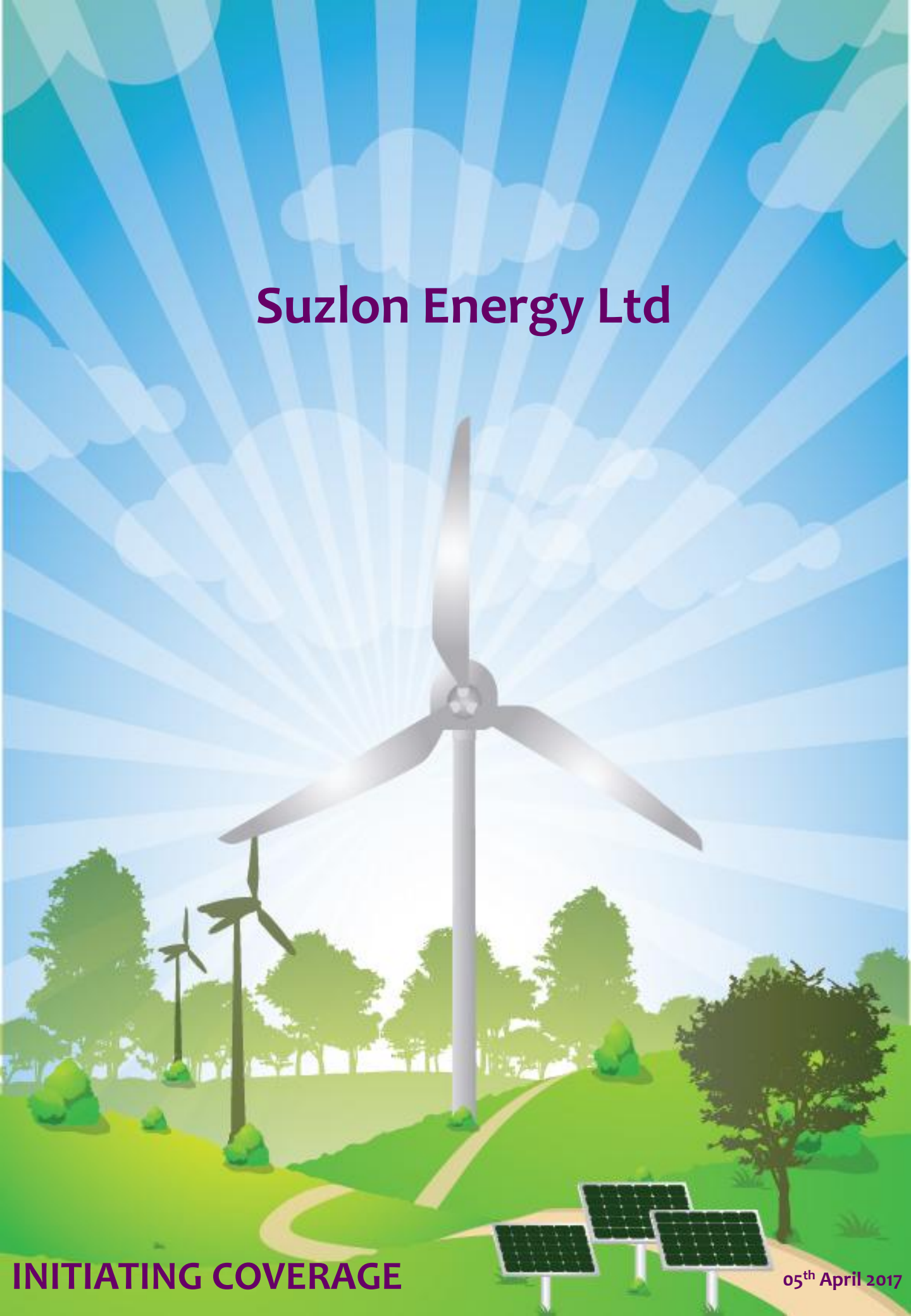


Suzlon Energy Ltd



INITIATING COVERAGE

05th April 2017

Suzlon Energy Ltd

CMP INR 19	Target INR 31	Potential Upside 63.2%	Market Cap (INR Mn) 96217.2	Recommendation Buy	Sector Renewable
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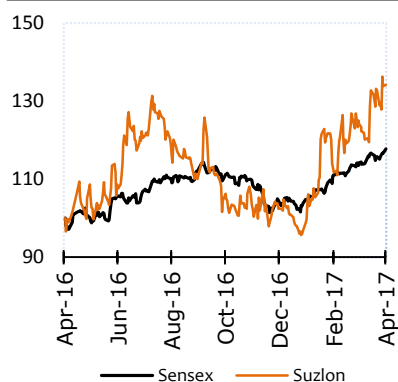
On a strong growth trajectory

Suzlon established in 1995, is one of the leading renewable energy solutions providers in the world. Suzlon is a market leader in India with more than 100 wind farms with an installed capacity of over 10 GW spread across 9 windy states. Suzlon is credited with developing few of Asia's largest operational onshore wind farms in Gujarat, Rajasthan, Maharashtra, and Tamil Nadu. It has installed capacity of around 15.5 GW of wind energy in India and outside India. It has presence in 6 continents and 19 countries.

MARKET DATA

Shares outs (Mn)	5024.40
EquityCap (INR Mn)	10048.8
Mkt Cap (INR Mn)	96217.2
52 Wk H/L (INR)	20/13
Volume Avg (3m K)	47208.04
Face Value (INR)	2
Bloomberg Code	SUEL IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	29910
NIFTY	9238

SHARE HOLDING PATTERN (%)

Particulars	Dec 16	Sep 16	Jun 16
Promoters	20.95	20.95	20.97
FIIIs	11.89	12.45	12.61
DIIIs	10.14	10.13	10.3
Others	57.02	56.47	56.12
Total	100	100	100

Investment Rationale

Strong Wind turnkey player and evolving in solar together will possess a decent growth:

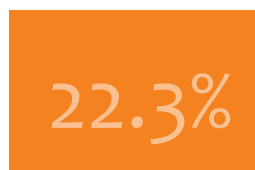
Suzlon is a strong player with experience of over 20 years in wind energy sector. Suzlon is the fourth largest operating and maintenance company in the whole power sector and ranked 1st in renewable sector. Also it is the leading producer of wind turbines. It is among the few companies which is vertically integrated and recognize as turnkey EPC player. It has strong front hand expertise to provide end to end solution and also in house manufacturing capacity for blades, nacelle and towers. Apart from this, the company also manufactures forging rings, melting and machine casting etc through its forging unit, which is also absorbed for the manufacturing of wind turbines. Suzlon has brought in new business model which is wind and solar hybrid solution as management believe in India there is not just the space for wind or solar, the market is for both.

Suzlon strong presence in India & Outside India (International):

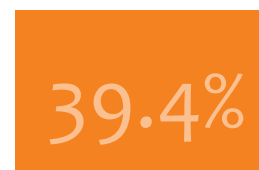
Suzlon has combination of the regional manufacturing with the global sourcing and is the lowest cost producer company (LCC) in the world. It has installed over 16,000 MW of capacity, with more than 10,000 MW in India and 6,000 MW outside India. It has installed over 10000 turbines across 17 countries. Suzlon remains a pan India player with its presence across all the 9 windy states like Gujarat (GJ), Rajasthan (RJ), Madhya Pradesh (MP), Maharashtra (MH), Karnataka (KN), Andhra Pradesh (AP), Telangana, Kerala, and Tamil Nadu (TN). It has over 14 manufacturing facilities in India and is the only company to have presence in each of 9 windy states in terms of customer base installed capacity as well as manufacturing footprints. Suzlon being the technology efficient player has enough scope to grow in those regions over the coming period.

Government Support and incentives: The Government of India's focus on attaining 'Power for all' has accelerated capacity addition in the country. Government has already charted a strong programme to do a fivefold ramp up in renewable energy of 175GW by 2022. Government's target to achieve it with 100 GW for solar, 60 GW for wind market and 15 GW for others (biomass/ small hydro power) by 2022. India alone is expected to grow at 20% with introduction of various policies like RGO, RPO, and Inter transmission charge waiver, etc. In future, Government wants to focus on wind-solar hybrid project that will help in strengthen and sourcing energy and move towards creation of capacity.

Healthy free cash flows to reduce financial leverage over the coming period: Suzlon has total term debt excl FCCB to the tune of INR 75.6bn, of which foreign debt constitutes 63% to the total term debt, while the rest is from rupee debt. We expect that the company could make cash flows of around 17% of sales over FY18 & 19. This could assist them to curb overall debt level to the extent. The company has schedule term loan repayment of INR 5.21bn over FY17-19, while they could generate around INR 59bn of free cash flows. We expect that part of the free cash flows could be used to prepay foreign term loans, while part could be used to service finance cost. We expect term loans excl. FCCB to reduce by INR 26.7bn, while working capital to decline by INR 10bn over FY17-19. This could result in savings of INR 1.82bn with respect to finance cost over FY17-19. All these in turn could result in strong bottom-line growth in the years to come.



Revenue CAGR between FY 16 and FY 19E



PAT CAGR between FY 16 and FY 19E

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Suzlon Energy Ltd

Valuation & Recommendation

The company had acquired Senvion in 2012, which we believe was the distortion point to the overall financial performance in past few years. The acquisition had resulted positive net worth to end up into negative zone in FY14 & 15. Further, slack order activity for the wind power from domestic market has also affected financial growth during that period. This has hampered overall free cash flows resulting in blown up of financial leverage, which had impacted overall valuations in past few years. Nevertheless, new Government coming into focus with strong initiatives such as increasing renewable capacity i.e. wind to 60GW by 2022 from ~28GW presently provides decent order visibility for wind players in the coming future. We expect Suzlon being the market leader with ~35% market share has enough scope to capture potential size in the years to come and for the same reason, we expect that order flows for the company to rise by 26% CAGR over FY16-19. This in turn could result in improvement in the execution cycle leading an expansion in the overall revenues. We expect revenues to increase by 22% CAGR to INR 172.97bn in FY19. In terms of the operational performance, we expect that with competitive bidding coming into radar, the operational performance could remain at around 15-16%, however increase in the execution cycle could result in operating leverage to play out. In terms of the debt repayment, we expect that LT borrowing excl FCCB could reduce by INR 26.7bn over FY16-19, while improvement in free cash flows could ease ST debt requirements. This all in turn could curb finance cost by INR 2.59bn over FY16-19. Hence, all this could translate into bottom-line growth of 39.4% CAGR over FY16-19. We have not considered prior conversion of FCCB as the maturity is in July'19.

In terms of the peer analysis, we have considered Gamesa, Vestas and Inox wind. The standalone revenue of Suzlon grew at a CAGR of 40% over FY14-16 as against Gamesa, Vestas and Inox wind reported a growth of 22%, 17% & 68% respectively. Moreover, operating margins have remained at around 14-15% as against other global industry players hovering at 11-13%. On the other side, bottom-line growth was remained subdued for Suzlon given the huge finance cost obligation. However we believe that with increase in the execution cycle along with augmenting share of O&M revenues could assist company to reduce working capital cycle and thereby improvement in the free cash flows is anticipated. All this could lead Suzlon to beat other industry players in terms of strong bottom-line growth in the years to come. Further, the company has outstanding FCCB of US\$ 249mn (INR 14.94bn), any success on early conversion could fuel further bottom-line growth.

We have valued company on EV/EBITDA basis. The company was historically trading at 10-12x EV/EBITDA on 2yr fwd basis, however the valuations got hampered to 7-9x in last few years due to early discussed tribulations. We believe that with improvement in the revenue outlook along with easing of working capital cycle and progress in the free cash flows could be the key trigger for expansion in the multiple going ahead. **Assigning a multiple of 8.5x on FY19 (lower than its avg), we have arrived a target price of Rs. 31, an upside potential of 66%. We recommend a BUY rating on the stock.**

Key Financials (INR Mn)

Particulars	FY14	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	204,028.6	199,544.4	95,152.8	116,225.1	158,780.4	173,539.3
EBITDA	-1,410.9	3,157.4	9,854.8	20,681.1	24,581.4	26,666.0
EBITDA Margin (%)	-	1.6%	10.4%	17.8%	15.5%	15.4%
Adjusted Net Income	-31,224.9	-28,460.3	-6,305.5	4,899.8	9,065.9	12,165.2
Net Margin (%)	-	-	-	4.2%	5.7%	7.0%
Adjusted Diluted EPS (INR)	-12.5	-7.7	-1.3	0.8	1.5	2.0

Source: Company Data, KRChoksey Research

Peers: (INR Mn)

Companies	Revenue			OPM (%)			PAT		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Suzlon	116,225	158,780	173,539	17.8%	15.5%	15.4%	4,900	9,066	12,165
Inox Wind	43,182	48,069	55,629	14.3%	14.5%	14.8%	3,659	4,360	5,307
Gamesa	362,235	506,395	511,456	16.0%	14.7%	NA	31,993	37,655	40,587
Vestas	700,344	726,303	755,357	17.3%	17.7%	17.6%	68,279	73,898	77,946

Companies	P/E (x)			EV/EBITDA (x)		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Suzlon	23.2	12.6	9.4	9.7	7.8	6.2
Inox Wind	10.3	8.7	7.1	6.8	5.5	4.2
Gamesa	18.1	16.9	15.9	6.9	5.3	6.8
Vestas	16.8	15.5	13.7	7.8	7.5	7.1

Source: Bloomberg, KRChoksey Research

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Suzlon Energy Ltd

Business Model

Business Overview

Suzlon is one of the strongest player with over 20 years of an experience in wind energy sector. It is a strong wind turnkey player and a market leader in India with 35% market share. It is present globally across 19 countries like Asia, Australia, Europe, Africa, North and South America. The Group has 15 manufacturing facilities spread across India and China (Joint Venture). Having a dynamic workforce of over 8,000 employees. With wind contributing 96% it's business model also integrate forging and solar business which contributes around ~4%

Strategic Positioning

Suzlon is one of the most vertically integrated players in the world. It has full control over costs and is the only India company with its own R&D & Technology. With respect to technology it is the leader and competing with global majors in overseas locations. Suzlon is a company with pan India installed base, pan India Manufacturing Capacity and with pan India customer base. Suzlon is a market leader in India with 100+ wind farms with an installed capacity of over 10 GW spread across 9 windy states. With the largest three player in the segment like Gamesa, Suzlon and Inox. Suzlon remains 4th largest in power sector and ranks 1st in renewable sector.

Competitive Edge

Suzlon has installed capacity of more than 16,000 MW of capacity with more than 10,000 MW in India and 6,000 MW outside. Its keeps on updating with latest technology and currently it is offering 111Meter rotor diameter on120 Metre tower (S111-120) which helps it to produce 20% more energy compared to S97-120 at same cost. Apart from this the company has blade capacity across 8 windy states, which we believe has placed Suzlon among the top player as against other industry players in terms of lower transportation cost.

Financial Structure

Efficient cost structure and improvement in the execution could assist company to come out from negative net worth to positive. Further, improvement in the cash flows could result in repayment of overall debt over the coming period.

Key Competitors

Gamesa, Inox Wind, Vestas, etc.

Industry Revenue Drivers

Growth in wind capacity will be seen by 2020 both in terms of Installed capacity at 15% CAGR from 23 GW to 60GW over the next 5 years. Implementation of policies by Government like RGO, RPO, Inter transmission cost, hybrid (Wind & Solar) will drive future growth for wind sector. In order to enable non windy states to meet their RPO, government has waived off interstate transmission charges. This coupled with creation of Green Energy Corridor by Power Grid will allow seamless evacuation of power to these non windy states.

Entry Barriers

Technology, Capital Intensive, Customers base.

Client Base

IPP's, PSU and Captive customers.

22.3%

Revenue CAGR between
FY 16 and FY 19E

39.4%

PAT CAGR between FY 16
and FY 19E

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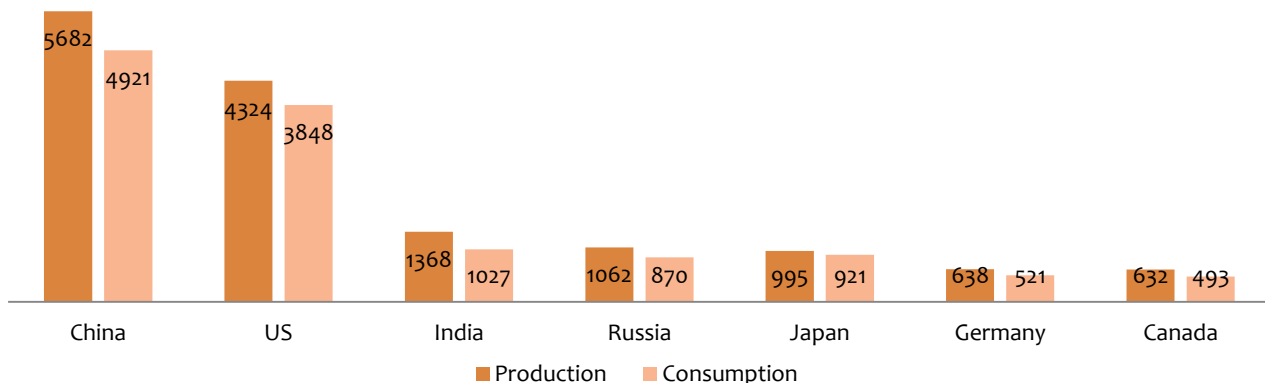
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Suzlon Energy Ltd

Industry Analysis

India is the third largest producer and fourth largest consumer of power in the world only after China & USA. India is the single largest contributor to demand globally. India's share to global population is 18%, however its per capita energy consumption remains at mere 6%. This clearly suggests that there is a mismatch between demand and consumption of energy in the country, which has to be matched in the years to come. Further, we believe that increase in urbanization and industry growth could also augment per capita electricity consumption in long run which in turn could help players like Suzlon to expand going ahead. About 240 million people do not have any access to electricity till date, while 2/3rd of India's total population lacks any access to clean cooking fuel. This clearly validates the potential turnaround in the domestic power sector in the years to come.

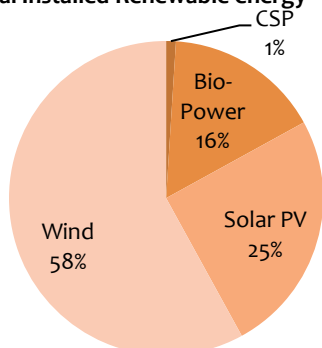


Source: Global energy Statistics, KRChoksey Research

Power industry has been bifurcated among two sub segment (i) Conventional energy (ii) Renewable energy. The conventional energy being the top contributor to the overall energy has been estimated to reduce over the coming few years given the fact that majority of the countries have been facing global warming problems. This clearly suggests that there will be shift in the demand from conventional energy to renewables and hence, we expect that Suzlon being the key player in the renewable energy is expected to garner large orders in the coming future. The renewable energy industry has been segregated among four sub sectors (i) Wind (ii) Solar PV (iii) Bio-power and (iv) CSP with wind (~58%) being the largest contributor to the overall renewable energy installed capacity followed by Solar PV (~25%). Although global wind industry contributes ~58% to the overall renewable energy, the share remains at mere ~15% to the overall installed capacity. On the other side, India wind market contributes ~43% to the overall renewable energy. It is estimated that the share could inch up to ~68% including solar by 2022 once the hybrid annuity order flows starts coming into the market.

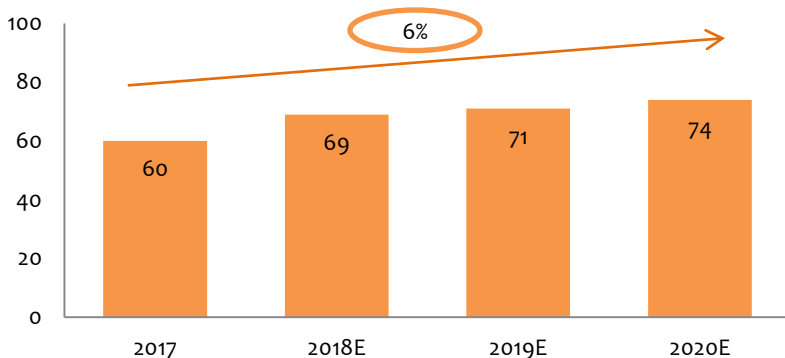
India Wind Energy Market: The India's wind industry is a large and growing sector. It's a sector where large number of technology gets use in the form of design turbine, organize wind farms, etc. Global wind capacity in 2015 increased 17% over the previous year. This included over 4 GW of offshore wind projects, most of which were in Europe. However, this segment is growing rapidly, offshore wind accounts for only 3% of the total global wind capacity. Meanwhile, demand is continuously shifting towards Asia and other emerging markets. Wind energy is the largest renewable energy source in India. India added a record 3.46 GW of wind energy capacity in 2015-16, way ahead of its target of 2.40 GW. Share of renewable energy sources in the global electricity consumption has doubled in the last 4-5 years due to increasing demand. In India, share of Wind & solar in electricity production has increased from 0.3% in 2000 to 3.6% in 2015.

Global Installed Renewable energy



Source: Global energy Statistics, KRChoksey Research

Global Wind Industry Outlook (GW)



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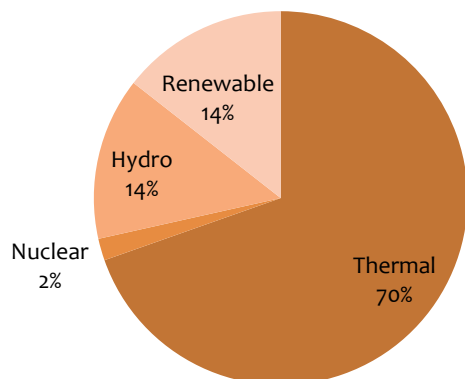
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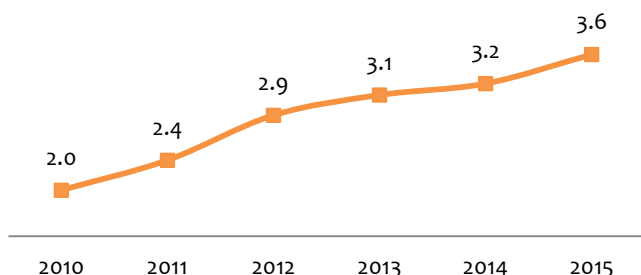
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Suzlon Energy Ltd

India Installed Capacity (306 GW)



Share of Wind & Solar in total Electricity Production %

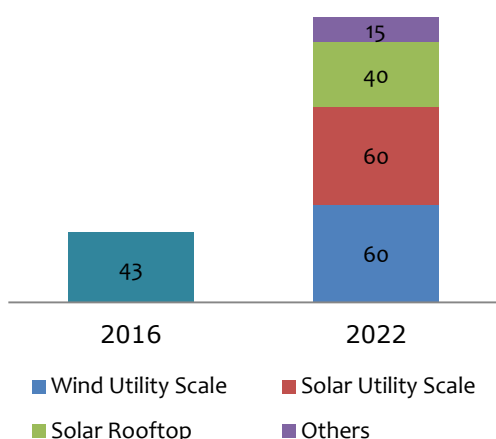


Source: Global energy Statistics, KRChoksey Research

Government steps towards the sector: The Government of India's focus on attaining 'Power for all' has plan to increase capacity addition in the country. Government has already charted a strong programme to do a fivefold ramp up in renewable energy of 175GW by 2022. Government's target is to achieve 100 GW for solar, 60 GW for wind market and 15 GW for others (biomass/ small hydro power) by 2022. Out of 60 GW for wind 29 GW wind has already been delivered and balance 31 GW will come in the next five years. To achieve target government has introduced various policies by government like RGO, RPO, and Inter transmission charge waived off for competitive bidding, green corridor for evacuation of power, etc Also renewable energy have received grid parity which will help in for hybrid project of wind and solar. The Renewable Purchase Obligation for solar power is planned to be increased from the current 3% to 8% by 2022. Also a new Renewable Generation Obligation has been proposed which requires fossil fuel plants to produce 10% of their capacity through renewable sources. Regulators are also empowered to enforce the compliance and limit cross-subsidy surcharge to 15% of relevant tariff. Wind and solar energy are not competing with each other but combination of both would help in to bring the growth in future. Hybrid policy from government is expected soon with focus on both solar and wind.

The Government of India has set a target of having 15% renewable energy in the electricity generation mix by 2020, implying a total installed base of approximately 100 GW of renewable energy generation capacity. Government has announced new draft renewable energy act which will boost the industry in coming years. It is expected that India alone will be growing at ~20% as compared to other countries. Today around 80 countries are investing in the wind sector and going forward by 2022 it is expected that around 160 countries would invest.

India Renewable Target 2022 (in MW)



Source: Global energy Statistics, KRChoksey Research

Particulars	Capacity addition/target during five year plan, MW			
	10th	11th	12th	13th
	2002-2007	2007-2012	2012-2017	2017-2022
Wind power	5,464	10,260	15,000	20,000
Small hydro power	542	1,419	2,100	5,000
Biomass power, Bagasse cogeneration, Waste to energy	795	2042	2400	
Solar power	1	938	10,000	20,000
Total	6,802	14,659	29,500	45,000
Average annual capacity addition, MW	1,360	2,931	5,900	9,000

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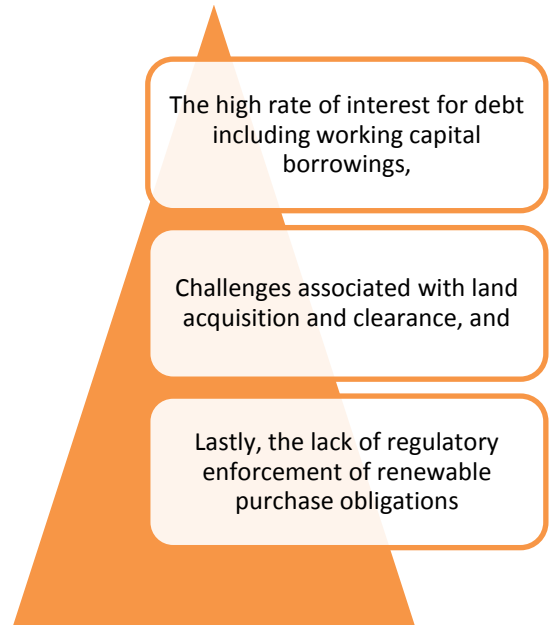
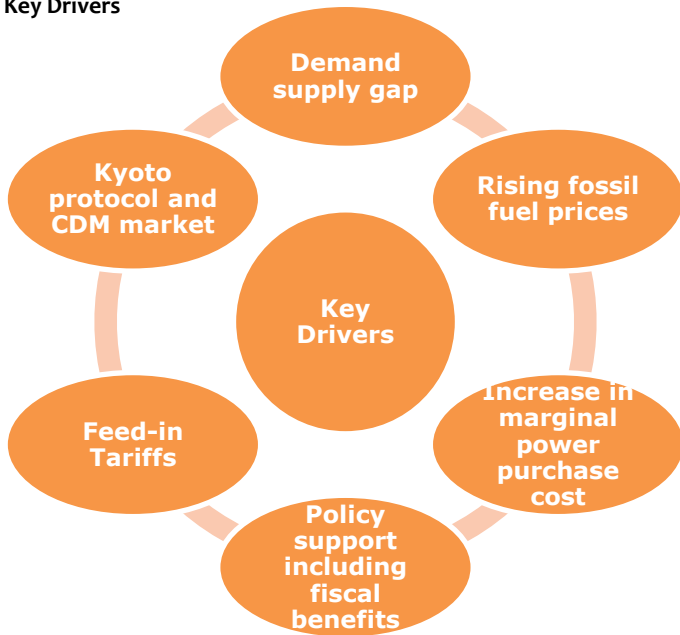
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Suzlon Energy Ltd

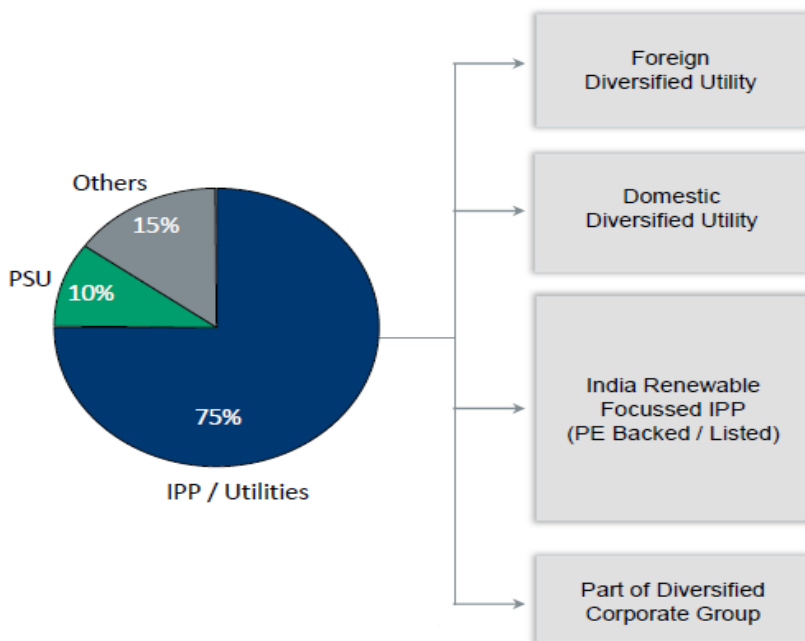
Despite the growth and expansion in renewable energy capacity the large part of it remains untapped. To achieve a target of government there are some of the **Key Drivers for Renewable Energy**. The renewable energy technology sector also faces several obstacles and **Challenges**.

Key Drivers

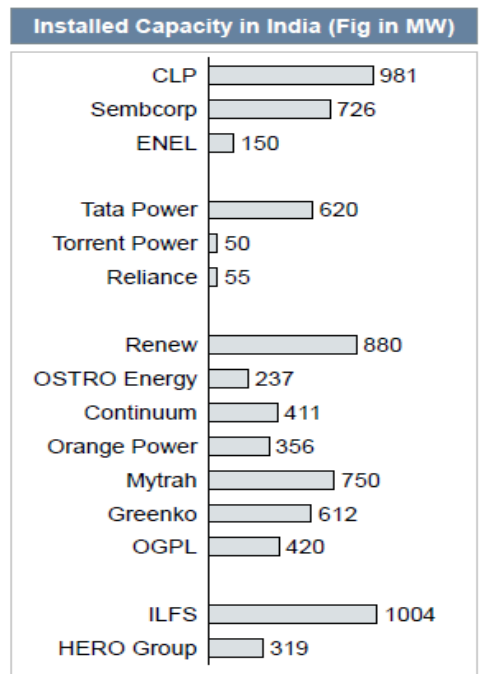


Source: KRChoksey Research

Client Base in Indian wind sector: The growth for next 5 years will be driven by the large group that is IPP's which are the mix of foreign utility, PE based IPP, Domestic Utility, Diversified corporate, etc. as capacity addition would be come in from them. In the past 5 years they were the one who added around 75%-80% of the capacity in the industry and Suzlon has been worked with each of the clients and have gained in 35% market share up-to now. Its plans to aim and re-gain market share of more than 50% in next 5 years.



Source: Company Data, KRChoksey Research



Suzlon Energy Ltd

Investment Rationale:

Strong Wind turnkey player and evolving in solar together will possess a decent growth:

Suzlon is a strong player with experience of over 20 years in wind energy sector. Suzlon is the fourth largest operating and maintenance company in the whole power sector and ranked 1st in renewable sector. Also it is the leading producer of wind turbines. It is among the few companies which is vertically integrated and recognize as turnkey EPC player. It has strong front hand expertise to provide end to end solution and also in house manufacturing capacity for blades, nacelle and towers. The scope of work includes following activities such as:

Undertakes wind resource assessment to identify a suitable wind site, which can then be offered to customers. Suzlon then engages in acquisition of land and various approvals and develops those sites to make them ready for sale.

Suzlon offers complete turnkey solution ranging from manufacturing of turbines to doing EPC as well to commission wind farms.

Suzlon offers operations and maintenance services to all its customers throughout the life of a turbine. Through such offering, Suzlon ensures the turbines achieve high availability and hence better returns for their customers.

Apart from this, the company also manufactures forging rings, melting and machine casting etc through its forging unit, which is also absorbed for the manufacturing of wind turbines. Suzlon has in house capacity of all the products which are used for internal as well as for outside customers (capacity for forging rings-42000 rings p.a., melting capacity-120000 MTPA and Machine casting-55000 MTPA). Suzlon also supplies to its clients present in different sector like wind energy, bearings, oil & Gas, Power, transportation, others and Defense. We believe, this facilitates them to reduce overall cost of turbines and making them competitive against other global players. For the same reason, we expect that any upcoming incremental opportunity provides decent visibility for the players like Suzlon. In terms of the revenue contribution, WTG being the largest segment with revenue contribution of around 96%, while rest comes from Solar and Forging business. The company has recently entered into solar business to provide EPC solutions. It has bagged a contract of 515 MW of which 330MW will be executed in FY18 and remaining in FY19. The Solar Power Projects in India are promoted through tendering process followed by reverse auction, Also they have developed tendering expertise in solar. This expertise is due to their presence in wind segment for the longer period of time.

Management expects around INR 6-6.5cr/MW of revenues and ~8-10% of OPM from the solar business. They also believe that full EBITDA from solar business will be incremental to the group bottom-line as there are no other costs involved from solar business. We believe, this could aid overall bottom-line by at least INR 1.5bn in FY18 & INR 0.84bn in FY19. Apart from this, Suzlon has brought in new business model which is wind and solar hybrid solution as management believe in India there is not just the space for wind or solar, the market is for both. This can be evident from the fact that govt is planning to increase renewable energy contribution through introduction of hybrid annuity model given the PLF can be increased to 50-60% from around 35-40% presently. This could improve overall IRR and thereby large installation can be expected through this model over medium to long run. We have not factored in any order flows from hybrid activity because we expect it to get commence post FY19, however any early announcements could result in upgrade in the overall earnings.

The government is focused to increase overall wind market to 60GW by 2022 from 28GW presently, which could assist Suzlon to capture potential market going ahead. We believe that Suzlon being the market leader with 35% market share along with expertise to adopt newer technologies can able to garner incremental market share and for the same reason, order flow for the company is expected to grow at a CAGR of 26.1% over FY16-19 as against ~15-16% CAGR for industry.

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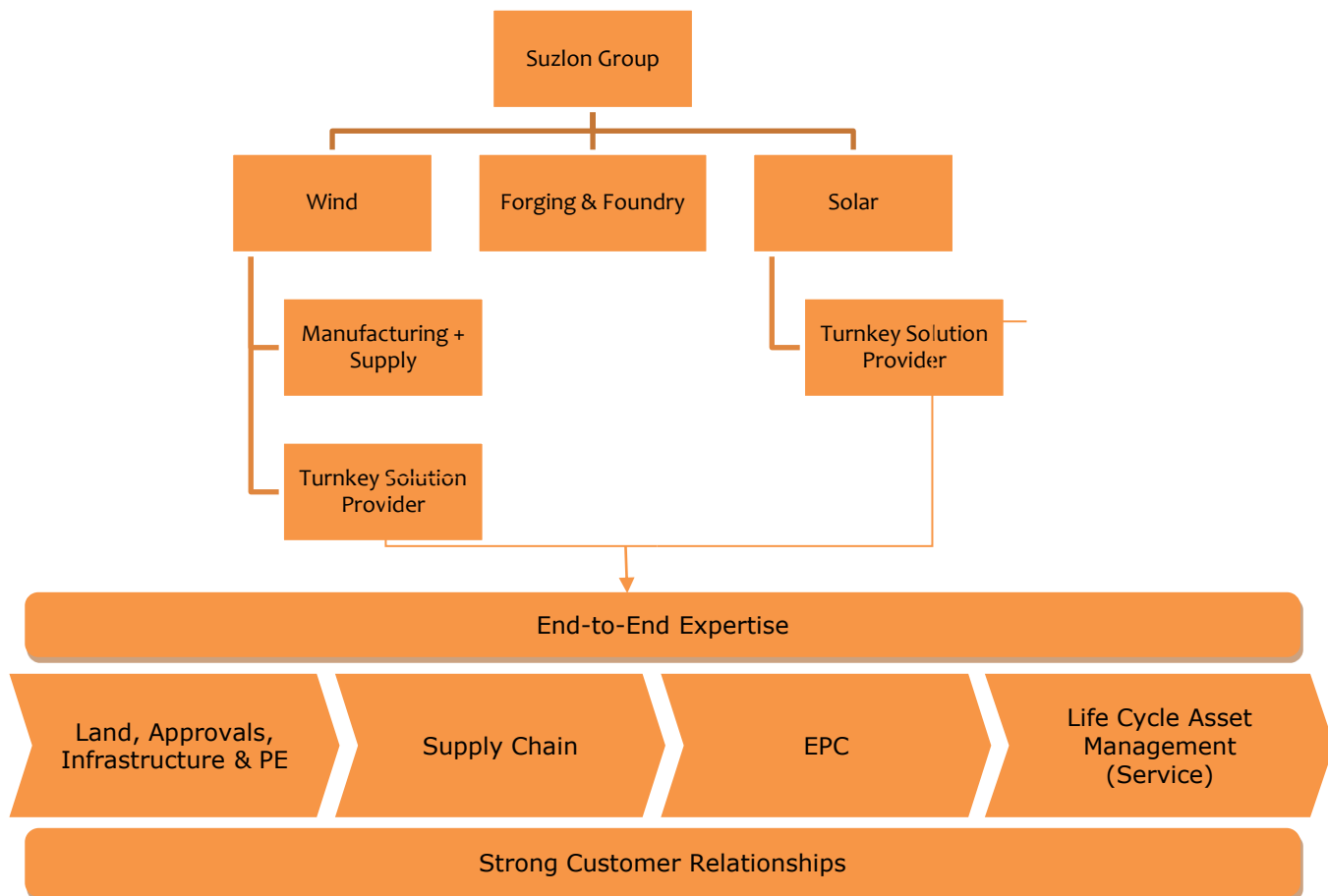
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Suzlon Energy Ltd

Business Segments:

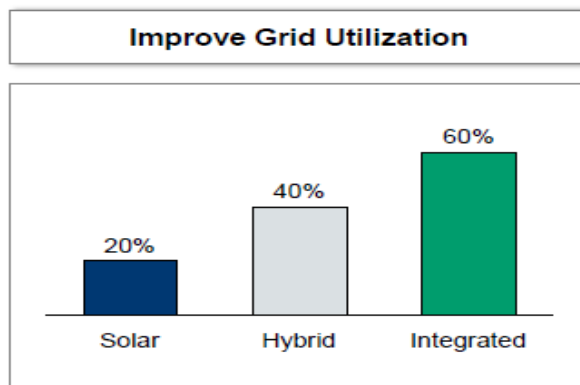


Source: Company Data, KRChoksey Research

	# of Turbines	MW
<= 1 MW	1,751	850
>1 MW < 2 MW	4,195	5,701
=>2 MW	1,697	3,564
Total	7,643	10,115

Suzlon has achieved milestone of installing 10,000 MW installed capacity of wind in India which contributes to ~35% of the market share in terms of installed capacity for winds and around 22% of total installed capacity of all renewable sources.

Source: Company Data, KRChoksey Research



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Suzlon Energy Ltd

Foundry & Forging Customers:



Source: Company Data, KRChoksey Research

Suzlon strong presence in India & Outside India (International):

Suzlon has manufacturing capacity at all windy locations, which facilitates them to become lowest cost producer of wind turbines across the domestic market. Moreover, the company follows strategy to innovate different wind technologies internally rather than other companies adopting strategy to collaborate with other global technology players. This helps them to have an edge over other peers in terms of operational performance. It has installed over 16,000 MW of capacity, with more than 10,000 MW in India and 6,000 MW outside India. It has installed over 10,000 turbines across 17 countries.

Suzlon is a pan India player with presence in all the 9 windy states and has over 14 manufacturing facilities in India. As the company has been catering to the wind sector, it is witnessed by vulnerability in the order inflows from different windy states. Management highlighted that the country comes up with robust demand from 3-4 different windy states every year, while the remaining windy states could up with incremental demand in another year. As, some states are slow in growth some are aggressive and some are faster, etc rolling happens in such way. Windy states Ranks keep on changing every year as we can see in the below graph. Top 3 ranker contributes to around 60-80% of capacity, moreover one of the reason is that the state policy keeps on changing so the price.

Rank	FY12	FY13	FY14	FY15	FY16	Top States for Next 5 years
1	TN	RJ	MH	RJ	MP	
2	GJ	MH	AP	MP	RJ	AP, GJ, KN, TN, RJ
3	RJ	GJ	GJ	MH	AP	

Source: Company Data, KRChoksey Research

Suzlon has its manufacturing footprints present in all 9 Windy states (like Gujarat (GJ), Rajasthan (RJ), Madhya Pradesh (MP), Maharashtra (MH), Karnataka (KN), Andhra Pradesh (AP), Telangana, Kerala, and Tamil Nadu (TN)). We expect that removal of state transmission charge could absorb the earlier gap could turn up with large order announcements in the coming period. Suzlon being present into all windy states with blade capacity at all location is poised to capture potential market going ahead.

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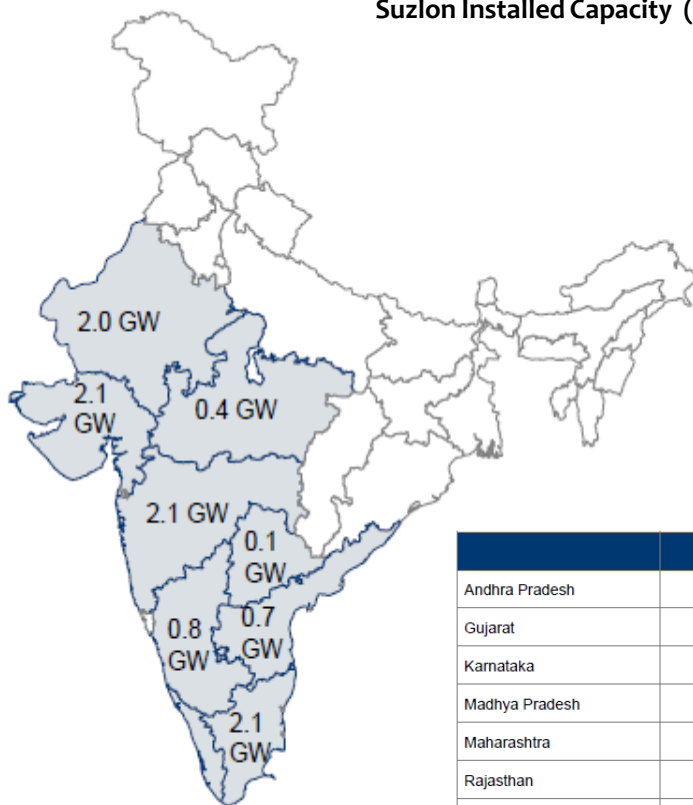
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Suzlon Installed Capacity (in GW)



	Blade	Tower	Nacelle
Andhra Pradesh	✓	✓*	
Gujarat	✓	✓	✓ (Daman)
Karnataka	✓		✓
Madhya Pradesh	✓		
Maharashtra	✓	✓*	
Rajasthan	✓		
Tamil Nadu	✓	✓*	✓ (Puducherry)

*Contract Manufacturing

Source: Company Data, KRChoksey Research

India has large untapped market for renewable, with the latest technology and hub height of 100M it is estimated to produce around 302 GW. Current installed capacity in the market is just 9% so out of that 91% in untapped market and with high hub height and technology Suzlon can gain in the market. Suzlon currently has initiated new tower with the hub height of 120M which shall help in to further unlock market potential.

In MW	Potential at 100m hub height	Current Installed	Sulzon Capacity	Government Target 2022
Andhra Pradesh	44,229	1,431	700	8,100
Gujarat	84,431	3,949	2,100	8,800
Karnataka	55,857	2,869	800	6,200
Madhya Pradesh	10,484	2,141	400	6,200
Maharashtra	45,394	4,654	2,100	7,600
Rajasthan	18,770	3,994	2,000	8,600
Tamil Nadu	33,800	7,614	2,100	11,900
Telangana	4,244	78	NA	2,000
Others	5,042	48	NA	600
Total (MW)	302,251	26,778	10,200	60,000
Total (GW)	302	27	10.2	60
% of Potential		8.9%		19.9%

Source: Company Data, KRChoksey Research

Suzlon is a player which keeps on developing the technology for wind turbine generator. Its latest technology is S97-120 which means 97m is the size of rotor blade diameter and 120 metre is the height of the tower. With Increase in height of the tower more energy is captured at lower cost. Company has been working on new technology for tower with S111-120 and 128 meter for blade. This could result in additional 10% energy savings at same or a slightly higher cost. Comparing the both wind and solar we believe wind has the technology at matured stage while for solar technology is at nascent stage. It has improved its technology day by day but also believes that wind will remain competitive against the solar for the next decade. We believe that upgraded technology could inch up PLF making it attractive for IPP & PSUs to participate in the incremental demand.

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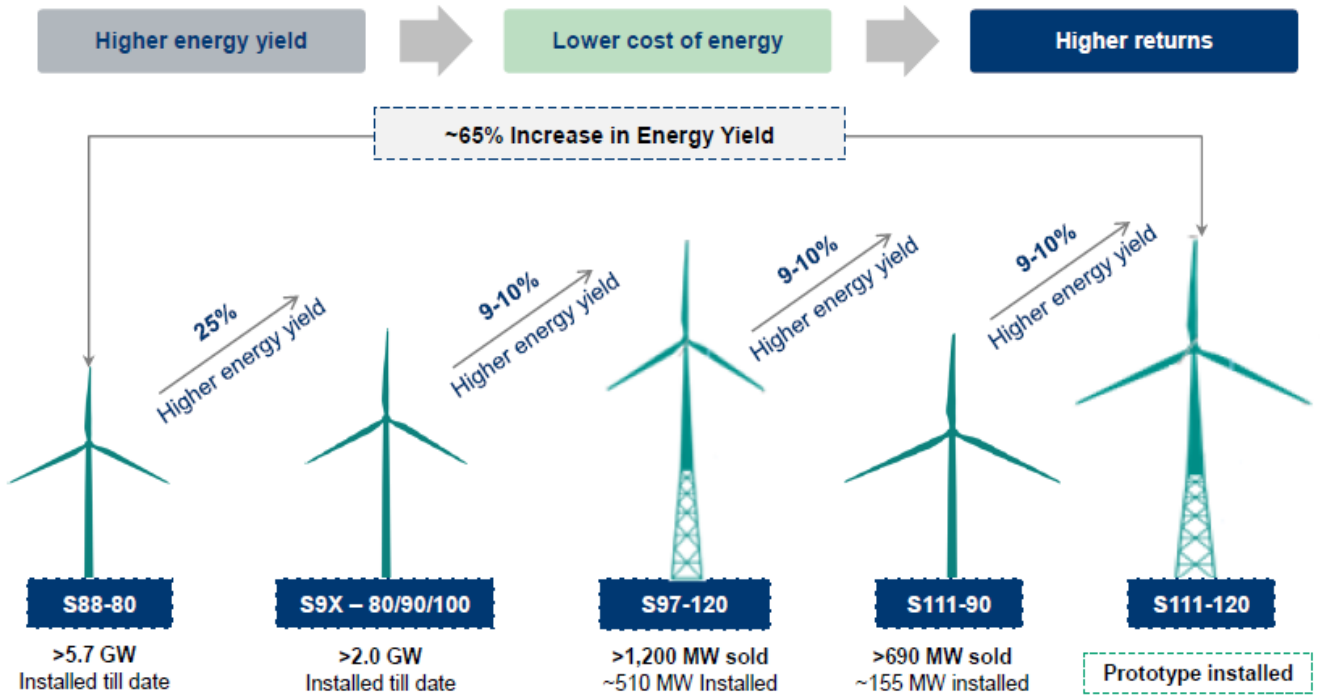
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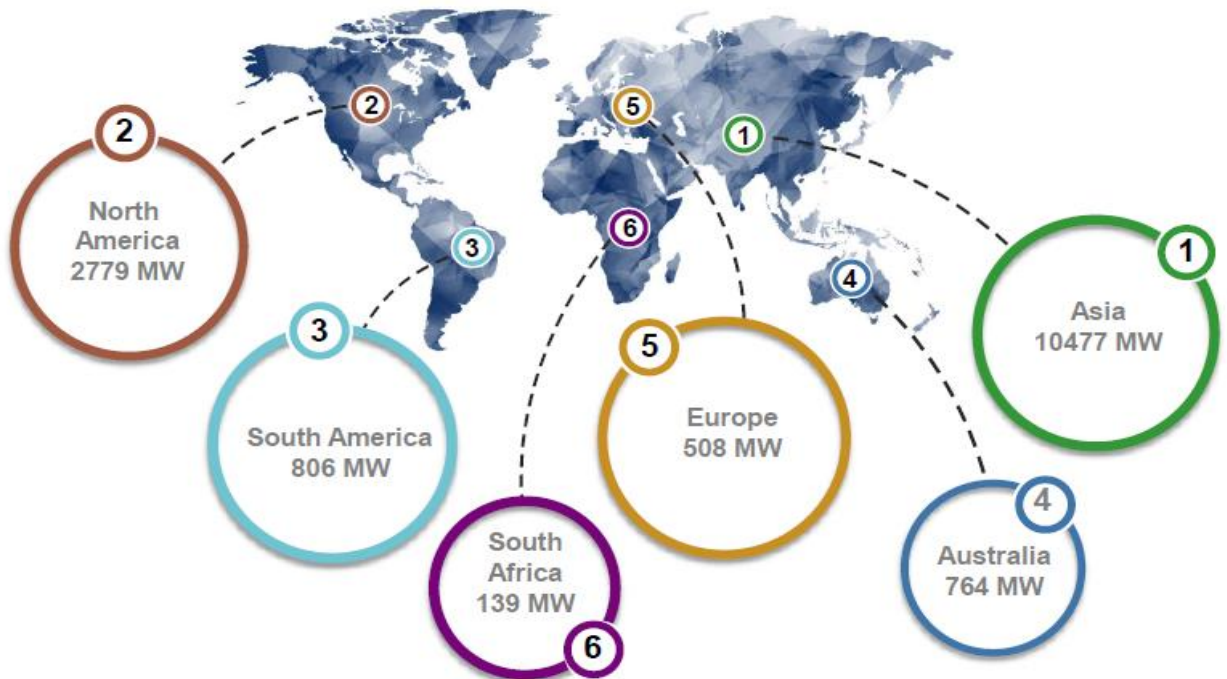
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Source: Company Data, KRChoksey Research

International operations: Suzlon is positioned in all the six continents like North America, South America, South Africa, Europe, Australia and Asia. They have the strong service support in each of these countries. In the international market, Suzlon business is limited to equipment supply and does not undertake EPC activities. Suzlon plans to cater its international foray from its manufacturing capacity in India, thereby remaining a cost efficient player.



Source: Company Data, KRChoksey Research

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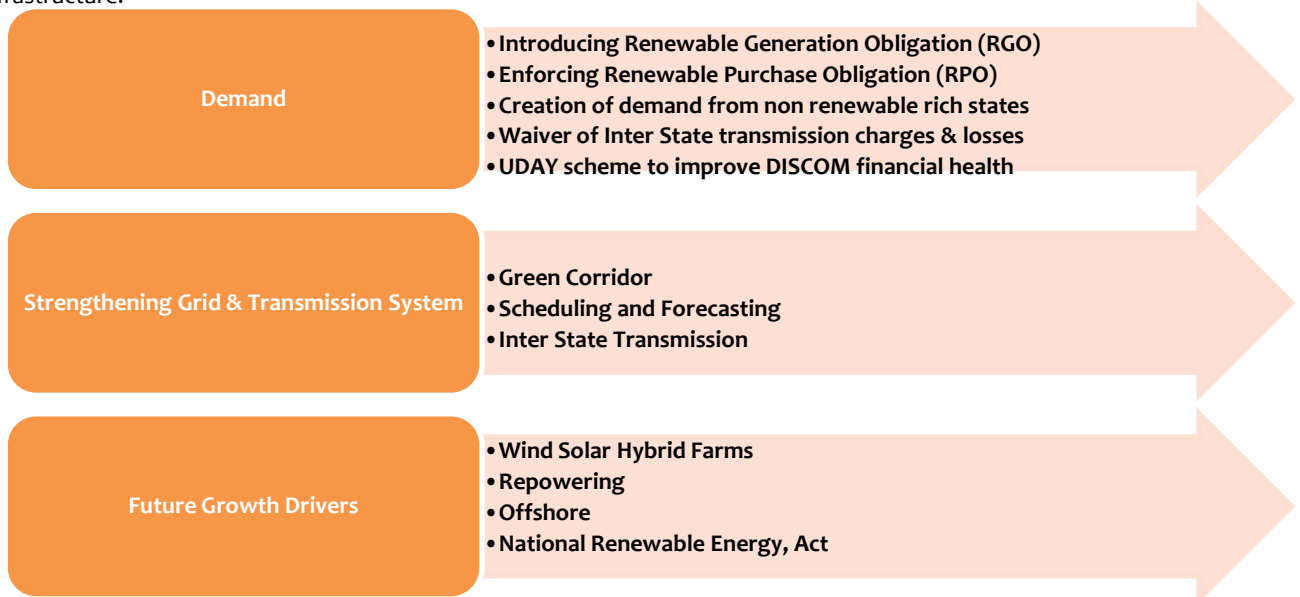
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Government Support:

Lot of work is being undertaken by the government in order to create a conducive environment for renewable. The Government introduced RGO and RPO which needs to be met by both the generators and DISCOMs respectively. In order to facilitate RPO compliance by non windy states, the government has also waived off inter-state transmission charges for renewable energy. Building of green corridor which would strengthen the grid infrastructure, further enables seamless evacuation of power across the country. Approx more than Rs. 1 Lakh Crs investment is expected in the next five years for development of such evacuation infrastructure. Central government is aggressively supporting the state government to drive this investment. In future, Government wants to focus on wind-solar hybrid project which will help in improving the utilization of the transmission infrastructure.



Source: KRChoksey Research

Strengthening Grid - Green Corridor: The Government mission is to focus on expanding the Green Corridor through the power transmission corridor for renewable power. This project is aimed at facilitating the flow of renewable energy into the national grid and ultimately it will lead to increase the share of renewable energy in the generating capacity of India. The corridor synchronizing electricity produced from renewable sources such as solar and wind, with conventional power stations in the grid. Also it will help to transfer wind power from one state to another so that the resources are shared equally.

Boosting Demand - Incentives like preferential feed in tariff in multiple states for wind power which will boost demand for renewable generators that will help boost for IPP. 2) Waiving of inter transmission charges which will help in better utilization of renewable source. 3) Introduction of Renewable generator obligation (RGO) and Renewable Purchase Obligation (RPO) – As soon as RPO obligation becomes mandatory, the states which do not have wind resources they need to either buy RECs or they setup the wind capacity in windy states and take the power. So this will create demand in the non-windy states and in turn as National Tariff policy talks about Inter transmission charge which will be zero. 4) Exemption from excise duty for WTG generators.

CSR Policy: Under the Companies Act, 2013, companies have to spend 2% of their average net profit for the past three years on CSR activities. So recently policy has been considered as where it qualifies investments in wind power as a CSR activity. Renewable energy projects have been included which will help companies fulfill their CSR obligations. This strengthens demand from Public Sector Undertakings (PSUs) and corporate with CSR obligations.

Healthy free cash flows to reduce financial leverage over the coming period:

Suzlon has total term debt excl FCCB to the tune of INR 75.6bn, of which foreign debt constitutes 63% to the total term debt, while the rest is from rupee debt. In terms of the free cash flows, the company was unable to make it in past few years, however with increase in the execution coupled with reduction in the working capital cycle could result in company to generate decent cash flows in the years to come. We expect that the company could make cash flows of around 17% of sales over FY18 & 19. This could assist them to curb overall debt level to the extent. The company has schedule term loan repayment of INR 5.21bn over FY17-19, while they could generate around INR 59bn of free cash flows. We expect that part of the free cash flows could be used to prepay foreign term loans, while part could be used to service finance cost. We expect term loans excl. FCCB to reduce by INR 26.7bn, while working capital to decline by INR 10bn over FY17-19. This could result in savings of INR 1.82bn with respect to finance cost over FY17-19. All these in turn could result in strong bottom-line growth in the years to come.

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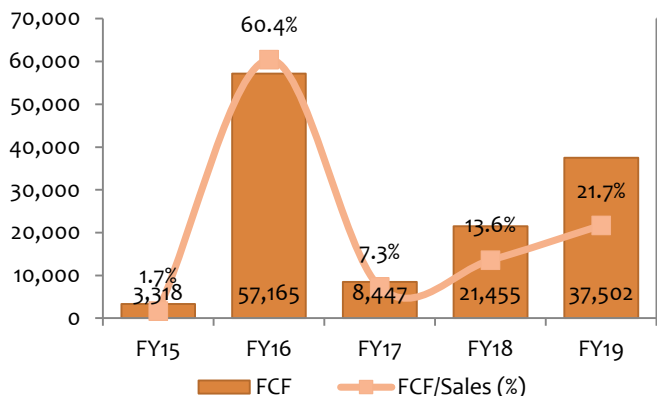
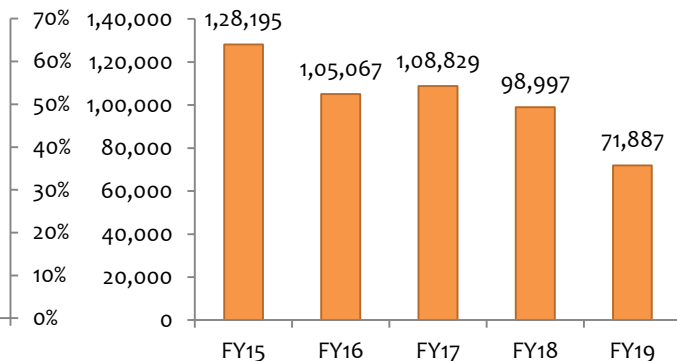
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Free Cash flows (INR mn) & FCF % of sales

Net debt (INR mn)


Note: FY16 cash flows includes sale proceeds of Senvion

Source: Company Data, KRChoksey Research

Key Risks:

Technology Risk: Technology risk is the part and parcel of any sector. In wind sector technology plays an important role in generation of energy. With new and new technology updating wind sector would generate more energy at minimal cost and that would benefit the customer as well as the company. If technology gets outdated cost would increase and order inflow would hamper to certain extend.

Project execution risk: Executing project is one of the greatest risks in wind energy sector. Project execution risk is associated with project life cycle and it starts with suitable availability of land and grid, environment conditions which delay projects, setting up wind farms, working of the wind turbines, etc. Specified time is set for completion of the project and the works is review as and when require checking the suitable execution of the project.

Entrance in solar business: Suzlon with its 20 years of experience in renewable energy has entered a new segment solar with a view of creating its place in solar and Solar-wind hybrid project. It would get a first mover advantage if it will be successful in executing its first order of 515 MW. Also government is planning to come up with Wind-Solar hybrid project which will benefit Suzlon. The risk is if Suzlon fail to execute then it would fail to accomplish solar project.

Huge financial leverage – A risk to the financial performance: The Company has total term debt excl FCCB to the tune of INR 75.6bn at the end of Q3FY17 of which SBLC debt constitutes of INR 42.29bn. The SBLC has maturity of Mar'18, however the management highlighted that they had applied to extend timeline till 2023. We expect any negative outcome could result company to default in partial payment as cash flows could not be significant to cover entire amount.

Annexure

Company Background:

Suzlon Group takes pride in creating enduring value through sustainable development. It strongly believes in connecting its core capabilities to provide optimum renewable energy solutions. The Group is one of the leading global renewable energy solution providers. Apart from being a technology leader, Suzlon endeavors to protect the environment, strengthen communities and propel responsible growth – a paradigm of Corporate Social Responsibility. The Group has long been driven by the concept of sustainable development, with a total installed capacity of its wind turbines being ~16.07 GW spread across six continents, standing as sentinels of a pollution free environment we can bequeath to the next generation. The Group has forayed into solar segment as well and is also focusing on Wind-Solar Hybrid solution.

Suzlon is a market leader in India with a global footprint across Asia, Australia, Europe, Africa, North and South America. Over the past two decades, Suzlon has built and consolidated its presence in 19 countries. The Group has 15 manufacturing facilities spread across India and China (Joint Venture). Having a dynamic workforce of over 8,000 employees, Suzlon is proud to support a culture in which employees are respected and empowered as the company's most valued assets.

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The Suzlon Group's cutting edge technology enables it to offer an extensive range of robust and reliable products which have been developed to best suit every requirement. Suzlon's products are like S97-120 meters the world's tallest all-steel hybrid tower wind turbine with a hub height of 120 meters above ground level and has been designed to harness wind energy across low wind sites. Similarly, the S111, belonging to the reliable and proven 2.1 MW family, has been designed to ensure highest safety while offering lowest lifecycle cost that helps drive down the cost of energy for customers. It features a rotor diameter of 111.8 meters with a swept area of more than 9,500 square meters, making it one of the highest yielding wind turbines in its class. Suzlon's global wind installations help in reducing ~21 million tonnes of CO2 emissions every year.

Suzlon's full scope services ranging from feasibility studies and complex front-end engineering design to manufacturing of wind turbines and components and undertaking construction, installation and commissioning of wind farms as well as long-term operations and maintenance, meeting the breadth and depth of customer requirements across the renewable energy value chain. Suzlon's investment in R&D allows the company to capitalize on opportunities that many others strive to reach – as a component manufacturer, as a wind turbine manufacturer and as a full spectrum renewable energy solution provider.

The Group also offers and executes best-in-class Operations, Maintenance and Services (OMS) across the globe. The OMS division, with its proven track record of managing assets through its life cycle, has been a driving force in generating steady revenues as well as garnering customer confidence over the years. The SCADA system of the division enables remote monitoring of all wind turbines, allowing the organization to look after over 10,000 wind turbines worldwide. This enables the identification and rectification of errors before they turn into problems, resulting in uninterrupted operation and energy reliability. Using advance software tools like SC- Trinity and SC- Commander not only enables the monitoring of the turbines on a real time basis, but also offers complete transparency by making data available to customers, thereby building customer faith.

Suzlon is a market leader in India with 100+ wind farms with an installed capacity of over 10 GW spread across 9 states. Suzlon is credited with developing few of Asia's largest operational onshore wind farms in Gujarat, Rajasthan, Maharashtra, and Tamil Nadu. The Kutch (Gujarat) and Jaisalmer (Rajasthan) Wind farm of Suzlon till date have a cumulative installation of approximately 1,200 MW each. Suzlon's diverse client portfolio includes companies from a variety of industries, including private and public sector companies, power utilities and independent power producers.

Suzlon's Headquarters, One Earth, located in Pune bears testimony to the Group's focus on environment sustainability. One Earth is LEED (Leadership in Energy and Environment Design) certified and one of the greenest corporate campuses in the world with Platinum LEED Certification. With a number of revolutionary and cutting-edge products in the pipeline for harnessing renewable energy, Suzlon is indeed powering a greener tomorrow, today.

Suzlon Plant Location in India and International:

Suzlon Technology Locations:			
Germany	Hamburg	- Development & Integration - Certification	 Hamburg
	Rostock	- Development & Integration - Design & Product Engineering - Innovation & Strategic Research	 Rostock
The Netherlands	Hengelo	- Blade Design and Integration	 Hengelo
India	Pune	- Design & Product Engineering - Turbine Testing & Measurement - Technical Field Support - Blade Engineering	 Pune
	Vadodara	- Blade Testing Center	
	Hyderabad	- Design & Product Engineering (BOP team)	 Aarhus
	Chennai	- Design & Product Engineering (Gear Box Team)	
Denmark	Aarhus Vejle	- SCADA - Blade Science Center	 Vejle

Source: Company Data, KRChoksey Research

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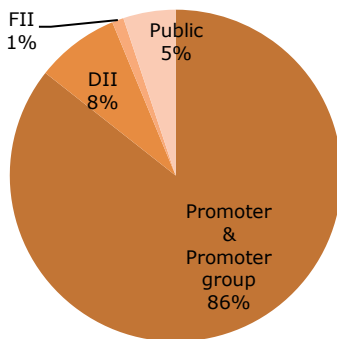
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Key Management Personnel:

Name	Position
Tulsi Tanti	Chairman and Managing Director
Girish Tanti	Non-executive Director
Vinod Tanti	Whole time Director & COO
J.P.Chalasani	Group CEO
Kirti Vagadia,	Group CFO
Rakesh Sarin	CEO - International Business and Global Service
Duncan Koerbel	CTO

Source: Company Data, KRChoksey Research

Share Holding Pattern (%)



Source: Company Data, KRChoksey Research

Fund Holdings	Market Value (INR Mn)	No of Shares Feb 2017
Reliance Mutual Fund	516.63	28543147
Motilal Oswal Mutual Fund	2.30	126922
Principal PNB Mutual Fund	0.26	14336

Profit and Loss Statement: (INR Mn)

Particulars	FY14	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	204029	199544	95153	116225	158780	173539
Cost Of Revenues (incl Stock Adj)	144354	136187	56018	68539	105537	113763
Gross Profit	59675	63358	39135	47686	53243	59776
Gross Profit Margin %	29.2%	31.8%	41.1%	41.0%	33.5%	34.4%
Employee Cost	22314	22275	9654	10228	11115	12148
Other Operating Expenses	36214	33072	16065	16777	19179	21802
EBITDA	-1411	3157	9855	20681	24581	26666
EBITDA Margin %	-0.7%	1.6%	10.4%	17.8%	15.5%	15.4%
Other Income	715	533	856	801	833	905
EBITDA, including OI	-696	3690	10710	21482	25415	27571
Depreciation	7769	8088	3982	4076	4177	4278
Net Interest Exp.	20700	20647	12983	12209	11623	10392
Other exceptional items	-4,873	-63,117	10,796	0	0	0
EBT	-34038	-88161	4541	5196	9614	12901
Taxes	2293	3173	-110	0	0	0
Adjusted PAT	-31225	-28460	-6305	4900	9066	12165
PAT Margin %	-15.3%	-14.3%	-6.6%	4.2%	5.7%	7.0%

Source: Company Data, KRChoksey Research

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Balance Sheet: (INR Mn)

Particulars	FY14	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS						
Share Capital	4976	7415	10041	10041	10041	10041
Reserves	-10415	-98638	-80869	-75969	-66903	-54737
Share Application Money Pending Allotment	1620	18000	0	0	0	0
Minority Interest	584	636	32	68	136	226
Total Shareholders' Funds	-3235	-72587	-70796	-65859	-56726	-44470
Long Term Borrowings	116409	107866	92263	92020	80563	66577
Net Deferred Tax liability	7923	6489	126	126	126	126
Other long term liabilities	806	1027	1579	1932	2641	2886
Long term provisions	2741	2884	2647	3240	4428	4839
Current Liabilities and Provisions						
Short term borrowings	35234	45758	19097	31670	26670	21670
Trade Payables	54956	46873	28515	37117	45533	53075
Other Current Liabilities	66246	63207	20458	15862	26019	35541
Short Term Provisions	22008	15739	5742	7027	9606	10497
Total Current Liabilities	178444	171576	73812	91676	107829	120783
Total Liabilities	303148	217315	99665	123169	138896	150776
APPLICATION OF FUNDS :						
Net Block	135145	58434	16976	15928	14801	13573
Capital Work in Progress	4334	3561	2278	2300	2300	2300
Non-current investments	37	152	448	448	448	448
Deferred tax assets	543	0	0	0	0	0
Long term loans and advances	5181	3681	2554	3126	4273	4669
Other Non Current Assets	3205	4636	6366	4759	4337	3791
Current Assets, Loans & Advances						
Current Investments	7030	2504	3162	3162	3162	3162
Inventories	40329	33608	25646	31089	40763	42649
Sundry Debtors	59454	48452	26971	36482	45533	47388
Cash and Bank	24480	25429	6293	14896	8271	16395
Loans and Advances	18450	13919	7496	9174	12540	13703
Other Current assets	4960	22939	1476	1806	2469	2698
Total Current Assets	154702	146850	71043	96609	112738	125995
Total Assets	303146	217315	99665	123169	138896	150776

Source: Company Data, KRChoksey Research

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Cash Flow Statement (INR Mn)

Particulars	FY14	FY15	FY16	FY17E	FY18E	FY19E
PBT & Extraordinary	(29165)	(25044)	(5953)	5196	9614	12901
Depreciation	7769	8088	3982	4076	4177	4278
(Inc) / Dec in Working Capital	(3712)	10370	(22116)	(9690)	(429)	13626
Cash from Operation	5679	11192	(8050)	11791	24986	41197
Cash from Investing	(4729)	(7874)	65216	(3310)	(3531)	(3695)
Cash from Financing	3600	(1988)	(55632)	121	(28080)	(29378)
Net Change in Cash	4550	1330	1533	8603	(6625)	8124
Closing Cash	24480	25429	6293	14896	8271	16395

Source: Company Data, KRChoksey Research

Ratio Analysis:

Particulars	FY14	FY15	FY16	FY17E	FY18E	FY19E
Profitability						
Return on Assets (%)	NA	NA	4.5	4.0	6.5	8.1
Return on Capital (%)	NA	NA	26.0	55.3	68.4	77.7
Return on Equity (%)	NA	NA	NA	NA	NA	NA
Margin Trend						
Gross Margin (%)	29.2	31.8	41.1	41.0	33.5	34.4
EBITDA Margin (%)	NA	1.6	10.4	17.8	15.5	15.4
Net Margin (%)	NA	NA	4.7	4.2	5.7	7.0
Liquidity						
Current Ratio	0.9	0.9	1.0	1.1	1.0	1.0
Quick Ratio	0.6	0.7	0.6	0.7	0.7	0.7
Debtor Days	107	89	104	115	105	100
Inventory Days	73	62	99	98	94	90
Creditor Days	99	86	110	117	105	112
Working Capital Days	81	65	93	96	94	78
Solvency						
Total Debt / Equity	NA	NA	NA	NA	NA	NA
Interest Coverage	NA	NA	0.5	1.4	1.8	2.2
Valuation Ratios						
EV/EBITDA	NA	62.9	20.3	9.7	7.8	6.2
P/E	NA	NA	NA	23.2	12.6	9.4
P/B	NA	NA	NA	NA	NA	NA

Source: Company Data, KRChoksey Research

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Analyst Certification

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