

Suzlon Energy Ltd.

₹ 14

*Winds of Change***Buy**

Nov 8, 2014

Company Background

Suzlon Energy Limited (Suzlon) is primarily engaged in the business of manufacturing of wind turbine generators and related components of various capacities. The Company's offers comprehensive product portfolios - ranging from sub-megawatt onshore turbines at 600 kilowatts, to commercially-available offshore turbine at 6.15 megawatts. The Company has presence across Asia, Australia, Europe, Africa and North and South America with over 24,000 megawatt of wind energy capacity installed, operations across over 31 countries. The Company has 15 subsidiaries in different continents.

Key Highlights

- ➔ Its German subsidiary REpower (Senvion) is planned to be listed in current FY on the London Stock Exchange, this would garner around INR 70 bn from the markets which would translate into a sizeable debt of Suzlon thus helping in a surge of profits which the interest is currently eating up..
- ➔ The Indian Government has once again reinstated the Accelerated depreciation scheme for wind projects which will ensure a rise in business for Suzlon in India from Q3 FY 2015 onwards. Further the Government has now announced that investment in wind energy as one of the qualified CSR activities under section 135 of the Companies Act, 2013. Income tax holiday under section 80IA has been extended till 2017. With these measures the Indian wind energy market is expected to surge and Suzlon is well positioned to capitalize on this.
- ➔ The global wind market is poised for a new phase of growth. The wind energy market is likely to surge by 40% in FY15. The medium to long term outlook for Suzlon's business remains robust as the life cycle cost of energy from wind continues to target grid parity in most markets. This along with the demand for cleaner energy would definitely boost its business.
- ➔ Suzlon's global installations crossed 24,000 MW at the end of the fiscal year. The orderbook is full at USD 7.6 bn translating to 5300 MW of capacity with a growing service order backlog. As the Group continues to grow, the OMS revenue streams will continue to increase with stable margins.

Key Financials

Year Ended 31 st	Mar 12	Mar 13	Mar 14
Revenue (INR mn)	72,182.7	22,271.6	56,023.6
Rev. growth (%)	53.02	(69.15)	151.55
EBITDA (INR mn)	13,993.8	(5,943.7)	23,081.6
Net profit (INR mn)	(5,053.8)	(29,898.0)	(9,244.7)
Shares outstanding (mn)	1,777.4	1,777.4	2,488.2
EPS (INR)	(2.8)	(16.8)	(3.7)
EPS growth (%)	172.21	491.59	(77.91)
P/E (x)	(8.9)	(0.8)	(3.0)
RONW (%)	(8.2)	(74.1)	(110.2)
ROCE (%)	(3.6)	(23.5)	(25.0)

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Info Codes

Reuters	: SUZL.BO
Bloomberg	: SUEL@IN
NSE	: SUZLON
BSE	: 532667

Market Data

52 Wk Range (₹)	: 8.24 / 36.8
Shares in Issue (mn)	: 2488.2
Mkt. Cap (₹ bn)	: 44.93
2 Wk Avg. Qty (mn)	: 7.12

Shareholding

Promoters	: 34.46
FII's	: 12.89
DII's	: 24.40
Others	: 28.25

Investment Theme

Suzlon has faced some tough times in the past few years, with its Credit risks growing, liquidity crunches, the wide mouth interests eating in profits and all this coupled with the global economic recession with just the US Government cutting in 90% of its yearly orders. All this fell together for Suzlon who got caught in payment defaults & ultimately in a CDR proposal. However things are changing for Suzlon, its CDR proposal has been accepted the company has posted a positive EBITDA after eight successive quarters of negativity. The listing of Senvion is into picture which would bring in a considerable amount of money to reduce the debts. The Indian government has announced a stream of policy changes and tax benefits to benefit the overall wind energy as a whole. All this should bring in some good news for the company.

Good days are coming!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 12	Mar 13	% Chg	Mar 14	% Chg
Total Sales + Excise	68719.9	17536.7	(74.48)	30647.4	74.76
Other Income	3355.7	3686.6	9.86	24318.3	559.64
Change in Stocks	962.3	3203.5	232.90	(4767.3)	(248.82)
Raw Material Con.	45273.1	17411.1	(61.54)	17044.7	(2.10)
Employee Exp.	3374.3	2574.5	(23.70)	2602.6	1.09
Indirect Taxes	40.5	10.5	(74.07)	37.4	256.19
Other Exp.	10356.2	10384.6	0.27	7432.1	(28.43)
Operating Exp.	58081.8	27177.2	(53.21)	31884.1	17.32
Operating Profit	10638.1	(9640.5)	(190.62)	(1236.7)	(87.17)
Total Interest	11574.7	13304.5	14.94	14431.8	8.47
Gross Profit	2419.1	(19258.4)	(896.10)	8649.8	(144.91)
Net Dep.	7472.9	9075.0	21.44	17894.5	97.18
Total Taxation	0.0	1564.6	-	0.0	(100.00)
Net Profit/Loss	(5053.8)	(29898.0)	491.59	(9244.7)	(69.08)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 11	Mar 12	Mar 13	Mar 14
SOURCES OF FUNDS	134,718.1	142,311.5	118,666.3	129,793.3
Equity Share capital	3,554.7	3,554.7	3,554.7	4,976.3
Share Application Money	0.0	0.0	5,816.7	1,620.2
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	64,390.1	51,424.4	19,211.9	21,663.3
Long Term Loans	55,018.1	68,444.8	74,369.6	78,424.2
Short Term Loans	11,755.2	18,887.6	15,713.4	23,109.3
USES OF FUNDS	134,718.1	142,311.5	118,666.3	129,793.3
Gross Block	14,395.2	17,718.5	19,464.7	17,142.1
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	5,763.5	8,045.7	9,981.2	9,950.9
Net Block	8,631.7	9,672.8	9,483.5	7,191.2
Capital Work in Progress	370.4	130.3	383.8	157.1
Investments	78,450.6	88,156.2	85,529.8	77,300.7
Current Assets	86,552.5	107,889.5	81,522.2	101,614.8
Less : Current Liabilities	40,212.7	64,318.8	58,653.5	56,778.8
Total Net Current Assets	46,339.8	43,570.7	22,868.7	44,836.0
Misc. Expenses not written	925.6	781.5	400.5	308.3
NOTE				
Bk Val Unquoted Investments	77,949.2	87,656.0	85,529.8	77,300.7
Mkt Val. Quoted Investments	501.4	500.2	0.0	0.0
Contingent Liabilities	41,057.1	35,954.7	11,545.5	13,222.0
Dividend (%)	0	0	0	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 13	Mar 14	Jun 14	Sep 14
Net Sales	5073.9	10082.4	8172.3	7540.1
Cost Of Sales	5403.2	9853.9	9257.4	8533.8
Operating Profit	(329.3)	228.5	(1085.1)	(993.7)
Recurring Income	1374.8	1452.4	509.3	787.2
Adjusted PBDIT	1045.5	1680.9	(575.8)	(206.5)
Financial Expenses	3084.8	3294.8	3388.5	2976.8
Depreciation	416.0	510.0	367.0	380.5
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(2455.3)	(2123.9)	(4331.3)	(3563.8)
Tax Charges	0.0	0.0	0.0	0.0
Adjusted PAT	(2455.3)	(2123.9)	(4331.3)	(3563.8)
Non Recurring Items	(4280.9)	13361.2	0.0	(1720.0)
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	(6736.2)	11237.3	(4331.3)	(5283.8)

52 Week Index Relative Percentage Appreciation



Suzlon vs SENSEX

Risks Associated

- Technological risk is one of the main risk faced by the company, whatever is demonstrated in R&D if it does not perform at ground level the company will be severely hit in terms of R&D expenses and future sales. .
- The weakening of the Rupee has exerted tremendous pressure on margins. Critical components like Gearbox, Bearings, Blades and Panels have a long ramp-up duration which would inhibit agility.
- The company is exposed to high interest rates at the Group level. Though post formalisation of Corporate Debt Restructuring Proposal, risks associated with interest rate fluctuation have been mitigated however any fluctuations on topline and bottomline would cause harm.
- Continued losses coupled with huge repayment obligations for its debts lead to liquidity crunch and resultant defaults in meeting lenders obligations. The company continues to carry this risk.
- The company has turned face to offshore wind projects, there are instances where many such projects are not economically viable. Thus an operational risks always remains on these projects.
- The FCCB's of company have matured and any conversion and offloading of the same by investors would severe the equity market share value.

Suzlon

In a Nutshell

Suzlon was incorporated in the year 1995. It is India's largest and world's sixth largest wind-energy provider. Suzlon provides total solutions in wind power generation with cohesive integration of consultancy, design, manufacturing, installation, operation and maintenance services. Its products include the integrated service for the wind turbines and wind parks. Suzlon has developed some of the largest wind parks in Asia including the world's largest wind park of its kind of over 200 MW capacity. Suzlon has captured over 4% of the global market. It has a subsidiary in Germany for technology development, an R&D facility in the Netherlands for rotor blade molding and tooling and wind turbine and rotor blade manufacturing facilities in India. Suzlon Energy Ltd has also opened an office of its subsidiary, Suzlon Energy A/S in the Aarhus Denmark, the hub for wind energy. The company has also entered into a joint venture with Elin EBG Motoren GmbH of Austria to manufacture slip ring generators required for wind turbine generators at the former's manufacturing facility at Pune in Maharashtra. It's Netherlands-based wholly owned subsidiary AE-Rotor Holding BV is planning to acquire Belgium-based EVE Holding NV for 465 million Euro. Hansen Transmissions is engaged in designing, developing, manufacturing and supplying industrial and wind turbine generator (WTG) gear boxes. Hansen Transmissions is the world's second largest WTG manufacturer controlling 33 percent of the WTG market globally. The environment of Renewable energy growing around would definitely place Suzlon in some fresh air.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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