

# Inox Wind IPO Set to Unlock Value for Gujarat Fluorochem

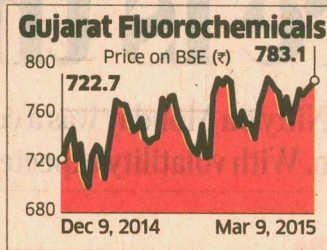
## Calculus

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**ET Intelligence Group:** The Inox Wind IPO scheduled for the third week of March could be a way to unlock value for the promoter Gujarat Fluorochemicals (GFL), which owns 75% in the company. Post-IPO, the company's investments in listed subsidiaries may be around ₹6,500 crore, out of its present market capitalisation of ₹8,600 crore. With its core business of chemicals on growth path, this could boost the Gujarat Fluorochemicals' valuations.

The IPO, which is expected to value the wind power solution provider at ₹7,500 crore, will value the company's investment in the business at ₹5,625 crore. The company's 48% stake in the multiplex business — Inox Leisure (a listed entity) — is valued of ₹805 crore.

The specialty chemicals business of refrigerants, fluoro-chemicals and PTFE (poly-tetra-fluoro-ethy-



lene) ended the 9-month period to December 2014 with a net profit of ₹82 crore on revenues of ₹974 crore. This is set to grow further, as the company reaps the benefits of capacity additions in 2014. Its hydrochlorofluorocarbon (HCFC) refrigerant capacity was ramped up by 40,000 tonne while its 16,000 tonne per annum PTFE capacity is running at around 70-75% level. PTFE is a polymer with applications in critical areas of healthcare, aerospace and defence industries, thanks to its non-stick, anti-reactive, anti-corrosive and anti-friction properties.

With the proposed IPO and cash flows from business, the company has the potential to become debt-free by the end of FY15. The company's wholly-owned subsidiary, In-

ox Renewables, runs a 213 mw wind farm and posted ₹26 crore of net profit from revenues of ₹155 crore for the 9-month period ended December 2014. It is an annuity business with high cash flows that is sufficient to service the debt.

Going by the sum of parts valuation methodology, Gujarat Fluorochemicals' listed entities contribute nearly ₹6,400 crore to its value. The chemical business is enjoying EBITDA margins of 26% currently and the management has given a guidance of 30% EBITDA margins as capacity utilisation improves at the PTFE plant by December 2015. Vinati Organics, a chemical company with similar high margins, enjoys market valuation 27-28 times its annualised profits. Considering GFL's high RoCE, cash generation and growth visibility, the chemical business can be valued at 28-30 times its annual earnings. The standalone valuation of the chemicals business should be by around ₹3,300 crore.

The wind farm business, a profitable money spinner, has slow growth, but high RoCE. This entity can be valued 15 times its annualised profits or around ₹600 crore.