900MW in FY16 based on its outstanding order book of 1,153MW as at the end of FY15. Suzlon is also targeting 300MW installation in FY16 from the accelerated depreciation (AD) market.

Exhibit 16: Equity allotment to Dilip Sanghvi and Associates (DSA)

Fund raised		
Number of Shares	1bn	
Allotment Price	₹18/share	
Total Size	18bn	
Shareholding	**DSA (new investor)**	**Promoter**
Post Allotment	20.7%	21.8%
Diluted	16.7%	17.5%

Source: Company, Ambit Capital research

Exhibit 17: Gross debt is likely to reduce to ₹82bn vs ₹170bn in FY15 post the completion of equity infusion and Senvion sale



Source: Company, Ambit Capital research

Exhibit 18: Since the fund infusion from DSA, Suzlon has bagged orders worth 278GW from IPPs vs 350MW total order intake in FY15

Date	**Event**
13-Feb-15	Board approves the equity infusion by DSA
23-Mar-15	Shareholders approves sale of stake in Senvion
29-Apr-15	Completes stake sale in Senvion
13-May-15	Bags 90MW order from ReNew Power
18-May-15	Bags 98MW order from Mytrah Energy
04-Jun-15	Bags 90MW order from ReNew Power

Source: Company, BSE, Ambit Capital research

(II) AMSC, Inox's technology partner, is in financial distress

Inox has a perpetual license from AMSC Austria GmbH to manufacture 2MW WTGs in India based on AMSC's proprietary technology. AMSC is a Nasdaq-listed company (mcap of $84mn), offering a host of electronic controls and systems as well as wind turbine designs and engineering services which aid in maximising turbine availability. Wind Turbine Controls and Systems provide higher availability, reliability and optimised energy output from wind turbines wherever the operations and whatever the conditions. AMSC has licensed its advanced turbine designs and furnished core electronics to companies in China, Korea, Taiwan, India, Turkey and Czech Republic.

AMSC, Inox's technology partner is a Nasdaq-listed company with a market cap of US$84mn; it provides a host of electronic control systems, wind turbine designs and engineering services which aid in maximising turbine availability

However, AMSC has been facing financial difficulties since FY03 (and has made profit only once in the last 13 years) given the potential loss of a key customer and changes to its senior management. Its stock price has corrected by ~59% in the last one year and by ~90% in the last five years. Inox procures Electronic Control Systems (ECS) from AMSC and its affiliates.

However, AMSC has been facing financial difficulties since FY03 given the potential loss of key customer and change in management; the stock price has corrected by 59% in the last one year and by 90% in the last five years

Exhibit 19: AMSC's sustained losses suggest a near-term possibility of losses

US$mn unless specified	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Operating performance								
Revenue	112	183	316	287	77	87	84	71
Gross Profit	32	52	115	(22)	(6)	15	11	3
EBITDA	(17)	(7)	39	(89)	(101)	(55)	(43)	(46)
PAT	(25)	(17)	16	(186)	(137)	(66)	(56)	(49)
Financial position								
Net worth	208	222	281	293	165	125	112	80
Debt	-	-	-	-	-	18	13	8
Cash	106	110	142	240	52	39	43	20
Ratios								
Revenue growth YoY (%)	115%	63%	73%	-9%	-73%	14%	-4%	-16%
Gross margin (%)	29%	28%	36%	-8%	-8%	18%	13%	4%
EBITDA margin (%)	-16%	-4%	12%	-31%	-132%	-63%	-51%	-65%
RoE (%)	-16%	-8%	6%	-65%	-60%	-46%	-47%	-51%
RoCE (%)	-11%	-3%	16%	-31%	-44%	-36%	-32%	-43%

Source: Bloomberg, Ambit Capital research, Note – March year ending

In the event, of any bankruptcy at AMSC, there can be no assurance that Inox will continue to update and upgrade the technology that it licenses from them. Whilst Inox's agreement with AMSC provides that the source codes for ECS will be released to Inox, there can still be no assurance that Inox will be successful in updating and upgrading technology to keep pace with its competitors that use other technology for their WTGs. Given Inox's NIL spend on R&D over FY11-14 vs average of 1.7% of revenues for its peers like Suzlon, Regen, and Gamesa, it remains to be seen how Inox will be able to compensate for the loss of AMSC.

If AMSC goes bankrupt, then there can be no assurance that Inox will be able to update and upgrade the technology that they license from AMSC

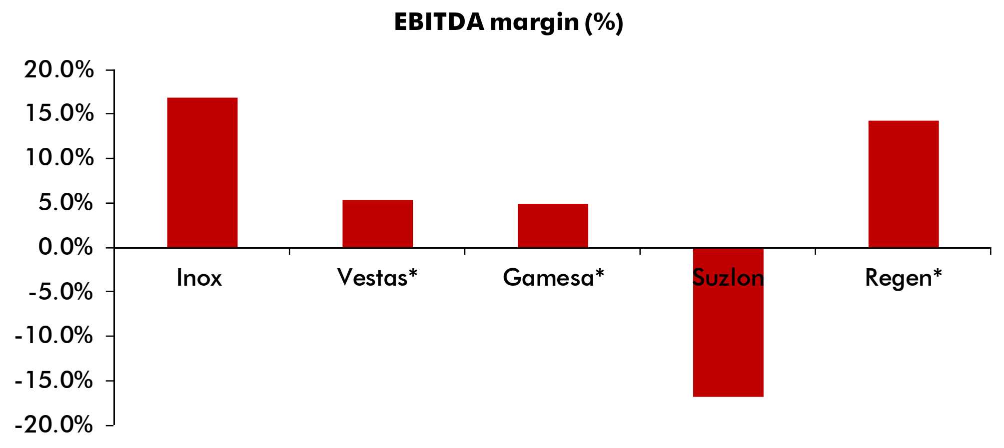
Given Inox's NIL spend on R&D over FY11-14 vs average of 1.7% for peers, it remains to be seen how Inox will be able to compensate for the loss of AMSC

Exhibit 20: Inox's R&D spend is the lowest amidst peers

Particulars	FY11	FY12	FY13	FY14	Average*
R&D spend (₹mn)					
- Inox	NIL	NIL	NIL	NIL	
- Gamesa	NA	NA	93	5	
- Suzlon	764	1,023	2,172	390	
- Regen	195	53	58	52	
R&D spend as a % of revenue					
- Inox	-	-	-	-	-
- Gamesa	NA	NA	0.8%	0.0%	0.2%
- Suzlon	1.7%	1.5%	12.4%	1.3%	2.7%
- Regen	1.7%	0.2%	0.3%	0.2%	0.5%
Average (excl. Inox)	**1.7%**	**0.9%**	**4.5%**	**0.5%**	1.7%

Source: Company, MCA, Ambit Capital research; Note: R&D spend for Gamesa in FY11 and FY12 and Vestas over FY11-14 is not available in their MCA filings; we have calculated average on cumulative R&D spend and cumulative revenue

Exhibit 21: Inox's EBITDA margins at 17% in FY15 is the highest amidst peers, as it does not spend on R&D and also does not provide for warranties



*Source: Company, MCA, Ambit Capital research; Note: * We take FY14 EBITDA margin for Vestas, Gamesa and Regen as their FY15 financials are yet not available on MCA*

(III) High EBITDA margins may not be sustainable

Inox's superior EBITDA margin can be attributed to NIL R&D and NIL provisioning on warranties

Inox reported the highest EBITDA margin vs its peers, both domestic and MNCs. Whilst Inox reported 17% EBITDA margin in FY15 vs Suzlon's -17% and MNC peers' average of 8% for FY14 (FY15 financials not available for MNC peers), its average EBITDA margin over FY11-15 at 17.1% was also higher vs average EBITDA margin of -20.8% for Suzlon and 5.5% for MNC peers (FY11-15). **Inox's superior EBITDA margin can be attributed to NIL R&D expenditure** (refer to Exhibit 20 above) **and NIL provisioning on warranties** (as seen in Exhibit 22). Compared with average warranty provision at 4.5% of revenue over FY11-14 for its peers, Inox's warranty provision was NIL.

The lower provisioning cost is a risk, as several warranties are provided by the equipment supplier, which includes performance guarantees of WTGs, machine availability etc. Inox provides its WTG customer with a warranty of about two years against all defects in components, materials and engineering from the date a WTG is commissioned. Whilst Inox has back-to-back warranties with its vendors, in some cases, the warranties provided by suppliers may be for shorter periods than the warranties provided to the customers. In other cases, the extent of losses can exceed the limits of that provided by the vendor/insured by the insurance company.

Exhibit 22: Inox's highest EBITDA margin vs its peers is led by lower provisioning cost

Warranty provision as a % of revenue	FY11	FY12	FY13	FY14	Average*
Inox	0.0%	0.0%	0.0%	0.0%	0.0%
Gamesa	3.7%	4.7%	NA	NA	4.2%
Suzlon	6.8%	3.9%	10.4%	9.0%	6.3%
Regen	2.2%	0.5%	0.8%	1.3%	1.1%
Average (excl. Inox)	**4.2%**	**3.0%**	**3.7%**	**3.4%**	**4.5%**

*Source: Company, MCA, Ambit Capital research; Note: Warranty provisioning for Gamesa in FY13 and FY14 and Vestas over FY11-14 is not available in their MCA filings; * we have calculated average warranty claim on cumulative warranty claim made and cumulative revenue*

(IV) Limited execution track record; wind sites and brand belong to promoters

Inox has limited track record of execution, given 100% of the orders executed until FY12 were for related parties

Inox's turbines (commenced operations in 2010) have limited track records beyond its captive consumers, given that group and promoter-owned companies had a revenue contribution of 34% in year-ended 31 March 2013, 100% in year-ended 31 March 2012 and 100% in year-ended 31 March 2011. Also, until FY13, Inox had executed projects only in Rajasthan and Tamil Nadu, with ~83% of the projects being executed in Rajasthan.

Further, all the wind sites for future development in the states of Rajasthan, Gujarat and Kerala are held by the promoters and by IRL (a group company). In the event, the framework agreement entered into with the promoters does not hold up, the company can lose all the wind sites. Moreover, the brand Inox is not owned by the company. It belongs to the Jain family (represented by Pavan Kumar) which are the promoters of GF.

Exhibit 23: Limited track record of turbines from third party as majority of sales happened to related parties until FY13

Sales in MW	FY11	FY12	FY13
Related party sales			
- GFL	2	52	-
- Inox Renewables	-	-	134
Others	-	-	130
Total	**2**	**52**	**264**
Sales to related parties as % of total	**100%**	**100%**	**34%**

Source: Company, Ambit Capital research

(V) Other listed group companies of Inox have demonstrated lower return ratios than their peers

Apart from Inox Wind, the other listed group companies are Inox Leisure and GF.

GF's franchise is weak compared with Navin Fluorine and SRF given its high dependence on the commoditised caustic soda business

- As per our Chemicals analyst, amidst fluorine players, SRF is a much better bet than GF, given its product portfolio, scale, management bandwidth, and R&D capability. Whilst SRF has a dominant share of the fluoro chemicals business (commercialised 20 modules so far), a large portion of GF's revenues are driven by the commodity product, caustic soda. Also, whilst SRF has been investing 6-7% of PBT into R&D, GF hasn't focused much on specialty chemicals and has largely focused on commodity fluoro products such as Teflon. Whilst GF's FY15 EBITDA margin at 21% is superior to Navin Flourine's 12% and SRF's 18%, GF earns lower RoE than both (as seen in the exhibit below).

Even Inox Leisure's franchise is weak compared with PVR which has superior EBITDA margins and RoE

  Even the Inox Leisure business (entertainment business) lacks a competitive edge vs its peers. Despite its revenue at ₹9.7bn in FY15 being similar to PVR's ₹14.7bn, its FY15 EBITDA margin/RoE at 12%/5% was lower than PVR's 14%/6%.

Exhibit 24: GF's RoE is lower than its peers

	FY11	FY12	FY13	FY14	FY15	Average over FY11-15
EBITDA margin (%)						
- GF	34.4	35.8	44.0	16.6	21.4	30.4
- Navin Fluorine	26.2	35.5	15.3	13.5	11.6	20.4
- SRF	28.2	22.7	17.4	14.8	18.2	20.3
RoE (%)						
- GF	16.1	22.2	17.2	3.0	14.2	14.5
- Navin Fluorine	23.0	56.7	8.7	9.6	8.9	21.4
- SRF	33.2	22.2	13.4	10.4	13.5	18.5

Source: Ace Equity, Ambit Capital research; Note: We have taken standalone financials for GFL, Navin Fluorine and SRF

Exhibit 25: Even Inox Leisure's RoEs and margins are lower than its peers

	FY11	FY12	FY13	FY14	FY15	Average over FY11-15
EBITDA margin (%)						
- Inox Leisure	**9.7**	**12.9**	**12.8**	**14.0**	**12.0**	**12.3**
- PVR Cinema	17.7	14.0	13.8	15.2	13.8	14.9
RoE (%)						
- Inox Leisure	**0.5**	**7.7**	**6.2**	**8.7**	**0.8**	**4.8**
- PVR Cinema	0.1	8.1	9.6	9.7	3.2	6.1

Source: Ace Equity, Ambit Capital research; Note: We have taken consolidated financials for PVR

Not all is hunky dory in India's wind market

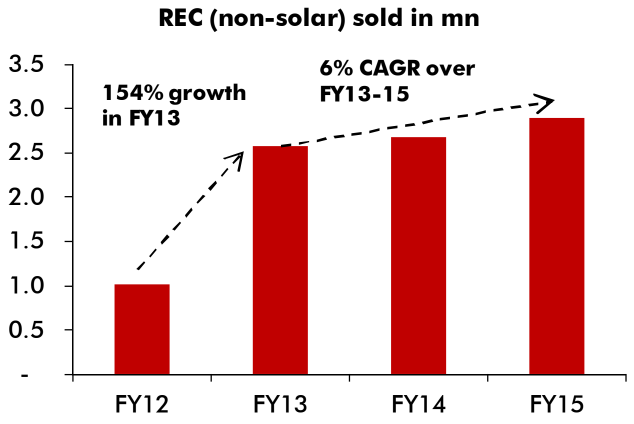
Although the sector is on the cusp of an inflexion, our discussions with IPPs and consultants highlight several challenges in the sector, which if not addressed will wane IPP interest.

The REC market is dying

As per the IEX website, more than 5mn REC certificates (for non-solar) remained unsold on the IEX (the exchange accounts for 90% of the domestic electricity trading market) as on 31 March 2015 (last day for complying with the RPO). At any point in time of the year, the range of RECs sold has been very dismal at 0.3% to 5.8%, as seen in the exhibit below. As per our discussion with renewable energy consultants, the reason is the weak financial health of discoms which are not complying with the RPO. Note that no penalties were levied on discoms by the regulatory commissions for not complying with the RPOs.

At any time of the year, the range of RECs sold in FY15 has been very dismal in the range of 0.3% to 5.8%

Exhibit 26: REC (non-solar) sold has grown merely at 6% over FY13-15



Source: REC Registry, Ambit Capital research

Exhibit 27: In FY14 and FY15, not all RECs (non-solar) issued were sold

Mn units	FY12	FY13	FY14	FY15
Opening balance	0.0	0.0	1.8	5.5
Add: Issued	1.1	4.3	6.4	8.2
Less: Redeemed	1.0	2.6	2.7	2.9
Less: Retained by generator	-	-	-	0.2
REC unsold	**0.0**	**1.8**	**5.5**	**10.6**

Source: REC Registry, Ambit Capital research

Consequently, IPPs which were banking upon the REC market have been on the look-out for selling their wind farms. Techno Electric is one such company which sold 44MW out of 162MW.

IPPs which were banking upon the REC market have started selling their wind farms, starting with an efficient player like Techno Electric which sold 44MW out of 162MW

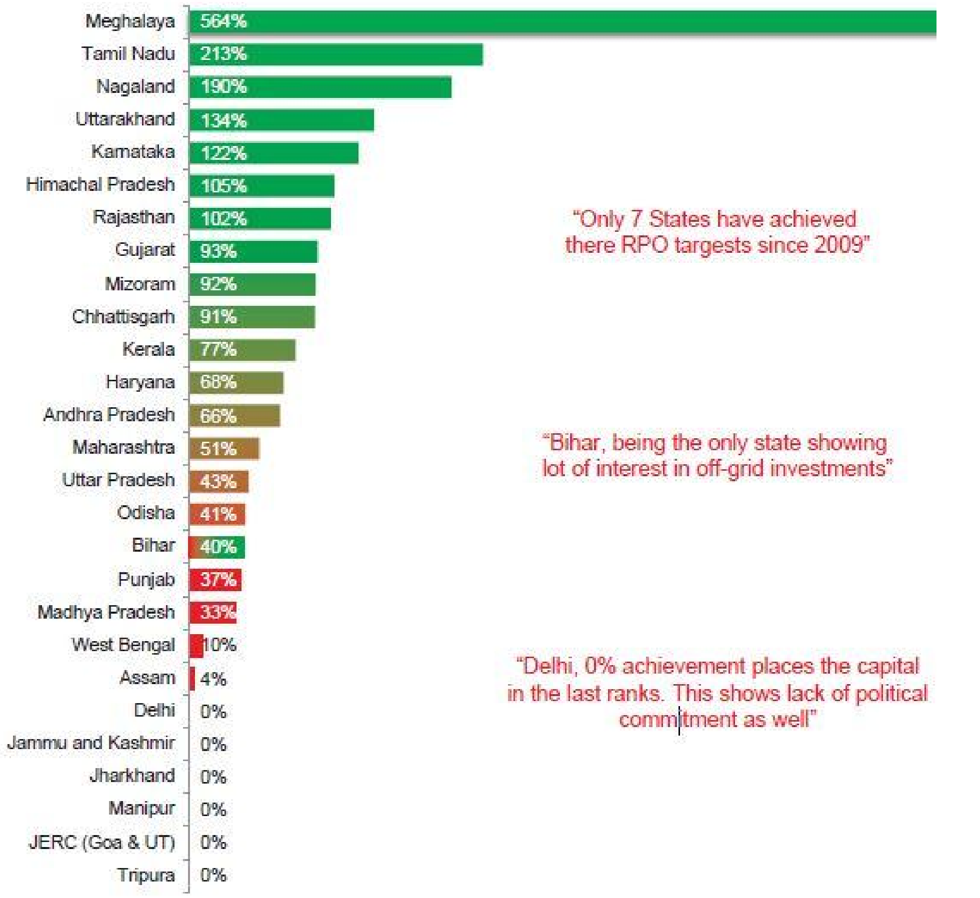
Weak compliance of the RPOs

The wind sector continues to face a major regulatory challenge particularly in respect of compliance of RPO.

- Only 20 out of 28 states had stipulated the RPO norms for FY15.
- RPO levels in 11 states are less than or equal to 5% for FY15 as against the suggested level of 10% as suggested by NAPCC.
- With respect to RPO compliance, whilst discoms in states like Himachal Pradesh, Tamil Nadu and Karnataka have completely met their RPO in FY13 (data not available after FY13) and states like Gujarat, Maharashtra, and Rajasthan have achieved RPO compliance in the range of 90-95%; states such as Andhra Pradesh, Assam, Bihar, Delhi, Haryana, Uttar Pradesh, Uttarakhand and West Bengal have seen weak enforcement of RPO. This is primarily on account of their weak balance sheet and weak enforcement of RPOs by the SERCs.

RPO compliance in India has been weak especially in states like UP, Andhra, Assam, Bihar, West Bengal, Delhi and Haryana

Exhibit 28: Status of RPO compliance across the states in FY12



Source: Infraline, Ambit Capital research

Exhibit 29: States such as Bihar, Jharkhand, Odisha, Assam, Uttar Pradesh, Madhya Pradesh and West Bengal with weak RPO compliance have weak balance sheets (exhibit represents the financial of SEBs)

₹mn	Net worth (FY12)	O/S Debt FY12	Profit/(Loss) in FY12
Bihar	(76,750)	176,140	(18,160)
Jharkhand	(92,920)	86,060	(32,110)
Odisha	(21,040)	111,870	(11,190)
Arunachal	(13,440)	870	(2,640)
Assam	(9,250)	16,390	(5,250)
Manipur	(17,600)	820	(3,070)
Nagaland	(11,310)	1,440	(2,010)
Haryana	(22,120)	303,460	(36,530)
Jammu Kashmir	(167,670)	30,660	(26,920)
Rajasthan	(311,890)	708,880	(197,510)
Uttar Pradesh	(48,000)	408,210	(123,720)
Tamil Nadu	(247,710)	452,930	(143,060)
Madhya Pradesh	(48,340)	271,750	(30,040)
Others	769,920	2,123,974	6,400
Total	(318,120)	4,693,454	(625,810)

Source: Power Finance Corporation, Ambit Capital research, Note – data beyond FY12 is not available

Further, amidst the states which are the so called windy states, the level of compliance to the RPO has been less than satisfactory, given that only seven states fulfilled their RPOs. Assuming this trend continues in the future as well, the per annum market size for wind power in India is likely to be 3GW, assuming AD-related market of 0.6GW.

Valuation – Too much hope

Consensus estimates on Inox are very aggressive, as they are assuming 180bps expansion in margins over FY15-17 despite risks of warranty provisions, R&D spends and royalty on more than 113 mts hub height turbines

On consensus estimates, Inox is trading at an attractive valuation of 12.4x FY17 P/E, a 31% discount to global peers (Gamesa, Vestas, Nordex and Xinjiang Goldwind). This is despite consensus expecting EPS CAGR of 48% (vs peer median of 45%) over FY15-17 and FY17 RoE of 30% (vs peer median of 16%). Whilst Inox appears attractively valued, we are skeptical of Inox meeting consensus estimate of revenue CAGR and EBITDA CAGR of 47% and 58% respectively over FY15-17.

Exhibit 30: Consensus expects revenue CAGR and EBITDA CAGR of 47% and 58% over FY15-17

₹mn unless specified	FY15	FY16E	FY17E	CAGR over FY15-17
Revenue	27,027	49,504	58,691	47.4
- Revenue growth YoY (%)		83%	19%	
EBITDA	4,259	8,689	10,675	58.3
- EBITDA growth YoY (%)		104%	23%	
EBITDA margin	15.8%	17.6%	18.2%	NA
- EBITDA margin YoY (bps)		180bps	60bps	
PAT	2,964	6,074	7,162	47.7
- PAT growth YoY (%)		105%	18%	

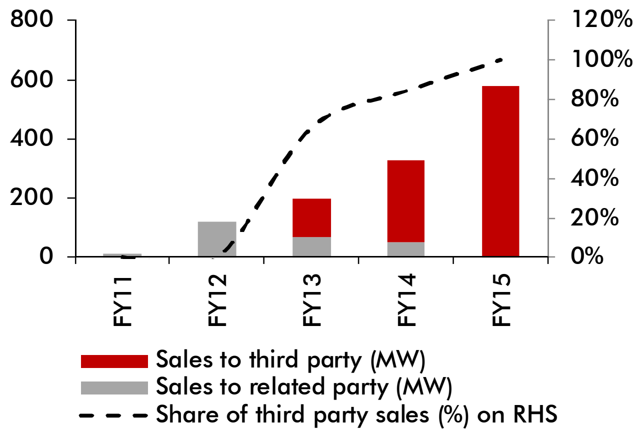
Source: Bloomberg, Ambit Capital research

The reasons for our skepticism are:

Risks to EBITDA margin: Whilst consensus is estimating EBITDA margin expansion of 190bps over FY15-17 from 16.9% in FY15 to 18.8% in FY17, we see several headwinds to Inox's EBITDA margin, which are:

(a) Unexpected warranty claims: Whilst the industry trend is to set aside 4-5% of revenues for unexpected claims, Inox does not follow such a practice. Inox has not made any provision for warranty expenses over FY11-15. We believe Inox's expectation of *'No Warranty Claims'* in the future is unrealistic given serious incidents like blade cracks happening with several reputed players like Suzlon, Vestas and Regen. Whilst in the past having no provision for warranties made sense, given most of the execution was for related parties, with the share of third-party consumers rising, Inox will have to start making these provisions which in turn will hurt its EBITDA margins. All reputed players like Suzlon, Vestas and Gamesa in the past have experienced issues with WTGs which have resulted in replacements/penalties (http://goo.gl/jwUQfC).

Exhibit 31: With share of third-party revenues rising, Inox may have to start making provisions for warranties



Source: Company, Ambit Capital research

Exhibit 32: Suzlon, Gamesa and Vestas have experienced issues with WTGs

Company	Year	Accident
Gamesa	2007	Seven turbine blades broke off at the Allegheny Ridge Wind Farm in Pennsylvania
	2010	WTG in Iowa caught fire
	2013	WTG in Ireland collapsed
	2014	WTG in Pennsylvania caught fire
Suzlon	2011	Nacelle caught fire and later blade crashed to the ground
Vestas	2013	WTG in Netherland caught fire
	2012	WTG in Germany caught fire
	2012	WTG in Spain caught fire
	2013	WTG in Canada caught fire

Source: Industry, Ambit Capital research

(b) Continuation of royalty payments: We are skeptical of the management's guidance of improvement in EBITDA margin due to discontinuance of the royalty payment to AMSC from FY16. This is because the discontinuance of royalty payment will happen only on the WTGs up to 110 meters (as Inox has crossed the landmark of 450 WTGs upto 110metres) and not on the WTGs above 110 meters. As per the agreement with AMSC, Inox will have to pay royalty for the first 245 WTGs (NIL supplied to date) above 110 meters. With the market fast transitioning to 120 meters, we expect the bulk of order inflows in FY16 to happen in WTGs above 110 meters. This should impact EBITDA margins.

(c) Inox will have to step up its R&D spend: Given the weak financial position of AMSC and increase in competition from Suzlon, Inox may have to start spending on R&D so as to build technical capability. Over FY11-14, Inox did not spend anything on R&D vs an average R&D expenditure of 1.7% of revenue for its peers. This again should hurt EBITDA margins. Currently, out of ~1,800 employees working with the company, none of the employees are involved in R&D and this trend has remained constant in the last five years.

Risks to revenue growth

(a) Suzlon making a comeback: As highlighted on page 9, the competition for Inox from Suzlon should increase significantly after the equity infusion by DSA. Increase in competitive intensity will not only put pressure on Inox's market share but also on industry pricing. Consequently, consensus forecasts of 48% volume growth (assuming realisation remains constant) over FY15-17 may have to be downgraded.

(b) Wind installations in India unlikely to double over the next two years: Assuming Inox's market share remains constant over FY15-17 (market share gain may be a challenge, as Suzlon is making a comeback), consensus seems to be modeling in India's wind installations to more than double over FY15-17. This looks like a tall task given the compliance to the RPO in FY16 is likely to be weak as compared to FY13-15. The RBI has instructed banks to cut funding support to discoms in states like Rajasthan, Maharashtra, and Tamil Nadu which are traditionally the strong windy states. These states despite the debt restructuring over the past three years continue to report losses and hence are unlikely to be eligible for the next round of debt restructuring due currently.

(c) Government's rising focus on solar power: Solar installations are on course to exceed 2,500 megawatts in the year through March 31, 2016, topping the 2,400MW target for wind, according to interviews with officials from India's Ministry of New and Renewable Energy. "By next year, solar installations will overtake those for wind by several fold," Tarun Kapoor, a joint secretary in the ministry, said in an interview in New Delhi on June 8. He was referring to the fiscal year beginning April 1, 2016. "Solar can become cheaper than wind," said Anish De, a partner at KPMG near New Delhi. "As solar is getting more in focus, wind companies in India are looking to balance and expand their portfolios. Globally, wind has been existing alongside solar and has been growing. The same can happen in India." Modi's target for solar is 100GW (includes 40GW of roof tops) by 2022 from about 4.1GW now.

Exhibit 33: Inox is trading at a 31% discount to global WTG players

Company	Country	CMP#	Mcap (US$mn)	P/E (x)		P/B (x)		EV/EBITDA (x)		RoE (%)			CAGR over FY15-17		
				FY16	FY17	FY16	FY17	FY16	FY17	FY15	FY16	FY17	Revenue	EBITDA	EPS
Inox Wind	**India**	**402**	**1,391**	**14.7**	**12.4**	**4.6**	**3.5**	**10.4**	**8.5**	**32.6**	**34.2**	**30.1**	**47.4**	**58.3**	**47.7**
Indian WTG player															
Suzlon	India	22	1,631	NA	14.3	NA	NA	23.1	11.2	NA	0.7	(35.8)	(16.5)	60.2	NA
Divergence with Inox				**NA**	**-13%**	**NA**	**NA**	**-55%**	**-25%**	**NA**	**NA**	**NA**	**NA**	**-180bps**	**NA**
Global WTG players															
Gamesa*	Spain	14	4,276	18.6	16.8	2.2	1.9	8.8	8.3	10.8	12.4	12.7	15.2	29.7	50.2
Vestas*	Denmark	326	10,981	135.9	149.6	23.6	21.2	7.4	7.9	20.7	18.5	15.5	3.7	2.7	10.3
Nordex*	Germany	22	1,953	20.3	17.3	3.1	2.7	7.5	6.8	11.5	17.8	17.1	13.0	36.0	60.8
Xinjiang Goldwind*	China	25	10,038	22.5	18.9	3.6	3.1	15.0	12.7	14.4	17.0	17.1	27.4	49.3	39.7
Median				21.4	18.1	3.4	2.9	8.2	8.1	12.9	17.4	16.3	14.1	32.9	44.9
Divergence with Inox				**-32%**	**-31%**	**37%**	**20%**	**27%**	**5%**	**1970bps**	**1680bps**	**1370bps**	**3320bps**	**2540bps**	**270bps**
Indian Capital Goods															
BHEL	India	246	9,467	26.3	22.6	1.5	1.4	15.0	14.3	3.9	5.7	6.4	11.3	21.8	36.6
Thermax	India	946	1,772	38.3	36.9	4.6	4.3	23.5	19.0	9.5	10.1	12.0	8.2	18.3	8.0
Cummins	India	876	3,818	36.6	32.3	7.6	6.8	30.9	27.0	28.8	21.8	22.2	13.1	10.4	3.3
Triveni Turbines	India	105	543	29.3	21.9	11.5	8.6	19.1	14.5	44.9	41.5	40.8	31.6	39.7	32.4
Median				32.9	27.5	6.1	5.5	21.3	16.7	19.2	16.0	17.1	12.2	20.0	20.2
Divergence with Inox				**-55%**	**-55%**	**-24%**	**-37%**	**-51%**	**-49%**	**1340bps**	**1820bps**	**1300bps**	**3520bps**	**3830bps**	**2750bps**

*Source: Bloomberg, Ambit Capital research; Note - * calendar year ending, # - in local currency, Prices as on 12 June 2015*

Exhibit 34: Accounting flags

Field	Score	Comments
Accounting	**AMBER**	In our accounting analysis of capital goods companies, Inox's scores is similar to the median score due to its stretched conversion cycle at 179 days in FY14 and high related party transactions
Predictability	**GREEN**	High standard of disclosure in the presentation renders high predictability
Earnings momentum	**GREEN**	Consensus is estimating 48% EPS CAGR over FY15-17

Source: Ambit Capital research

Balance sheet

Year to March (₹ mn)	FY11	FY12	FY13	FY14	FY15
Cash	14	390	15	40	7,096
Debtors	-	738	5,002	7,096	14,322
Inventory	636	997	795	2,707	4,238
Loans & advances	209	500	1,963	2,030	3,436
Investments	-	-	0	450	-
Fixed assets	1,126	1,424	1,607	1,993	2,519
Other Current assets	5	289	119	482	337
Total assets	**1,991**	**4,338**	**9,501**	**14,798**	**31,948**
Current liabilities & provisions	703	1,510	2,596	4,802	9,594
Debt	966	1,303	3,755	5,567	8,450
Other liabilities	(20)	176	195	151	(15)
Total liabilities	**1,650**	**2,989**	**6,546**	**10,520**	**18,029**
Shareholders' equity	300	300	400	2,000	2,219
Reserves & surpluses	41	1,049	2,555	2,278	11,700
Total networth	**341**	**1,349**	**2,955**	**4,278**	**13,919**
Net working capital	148	1,014	5,283	7,512	12,739
Net debt (cash)	952	913	3,740	5,526	1,354

Source: Company, Ambit Capital research

Income Statement

Year to March (₹ mn)	FY11	FY12	FY13	FY14	FY15
Operating income	719	6,214	10,589	15,668	27,099
% growth		764%	70%	48%	73%
Gross Profit	206	1,992	3,800	6,271	10,388
EBITDA	**110**	**1,468**	**1,965**	**1,745**	**4,574**
% growth		1236%	34%	-11%	162%
Depreciation	39	76	89	116	204
EBIT	70	1,392	1,876	1,629	4,371
Interest expenditure	37	204	388	460	623
Non-operational income	10	6	48	91	143
PBT	**43**	**1,194**	**1,536**	**1,261**	**3,891**
Tax	(11)	187	33	(45)	927
PAT	**54**	**1,007**	**1,503**	**1,305**	**2,964**
% growth		1769%	49%	-13%	127%

Source: Company, Ambit Capital research

Cash flow Statement

Year to March (₹ mn)	FY11	FY12	FY13	FY14
PBT	43	1,194	1,536	1,278
Depreciation	39	76	89	116
Interest	37	103	388	460
(Incr) / decr in net working capital	(68)	(664)	(2,862)	(2,389)
Tax	(10)	(251)	(287)	(334)
Others	(0)	37	(74)	(11)
Cash flow from operating activities	**42**	**495**	**(1,210)**	**(880)**
(Incr) / decr in capital expenditure	(434)	(326)	(351)	(440)
(Incr) / decr in investments	-	-	0	(454)
Others	0	1	(1,006)	474
Cash flow from investing activities	**(434)**	**(325)**	**(1,358)**	**(420)**
Issuance of equity	-	-	-	-
Incr / (decr) in borrowings	166	1,009	2,562	1,789
Others	193	(803)	(372)	(465)
Cash flow from financing activities	**359**	**206**	**2,190**	**1,324**
Net change in cash	(33)	376	(378)	25

Source: Company, Ambit Capital research

Ratio Analysis

Year to March (%)	FY11	FY12	FY13	FY14	FY15
EBITDA margin	15.3	23.6	18.6	11.1	16.9
EBIT margin	9.8	22.4	17.7	10.4	16.1
Net profit margin	7.5	16.2	14.2	8.3	10.9
Return on capital employed	6.7	59.3	39.2	20.4	20.7
Return on equity	15.8	74.7	50.9	30.5	21.3
Current ratio (x)	1.2	1.7	3.0	2.5	3.0

Source: Company, Ambit Capital research

Valuation parameter

Year to March	FY11	FY12	FY13	FY14	FY15
EPS (₹)	0.24	4.54	6.77	5.88	13.36
Book value per share (₹)	1.5	6.1	13.3	19.3	62.7
P/E (x)	1658.8	88.8	59.5	68.5	30.2
P/BV (x)	261.9	66.3	30.3	20.9	6.4
EV/EBITDA (x)	864.1	64.7	48.3	54.4	20.8
EV/Sales (x)	132.0	15.3	9.0	6.1	3.5

Source: Company, Ambit Capital research

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E&C = Engineering & Construction

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