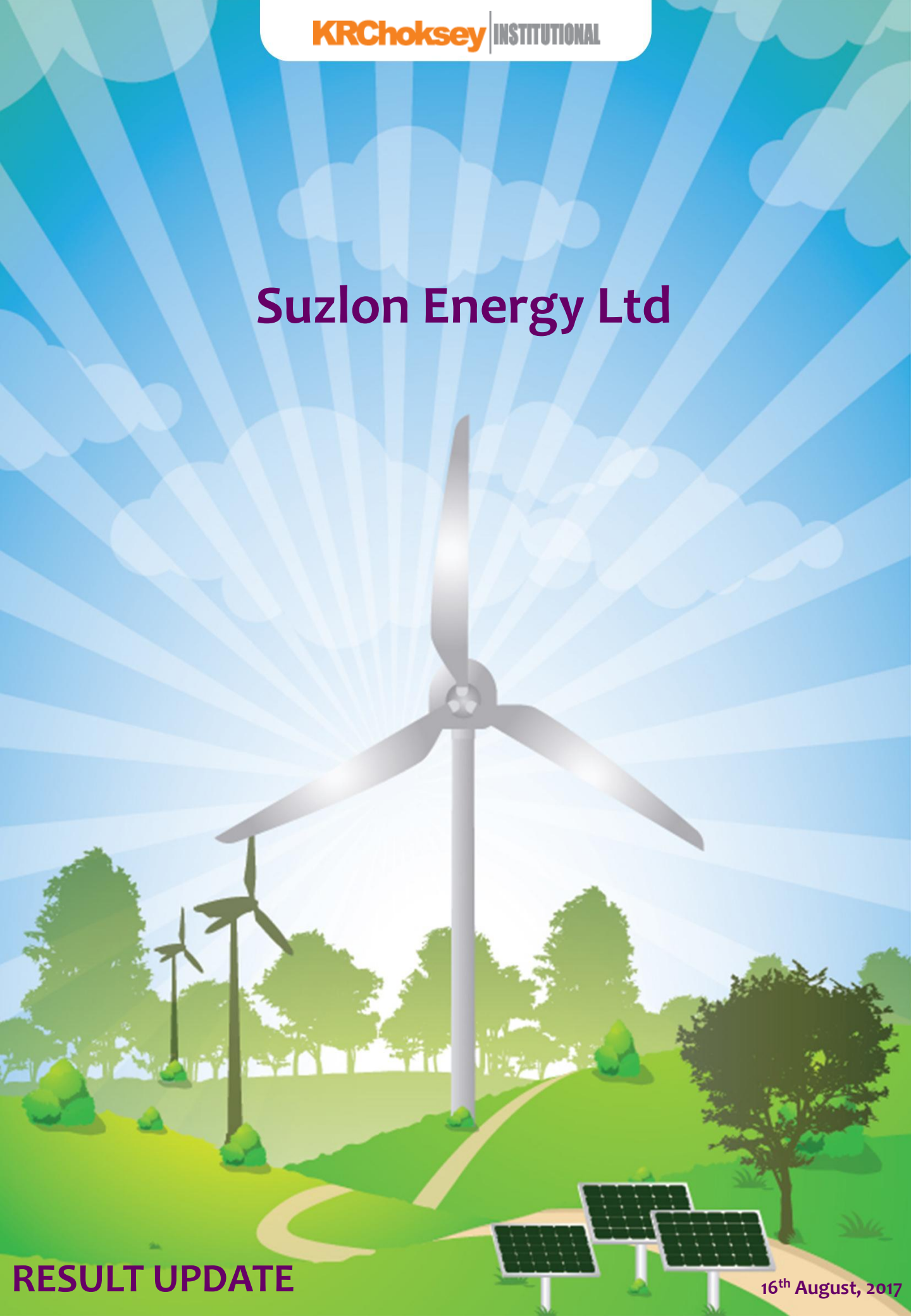


Suzlon Energy Ltd



Suzlon Energy Ltd.

Robust execution to improve financial performance going ahead

CMP INR 18	Target INR 27	Potential Upside 55%	Market Cap (INR mn) 92,060	Recommendation BUY	Sector Renewables
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Result highlights

- Suzlon revenue expanded by 62% YoY to INR 26762.4 mn during this qtr against our estimates of ~INR 28716 mn. The growth was led by 326MW of execution in wind and 86MW in solar.
- The operational performance improved by 262% YoY to INR 4327.7 mn against our estimates of INR 3475 mn primarily owing to lower than anticipated employee cost. EBITDA margin increased by 1052 bps YoY to 16.2%.
- PAT stood at INR 490.8 mn against our estimates of INR 875 mn loss. The increase in bottom-line growth was supported by robust operational performance and lower than expected depreciation.

MARKET DATA

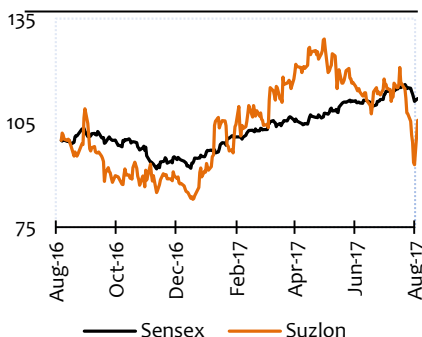
Shares outs (mn)	5291
EquityCap (INR mn)	10582
Mkt Cap (INR mn)	92060
52 Wk H/L (INR)	22/12
Volume Avg (3m K)	61913.9
Face Value (INR)	2
Bloomberg Code	SUEL IN

KEY FINANCIALS

Particulars (INR mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	198,367	94,296	126,925	127,562	180,248
EBITDA	3,157	11,018	24,994	18,493	27,647
PAT	-28,460	-5,093	8,395	4,446	13,258
EPS	-7.7	-1.0	1.7	0.8	2.2
OPM	1.6%	11.7%	19.7%	14.5%	15.3%
NPM	-14.3%	-5.4%	6.6%	3.5%	7.4%

Source: Company data, KRChoksey Research

SHARE PRICE PERFORMANCE



Robust execution led another 'STELLAR' qtr:

Suzlon reported revenue growth of 62% YoY to INR 26.8bn, which was assisted by execution of 326MW (+60% YoY) of wind contracts. Further, execution of 86MW of solar contracts supported top-line performance to some extent during the qtr. The commissioning was 100MW during the qtr.

In terms of segmental performance, WTG reported a growth of 56% YoY to INR 18.7bn, while revenue from O&M and foundry forging increased by 7% YoY, 2% YoY respectively. There was no execution from solar contracts in Q1FY17, which led other business to report exceptionally higher growth. The other segment revenues stood at INR 3.3bn.

Operating leverage continues:

OPM expanded by 893bps YoY to 16.2%, which led overall EBITDA to outpace top-line growth by 262% YoY to INR 4.3bn. The higher growth was led by lower employee cost (-22% YoY) and robust execution leading operating leverage to play out.

Robust operational performance reflected in bottom-line growth:

The bottom-line stood at INR 0.5bn against a loss of INR 2.6bn in Q1FY17. The growth was supported by strong operating performance along with lower depreciation (-25% QoQ).

Valuation & Outlook:

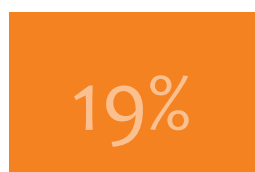
We have revised our estimates for FY18 given the year will be transition for entire wind sector and hence around 3 GW capacity could be added during this fiscal. Suzlon being the largest player with market share of 40-45% is expected to add around 1.4-1.5 GW during the current year. However, the growth could likely to revive post FY18 and hence incremental capacity could be to the tune of 6-7 GW.

MARKET INFO

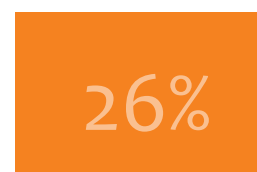
SENSEX	31771
NIFTY	9897

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	20.28	20.53	20.95
FIIIs	12.3	13.44	11.66
DIIIs	6.98	7.61	7.76
Others	60.45	58.42	59.64
Total	100	100	100



Revenue CAGR between FY 17 and FY 19E



PAT CAGR between FY 17 and FY 19E

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This could result in robust execution for Suzlon in the years to come. Further, this could aid O&M revenue in medium to long term perspective resulting into stable operational performance in the years to come. We expect the company's revenue to grow at a CAGR of 19% over FY17-19, while bottom-line to aid by 26% CAGR for the same period. In terms of valuation, the stock was historically trading in EV/EBITDA band of 7-9x on 2yr fwd basis. We have assigned 8.5x EV/EBITDA multiple on FY19E and thereby arrived a target price of INR 27, an upside potential of 55% from CMP of INR 18. **We have a BUY rating on the stock.**

Note: We have considered entire FCCB conversion by FY19. Promoter stake will be diluted to 17.6% from 20.3% presently post FCCB conversion.

Q1FY18 Result Snapshot

Particulars	Q1 FY18	Q4 FY17	Q1 FY17	Q-o-Q change %	Y-o-Y change %
Net Sales & Other Operating Income	26,762.4	49,993.3	16,533.8	-46.5%	61.9%
Total Expenditure	22,434.7	39,664.5	15,337.0	-43.4%	46.3%
Cost of Raw Materials	15,795.4	31,767.9	12,493.3	-50.3%	26.4%
Purchase of stock in trade	2,183.4	0.0	0.0	NM	NM
(Increase) / Decrease In Stocks	-2,345.8	1,180.8	-3,287.7	-298.7%	NM
Employee Cost	2,009.9	2,791.4	2,574.1	-28.0%	-21.9%
Other Expenses	4,367.5	7,037.5	2,983.1	-37.9%	46.4%
EBIDTA	4,327.7	10,328.8	1,196.8	-58.1%	261.6%
EBITDA Margins (%)	16.2%	20.7%	7.2%	-449bps	893bps
Depreciation	819.7	1,087.4	811.5	-24.6%	1.0%
EBIT	3,508.0	9,241.4	385.3	-62.0%	810.5%
Other Income	248.8	245.1	162.8	1.5%	52.8%
Interest	3,112.7	3,452.9	3,084.8	-9.9%	0.9%
PBT	644.1	6,033.6	-2,536.7	-89.3%	NM
Tax	7.5	56.9	39.6	-86.8%	-81.1%
PAT before Exceptional	490.8	5,948.2	-2,634.0	-91.7%	NM
PAT Margin (%)	1.8%	11.9%	-15.9%	-1,006bps	1,776bps
EPS	0.1	1.18	-0.52	-91.5%	NM

Source: Company, KRChoksey Research

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Suzlon Energy Ltd

Segmental Revenues

Particulars	Q1FY18	Q4FY17	Q1FY17	Q-o-Q	Y-o-Y
WTG	18,679.0	39,880.7	11,954.3	-53.2%	56.3%
Foundry & Forging	1,255.3	1,106.2	1,232.9	13.5%	1.8%
O&M	4,581.3	4,407.6	4,263.1	3.9%	7.5%
Others	3,314.2	5,658.7	31.5	-41.4%	10421.3%
Less: Inter segment Revenue	1,177.2	1,127.3	1,003.1	4.4%	17.4%
TOTAL	26,652.6	49,925.9	16,478.7	-46.6%	61.7%

Source: Company, KRChoksey Research

Segmental EBIT

Particulars	Q1FY18	Q4FY17	Q1FY17	Q-o-Q	Y-o-Y
WTG	2,090.7	8,233.9	-163.2	-74.6%	-1381.1%
Foundry & Forging	177.4	239.6	212.0	-26.0%	-16.3%
O&M	931.1	296.8	386.6	213.7%	140.8%
Others	308.8	471.1	-50.1	-34.5%	-716.4%
Total EBIT	3,508.0	9,241.4	385.3	-62.0%	810.5%

Source: Company, KRChoksey Research

Segmental EBIT Margins

Particulars	Q1FY18	Q4FY17	Q1FY17	Q-o-Q	Y-o-Y
WTG	11.2%	20.6%	-1.4%	-945bps	NM
Foundry & Forging	14.1%	21.7%	17.2%	-753bps	-306bps
O&M	20.3%	6.7%	9.1%	1,359bps	1,126bps
Others	9.3%	8.3%	-159.0%	99bps	NM

Source: Company, KRChoksey Research

Order Details (in MW)

Particulars	Q1FY18	Q4FY17	Q1FY17
Order inflows	825	0	166
Execution	326	554	204
Order backlog	1,169	670	1,205

Source: Company, KRChoksey Research

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Key takeaways from Conference call:

- The company has commissioned new turbine S111-140 meters, which will increase PLF by 5-6% from current 42% PLF from S111-120 meters
- Q1FY18 volumes grew by 102% YoY to 412 MW (Solar - 86 MW and Wind – 326 MW)
- The company expects wind market to stand at 2-3 GW in this year and 6 GW in FY19 which will increase gradually every year thereafter
- The management expects 175 MW from solar execution in FY18, subject to PPA signing
- The company is looking for international markets for growth especially USA
- The management expects the company can exit from CDR in next 2-3 months
- Gross term debt other than FCCB is reduced by INR 0.47bn in Q1FY18 to INR 73.45bn and Net term debt stands at INR 62.7bn
- NWC days improved from 63 days in Q1FY17 to 59 days in Q1FY18
- On the FCCB front, US\$172 mn is outstanding presently. This takes total FCCB converted to ~69% till date

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Key Financials

Consolidated Profit & Loss (INR mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	199544	94835	127144	127824	180550
Cost Of Revenues (incl Stock Adj)	136187	56038	75429	83177	117876
Gross Profit	63358	38797	51715	44647	62674
Employee Cost	22275	9591	10465	9587	11736
Other Operating Expenses	33072	15770	19225	17675	23292
EBITDA	3157	11018	24994	18493	27647
Other Income	533	984	888	886	919
EBITDA, including OI	3690	12002	25882	19379	28566
Depreciation	8088	3920	3922	4158	4259
Net Interest Exp.	20647	13040	12876	10506	10249
Other exceptional items	-63,117	10,796	0	0	0
EBT	-88161	5837	9084	4715	14059
Taxes	3173	-110	117	0	0
Tax Rate	-3.6%	-1.9%	1.3%	0.0%	0.0%
Net Income	-91334	5947	8967	4715	14059
Adjusted Net Income for parent	-28460	-5093	8395	4446	13258
NI Excl Extra Items	-28460	-5093	8395	4446	13258
NI Incl Extra Items	-91577	5702	8395	4446	13258
Basic EPS (INR)	-7.7	-1.0	1.7	0.8	2.2

Source: Company data, KRChoksey Research

Consolidated Balance Sheet (INR mn)	FY15	FY16	FY17	FY18E	FY19E
Share Capital	7415	10041	10049	11451	11981
Reserves	-98638	-85026	-78148	-64263	-47440
Share Application Money Pending Allotment	18000	0	0	0	0
Minority Interest	636	0	87	120	218
Total Shareholders Funds	-72587	-74985	-68012	-52692	-35241
Pref share issued by subsidiary co.	59	0	0	0	0
Long Term Borrowings	107866	92246	90380	76945	60970
Net Deferred Tax liability	6489	126	126	126	126
Other long term liabilities	1027	1516	2655	2668	3770
Long term provisions	2884	2192	1272	1278	1806
Current Liabilities and Provisions					
Short term borrowings	45758	18949	20764	19764	18764
Trade Payables	46873	29699	48123	46132	64198
Other Current Liabilities	63207	22380	18517	19222	27161
Short Term Provisions	15739	5583	8218	8259	11670
Total Liabilities	217315	97705	122042	121703	153225
Net Block	58434	16128	16676	14454	13245
Capital Work in Progress	3561	1972	1186	2300	2300
Goodwill on consolidation	0	76	76	76	76
Non-current investments	152	929	1886	1886	1886
Deferred tax assets	0	318	452	452	452
Long term loans and advances	3681	7771	7178	7214	10194
Other Non Current Assets	4636	1735	2877	4711	5166
Current Assets, Loans & Advances					
Current Investments	2504	2670	4811	4811	4811
Inventories	33608	25247	34688	33550	45432
Sundry Debtors	48452	25932	36733	35647	49383
Cash and Bank	25429	6266	3361	4423	3071
Loans and Advances	13919	2079	1980	1990	2812
Other Current assets	22939	6583	10138	10188	14397
Total Assets	217315	97705	122042	121702	153225

Source: Company data, KRChoksey Research

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Consolidated Cash Flow (INR mn)	FY15	FY16	FY17	FY18E	FY19E
PBT & Extraordinary	(25044)	(5953)	9084	4715	14059
Depreciation	8088	3920	3922	4158	4259
(Inc) / Dec in Working Capital	10370	(22116)	(6304)	(931)	(3037)
Taxes	(2093)	238	(117)	0	0
Others	19872	15860	12876	10506	10249
Cash from Ops.	11192	(8050)	19461	18448	25529
Purchase of Fixed Assets	(7363)	(3970)	(3685)	(3050)	(3050)
Others	(511)	69185	(1439)	(236)	(703)
Cash from Investing	(7874)	65216	(5123)	(3286)	(3753)
Proceeds from issue of shares	82	17826	60	10841	4095
Borrowings (Net)	8035	(61701)	(51)	(14435)	(16975)
Others	(10106)	(11758)	(12876)	(10506)	(10249)
Cash from Financing	(1988)	(55632)	(12867)	(14100)	(23129)
Net Change in Cash	1330	1533	1471	1062	(1352)
BF Cash	24480	25429	6266	3361	4423
END Cash	25429	6266	3361	4423	3071

Source: Company data, KRChoksey Research

Ratio Analysis	FY15	FY16	FY17	FY18E	FY19E
Profitability					
Return on Assets (%)	NM	5.8	6.9	3.7	8.7
Return on Capital (%)	NM	38.3	83.1	53.7	77.3
Return on Equity (%)	NM	NM	NM	NM	NM
Margin Trend					
Gross Margin (%)	31.8	40.9	40.7	34.9	34.7
EBITDA Margin (%)	1.6	11.6	19.7	14.5	15.3
Net Margin (%)	-45.9	6.0	6.6	3.5	7.3
Liquidity					
Current Ratio	0.9	0.9	1.0	1.0	1.0
Quick Ratio	0.7	0.6	0.6	0.6	0.6
Debtor Days	89	100	106	102	100
Inventory Days	62	98	100	96	92
Creditor Days	86	115	138	132	130
Cash Conversion Cycle	65	83	67	66	62
Solvency					
Total Debt / Equity	NM	NM	NM	NM	NM
Interest Coverage	NM	0.6	1.7	1.4	2.4
Valuation Ratios					
EV/EBITDA	61.0	17.5	7.8	10.1	6.4
P/E	NM	NM	12.5	23.6	7.9

Source: Company data, KRChoksey Research

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Suzlon Energy Ltd

Suzlon Energy Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
16-Aug-17	18	27	BUY	Buy	More than 15%
23-May-17	21	32	BUY	Accumulate	5% – 15%
05-April-17	19	31	BUY	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

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