

Recommendation		SUBSCRIBE		BACKGROUND																																																																	
Price Band		Rs 627-660			Established in 1976, INOXCVA is the largest supplier of cryogenic equipment in India by revenue. They have over 30 years of experience offering solutions across design, engineering, manufacturing and installation of equipment and systems for cryogenic conditions. Their offering includes cryogenic tanks and equipment, beverage kegs, bespoke technology, equipment and solutions, as well as large turnkey projects which are used in diverse industries such as industrial gases, liquified natural gas (LNG), green hydrogen, energy, steel, medical and healthcare, chemicals and fertilizers, aviation and aerospace, pharmaceuticals and construction.																																																																
Bidding Date		14th Dec-18 th Dec																																																																			
Book Running Lead Manager		ICICI Securities, Axis Capital																																																																			
Registrar		KFin Technologies Limited																																																																			
Sector																																																																					
Minimum Retail Application- Detail At Cut off Price								Details of the Issue:																																																													
Number of Shares		22			Total issue of ~Rs. 1459 Cr (at upper price band). The issue is entirely an offer for sale of 2.21 crore shares having a face value of Rs 2 each.																																																																
Minimum Application Money		Rs. 14520			Investment Rationale:																																																																
Discount to retail		0			<ul style="list-style-type: none"> Increased demand for cleaner fuels such as LNG and hydrogen due to the focus on reducing carbon emissions from conventional energy sources Large portfolio of specialized cryogenic equipment engineered to global quality standards Strong financial performance 																																																																
Payment Mode		ASBA			Valuation and Recommendation:-																																																																
Consolidated Financials (Rs Cr)		FY22	FY23		Inox is amongst the top 10 companies globally and the largest in India in the business of manufacturing complex cryogenic solutions which are highly critical for the user industries. This is reflected in the company's superior EBITDA margins at over 21%, much higher than average of listed capital goods players. Combined with strong asset turns of 1.4-1.8x historically, Inox has consistently delivered ROCE of over 30% in recent years. Increasing importance of green fuels like liquid hydrogen and preference for LNG over diesel is leading to robust topline growth for Inox. Revenue grew by 14% CAGR over FY20-23 and by 16% in H1FY24. This growth is broadly in line with listed Capital Goods players. Inox is valued at 29x H1FY24 annualised EPS which we believe leaves some scope for listing gains. Thus, we recommend SUBSCRIBE to the issue.																																																																
Total Income		783	966		<table border="1"> <thead> <tr> <th>Financials</th> <th>FY21</th> <th>FY22</th> <th>FY23</th> <th>H1FY24 Ann.</th> </tr> </thead> <tbody> <tr> <td>Net Revenues</td> <td>594</td> <td>783</td> <td>966</td> <td>1129</td> </tr> <tr> <td>Growth (%)</td> <td>-</td> <td>32%</td> <td>23%</td> <td>17%</td> </tr> <tr> <td>EBITDA</td> <td>135</td> <td>168</td> <td>204</td> <td>261</td> </tr> <tr> <td>EBITDA Margin (%)</td> <td>22.7%</td> <td>21.4%</td> <td>21.2%</td> <td>23.1%</td> </tr> <tr> <td>PBT</td> <td>131</td> <td>174</td> <td>205</td> <td>272</td> </tr> <tr> <td>Adjusted PAT</td> <td>96</td> <td>130</td> <td>153</td> <td>207</td> </tr> <tr> <td>EPS</td> <td>10.6</td> <td>14.4</td> <td>16.8</td> <td>22.8</td> </tr> <tr> <td>ROCE</td> <td>31.9%</td> <td>32.4%</td> <td>38.0%</td> <td>35.1%</td> </tr> <tr> <td>EV/Sales</td> <td>10.0</td> <td>7.6</td> <td>6.1</td> <td>5.3</td> </tr> <tr> <td>EV/EBITDA</td> <td>44.1</td> <td>35.4</td> <td>29.0</td> <td>22.7</td> </tr> <tr> <td>P/E</td> <td>64.4</td> <td>44.3</td> <td>39.5</td> <td>29.0</td> </tr> </tbody> </table>					Financials	FY21	FY22	FY23	H1FY24 Ann.	Net Revenues	594	783	966	1129	Growth (%)	-	32%	23%	17%	EBITDA	135	168	204	261	EBITDA Margin (%)	22.7%	21.4%	21.2%	23.1%	PBT	131	174	205	272	Adjusted PAT	96	130	153	207	EPS	10.6	14.4	16.8	22.8	ROCE	31.9%	32.4%	38.0%	35.1%	EV/Sales	10.0	7.6	6.1	5.3	EV/EBITDA	44.1	35.4	29.0	22.7	P/E	64.4	44.3	39.5	29.0
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Valuations (H1FY24 Annual.)		Upper Band			Source: RHP, NBRR																																																																
Market Cap (Rs Cr)		5,990																																																																			
Adj EPS		22.8																																																																			
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Enterprise Value (Rs Cr)		5,977																																																																			
Post Issue Shareholding Pattern																																																																					
Promoters		75.0%																																																																			
Public/Other		25.0%																																																																			
Offer structure for different categories																																																																					
QIB (Including Mutual Fund)		50%																																																																			
Non-Institutional		15%																																																																			
Retail		35%																																																																			
Post Issue Equity (Rs. in cr)		18.15																																																																			
Issue Size (Rs in cr)		1459																																																																			
Face Value (Rs)		2																																																																			
Jehan Bhadha Research Analyst (+91 22 6273 8174) jehankersi.bhadha@nirmalbang.com																																																																					

Company Background

Inox India Ltd is the largest supplier of cryogenic equipment in India. They have over 30 years of experience offering solutions across design, engineering, manufacturing and installation of equipment and systems for cryogenic conditions. Their offering includes standard cryogenic tanks and equipment, beverage kegs, bespoke technology, equipment and solutions as well as large turnkey projects which are used in diverse industries such as industrial gases, liquified natural gas, green hydrogen, energy, steel, medical and healthcare, chemicals and fertilizers, aviation and aerospace, pharmaceuticals and construction. In addition, they manufacture a range of cryogenic equipment utilised in global scientific research projects. The demand for cryogenic equipment across geographies is expected to be driven by the increased demand for cleaner fuels such as LNG and hydrogen due to the focus on reducing carbon emissions from conventional energy sources. The company is well positioned to capture this global market growth with its inhouse technology as well as its LNG product range that includes the entire value chain.

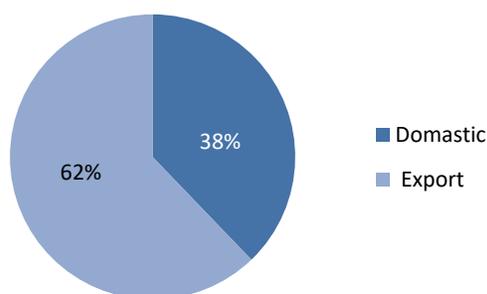
The company's business comprises of three divisions:

Industrial Gas	This division manufactures, supplies and installs cryogenic tanks and systems for storage, transportation and distribution of industrial gases like such as green hydrogen, oxygen, nitrogen, argon, carbon dioxide (CO ₂), hydrogen and provides after-sales services.
LNG	This division manufactures, supplies and installs standard and engineered equipment for LNG storage, distribution and transportation as well as small-scale LNG infrastructure solutions suitable for industrial, marine and automotive applications.
Cryo Scientific	This division provides equipment for technology intensive applications and turnkey solutions for scientific and industrial research involving cryogenic distribution.

Split of revenue (Rs Cr) by business division:

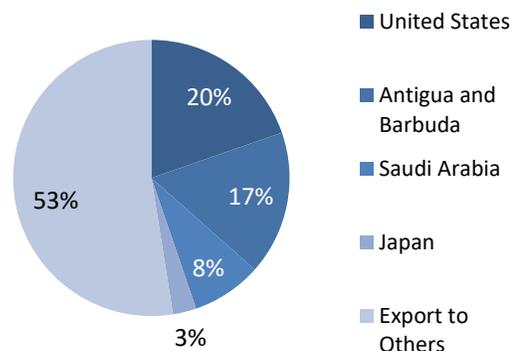
Division	H12024		FY2023		FY2022		FY2021	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
Industrial Gas	361	64%	6,846	71%	6,206	79%	3,757	63%
LNG	172	31%	2,404	25%	1,259	16%	1,473	25%
Cryo Scientific	31	5%	409	4%	363	5%	708	12%
Total	565	100%	9,659	100%	7,827	100%	5,938	100%

Geography-wise revenue mix (H1FY24)



Source: RHP, NBRR

Export-wise revenue split (H1FY24)



Source: RHP, NBRR

Investment Rationale

Increased demand for cleaner fuels such as LNG and hydrogen due to the focus on reducing carbon emissions from conventional energy sources

The demand for cryogenic equipment across geographies is expected to be driven by the increased demand for cleaner fuels such as LNG and hydrogen due to the focus on reducing carbon emissions from conventional energy sources. In India, the national objectives in line with the Paris Agreement are expected to increase demand for power generation and vehicles fuelled by cleaner fuels like LNG, LCNG and hydrogen. The company would play an integral part by supplying the necessary cryogenic equipment across key industry segments, particularly LNG and hydrogen that offer attractive market opportunities. Global LNG demand will grow at a 5-6% CAGR from CY2023 to CY2025 to 480-500 million tons per annum and demand for cryogenic equipment for LNG storage, distribution and handling shall increase at a CAGR of 8.4% from CY2023 to CY2028.

The company's comprehensive LNG product range includes the entire value chain from taking the cryogenic LNG at the receiving terminal for small scale and mobile users to storage and transportation and then distribution to the end-use such as the equipment for retail fuelling of LNG and LCNG. In the LNG tank segment, Inox have supplied over 60% of the tanks in both the stationary tank segment which includes all LNG applications including LCNG stations and trailer mounted mobile LNG tanks in India which have a valid PESO license as of May 4, 2022. The company has received orders for supply of equipment for multiple auto-LNG dispensing stations from IOCL, BPCL and HPCL for the Phase-I of auto-LNG station rollout.

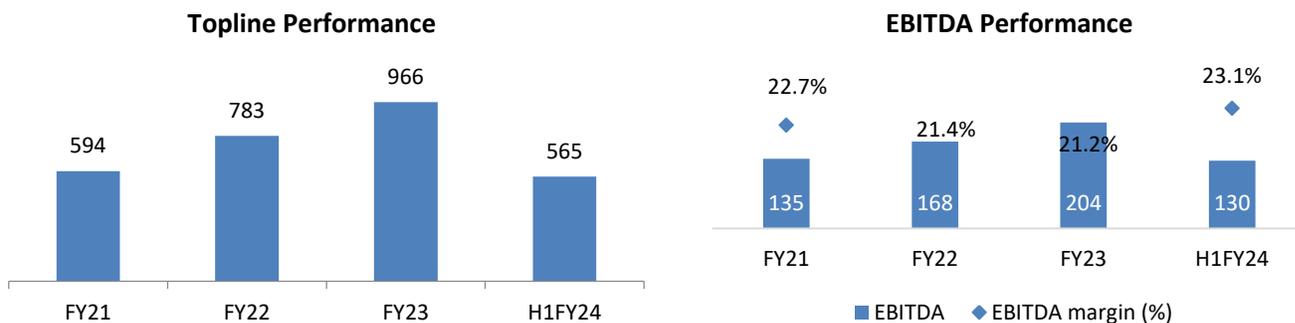
In hydrogen, CRISIL Research reports that the International Energy Agency projects global hydrogen demand to grow at an 6.1% CAGR from CY2022 to CY2030 to 152.3 MT. CRISIL Research projects the hydrogen cryogenic equipment market to grow at a 6.3% CAGR from US\$408 million in CY2023 to US\$553 million in CY2028. While most of the hydrogen produced currently is from fossil fuels, in the long-term hydrogen produced from renewable source, "green hydrogen", is expected to increase as cost for producing green hydrogen declines. This is expected to drive demand for hydrogen as a source of clean fuel as it would be produced from fully renewable sources and emits no pollutants during use. The hydrogen segment in India is expected to see strong growth with Govt's emphasis on developing a hydrogen economy in the country. In January 2023, Government of India has approved a National Green Hydrogen mission that aims to make India a global hub for using, producing and exporting green hydrogen. It aims to develop India as a global hub for manufacturing hydrogen and fuel cell technology across the value chain. The key industries driving the demand for hydrogen would be refining, ammonia and methanol in the near term while steel production and heavy-duty trucking are expected to drive demand toward the latter end of the period, accounting for over 50% of the demand for green hydrogen. The company intends to focus on innovation to store hydrogen, transportation and distribution to address the need for large scale movements of liquid hydrogen. The company's engineering team has been developing cryogenic equipment for hydrogen.

Large portfolio of specialized cryogenic equipment engineered to global quality standards

The company offers comprehensive solutions across design, engineering, manufacturing and installation of standard as well as customized cryogenic equipment and systems. These equipment and systems are used in industries such as energy, industrial gases, LNG and LCNG, steel, medical and healthcare, chemicals and fertilizers, aviation and aerospace, pharmaceuticals and construction. Cryogenic engineering is specialized due to ultra-low temperatures where permanent gases, such as oxygen, nitrogen are in liquid form. Properties of materials as well as behaviour of liquified gases are different at such temperatures and require deep understanding and use of sophisticated engineering tools for realization of equipment for end applications. In addition, new industrial applications such as use of LNG as vehicle fuel requires innovative solutions to engineer safe and reliable products for automobile and marine applications.

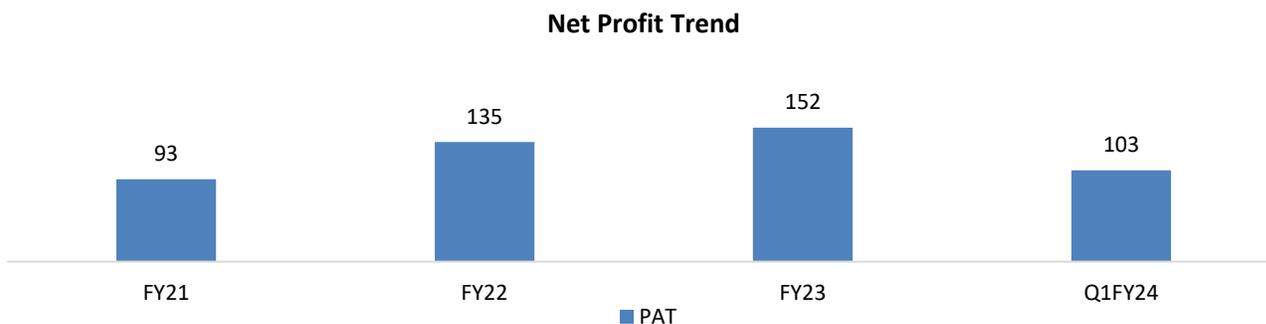
Strong Financial Performance (Key Charts)

Topline and Operating Performance

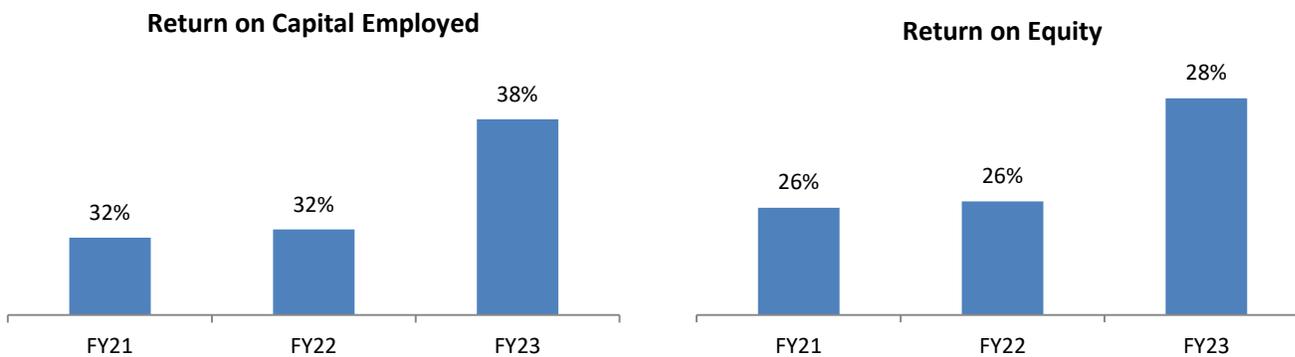


Source: RHP, NBRR

Profitability Ratios



Source: RHP, NBRR



Source: RHP, NBRR

Risks and concerns

The company does not own the name “INOX”

The name “INOX” forms a part of the company’s corporate name. Although it does not own the name “INOX”, it has been permitted to use the same pursuant to a name license agreement dated June 6, 2022 with its owners, namely the Jain family. As per the Name License Agreement, the company is required to pay the Licensor a royalty on an annual basis amounting to 0.25% of the consolidated revenues from operations. Any ad-hoc increase in this royalty fee could impact the business health and the financials of the company.

Cyclical downturn in global capex cycle

The company’s products have a lifespan of 20-30 years and are thus dependent on global capex demand. A sharp downturn in the global capex cycle could result in a slowdown in demand for the company’s products which primarily depend on global capital expenditure, particularly in industries such as energy, steel, chemicals, fertilizers, aviation and construction.

Valuation and Recommendation

Inox is amongst the top 10 companies globally and the largest in India in the business of manufacturing complex cryogenic solutions which are highly critical for the user industries. This is reflected in the company’s superior EBITDA margins at over 21%, much higher than average of listed capital goods players. Combined with strong asset turns of 1.4-1.8x historically, Inox has consistently delivered ROCE of over 30% in recent years. Increasing importance of green fuels like liquid hydrogen and preference for LNG over diesel is leading to robust topline growth for Inox. Revenue grew by 14% CAGR over FY20-23 and by 16% in H1FY24. This growth is broadly in line with listed Capital Goods players. Inox is valued at 29x H1FY24 annualised EPS which we believe leaves some scope for listing gains. **Thus, we recommend SUBSCRIBE to the issue.**

Financials

P&L (Rs. Cr)	FY21	FY22	FY23	H1FY24	H1FY24 Ann.	Balance Sheet (Rs. Cr)	FY21	FY22	FY23	H1FY24
Net Revenue	594	783	966	565	1,129	Share Capital	9	18	18	18
% Growth	0	32%	23%	16%	17%	Other Equity	362	484	531	536
Purchases of stock in trade	248	338	433	267	533	Minority Interest	0	0	0	0
% of Revenues	41.7%	43.1%	44.8%	47.2%	47.2%	Networth	372	502	550	554
Employee Cost	60	73	79	46	91	Total Loans	60	43	0	31
% of Revenues	10.2%	9.4%	8.2%	8.1%	8.1%	Other non-curr liab.	21	22	22	27
Other expenses	151	204	250	122	244	Trade payable	17	40	65	66
% of Revenues	25.4%	26.1%	25.9%	21.6%	21.6%	Other Current Liab	217	290	512	477
EBITDA	135	168	204	130	261	Total Equity & Liab.	687	897	1,148	1,156
EBITDA Margin	22.7%	21.4%	21.2%	23.1%	23.1%	Property, Plant and Equipment	101	133	164	214
Depreciation	12	12	14	8	15	CWIP	2	2	0	6
Other Income	15	21	18	15	31	Other Intangible assets / Right of u	1	1	1	6
Interest	7	2	4	2	4	Non Current Financial assets	0	0	0	0
Exceptional item	0	0	0	0	0	Other non Curr. assets	253	15	58	34
PBT	131	174	205	136	272	Inventories	146	323	413	407
Tax	35	44	52	33	66	Cash and cash equivalents	2	1	14	16
Tax rate	27%	25%	26%	24%	24%	Investments+loans	25	311	249	238
Extraordinary	0	0	0	0	0	Trade receivables(debtor)	113	78	143	155
Adj. PAT (norm. Tax)	96	130	153	103	207	Other Current assets	44	32	107	82
% Growth	0	36%	17%	23%	35%	Total Assets	687	897	1,148	1,156
EPS (Post Issue)	10.6	14.4	16.8	11.4	22.8					
						Cash Flow (Rs. Cr)	FY21	FY22	FY23	H1FY24
Ratios & Others	FY21	FY22	FY23	H1FY24	H1FY24 Ann.	Profit Before Tax	131	174	205	136
Debt / Equity	0.2	0.1	0.0	0.1	-	Provisions & Others	7	-3	-0	-4
EBITDA Margin (%)	22.7%	21.4%	21.2%	23.1%	-	Op. profit before WC	138	172	205	133
PAT Margin (%)	16.2%	16.7%	15.8%	18.3%	-	Change in WC	121	-51	27	-16
ROE (%)	25.9%	26.0%	27.8%	-	27.3%	Less: Tax	28	24	53	27
ROCE (%)	31.9%	32.4%	38.0%	-	35.1%	CF from operations	231	97	178	89
						Purchase/Sale of fixed assets	-6	-44	-47	-76
Turnover Ratios	FY21	FY22	FY23	H1FY24	H1FY24 Ann.	Sale/Purchase of Investments	-154	-40	33	61
Debtors Days	69	36	54	100	-	Interest, dividend and other inc	12	9	2	2
Inventory Days	90	150	156	263	-	CF from Investing	-148	-75	-11	-14
Creditor Days	11	19	24	43	-	Repayment towards Lease Liab	-2	-3	-3	-2
Asset Turnover (x)	1.4	1.4	1.8	-	1.4	Repayment of Borrowings	-59	0	0	0
						(Repayment)/ proc current debt	-25	-17	-43	31
Valuation Ratios	FY21	FY22	FY23	H1FY24	H1FY24 Ann.	Interest & div paid	-9	-6	-107	-101
Price/Earnings (x)	62.3	45.9	39.2	-	29.0	CF from Financing	-96	-26	-154	-72
EV/EBITDA (x)	44.4	35.7	29.2	-	22.9	Net Change in cash	-17	-1	12	4
EV/Sales (x)	10.1	7.6	6.2	-	5.3	Cash & Bank at beginning	19	2	1	11
Price/BV (x)	16.1	11.9	10.9	-	10.8	Cash & Bank at end	2	1	14	16

Source: Company Data, NBRR

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