INOX Green Energy Services Limited
Q3 FY24 Earnings Conference Call

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CORPORATE PARTICIPANTS:

Mr. Devansh Jain
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Mr. Kailash Tarachandani
CEO, Inox Wind

Mr. S.K. Mathusudhana
CEO, Inox Green Energy Services

Mr. Mohit Kumar
ICICI Securities Limited

Q&A PARTICIPANTS:

1. **Prit Nagersheth** : Wealth Finvisor
2. **Hardik Shah** : Brick Capital
3. **Kanv Garg** : Garg Advisors
4. **Akhilesh B** : Individual Investor
5. **Tarun Advani** : Individual Investor
6. **Vinay Agarwal** : Individual Investor

Moderator

Good evening, ladies, and gentlemen. I am Pelsia, moderator for the conference call. Welcome to Inox Green Q3 FY24 Earnings Conference Call. As a reminder, all participants 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 the operator by pressing * and then 0 on your touchtone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Mohit Kumar from ICICI Securities Limited. Thank you, and over to you, sir.

Mohit Kumar

Thank you, Pelsia. Good evening. On behalf of ICICI Securities, I welcome you all to the Q3 FY24 earnings call for INOX Green Energy Services. Today we have with us Mr. Devansh Jain, Executive Director, INOXGFL Group; Mr. Kailash Tarachandani, CEO, Inox Wind; Mr. S.K. Mathusudhana, CEO, Inox Green Energy Services. We will start with brief opening remarks by the management, followed by Q&A. Over to you, sir.

S.K. Mathusudhana

Yes, thanks. Good evening, everyone. A very warm welcome to all of you to the Q3 FY24 earnings call of IGSL. The company announced the Q3 results at its Board meeting held on Friday 9th February. 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. During Q3 FY24, on consolidated basis, Inox Green has reported revenue of INR 60.5 crore in Q3 FY24 versus INR 58.2 crore in Q2 FY24. EBITDA of INR 23.7 crore in Q3 FY24 versus INR 31.4 crore in Q2 FY24. PAT of INR 0.8 crore in Q3 FY24 versus INR 3.4 crore in Q2 FY24. Machine availability has improved in Q3 FY24 to 96.84%.

Q3 results were primarily impacted due to preventive and proactive maintenance activities taken up during the quarter, which is primarily a low wind season for wind turbines, to ensure high machine availability during the upcoming high wind season resulted in higher expenses compared to previous quarter. Now, I will briefly provide an update on our business operations and outlook before we open the floor for Q&A. Inox Green is a stable asset light long-term annuity cash generation business. Inox Green primarily operates in the business of providing long-term O&M services for wind farm projects. The company has long term service contracts with its customers including comprehensive contracts and common infrastructure contracts with built in annual escalations resulting in very sticky revenues and stable margins.

Inox Green's current O&M portfolio stands at 3.2 GW. The company is committed to almost doubling its O&M portfolio from the current levels to 6 GW by FY26 through both organic and inorganic means. On the operational front, we have been able to improve the availability of the turbines in our portfolio consistently and continue to improve through digital innovations and better operational practices. For Q3, FY24, our overall plant availability was 96.84%, continuing improvement of technical performance in operations are resulting good market perceptions and an opportunity to expand our multi brand turbine O&M fleets in the market. We continue to engage with various large IPP customers in offering O&M services of other OEM turbine assets, showcasing our technical and financial strength.

We are also participating in PSUs tenders to expand our O&M portfolio. We have been working on putting our building blocks in place to able to take larger portfolio with a parent execution ramping up. The same should start flowing in our P&L with a lag of one to two quarters. We are looking at massive growth ahead and have geared ourselves to be able to handle large portfolio. With balance sheet strengthened and operational efficiency improved we are now ready for growth through both organic and inorganic opportunities. On the inorganic front, the opportunities are quite immense. With 10 GW of unorganized and fragmented O&M players owning the fleet of distressed OEMs.

We have taken over 51% of the majority stake in I-Fox and also in Resowi recently, which are leading and renowned independent O&M service providers, having a very large customer base with a wide range of capabilities to offer multi brand O&M and special services to customers. We believe that the strong sectorial tailwinds will lead to substantial increase in wind capacity addition over 100 GW of wind capacity addition in the next 8 to 10 years, leading to a massive growth from the current 45 GW of installed capacity. This will be aided by the central government auctions, state auctions, retail demand, C&I segment demands for their green commitments as well as demand rising from green hydrogen ecosystem in the medium to long term.

As our parent company Inox Winds, operation and execution ramps up to execute over a GW scale of orders per annum, the same will be added to our portfolio. Organically, we expect to comfortably add over 1500 MW to our portfolio during FY24 to FY26. Inox Wind has built up strong work order of 2.5 GW including a large 279 MW order from a C&I player, 50 MW order from Navratna PSU, NLC India as well as recent mega order win of 1500 MW from CESC, which is the single largest wind order ever awarded to an OEM in the country. It has also signed an exclusive licensing agreement for 4.X MW series turbines, which we believe will help us address the technological requirements in the onshore wind sector over the next decade.

Inox Wind's strong order book and its strong product lineup significantly strengthens the growth prospects of both the companies for this decade. During the quarter, we continued efforts towards improving the operational and technical performance of the turbines in our portfolio. We continue to strengthen our relationship with our existing clients and are working on building new relationships. Our continuing trust to improve operating performance leads to better power generation, benefiting the customers and our nation's growth. Improving the health of the turbines, proactively bring down significant breakdown cost, and efficiency improvement, showing positive results, reducing overheads and increasing productivity.

We are continuing towards our digital journey with the implementation of SAP and digital analytical tools and adapting best practices in supply chain and maintenance. Our ESG commitments remain strong and we continue our efforts to improve our ESG compliance. We have received independent assurance from E&Y for our FY23 sustainability report. We have participated in S&P corporate sustainability assessment for year 2023. I believe that we will be a major catalyst in the goal towards emission reduction in the value chain where we operate. Being part of a $8 billion Inox GFL Group which has 90-plus years of footprint in fueling India's growth, as well as the parentage of Inox Wind provides Inox Green with strong fundamentals and growth visibility. As we continue our massive growth journey, we look forward to create sustained value for all our stakeholders through operational excellence. We will now open up the floor for Q &A. Thank you.

Q&A

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles. First question comes from Prit Nagersheth from Wealth Finvisor. Please go ahead.

Prit Nagersheth

Yes, hi. Sir, one question I had is on the inorganic side. Could you share any updates on the opportunities that you see on the inorganic side and any traction that you may have with such opportunities?

Devansh Jain

No. I think, Mathu, you may add as I speak. But I think, as a company, we've already acquired one company, I-Fox, where we have a majority stake. We've recently acquired a second company, which is a small operating company, but has significant technical competence, which adds to our strength. At this point in time, we are evaluating certain other acquisition opportunities. There is a large pipeline out there which could potentially be acquired some in NCLT, some outside NCLT. So, beyond that, it's hard to say, but I think what we can confidently say is that we had guided for 6 GW by 2026. And I think we are very firmly on track to achieve that or beat that both by way of organic and inorganic means. Mathu? I think this is fine.

Prit Nagersheth

So, given the larger opportunity that you are saying is that for Inox Wind. Wouldn't you want to kind of upgrade the guidance here from 6 GW to maybe more?

Devansh Jain

Let's get there. I don't think the company is valued for 6 GW. I don't think people believe we will get there. So, let's get there. We are talking of going from 2.7 when we IPO-ed a year ago, to 3 years going to 6 GW. So, we took close to 13 years to set up 2.7. And we're seeing in the next 3 years, we'll be north of 6 GW. I think let's get there rather than talking bigger numbers.

Prit Nagersheth

Okay. Any update on the sale that was there, and I think it was waiting for some connection transfers and stuff like that. So, if you can share an update on that.

S.K. Mathusudhana

Is this about Nani Virani?

Prit Nagersheth

Yes.

Devansh Jain

So, I think we've already announced the sale of that asset. I think recently, as of yesterday or day before. I think we've got the. There are certain formalities which we need to complete in terms of transferring the connectivity, in terms of transferring the loan, et cetera. I think we are on track, I mean, we are holding that asset for sale. I think over the next couple of weeks, that should go off. There's nothing much to be said about that. We are fulfilling all the long-term routine formalities.

Prit Nagersheth

Got it. Okay. Great. Thank you and wish you guys all the best.

S.K. Mathusudhana

Thank you.

Devansh Jain

Thank you

Moderator

Thank you. Next question comes from Hardik Shah from Brick Capital. Please go ahead.

Hardik Shah

Hello. Hello.

Moderator

Please go ahead, sir.

Hardik Shah

Am I audible?

S.K. Mathusudhana

Yes, you are.

Hardik Shah

First of all, congratulations for whatever you have said and executing it with the order book and all of Inox Wind. I think 6000 MW for the Inox Green is simply achievable organically. If you can throw some more light on inorganic potential that we can see as of now from the management side.

Devansh Jain

Look, qualitatively, yes. I think given the strength of Inox Wind and the order book and the traction, certainly we can exceed that. But as I mentioned, we have guided for 6 GW within 2026. The larger vision remains to make just a 10 GW platform at the earliest. I think that's all that we can say at this point in time. Point number one. Point number 2, I think on the inorganic side. Look, it's very difficult to give exact numbers, but we're evaluating certain NCLT targets. We're evaluating certain other targets which provide niche O&M services. And I think I mean as we move forward, we should be announcing more acquisitions. The other thing also is that the existing opportunities which we have I-Fox and Resowi, we will be using them as well to further grow and these guys are growing. Mathu?

S.K. Mathusudhana

In terms of I-Fox itself, it's one of the top 3 ISP players in the Indian market. And they have more than 100 customers and they are getting rapid growth opportunities by themselves as well as putting our group's potential. Second, in terms of inorganic acquisition, we are in a very advanced discussion with several opportunities. So, hope we will announce soon good news to the market.

Hardik Shah

And apart from I-Fox, the second acquisition that we did. What is the capacity that we are going to serve there?

Devansh Jain

It's a very small niche engineering company with engineering talent. There doesn't have much operational capacity.

S.K. Mathusudhana

So basically, just to clarify it. Our industry has around more than 30 OEMs gone bust. Right? So, these 2 players have potential to cater to as many wider range of O&M services and capabilities and experiences. Right? And with the supply chain experience and support. So along with our group potential, so we can give any level of range of services to any customer. So that is a benefit of that company.

Hardik Shah

Okay. And just one small thing, can you just quantify this proactive maintenance activities that we did during this Q3, what would be the higher cost compared to the normalized earnings that we should estimate?

Devansh Jain

There's no higher cost. Let's be very clear about that. I mean, in this operation, INR 3 crores, INR 4 crores, INR 5 crores quarterly is impossible to explain. If you look at the 9M EBITDA, that's roughly 50%, and if you look at the 9M FY23, it was 74. Right? So, there's organic growth which is continuously happening on this number. Quarterly, you could have some quarter INR 5 crore more, INR 5 crore less. There's no change in operation or this is not an exceptional item. It's more timing. You won't do preventive maintenance in the high wind season. You'll do preventive maintenance in the low wind season so that your uptime is the highest in the high wind season. These are normal operational practices.

Hardik Shah

Okay, and one last question. Once we achieve a significant free cash flow, what is the board and what is the management thinking to do with the free cash flow that we will achieve in times to come?

Devansh Jain

I think let's get there. And as we've said earlier, we have multiple listed companies in the group. We have dividend policies in place. It's an ESG play, this company. So, there will be dividend policy. I'm sure the board, in its wisdom, will approve a dividend policy at the right time, and that's what we will be doing with the free cash flows, barring keeping some cash always on the balance sheet for strategic opportunities, which may come along the way.

Hardik Shah

Okay. Thank you and all the best, Devansh and Team.

Devash Jain

Thank you.

S.K. Mathusudhana

Thank you

Moderator

Thank you. Next question comes from Kanv Garg from Garg Advisors. Please go ahead.

Kanv Garg

Hi, sir. Sir, I have just two questions. My first question is, in case of any natural calamity, right, I mean, who bears the risk of repairing the wind turbine? Is it with us? I mean, just want to understand how the contract is. That is my first question.

S.K. Mathusudhana

Okay. So, to answer the first question, basically, all the assets are under insurance covered, right? So, any natural gravity, obviously, the asset owner will have that IAR policy. The customer will bear it under their policy. We, as a service provider, we have a mission breakdown policy, which caters the equipment level. Thank you.

Devansh Jain

So, just to reiterate. We take no responsibility for any force majeure or Acts of God on actual calamity. That's at the end of the asset owner.

Kanv Garg

Okay. So, then my second question is. So, let's say, I think we say that the typical life of a contract is 15-20 years, right? And I think we have been in operation, like you said, from last 13-14 years. Will it be possible for the management to provide, like MW-wise, when the contracts will be ending? For example, let's say for 100 MW, the contract might be ending in 2024 or 2025. So that gives investors some idea how to discount the cash flows.

Devansh Jain

So, I think, naturally, we can't share year-wise contract-wise details in the public domain. It's not practically possible. Having said that, we're a fairly young company. Our first project sold outside. We were at about 200 MW there's a timeline in our previous presentations. We were at about 200 MW in FY12. And these turbines last for 25 years. So, on average, our entire fleet's aging would be close to blended 6 and 6.5 years. So effectively, if you look at a 25-year cycle we have on the blended fleet 20 years to go.

Kanv Garg

Yes, that’s a long time. Thank you. Thank you, sir. Thanks for answering my questions.

Devansh Jain

Thank you.

S.K. Mathusudhana

Thank you.

Moderator

Thank you. Next question comes from Akhilesh B an Individual Investor. Please go ahead.

Akhilesh B

yes. Hi. Thanks for the opportunity. Few questions. In the press release regarding Resowi acquisition, we also mentioned this team has some expertise in the Sri Lankan market. So, is this a geography that we are trying to enter through them? Do we have plans to go outside India with the O&M business?

S.K. Mathusudhana

So, yes, absolutely, you are right. And we want to keep all options open to grow the company.

Akhilesh B

So, is there something imminent or this is just a little **[Inaudible 00:21:09]**?

Devansh Jain

I don't think there's anything beyond that which we can add. I think we're just keeping all our options open as Mathu says. Services is something which cannot just be restricted to India. It could be a global opportunity as well. But I think, as we said, we're evaluating multiple opportunities. We are tying up what we think is relevant, keeping in mind the long-term growth story.

Akhilesh B

Okay. And sir, one question on how our billing is done. If I remember right, you mentioned that for each MW, the O&M revenue we get is around INR 8-10 lakhs a year. So, is this generally spread equally across quarters or how does that work?

S.K. Mathusudhana

The billing is evenly spread across the quarters apart from the any breakdown, maintenance or breakdown things which we have done. Otherwise, it is evenly spread across the quarters.

Akhilesh B

And in case of some breakdowns that happen, we will be billing them for the spares, et cetera, that we use? Or is there a breakdown service charge separate for them?

S.K. Mathusudhana

Breakdown of the asset, the customers will pay for spare part and the services.

Devansh Jain

Which are beyond the comprehensive contract.

S.K. Mathusudhana

Which are beyond the comprehensive contract.

Devansh Jain

Which are comprehensive contracts are in our scope. But whatever is beyond comprehensive contracts we will bill to the customers if and when such a situation arises.

Akhilesh B

And one just sort of offbeat question and in the prior Inox Wind call you mentioned that there is a certain dearth of availability of BOP players to do third-party turnkey work. Is there any opportunity you see that our services company may enter into that segment to BOP also for other projects?

Devansh Jain

Question, we don't intend to enter any BOP services. First and foremost, we don't think that makes sense. Second, we're not going to compete with our parent company by doing the same services. And thirdly, this is a business which is focused on free cash flows, no debt, no working capital bloating. It's a plain, smooth annuity business. We are only focused on this business or high-end engineering services. We don't want to get into EPC and so on and so forth.

Akhilesh B

Okay, very clear. Thank you.

S.K. Mathusudhana

Thank you.

Moderator

Thank you. Ladies and gentlemen, if we have any questions, please press * and 1 on your telephone keypad. I repeat, ladies and gentlemen, if we have any questions, please press * and 1 on your telephone keypad. Next question comes from Tarun Advani, an Individual Investor. Please go ahead.

Tarun Advani

Good Evening, sir. Sir, compared to the Q3 FY23, I see that there is a dip in revenues from INR 71 crores to INR 60 crores. Sir, can you please help us understand what is the reason for the dip?

Devansh Jain

So, in FY23, there are certain trading income which is one-time trading income which has been accrued to us, which we have stopped completely from 31st, March 2023, and that's why the apple-to-apple revenues are not comparable.

Tarun Advani

So how much would that be **[Inaudible 00:24:25]**?

Devansh Jain

Don't focus at that juncture, Inox Green was still a part of Inox Wind. We had not spun it off and listed it separately. So, the businesses of Inox green also carried out through that entity. So, trading, if you see any of our previous presentations, was simply jacking up there. I mean, it was increasing the revenue, but that had nothing to do with the O&M business. But we had to fulfill the obligations of Inox Wind and Resco, which pertained to the period when it was fully consolidated, 100% owned by that entity. But apple-to-apple comparison is if you look at what happened in Q1 in Inox Green, Q2 this year in Inox Green, and now Q3 in this Inox Green. They're not comparable.

Tarun Advani

Understood, sir. And sir, likewise there was other income of INR 20 crores a year back and some INR 10 crores last year, and which has now come down to around INR 58 lakhs. So, this was because of what, sir?

Devansh Jain

Look, I don't think we can compare to the previous period, as I said, because that's not comparable. That is not for the Inox Green O&M business. You have to look at Inox Green O&M from the time that it got spun off from Inox Wind and we had committed to investors of Inox Green that post 31st March 2023, there will be no other liabilities or trading income which we will bear at Inox Green for the erstwhile consolidated business. So, the only way to compare the O&M business is to look at Q1, Q2 and Q3.

Tarun Advani

Sorry, sir. My question was regarding Q2 FY24, there was an other income of around INR 10.8 crores.

Devansh Jain

That was an operating income. So, if it was with respect to Q2, that was an operating income for certain things, which going forward with the auditors it will be classified as operating income.

Tarun Advani

Okay.

Devansh Jain

But you should look at those two in a combined manner.

Tarun Advani

Understood. Sure.

Moderator

Thank you. Next question comes from Vinay Agarwal an Individual Investor. Please go ahead.

Vinay Agarwal

Good afternoon, sir. For the great set of numbers and for the great execution turnaround that has been executed by the management and the entire team. Sir, as you have always said. Just one question I had. Sir, what you think there are so many orders coming in from and the government orders of 10 GW you win. So, what is the management and actioning in regard to the market share the comment the company will be holding going ahead?

Devansh Jain

Is this pertinent to Inox Wind or Inox Green?

Vinay Agarwal

Sir, Inox Green would be indirectly would benefiting from the contract that Inox Wind be undertaking, so if you could **[Inaudible 00:27:19]**

Devansh Jain

I mean. So, like I'd mentioned in my previous call on Inox Wind, I think historically we've been 15-20% of the market. But more than anything else, we're driven by profitability. As I said earlier, we are not driven by the fact that we want to be number one and pile on thousands of crores of losses or going for restructuring. We are driven by profitability. Our CEO in wind has guided that. We are gearing up for GW scale execution. Our ability is to get towards a 2 GW number very soon. And I think that's where we are.

So, I think we should be north of a 20% market share. Depends on how you see the market. Possibly more in the near future, possibly in an expanded market, even more as we move forward. But let's put it that naturally, as Inox Wind ramps up more and more and I think they have a very-very healthy order book, which we've spoken about. Inox Wind is a natural beneficiary on the organic side of things. Inorganic in any case Inox Green is pursuing on its own.

Vinay Agarwal

Okay. Thank you, sir.

Devansh Jain

Thank you

Moderator

Thank you. We have a follow up question from Kanv Garg from Garg Advisors. Please go ahead.

Kanv Garg

Sir, If I look at the depreciation and amortization expense, it's like INR 13 crores for this quarter. Just want to understand what will be this expense going forward? And will we need to do a CapEx for let's say, because since we are getting up a 6 GW. So, will we require any CapEx for this business?

S.K. Mathusudhana

In this company, we don't need to do any CapEx. So, this INR 13 crore depreciation would be constant over a period of time. And that will remain till the time this gross block, which we have in books, got consumed after we are not going any CapEx in this company whatever the CapEx we require for development of the transmission line, et cetera, we are doing in the company called Resco Global, which is a subsidiary of Inox Wind Limited.

Kanv Garg

So, sir, like this plant for which we are charging the depreciation. I'm assuming that there must be some capacity for that plant, right? That's what just trying to get a better picture on this.

S.K. Mathusudhana

That plants have cumulative capacity of 4 GW out of this, 3 GW is already commissioned and having an unutilized capacity of 1 GW as of now.

Kanv Garg

Yes. So, let's say when we scale up for 6 GW, I think that's the plan is, right? So, what is the kind of CapEx that we will be incurring?

S.K. Mathusudhana

Whatever would be you know earlier this company includes both the O&M and EPC businesses. So, this CapEx has been incurred in this company when the entity are combined and doing both the businesses. As the EPC business has been spun off and has been created into a new entity called Resco Global out of which all the future development will be carried out in Resco Global. So, till another 1 GW of the development, this company will be utilized and for future growth prospective for future development, the CapEx will be incurred in Resco Global.

Kanv Garg

So basically, Resco is using then our capacity.

S.K. Mathusudhana

No, it does not have anything to do with Inox Green. Resco is a 100% subsidiary of Inox Wind. And any future CapEx which we intend to incur in developing our common infra will be done in Resco and not under Inox Green. So, no future CapEx under Inox Green at all. So, whatever is the depreciation which is being incurred on a quarterly basis will continue until and unless our net block gets consumed.

Kanv Garg

Okay. Thank you. Thanks a lot you for answering the questions.

Moderator

Thank you. That will be the last question for the day. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good day.

Note: 1. This document has been edited to improve readability
2. Blanks in this transcript represent inaudible or incomprehensible words.