

Suzlon Energy Ltd.

₹ 15

Winds of Change !***Accumulate***

Nov 11, 2016

Company Background

The Suzlon Group is one of the leading renewable energy solutions providers in the world with an international presence across 19 countries in Asia, Australia, Europe, Africa and North and South America. With over two decades of operational track record, the Group has a cumulative installation of approximately 15GW of wind energy capacity, a workforce of over 8,000, a low-cost manufacturing base and strong in-house R&D setup in USA, Germany, the Netherlands, Denmark and India. Suzlon Energy Ltd (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 submegawatt 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

- ➔ Suzlon has been demonstrating market leadership in the wind energy space right from its inception and the group currently commands more than 37% marketshare in India this takes the company at the highest leverage in the current scenario of green energy. Further its recent foray into Solar and its existing brand and customer base will help it easily to command a stake.
- ➔ The Company after its recent entry in the Solar Space last year has been in the foray of involving its subsidiaries into setting up of Solar Farms and then Selling out its Subsidiaries to Power Producer Companies. It has signed at least 4 such agreements in recent times with different companies. This will bring in profits though at a later time when the sale occurs.
- ➔ Recently CARE has updated its ratings on Suzlon from BBB - to BBB the ratings has been assigned to Suzlons outstanding banks facilities as well as for proposed working capital enhancements The improved rating testifies the company's sustainable turnaround, improved liquidity profile, working capital cycle and orderbook.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	52,505.9	26,039.9	64,614.1
Rev. growth (%)	154.92	(50.41)	148.13
EBITDA (INR mn)	(15,420.2)	4,703.9	(46,551.4)
Net profit (INR mn)	(9,244.7)	(60,323.4)	467.5
Shares outstanding (mn)	2,488.2	3,707.7	5,020.5
EPS (INR)	(3.7)	(16.3)	0.1
EPS growth (%)	(77.98)	340.54	(100.55)
P/E (x)	(3.00)	(1.68)	157.22
RONW (%)	(110.21)	(417.70)	8.77
ROCE (%)	(24.97)	(49.91)	8.30

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Info Codes

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

Market Data

52 Wk Range (₹)	: 12 / 23
Shares in Issue (mn)	: 5020.5
Mkt. Cap (₹ bn)	: 73.15
BSE 2 Wk Avg Vol	: 4141000

Share Holding Pattern (%)

Promoters Holding	: 20.95
Corporate Holding	: 21.86
Domestic Institution	: 10.13
Foreign Institution	: 14.04
Public & Others	: 33.02

Past Performance

Recommended a BUY @ 15 on Feb 5, 2016 reached Target of 20% appreciation on Jun 14, 2016.

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. 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 is accepted & Suzlon has shown a positive EPS after many years of negativity. The Indian government is on the skew of announcing a stream of policy changes & tax benefits to benefit the overall wind energy as a whole. All this plus its entry in Solar Segment should bring in some good news for the company in the current scenario.

Blessings from the God of Light !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	30,647.2	22,703.0	(25.9)	59,393.6	161.6
Other Income	21,858.5	3,336.9	(84.7)	5,220.5	56.4
Change in Stocks	(4,767.3)	(493.8)	(89.6)	(379.7)	(23.1)
Raw Material Con.	17,184.8	16,458.5	(4.2)	36,923.1	124.3
Employee Exp.	2,557.0	1,870.4	(26.9)	2,221.4	18.8
Indirect Taxes	0.2	0.0	(100.0)	0.0	-
Other Exp.	23,292.5	53,768.6	130.8	16,097.4	(70.1)
Operating Exp.	43,034.5	72,097.5	67.5	55,241.9	(23.4)
Operating Profit	4,703.9	(46,551.4)	(1,089.6)	8,992.5	(119.3)
Total Interest	12,211.9	12,193.9	(0.1)	6,869.4	(43.7)
Gross Profit	(7,508.0)	(58,745.3)	682.4	2,123.1	(103.6)
Net Dep.	1,740.0	1,578.1	(9.3)	1,654.9	4.9
Total Taxation	(3.3)	0.0	(100.0)	0.7	-
Net Profit/Loss	(9,244.7)	(60,323.4)	552.5	467.5	(100.8)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	1,21,022.6	1,30,392.2	1,12,909.2	66,494.1
Equity Share capital	3,554.7	4,976.3	7,415.4	10,041.0
Equity Application Money	5,816.7	1,620.2	18,000.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	19,211.9	21,663.3	(24,046.6)	(3,889.2)
Secured Loans	65,077.2	75,170.3	87,096.9	39,436.8
Unsecured Loans	27,362.1	26,962.1	24,443.5	20,905.5
USES OF FUNDS	1,21,022.6	1,30,392.2	1,12,909.2	66,494.1
Gross Block	19,464.7	17,142.1	17,294.1	20,215.1
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	9,981.2	9,950.9	11,416.6	12,919.9
Net Block	9,483.5	7,191.2	5,877.5	7,295.2
Capital Work in Progress	383.8	157.1	198.3	1,640.7
Investments	85,529.8	77,300.7	27,515.4	27,263.4
Current Assets	52,772.3	67,470.9	1,04,095.6	61,095.9
Less : Current Liabilities	55,693.6	55,721.2	44,632.8	44,975.4
Total Net Current Assets	(2,921.3)	11,749.7	59,462.8	16,120.5
Misc. Expenses not writtenoff	28,546.8	33,993.5	19,855.2	14,174.3
NOTE				
Book Value of Unquoted Investments	85,529.8	77,300.7	25,015.4	26,118.0
Market Value of Quoted Investments	0.0	0.0	2,501.2	1,159.2
Contingent Liabilities	10,588.8	12,348.4	3,701.4	8,816.3
Dividend (%)	0.0	0.0	0.0	0.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 15	Dec 15	Mar 16	Jun 16
Net Sales	11,583.2	13,270.1	23,456.0	11,391.4
Cost Of Sales	9,525.8	10,984.7	22,894.2	13,391.4
Operating Profit	2,057.4	2,285.4	561.8	(2,000.0)
Other Income	1,418.2	842.5	1,564.3	1,060.8
Adjusted PBDIT	3,475.6	3,127.9	2,126.1	(939.2)
Financial Expenses	1,504.3	1,507.3	2,024.2	1,954.7
Depreciation	267.9	429.4	697.0	395.1
Other Write Offs	538.7	90.2	(53.5)	333.3
Adjusted PBT	1,164.7	1,101.0	(541.6)	(3,622.3)
Tax Charges	0.0	0.0	0.7	0.0
Reported Profit	1,164.7	1,101.0	(542.3)	(3,622.3)
Extra Ordinary Items	140.5	0.0	(3,866.0)	(3,069.7)
Other Non Cash Adjust	0.0	0.0	0.7	0.0
Adjusted Net Profit	1,024.2	1,101.0	3,324.4	(552.6)

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.

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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