KRChoksey | research

INOX Green

ENERGY SERVICES LIMITED

IPO NOTE

10th November 2022

Inox Green Energy Services Ltd

Issue Opens On	Issue Closes On	Price Band (INR)	Issue Size (INR Mn)	Rating
November 11, 2022	November 15, 2022	61-65	7,400	SUBSCRIBE

Inox Green Energy Services Limited (IGESL) was initially incorporated as a public limited company under the Companies Act, 1956, on 11th May 2012 as Inox Wind Infrastructure Services Limited. The company's name was changed to Inox Green Energy Services Limited on 27th October 2021. The company is a subsidiary of Inox Wind Limited (IWL). It is a part of the INOXGFL Group, which operates in the speciality chemicals and renewable energy sectors and has historical connections with the wider Inox Group, which commenced operations in 1923. The company provides operation & Maintenance (O&M) services and common infrastructure facilities for Wind Turbine Generators (WTG). IGESL has a stable annual income owing to the long-term O&M contracts. According to an exclusivity agreement between IWL and IGESL, the company provides exclusive O&M services for all WTGs sold by IWL.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	12,13,11,475-11,38,46,154
Net offer (# shares)	12,13,11,475-11,38,46,154
Price band (INR)	61-65
Post issue MCAP (INR Mn.)	18,036-18,976

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	November 15, 2022
Finalization of Basis of Allotment with Stock Exchange	On or about 18th Nov' 2022
Initiation of Refunds	On or about 21st Nov' 2022
Credit of Equity Shares to Demat accounts	On or about 22nd Nov' 2022
Commencement of Trading of Eq.shares on NSE	On or about 23rd Nov' 2022

Source: IPO Prospectus

Issue	# Shares	INR in Mn	%
QIB	8,53,84,615	5,550	75%
NIB	1,70,76,923	1,110	15%
Retail	1,13,84,615	740	10%
Net Offer	**11,38,46,154**	**7,400**	**100%**

*Source: IPO Prospectus; *upper band*

Objects of the Offer: The net proceeds will be utilized for the following purpose
Repayment and/ or pre-payment, in full or part, of certain borrowings availed by its company including redemption of Secured NCDs in full; and
General corporate purposes

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	93.8%	56.0%
Others	6.2%	44.0%
Total	**100.0%**	**100.0%**

Source: IPO Prospectus

Particulars (In INR Mn)*	FY20	FY21	FY22	Q1FY23
Revenue	1,653	1,722	1,722	618
EBITDA	883	822	822	176
EBITDA Margin	53.4%	47.7%	47.7%	28.4%
PAT	17	-277	-50	-116
PAT Margin	1.0%	-16.1%	-2.9%	-18.7%
Net Worth	307	430	8,066	7,950
RONW	1.7%	-64.5%	-0.6%	-1.5%

*Source: IPO Prospectus, * Restated Statement*

ANALYST
Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5413

Inox Green Energy Services Ltd

Company Overview

IGESL is India's foremost wind power operation and maintenance (O&M) service, provider. It is engaged in providing long-term O&M services for wind farm projects, specifically 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. It has a stable annual income owing to the long-term O&M contracts that it enters into with its customers. The company is a subsidiary of Inox Wind Limited (IWL), listed on the National Stock Exchange of India Limited and BSE Limited, and part of the Inox GFL group of companies (Inox GFL Group). Its subsidiaries are engaged in power generation through renewable sources of energy, with Nani Virani Wind Energy Private Limited being the only subsidiary that has commenced power generation as of the Red Herring Prospectus.

The company 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, including wind resource assessment, site acquisition, infrastructure development, EPC of WTGs, and providing long-term O&M services for wind power projects. Under an exclusivity agreement between IWL and itself, the company offers exclusive O&M services for all WTGs sold by IWL through the entry of long-term O&M contracts between the WTG purchaser and itself terms which typically range between five to 20 years. 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 the execution of any form of a binding contract for its new 3.3 MW capacity WTGs with an aggregate capacity of 524.7 MW.

As of June 30, 2022, the company's O&M services portfolio comprised an aggregate of 2,792 MW 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 multiple customers in Kukru, Nipaniya, Jaora and Lahori in Madhya Pradesh; a total capacity of 560 MW for various customers in Dangri, Rajasthan; and a total capacity of 196 MW for multiple customers in Vaspet, Bhendewade and South Budh in Maharashtra. Of the 2,792 MW capacity, 1,964 MW was attributable to its contracts for comprehensive O&M services, and 828 MW was attributable to its 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.

Services

Operation Services

IGESL has a dedicated onsite O&M team to provide 24/7 operation services for its customers' wind farms to help ensure that their WTGs are generating the highest yield possible under prevailing weather conditions, as well as a dedicated Client Relationship Management team which provides its customers with a direct point-of-contact with the company. In addition, to provide its customers with peace of mind about the security of their WTG assets and maintain the security of the common infrastructure facilities, the company provides round-the-clock watch and ward security services which include conducting surveillance through centrally monitored CCTVs. The team operates the wind power plant's infrastructure (which consists of the WTGs) and the power evacuation facilities. In particular, it is able to monitor and control the WTGs in real-time through the use of wtSCADA. wtSCADA is a system of software and hardware elements that enables it to (i) control WTG processes either locally or at remote locations; (ii) monitor, gather, and real-time process data from the WTGs; (iii) directly interact with devices such as sensors and motors on the WTGs through human-machine interface (HMI) software; and (iv) record notable events into a log file.

The company applies various safety systems to identify and preclude hazardous situations during the wind energy converter operation caused by a fault in the control system. A few of these safety systems that it has incorporated include emergency stops, overpower protection, short circuit supervision, worn brake pad supervision and over-speed protection. The safety system is designed with a safety logic controller as its central unit, which is entirely independent of the control system to ensure that faults in the control system will not affect the functionality of the safety system.

As part of its operations, the company also liaises, on behalf of the WTG owner, with nodal agencies for joint meter reading, billing and invoicing matters. It also provides assistance and support for its customer's Clean Development Mechanism audits and validation exercises.

Maintenance Services

The maintenance of WTGs (i.e., WTG O&M) is generally categorized into predictive and reactive maintenance. In reactive maintenance, repairs are undertaken once a component fails, often resulting in long downtimes for the affected WTG. In predictive maintenance, efforts are taken to detect potential component failures in advance to resolve any issues early and minimize such downtime. IGESL focuses on predictive maintenance through scheduling regular inspections and maintenance (which are enhanced during peak wind seasons) and employing advanced tools such as wtSCADA to monitor the conditions of the WTGs and common infrastructure facilities in its portfolio to allow for early detection and resolution of issues.

Inox Green Energy Services Ltd

To maintain the overall health of a WTG, the company strictly follows any manuals provided by the WTG's OEM. It also maintains lubrication charts to record the lubrication levels of the WTGs. It uses manual and hydraulic torque wrenches, laser alignment tools and electric grease guns to ensure the smooth running of the WTGs. As a crucial component of a WTG, the WTG gearbox must function at full capacity to ensure maximum efficiency from WTG. It, therefore, constantly monitors the oil and lubrication conditions and levels in the gearbox. The company achieves this by regularly drawing oil samples from the gearbox, which it then sends for laboratory analysis to check on cleanliness, moisture content and other parameters. If corrective action is deemed necessary, swift steps are taken to maintain optimum oil condition in the gearbox.

The company uses sky lifts and binoculars to inspect the outer blade surface, and it conducts visual inspections of the blades from the inside through opening inspection windows. Further, blades are either repaired/retrofitted on the tower using the sky lift or at the bottom of the tower in case of severe damage. Common infrastructure facilities (i.e., common infrastructure O&M), on the other hand, include pooling substations, high-tension lines, transmission cables and metering points. Maintenance of the common infrastructure facilities is also subject to rigorous checklists. In addition to the scheduled and ad hoc maintenance that it conducts, customers are able to submit requests for unscheduled maintenance as and when required, which it typically responds to within 48 hours. In respect of WTGs in its O&M portfolio, which have been in operation for more than seven years, on an annual average, the company conducts minor refurbishment works to approximately 1% of the WTG blades and repairs about 0.5% of gearboxes.

Marketing

As part of a holistic group marketing strategy, the company markets its O&M services in collaboration with and alongside IWL, which markets its WTGs under the Inox GFL group brand. Through this process, it, together with IWL, participates in various tenders and bids rolled out by PSUs, IPPs and retail customers where it collectively offers, among others, the supply and erection of WTGs and the long-term O&M of such WTGs and the common infrastructure facilities which support them.

Customers

The company has a diversified customer base, some of whom it has enjoyed business relationships with for five to nine years, comprising private companies, independent wind power producers, power utilities and government organizations in India, to whom it provides wind farm O&M services. Its customers include large IPPs, PSUs and retail customers, such as Gujarat Fluorochemicals Limited, Continuum Power Trading (TN) Private Limited, Gujarat Industries Power Company Limited, Torrent Power Limited, Shree Cement Ltd., Integrum Energy, Sri KPR Infra & Projects Limited, Markdata Green Energy Private Limited, Roha Dyechem Pvt. Ltd. and Amrit Bottlers Private Limited Ltd

Competition

The Indian wind farm O&M services market is characterized by strong concentration among a small group of service providers which are either (i) linked to or are a part of the OEM WTG manufacturers such as the company; (ii) third-party/independent O&M service providers; or (iii) renewable energy developers such as IPPs. The market share of each of the above is approximately 70%, 20-25% and 5-10%, respectively.

Like the arrangement between the company and IWL, several other WTG OEMs provide O&M services for the WTGs, which they manufacture based on contracts for annual maintenance. This arrangement is generally preferred globally primarily due to the ease of procuring spare parts or components from the OEMs compared with other O&M service providers. The company believes that its primary competitors in India in this category are Siemens Gamesa Renewable Energy, S.A., Enercon GmbH, GE and Vestas India.

Independent Service Providers are typically engaged by WTG owners at the expiry of the OEM's initial O&M on the WTGs or for other reasons relating to costs. In this category, the company believes that Renom Energy Services LLP, SKF Limited, Windcare India Pvt. Ltd. and Kintech Engineering to be among its primary competitors.

Renewable energy developers include large IPPs which have opted to carry out the O&M activities of the WTGs in their fleet in-house instead of traditional OEM-based O&M contracts. The major reason for this is for such IPPs to increase control over the operations of power generation and reduce their dependency on the OEMs.

The company competes on the basis of the scope and quality of its O&M services, training offered to its employees, technical factors including industry experience, technical ability, past performance, reputation for quality, safety record and the size of previous contracts executed for similar projects. It believes that its low operational cost model, financial backing from the Inox GFL Group and the established reputation of the Inox GFL Group are the primary factors that distinguish it from its competitors.

Inox Green Energy Services Ltd

Industry Overview:

Operations and maintenance (O&M) cost form a critical component in wind energy's Levelized Cost of Electricity (LCOE). Therefore, renewable power producers adopt various strategies to lower this cost and improve the reliability of the services to make the LCOE competitive with other producers and technologies. Typically, O&M costs account for 20.0-25.0% of the LCOE involving five categories: insurance, regular maintenance, repair, spare parts, and administration. These costs generally rise with the years of operation; however, with more experience, generators have formulated various approaches to keep a check on the O&M costs.

The industry started with reactive maintenance mostly resulting in downtime and major service or overhaul. The major reason behind this was late detection of the fault or part failure. The cost of service due to this late detection increases compared to early detection and repair. Moreover, with increase in the life of the generation plant the cost of major repairs escalates. Currently, the O&M service providers offer solutions to minimize the major repairs and replacements while moving towards predictive maintenance. As a result, the cost of maintenance has decreased by more than 50.0% for onshore wind and by more than 50.0% for offshore wind generators in the past 10 years.

Key components of wind turbine that require service includes

- Hydraulic Pitch
- Transformer
- Generators
- Gearbox
- Blades
- Grease oil and Lubricating Oil
- Electrical components
- Contactor/ Circuit Breaker/Relay
- Controls
- Safety
- Sensors
- Pumps/Motors
- Hub
- Heaters/ Coolers
- Yaw System
- Foundation/Tower/Mast
- Power Supply/Converter
- Services

There are three channels to obtain the operation and maintenance for wind energy generators:

1. **Original Equipment manufacturers:** O&M services are usually acquired along with the components of the wind turbine generation unit. These services are acquired for a time of two to five years as a part of annual maintenance packages. The key providers of these services are the OEMs, which include guarantees and preventive and corrective maintenance that could be extended after the expiry of the contract period. These are preferred globally due to ease of procuring spare parts or replacement equipment from OEMs compared to other O&M service providers.
2. **Renewable Energy Developers:** Large renewable energy developers have also started to maintain their own capacity instead of traditionally OEM based O&M contracts. Currently, there is limited capacity from some of the key renewable energy developers being maintained in house. The major reason for this is to increase the control over the operations of the generation and further reduce the dependence on the OEMs. This also reduces the risk of extended periods of shutdowns resulting in no drop in availability of the plant. Moreover, due to financial hurdles for OEMs, IPPs have opted to carry out O&M activities in-house to avoid dependence on the any other entity.
3. **Third-party or Independent Service Providers (ISP):** O&M services are also offered by third-party / independent service providers. This is usually taken at the time of warranty expiration the annual maintenance contracts with the OEM or when the OEMs are not preferred with the equipment acquisition due to financial constraints.

Review of O&M services market for wind energy in India (FY16-22):

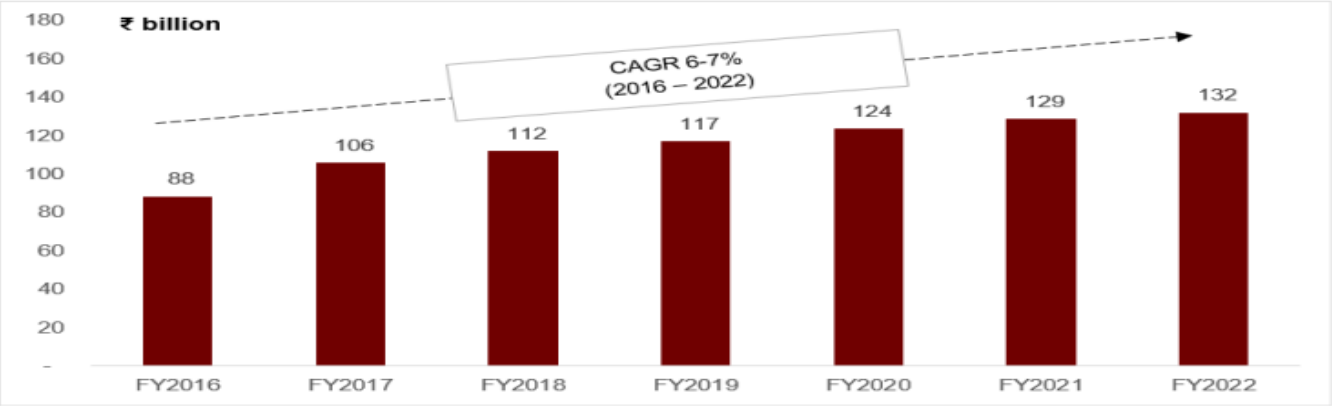
O&M services for wind energy is dominated by the equipment manufacturers in the country. A typical wind turbine O&M cost ranges from INR 2,500-3,500/kW of capacity The wind energy market grew at a healthy rate with capacity additions picking up pace in FY20 after a low in FY19 on account of the FiT regime change. This has also positively impacted the demand of O&M services which grew from INR 84 Bn in FY16 to more than INR 130 Bn in FY22. Capacity additions declined in fiscal 2021 due to COVID-19 pandemic led lockdowns and mobility restrictions.

ANALYST
Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5413

Inox Green Energy Services Ltd

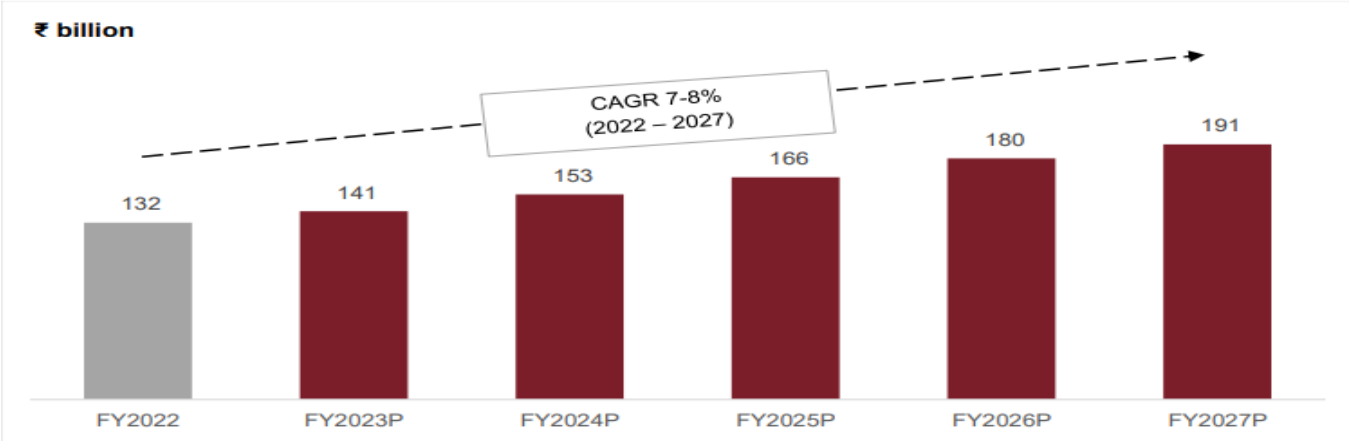
Industry Overview:

O&M services demand across wind energy, FY16-FY22:



Source: IPO Prospectus

Outlook on potential of O&M services market for wind energy in India (FY22-26E)



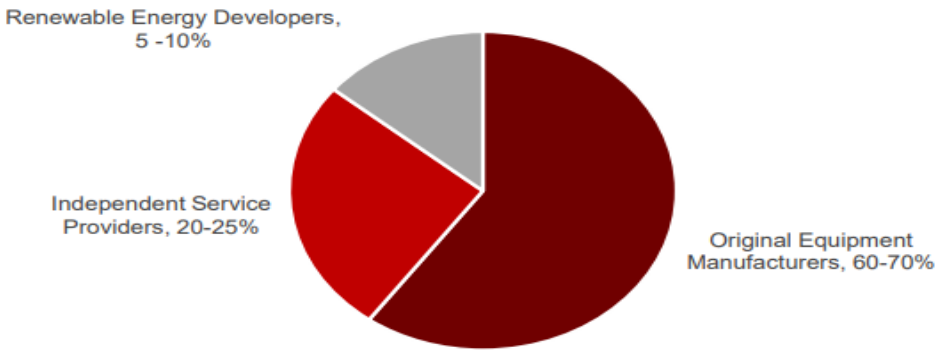
Source: IPO Prospectus

It is expected that 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 INR 170-210 Bn by FY26E.

Key competitors and comparison of service offerings:

The O&M service offered by the OEM dominated the market with up to 70.0% of market share. ISPs and renewable energy developers contributed to 20.0-25.0% and 5.0-10.0% respectively in FY21.

Market share of O&M service providers, FY21



Source: IPO Prospectus

Inox Green Energy Services Ltd

Industry Overview:

Key players and business model adopted: Global vs India:

Global O&M service market for RE consists of ISPs offering similar services as OEMs. Easy availability of spare and availability of trained professional has resulted in increasing the ISPs contribution in the service market. Furthermore, OEMs operating the global market offer package deals along with the equipment acquisition. These package offerings include discounted upgrades for equipment covered under the scheme, warranty for the system, and easy availability of replacements.

ISPs usually perform affiliated services and third-party services. Affiliated services are performed with authorization from the OEMs resulting in the leveraging of supply channels and customers of the OEMs, while third party services are performed on assets regardless of OEM. Affiliated services are performed pre and post warranty period; third party services are usually availed after warranty period.

On the contrary, in India, OEMs dominate the O&M service market due to lack of the abovementioned factors and limited number of ISPs present in the market. Moreover, due to the control over the infrastructure, OEMs have an upper hand in the market and are likely to remain in the same position for the coming years.

Some of the key OEMs offering services in the global market are **GE, Siemens Gamesa Renewable Energy S.A, Vestas and Enercon GMBH.**

ANALYST
Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5413

Inox Green Energy Services Ltd

INVESTMENT RATIONALE

Existing portfolio base is strong and comprehensive:

As of June 30, 2022, its portfolio of O&M contracts(consisting of both comprehensive O&M contracts and common infrastructure O&M contracts) covered an aggregate of 2,792 MW of wind projects spread across eight wind-resource-rich states in India with an average remaining project life of more than 20 years. The counterparties to its O&M contracts feature a mix of Independent Power Producers (IPP) (approximately 72%), Public Sector Undertakings (PSU) (about 14%) and corporates (about 14%) as on June 30, 2022. Certain individual wind project sites the company has developed in collaboration with IWL have significant capacity to support the installation of additional WTGs, which will further grow its 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, there will be an increase in the number of WTG installations in the coming years as compared to the suboptimal number of WTG installations for the past few years which will further expand its portfolio base.

A proven track record, favourable national policy support, and prospects for future growth:

The company has an established track record in the wind energy O&M industry of more than nine years due largely to the synergistic relationship it shares with its parent company, IWL, which commenced operations in the wind energy space in FY10. Its operating portfolio of O&M contracts (both comprehensive O&M contracts and common infrastructure O&M contracts) has grown at a compound annual growth rate of approximately 40.2% in the past nine years since its commencement of operations.

According to the International Energy Agency (IEA), India is the third largest energy-consuming country in the world. It has become one of the largest sources of energy demand growth globally. India could add 900 GW of wind and solar capacity. This is bolstered 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 fiscal years 2023 to 2027) which would entail investments of approximately INR 1.4 Tn over period. The growth is likely due to hybrid capacity allocation and the existing 10-11 GW pipeline for pureplay wind. As a result, the demand for O&M services is expected to be INR 170 to 210 Bn by FY26E. IWL's wind energy extraction technology and access to wind sites, coupled with strong industry growth prospects, enable it, through its exclusive arrangement with IWL, to provide O&M services for the WTGs they manufacture and to forecast a steady growth in its O&M business over the coming years.

Long-term O&M contracts with high credit quality counterparties provide consistent cash flow:

IGESL has entered long-term O&M contracts with its customers, which range from five to 20 years (in which the first two to three years of O&M services are generally provided for free for IWL-supplied WTGs), with a renewal option provided in most cases. Such contracts provide the company with full revenue visibility as the price for its O&M services is pre-determined for each year of the contract. Furthermore, such contracts feature a built-in fixed price escalation formula of approximately 5% per annum (compounded on the previous year's charges for a contractually specified number of years), which provides both its customers and the company with price certainty and guarantees it a level of steady growth and inflation protection. As of June 30, 2022, the company has not encountered any payment defaults from its customers. IGESL's ability to maintain and renew its O&M contracts throughout the useful lifecycle of each WTG is further secured given its experience and expertise in servicing the proprietary components which make up the WTGs manufactured by IWL as well as the common infrastructure facilities developed by IWL.

Backed and marketed by its parent corporation:

IGESL's parent company, IWL, and its group companies are one of India's notable WTGs manufacturers, providing wind energy turnkey solutions across India. Its service offerings include wind resource assessment, wind site acquisition, infrastructure development, and EPC, and it has an installed capacity of approximately 2,792 MW as of June 30, 2022. IWL has manufacturing facilities in Gujarat, Himachal Pradesh and Madhya Pradesh and clientele, including various IPPs, PSUs and corporates. Its parent also has exclusive licenses and agreements 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. The company benefits from a synergistic relationship with its parent under an exclusivity agreement which enables it 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 it to continue providing O&M services due to its expertise in operating and maintaining IWL's proprietary WTGs and the common infrastructure facilities. This enables the company to build its portfolio alongside its parent. As a result, the order book of IWL is an important indicator for IGESL as it provides visibility on future O&M contracts and revenue.

IWL's order book currently consists of executed binding contracts and letters of intent which are non-binding and may not lead to the execution of any form of a binding contract. 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. The expansion of IWL's product offerings to include its new 3.3 MW capacity WTGs is expected to increase its market prominence and market share, which IGESL believes, in turn, will lead to growth in its O&M business.

ANALYST
Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5413

Inox Green Energy Services Ltd

INVESTMENT RATIONALE

IGESL is a member of the Inox GFL Group, which operates in the speciality chemicals and renewable energy sectors and has historical connections with the wider Inox Group, which commenced operations in 1923. The Inox GFL Group includes three publicly listed companies: Gujarat Fluorochemicals Limited (GFL), Inox Wind Energy Limited and IWL. The Inox GFL brand and, generally, Inox is recognized in India. Its long operating history and business relationships instil confidence in its customers, who prefer dependable and established service providers for capital-intensive and long-term projects such as wind farms.

A well-established supply chain:

The company has an established relationship with its suppliers for the parts, components and tools it requires to provide O&M services. As part of its synergistic relationship with IWL, IGESL will be able to obtain proprietary components and spare parts for the IWL-manufactured WTGs directly from IWL. As for the other tools and parts of its employees, the company has an established network of external suppliers.

Strong and experienced management team:

As of June 30, 2022, the company has a team of 401 employees, including managers with extensive experience in the O&M of WTGs and in the wind industry generally. Its senior managers in charge of, among others, project management, business development, customer relationship management, project coordination, wind farm management, testing of turbines and process improvement are well educated in the fields of engineering, design and business management and have an average of more than ten years of experience in their respective fields and considerable experience in the wind energy industry. To ensure that its O&M team remains up to date with industry best practices, the company conducts regular training to sharpen its technical, safety and behavioural skills.

ANALYST
Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5413

Inox Green Energy Services Ltd

Business Strategies

Exploring opportunities to expand its portfolio and scale operations:

IGESL plans to expand its portfolio to provide O&M services for WTGs not manufactured by IWL. This is in addition to growing its portfolio by entering new long-term O&M contracts with customers who purchase IWL's WTGs. It intends to do this by leveraging on both its and its parent company's existing customer base who use both IWL's WTGs as well as WTGs manufactured by other wind OEMs and adopting a targeted approach to win contracts for the provision of fleet-wide O&M services for all WTGs in their portfolio (manufactured by IWL or otherwise) based on its competitive strengths and the cost savings which this entails. The company plans also include the recovery of contracts for the provision of WTG O&M services from a few large IPPs which had previously entered into comprehensive O&M contracts with the company but have recently opted to internalise their WTG O&M services. These IPPs have retained IGESL's O&M services for the common infrastructure facilities supporting their wind farm. This is due to the nature of the wind farming business, where the entire wind project site and common infrastructure is first developed by an OEM such as IWL, and smaller parcels/wind farms are apportioned to investors such as IPPs based on the level of their capacity investment. It aims to recover such contracts by advocating its expertise and knowledge in providing O&M services to WTGs generally and specifically for WTGs which IWL manufactures, its ready stock and established supply of replacement parts and components for IWL WTGs and most importantly, the cost savings which these large IPPS may benefit from. It also intends to continue looking for opportunities to strategically acquire the O&M portfolios of other wind OEMs, especially smaller-scale wind OEMs or third-party and independent service providers, which IGESL believes is currently unable to compete effectively, to grow its portfolio base further. There are also opportunities for the company to provide its O&M services in connection with replacing aged turbines with new ones as part of the policy drive in some states towards repowering aged turbines.

Undergoing a transition to an asset-light model with minimal capital expenditure, which will result in higher EBITDA and profit margins, according to the company:

Under its current business model, IGESL develops common infrastructure facilities such as pooling substations and transmission lines and has incurred significant capital expenditure. This was partly a result of successful project bids, which required the company to develop such infrastructure before securing investors to establish wind farms on a plug-and-play basis. While most of its common infrastructure capacity is currently utilized by such investors, there still exists some unutilized capacity for installing WTGs as of June 30, 2022, which it intends to fill. While such capital expenditure is expected to continue in the short term as a result of its ongoing prior commitments, the company aims to transition to an asset-light model with minimal capital expenditure by, among others, reducing such project bids and investments into the wind power assets of its subsidiaries. Moving forward, its business model of entering into long-term O&M contracts, which allows it 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 it can utilize to fund its future expansion plans and for dividend payments.

Sustaining and strengthening its emphasis on predictive maintenance over reactive maintenance:

The company focuses on practising predictive maintenance to avoid the negative impacts of reactive maintenance, such as downtime stemming from the need to effect primary service, repairs or overhaul, which translates into lost power generation and revenue for its customers. Significant components of WTGs, such as nacelles, turbines, generators, hydraulics and various electronic systems, require constant and diligent monitoring to ensure they operate as efficiently as possible to deliver a high yield of power generation for their customers. Using predictive maintenance, IGESL will be able to accurately forecast potential component failures before they occur based on both live and historical data and take steps to repair or replace such components. This enables the company to reduce its operational costs by reducing the wear and tear of the equipment and components in the system.

Focus on providing asset performance forecasting and analytics services:

The company is a keen adopter of new technologies to assist it in providing its O&M services, which ultimately helps its clients optimise the use of their WTG assets. IGESL employs various software technologies, such as AMSC's proprietary Supervisory Control and Data Acquisition system (wtSCADA), to monitor 250 WTG parameters. With the data collected, the company will be able to provide its customers with up-to-date analytical data on their WTGs, which can inform the future performance of the assets.

Inox Green Energy Services Ltd

Key Strengths

- The company has a strong & diversified service portfolio.
- It has an established track record, favourable national policy support and visibility for future growth;
- IGESL has a reliable cash flow supported by long-term O&M contracts with high-credit quality counterparties;
- The company is supported and promoted by its parent company, IWL;
- It has a well-established supply chain in place, and
- The company has a strong and experienced management team.

Key Risks

- The company is currently entirely dependent on Inox Wind Limited, its Promoter for its business and if they were to choose another service provider for operation and maintenance services of their wind turbine generators, its business, financial condition and prospects may be adversely affected.
- The company has entered into a business transfer agreement by which it divested its erection, procurement and commissioning business to one of the subsidiaries of its Promoter, Resco Global Wind Services Private Limited (BTA), which imposes certain contractual obligations on its company.
- IGESL along with certain entities has provided security in form of pari-passu charge on its movable fixed assets, guarantees and a shortfall undertaking against the term loan facilities availed by Resco Global Wind Services Private Limited (Resco), and failure by Resco to repay such loan facilities, will have an adverse effect on its business.
- A decrease in the sale of its services resulting from more of its customers electing to terminate their WTG O&M contracts or common infrastructure O&M contracts or both i.e., comprehensive O&M contracts, with its company or decrease in the margins that the company derives from the sale of its services will have a material adverse effect on its business, financial condition, cash flows and results of operations.
- The renewal rate of service contracts may decrease in the future and customers may move from comprehensive O&M contracts to common infrastructure O&M contracts.
- Orders in its Promoter, Inox Wind Limited's order book may be delayed, modified or cancelled, and letters of intent may be withdrawn or may not translate to confirmed orders.
- There are outstanding legal proceedings involving its company, Subsidiaries, Directors, Promoter and its Group Companies.
- The demand for wind power projects and consequently its services is dependent on the cost of wind generated electricity compared to electricity generated from other sources.
- The company is overly dependent on external suppliers for spares and components.

ANALYST
Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5413

Inox Green Energy Services Ltd

Outlook and Valuation:

Inox Green Energy Services Ltd is India's significant wind power O&M service provider. The major drivers for this company are a) it's a subsidiary of IWL & part of the Inox GFL group of companies, b) it is witnessing a favourable renewable push from the government, c) it has a reliable & stable cash flow as it is engaged in providing long-term O&M services for wind projects, d) it is a technology-driven company. The company had a market share of ~7% in FY22. The renewable industry is expected to see strong growth in capacity additions from 51 GW in FY22 to 100-110 GW by FY27E, which is an increase of ~75%. The potential demand for O&M services for wind energy in India is expected to reach INR 191 Bn by FY27E from INR 132 Bn in FY22. The company is well-positioned to capture this opportunity owing to its strong parentage. The company is expected to leverage the company's & its parent company's existing customer base. The O&M business of inactive players provides a significant opportunity for inorganic growth for the company. The company has also been focusing on transformation into an asset-light model with minimal requirement of Capex.

The company's objective of the offer is a) repayment and pre-payment, in full or part, of certain borrowings availed by the company, including redemption of Secured NCDs in full; and b) for General corporate purposes. In addition to the objects above, it will receive the benefits of listing its Equity Shares on the Stock Exchanges. IGESL's IPO size is INR 7,400 Mn. The price band of the issue is INR 61-65 per share. On the upper price band of INR 65 and EBITDA of INR 822 Mn for FY22, the EV/EBITDA ratio is 32.7x. As there are no Indian listed companies in this sector, we have considered Siemens Gamesa's (Global Peer) EV/EBITDA multiple, which is 35.2x, while another player Vestas Wind is at 18.7x EV/EBITDA for CY21. Thus, the valuation of Inox Green looks reasonable, considering the nature of its business and the comparative margin profiles. Inox green has much better EBITDA margins than its global peers. We are cautious on the company's order book as most of its contract is from its parent, IWL. We are optimistic considering the consistent track record of the company, strong parentage, government initiatives to push renewable sector & also expect the financials to improve with reducing debt on the books. **Hence, we recommend that Inox Green Energy Services Ltd IPO be rated 'SUBSCRIBE'.**

Peer Comparison:

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

Name of the company	Revenues in Mn	EBITDA in Mn	EBITDA margins	ROE (%)	Basic EPS for FY22 (INR)	EV/ EBITDA (x)
Inox Green Energy Services Limited (INR in Mn FY22)	1,722	822	47.7%	-0.6	-2.9%	32.7
Peer Group						
Siemen Gamesa Renewable Energy (EUR in Mn CY21)	10,198	431	4.2%	-13.4	-0.92	35.2
Vestas Wind Systems (DKK in Mn for CY21)	15,587	1,382	8.9%	3.6	0.2	18.7

Source: Bloomberg, KRC Research

ANALYST
Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5413

Inox Green Energy Services Ltd

Financials:

Income Statement (INR Mn)	FY20	FY21	FY22	Q1FY23
Total Revenue from Operations	**1,653**	**1,722**	**1,722**	**618**
YoY Growth (%)		4.2%	0.0%	
EBITDA	**883**	**822**	**822**	**176**
EBITDA Margin (%)	**53.4%**	**47.7%**	**47.7%**	**28.4%**
Other Income	68	140	181	14
Depreciation	396	491	502	165
EBIT	**555**	**472**	**501**	**24**
Interest expense	530	605	548	180
PBT	**25**	**-134**	**-47**	**-156**
Tax	9	144	2	-40
PAT	**17**	**-277**	**-50**	**-116**
EPS (INR)	**0.2**	**-2.3**	**-0.3**	**-0.5**

Source: IPO Prospectus, KRChoksey Research

Balance Sheet (INR Mn)	FY20	FY21	FY22	Q1FY23
Equity Share Capital	833	1,615	2,350	2,350
Other Equity	-525	-1,186	5,716	5,600
Total Shareholders' Funds	**308**	**430**	**8,066**	**7,950**
Non-controlling interest	-1	0	0	0
Total Equity	**307**	**430**	**8,066**	**7,950**
Borrowings	10,849	13,813	9,042	9,099
Lease Liabilities	461	584	2,386	2,365
Provisions	23	25	23	21
Trade Payables	4,109	5,192	803	945
Other Financial Liabilities	3,765	3,048	183	219
Other current Liabilities	3,225	3,538	705	678
Current Tax Liabilities	1,120	881	2,386	2,365
Total Equity & Liabilities	**23,399**	**26,928**	**21,206**	**21,277**
Assets				
Cash and Cash Equivalents	33	1,202	447	92
Bank Balance	146	93	657	462
Trade Receivables	2,499	2,232	680	586
Current Tax Assets	0	0	0	0
Other current assets	2,562	2,873	900	1,263
Other Financial Assets	4,125	4,041	747	1,384
Total Current Assets	**9,364**	**10,441**	**3,431**	**3,788**
Income Tax Assets (net)	279	135	164	181
Property, Plant and Equipment	7,722	7,645	9,530	9,940
Right of Use Assets	0	0	0	0
Capital work-in-progress	1,055	1,328	2,510	263
Deferred Tax Assets	603	989	1,246	1,285
Other Intangible Assets	37	0	0	0
Other Non-Financial Assets	4,339	6,389	4,325	5,821
Total Non-Financial Assets	**14,035**	**16,487**	**17,775**	**17,490**
Total Assets	**23,399**	**26,928**	**21,206**	**21,277**

Source: IPO Prospectus, KRChoksey Research

ANALYST
Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5413

Inox Green Energy Services Ltd

ANALYST CERTIFICATION:

I, Vikrant Kashyap (PGDBM-Finance & IT), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I 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.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd. (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vides SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers.

The information and opinions in this report have been prepared by KRCSSPL 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 KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL 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 KRCSSPL policies, in circumstances where KRCSSPL 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. KRCSSPL 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. KRCSSPL 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. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, .In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/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 brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL 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 KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Vikrant Kashyap (PGDBM-Finance & IT), Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Vikrant Kashyap (PGDBM-Finance & IT), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

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 KRCSSPL 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 them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com
Visit us at www.krchoksey.com
KRChoksey Shares and Securities Pvt. Ltd.
Registered Office:
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.
Corporate Office:
ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

VIKRANT KASHYAP

Digitally signed by VIKRANT KASHYAP
Date: 2022.11.10 16:13:35 +05'30'