



**“INOX Green Energy Services Limited Q2 FY '25
Earnings Conference Call”**

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**MODERATOR: MR. ABHISHEK NIGAM – MOTILAL OSWAL FINANCIAL
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Moderator: Ladies and gentlemen, good day and welcome to Q2 FY '25 Earnings Conference Call of INOX Green Energy Services Limited, hosted by Motilal Oswal Financial Service.

As a reminder, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*”, then “0” on your touch tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Nigam from Motilal Oswal Financial Service. Thank you and over to you, sir.

Abhishek Nigam: Thank you, sir. Good evening, everyone, and welcome to the Q2 FY '25 Earnings Call of INOX Green Energy Services Limited.

For today's call we have with us Mr. Devansh Jain – Executive Director, INOXGFL Group; Mr. Akhil Jindal – Group CFO, INOXGFL Group; Mr. Kailash Tarachandani – Group CEO, INOX Wind Limited; Mr. S K Mathusudhana – CEO, INOX Green Energy Services Limited, and other senior members of the management.

I would now hand over to the Management for their “Initial Remarks”, after which we will open the floor for a Q&A session. Thank you.

S K Mathusudhana: Thanks, Abhishek. Good evening, everyone. A very warm welcome to all to the Quarter Ended 30th September, '24, Earnings Call of INOX Green Energy Services Limited.

The Company announced the results at its board meeting held on Friday 25th October, '24. The results, along with the Earnings Presentation, are available on the stock Exchanges as well as on our Website.

Before we move ahead, let me quickly take you through the Financials:

For the quarter, on a consol basis, INOX Green has reported revenue of Rs. 64 crores in Q2 FY '25 versus Rs. 58 crores in Q2 FY '24. EBITDA of Rs. 34 crores in Q2 FY '25 versus Rs. 31 crores in Q2 FY '24. PAT of Rs. 6 crores in Q2 FY '25 versus Rs. 3 crores in Q2 FY '24. Cash PAT of Rs. 23 crores in Q2 FY '25 versus Rs. 20 crore in Q2 FY '24.

Now, I will briefly provide an Update on “Business Operations and the Outlook” before we open the floor for Q&A:

At the end of the Quarter, INOX Green's wind O&M portfolio increased to around 3.5 gigawatts. Machine availability for the entire portfolio for Q2 FY '25 was at 96.4%, which is a significant improvement over the past years, supported by our technological and manpower capability. Additionally, we are also providing several value-added services and refurbishment services which is also contributing to our growth.

Our portfolio growth outlook through both organic and inorganic growth continues to be very strong. From the organic growth perspective, our parent, INOX Wind, is targeting to execute at least 4 gigawatts of orders by FY '27, which will be added to our portfolio once commissioned.

On the inorganic side, we continue to evaluate multiple opportunities for the acquisitions of portfolio of several ISPs, amongst others, as well as participate in tenders for O&M of third-party wind assets.

Our subsidiary, I-FOX Windtechnik, has recently won two bids for the O&M of wind power projects cumulating to 54 megawatts. We expect to receive LOAs for both the contracts very soon.

At INOX Green, motivated by the philosophy of the INOXGFL Group, we are constantly working on ways and means for cost and quality control. We have indigenized several critical spare parts and equipments, including control system, gearbox, etc., by developing in-house capabilities and tying up with localized vendors. This significantly reduces the supply chain risk and timelines for maintenance activities, resulting in significant cost savings. The Board of INOX Green has appointed consultants and registered valuers for valuating demerger of power evacuation business from INOX Green. Post valuation of reports and subject to Board approval, the demerger process will be initiated. The demerger of power infra facilities currently on the balance sheet of INOX Green will result in a cleaner and asset-light balance sheet. The proposed demerger will significantly add value through depreciation elimination.

Our *Vayuveer* program launched recently to create highly trained, skillful manpower with six months of dedicated technical and on-job training, has been a success. After the successful completion of the first batch of *Vayuveers*, we are in the process to induct the second batch. This will further help the Company to create sustainable business operations and control costs to achieve our desired results. As we are significantly and rapidly scaling up our operations across several locations, the program helps in creating job opportunities for local youth and also meeting our social commitments.

INOX Green remains strongly committed to almost doubling its O&M portfolio in revenue terms from current levels to 6 gigawatts by FY '26 and 10 gigawatts in the next three to four years. The macro outlook for the renewable sector, especially wind power, continues to be very strong. In FY '25, around 12 gigawatts of hybrid FDRE wind capacities have already been awarded. And we expect the pace of awarding and subsequent commissioning of wind capacities to continue strongly. This will provide large multi-decadal opportunities for O&M service providers like us.

With this, we will now open the flow for Q&A. Thank you very much.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir, I have more two questions, one on this proposed removal of the power assets. What will we get in lieu of it and in what value? And second, the depreciation number of Rs. 16 crores, Rs. 17 crores that we see on the quarter basis, that whole depreciation will go away, and some interest costs will go away? So, if you do tell us the quarter or let's say the half year P&L that you are reporting? The half year PAT number ex of this transaction will look like what number?

Akhil Jindal: Hi, Pritesh. So, broadly, as you rightly said, whole depreciation number will go away after this transfer of the substation business. In lieu of the substation business, the shareholders of INOX Green shareholders will receive the share of Resco. The exact valuation is yet to be determined. But that would be beneficial for both the companies, as we have done in the past as well. Excluding the substation business, the revenue would be down by around Rs. 3 crores or Rs. 4 crores on a quarterly basis, and the whole depreciation will go away. So, broadly that will add around Rs. 12-odd crore in the bottom line on a quarterly basis.

Pritesh Chheda: Your reported bottom line, which looks Rs. 6 crores in the current quarter, will start looking Rs. 18 crores to 20 crores per quarter on this transaction?

Akhil Jindal: Yes, that's right, broadly right.

Pritesh Chheda: When do you think this should materialize, your best guest?

Akhil Jindal: Broadly, the valuers and everyone have been appointed and they are evaluating the deal. In next few weeks or something, I guess, we should be able to gather the opinion and start doing the transaction.

Pritesh Chheda: My second question is, on the equity raise that we did a quarter back, what is the progress on the proposed usage of that equity raise? At what stage of the development of progress we are? How should we look at the usage of this equity raise?

Devansh Jain: In terms of the usage, we have called in the first Rs. 500 crores, we have not called in the next Rs. 500 crores. Of the initial Rs. 500 crores, the Broad proposed use of about Rs. 100-odd crores towards pre-payment. We have Rs. 200 crores on the balance sheet lying as liquid cash, and the Rs. 200 crores we made a strategic investment into an entity which we believe should eventually be controlled, acquired by us, it's in a different stage. We would not be able to share more details around that, but we believe that should be a very, very large value addition transaction for us in the months to come. And at this point in time, we are evaluating multiple opportunities.

Having said that, we are very, very prudent with capital allocation. We are not going to acquire companies at 40x, 50x multiples. We have done a phenomenal job. I think the team has done a phenomenal job with I-Fox acquisition. We have virtually doubled its profitability, doubled our growth, doubled its size in 12 months and it's on the path of significant growth. We acquired it at a 4x multiple, so we are evaluating opportunities. But having said that, while we have access to cash, we will not be doing anything stupidly which is beyond our capital allocation policies.

- Pritesh Chheda:** So, you are making your first progress towards usage of cash for whatever presentation that you have mentioned your ambition of 10,000 megawatts. So, you made a first step in terms of the usage of that cash which will come whenever you close it or that's how one should read it, right?
- Devansh Jain:** That's right. We have taken a strategic position for Rs. 200 crores. And I think as that plays out over the next couple of months, I believe that should be hugely value-accretive for the Company. Rs. 100 crores was paid towards the debt and Rs. 200 crores as liquid cash lying on the balance sheet. Naturally, as we progress towards using that cash, we will call for the next Rs. 500 crores preferential, which is available on tap for the next 15-odd months.
- Pritesh Chheda:** This Rs. 200 crores is in which line item of your balance sheet reported in half yearly, it's in other current?
- Akhil Jindal:** It would be in the investment side of it. If you see the balance sheet, there is an item called non-current investment I guess.
- Moderator:** Thank you. Next question is from the line of Vishal Singh from Finvesters. Please go ahead.
- Vishal Singh:** My question is, when can we see inorganic opportunities to materialize which can grow our portfolio? Currently our portfolio is at 3.5 gigawatts and what could be the tentative size at the end of financial year '25? We know you have guided us for 6 gigawatts by financial year '26.
- S K Mathusudhana:** See Vishal, thanks for asking this question. So, basically, INOX Green is growing tremendously, both organic as well as inorganic, as you know. And we are pretty much on track to achieve what we have given as guidance for FY '26, which is 6 gigawatts. And we are even giving a projection up to 10 gigawatts by in three to four years. And coming to the inorganic, as Devansh told, we have a very, very stringent capital allocation policy and we are doing several M&A due diligence to review each and every target. And we have a lot in progress. Whichever target fits into our framework, we are very quick to grab it. So, since we did it in the last year also and hopefully we will give good news in the near future.
- Devansh Jain:** Just to add to it, I think we have already made our first strategic investment which was north of Rs. 200 crores, as I mentioned on the previous answer. We cannot discuss more details around that, but that's something which should add a very, very significant quantity to our pipeline, probably in the next couple of months we will talk about that. But that's been done very, very competitively. As Mathu also mentioned, in I-FOX we have added another 54 megawatts. So, we are on track to hit the numbers we have set out for ourselves.
- Moderator:** Thank you. Next question is from the line of Mr. Abhishek Nigam from Motilal Oswal. Please go ahead, sir.
- Abhishek Nigam:** Sir, I just wanted to check, are we participating in any other tenders relating to O&M open projects? And also, are there any tenders relating to refurbishment of assets which are open for us to participate?

Devansh Jain: Yes, this is a continuous ongoing activity for us. and we are keen to review each and every tender. And as you already know that we are executing a Rs. 33 crores order of NLC through I-Fox, and also, we are actually reviewing more and more opportunities coming up. And since more and more ageing fleets are there in different PSU tenders, the possibility of getting that is very high. So, we are very, very actively looking into that.

Moderator: Thank you. Next question is from the line of Vikash Agarwal who is a self-employed individual and investor. Please go ahead.

Vikash Agarwal: First of all, hello, Devansh sir, we are great fan of yours. We really talk about your style of business, and we really appreciate it. I just want to ask one question as in, the opening remarks we had discussed that INOX Wind organically would add 4 gigawatts to the order book of INOX Green. And we talked about the INOX Green order book going to capacity of 6 gigawatts (sic). So, are these two different or it will be added both and we get 6 gigawatts.

And the second question would be we discussed, I think there was somewhere mentioned transformer business and the crane business. Will the transformer business and the crane business come back in the INOX Green business, or will it be added in the Resco? We see that transformer business is a huge money-making business, I mean, the other companies which are into this are running up hugely.

S K Mathusudhana: Vikash, answering your first question, currently we are at 3.5 gigawatts, and by FY '26 we are about to hit 6 gigawatts. And since we are already actively getting into an inorganic growth of, we are already getting into that, it's a low hanging fruit for us. In inorganic also, we have given a guidance from INOX Wind also for every year – this year 800 megawatt, next year 1,200 megawatt. So, that is a very clear guidance has given from INOX Wind Limited side as well. So, whatever project gets commissioned so that it will be automatically gets added to INOX Green portfolio.

Vikash Agarwal: And there is no duplication.

S K Mathusudhana: And there is no duplication.

Devansh Jain: I think, Vikash, just to answer your second question, thank you for your comments. The crane business and the transformer business are part of Resco, which is another subsidiary arm of INOX Wind. So, cranes are something which we are acquiring, which will be for captive requirement. As well as the free capacity would be for third party players. On the transformer side, we have done value addition. So, we have taken our plants. We are not going to hold off on buying transformer companies and doing all the base work ourselves. And that in itself adds significantly to our profitability. So, again, core to our philosophy, we are focused on core business. We are not spreading ourselves too thin into 10 micro, small things. But through the tolling route we are capturing a lot of value out of the transformer business.

Vikash Agarwal: Sir, can I ask one more question?

- S K Mathusudhana:** Sure.
- Vikash Agarwal:** Somewhere we had read that when we provide a turbine, two years of the O&M service is provided with the cost of the turbine. So, the two years of service that is given by INOX Green, the value of that service for the two years, is it added to the balance P&L of INOX Green, or is it free of cost? And how do we treat it?
- Akhil Jindal:** Yes, you have heard it correctly, whenever we enter into any O&M contract, the first two years are free O&M. And first two years cash flow does not come to INOX Green as it is a part of business development cost. But as per the IndAS principles, we need to straight line our revenues and we straight line the revenues over a period of time. And the revenue in P&L statement starts coming from year one, though the cash flow will start accruing from year three.
- S K Mathusudhana:** There are no costs because we are in the warranty period at that point in time.
- Vikash Agarwal:** Sir, one more thing, the margin guidance, we have upped the margin guidance in the INOX Wind business, so can we expect the guidance upping in the Green business also?
- Akhil Jindal:** No, not really, because as you know the O&M business is somewhere around 50-odd-percent EBITDA margin, which is one of the highest EBITDA margin businesses. So, broadly, our guidance is near about to 50%-odd of EBITDA margin.
- Vikash Agarwal:** So, we can expect a 50% EBITDA margin, like when we are doing the modeling, we can take in 50% as the EBITDA margin, right?
- Devansh Jain:** I think that's reflected in our quarterly results as well. Every quarter on average full year we have been at about, except when we had external issues or when we were non-operating income from an operations perspective. We currently are operating and will continue to operate at about 50% EBIT margins.
- Vikash Agarwal:** And sir, we had incurred a loss in previous years, so in INOX Green we guided that FY '25-'26 there will be tax cost. So, in INOX Green also we can see that in the future or like we do not carry forward any losses due to any accounting purpose?
- Akhil Jindal:** So, we have a lot of unaccounted losses as we have discussed in the past as well on different call. So, in next at least two to three years from here, INOX Green does not need to pay any taxes, and our tax expenditure apart from the deferred tax which is a kind of an accounting adjustment would be nil. The tax outflow would be nil in INOX Green for the next two to three years.
- Moderator:** Thank you. Next question is from the line of Akhilesh B, an individual investor. Please go ahead.
- Akhilesh B:** So, Devansh and team, congrats on the turn around. It has been great to see turn around in all the companies over the last two years. So, I had a few questions. First one was, what is the average length of contract of the O&M that we are signing when we are signing the new

contract? So, my angle is that at the end of FY '26 when we will have a portfolio of more than 6 gigawatts, what might be the average contract length in hand? Right now, it's been around six years as per your presentation.

Devansh Jain: See, the current average length of typical O&M service contract is 10 years, and the subsequent addition of new projects will almost give the same numbers. And even if the investors or the customers want a longer length of the contract, nobody wants to have a shorter period for it. OK,

Akhilesh B: So, as new contracts come in, this should probably increase as the older ones are ramped down?

Devansh Jain: Yes, absolutely. And we have a luxury of renegotiating the price during that time and we have a longer period length of the contract, based on the conditions of the market.

Akhilesh B: And is there generally a price step-up every year included in these contracts like 5% or 2%?

Devansh Jain: Yes, we have an escalation of 5%.

Akhilesh B: And once the Resco gets the evacuation assets, there will be no depreciation in this Company and there is no interest, and we will not have to pay taxes for the next two or three years as you mentioned. So, basically EBITDA will be cash PAT, is that right to assume?

Devansh Jain: Yes, that's correct.

S K Mathusudhana: So, after this evacuation business will get removed, there will be no depreciation, EBITDA would be the cash PAT.

Akhilesh B: And also, the PAT because there is no tax.

S K Mathusudhana: Yes, also PAT as well.

Akhilesh B: And one more query I had on the inorganic side, basically servicing turbines which may not be of INOX Wind make. So, besides acquiring companies, I think you mentioned in prior calls that there are some defunct OEMs who are no longer there, and those contracts are also possible, available in the market. So, are we seeing some shift, are we able to get those contracts without trying to acquire any companies? Can we just get those contracts as well on those machines?

S K Mathusudhana: Yes, Akhilesh, so we have created multi brand capabilities of almost all the OEMs in the market, and we are continuously adding the capacities of other brand OEMs. And I have mentioned in the opening remarks of 54 megawatts which is of non-INOX make.

Devansh Jain: It is added to I-FOX, I-FOX is now 350-odd megawatts.

S K Mathusudhana: Yes. And I-FOX has grown up to 350 megawatt and we are actually planning to add more. So, the answer is yes.

- Akhilesh B:** And just one last question, in Resco our efforts to in-house the crane operations, so 12 months from now, is it possible that we are able to completely meet our own needs?
- Devansh Jain:** That's what the target is. I mean, it is the crane supplies on which we are dependent. I think we ordered a large chunk. We have used the might of the group to get cranes delivered earlier. But as we start getting claims, I would expect over the course of the next financial year we should be completely in-house, possibly earlier than that.
- Moderator:** Thank you. Next question is from the line of Deepa, who's an individual investor. Please go ahead.
- Deepa:** Sir, first of all, Happy Deepavali to the INOX team and congrats on the fireworks you did in the numbers in INOX Wind and the Green board. So, my question is, what is the revenue per gigawatts in O&M business?
- Akhil Jindal:** Broadly the thumb rule is around Rs. 8 lakh per megawatt per annum. So, you know, based upon the megawatt usage, which is have, you can consider Rs. 8 lakh per megawatts.
- Deepa:** And what is the gap between when the INOX Wind starts commissioning and the O&M start INOX Green?
- Akhil Jindal:** So, immediately after the INOX Wind Limited commissions the turbine, that turbine has been taken over by INOX Green. So, there are as such no gaps, but there can be two, three months of gap for signing of contract and so on and so forth. But that would be a very miniscule kind of gap.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for the day. On behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.