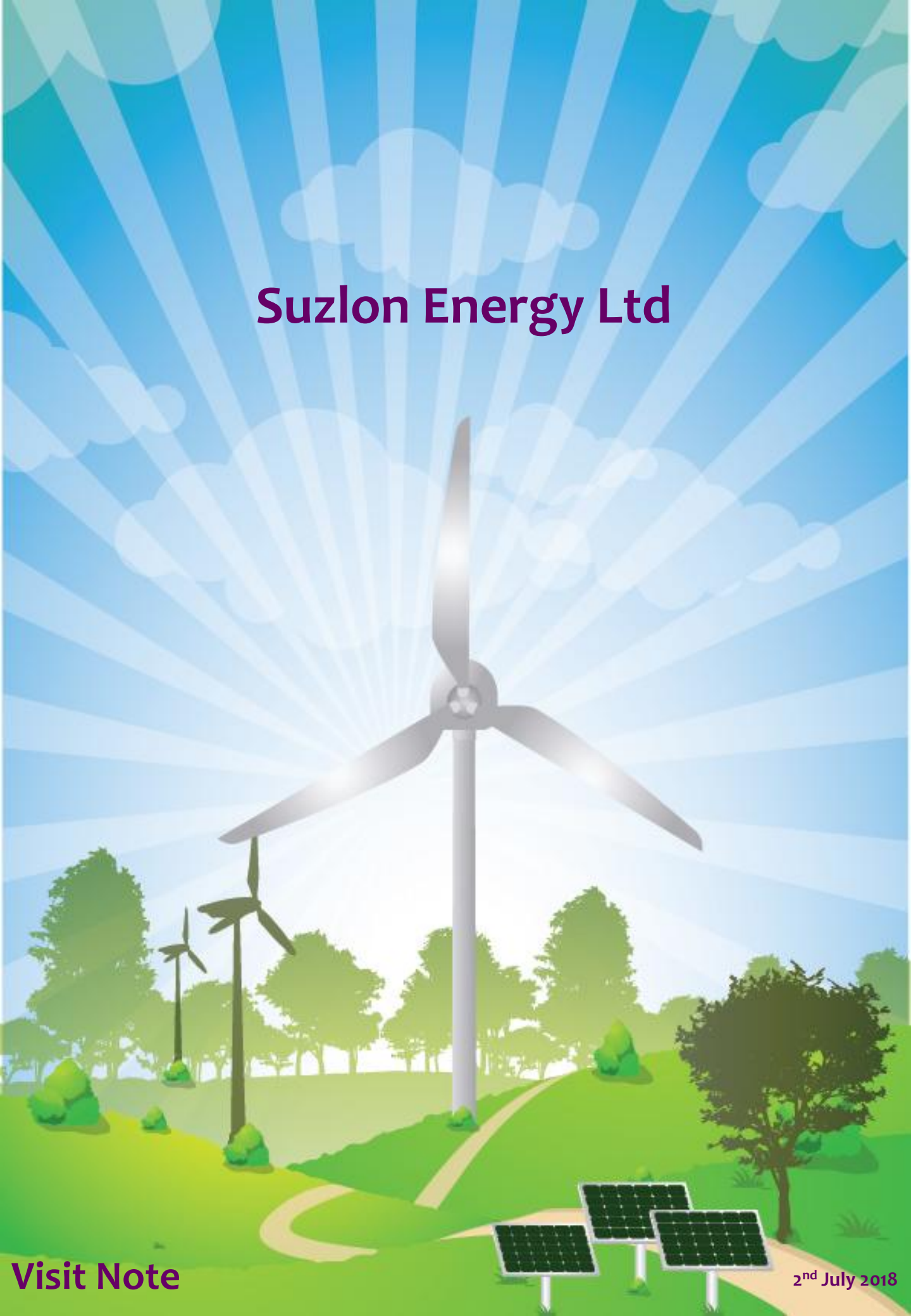


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Stake divestment in OMS to unlock group valuation

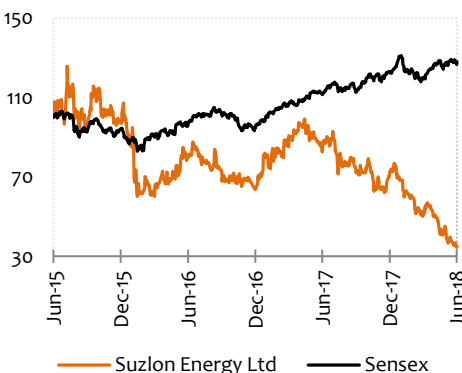
CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 7.5	INR 15.8	115.1%	39,898	Buy	Renewable

We recently met Mr. Kirti Vagadia, Group CFO, Suzlon Energy Ltd, to get insights about present developments within the industry as well as the company. During our meet, Mr. Vagadia explained to us about the challenging times in FY18 along with promising outlook with healthy order backlog in the near future post improvement in the order announcements by SECI. The management seems confident that the Indian wind sector will witness 8-10 GW of capacity addition every year for next 4-5 years, which could translate into capacity addition of ~2-2.5 GW p.a. by Suzlon given its dominant market share. The expectation of robust capacity addition is attributable to the national wind energy target of 60 GW by FY22. Further, sharp cut in the wind tariff post change in the regime could also result into adoption of more green energy as against thermal in the years to come. We expect the progress could also get ramped up once there is successful adoption of a wind hybrid technology, which will improve the average PLF in the industry. In terms of the technology, management highlighted Suzlon has always remained foremost in terms of the latest technology adoption, which can be ascertained from the fact of launching of S111/140, S128/140 ahead of competition. We expect similar trend is likely to continue in the future, which could assist the company to maintain/improve its market share in the overall industry. In terms of the debt repayment, the company is considering to divest its stake in domestic O&M business this fiscal, which could help them to reduce LT debt. The company has overall debt excl. FCCB stands at INR ~108.6bn as on FY18 of which LT & ST debt remained at INR 69.7bn & INR 38.9bn respectively. Going ahead, we expect net debt to EBITDA to fall to 4.8x by FY20E from 11.4x in FY18.

MARKET DATA

Shares outs (Mn)	5319
EquityCap (INR Mn)	10640
Mkt Cap (INR Mn)	39898
52 Wk H/L (INR)	20/7
Volume Avg (3m K)	28147
Face Value (INR)	2
Bloomberg Code	SUEL IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	35423
NIFTY	10714

SHARE HOLDING PATTERN (%)

Particulars	Mar 18	Dec 17	Sep 17
Promoters	19.79	19.79	19.79
FII	10.04	11.07	11.86
DII	10.15	9.31	8.99
Others	60.03	59.84	59.36
Total	100	100	100

Investment Rationale

Government aims to add 60GW wind energy by FY22 to benefit players like Suzlon:

Despite initial headwinds from the change in the tariff regime, the industry has started gaining momentum in terms of improvement in the order flows. This has been largely due to a fall in the wind tariff as compared to thermal. Shortage of coal during recent times has led many thermal plants to operate at below PLF resulting into many SEBs to procure energy on short term routes during summer. This has put pressure on the financial performance due to sturdy rate such as INR 8-11/kWh as against wind available at INR 2.4-2.9 kWh. We believe this could translate into more states to sign long term PPAs for renewable energy given the rate has come down in competitive bidding regime, which could result into strong renewable capacity addition in the coming period. Further, removal of inter-state transmission charge has also resulted non-windy states to participate in the overall transformation, which we believe could assist govt's objective to achieve 67GW of wind energy by 2022. Moreover, US set back from the Paris climate summit has also put pressure on both polluting countries such as India and China to come up with a clear roadmap to reduce fossil fuel in the years to come. We believe all the above initiatives could assist improvement of renewable share into the overall country's energy consumption.

In terms of the order announcements in wind sector, SECI has come up with 6GW of tendering post change in the regime of which execution of SECI I (1GW) is about to conclude, while SECI II (1GW) execution has commenced. Suzlon being the dominant player has garnered 1287MW of contracts till SECI IV, of which the company has already executed 250MW under SECI I, while SECI II (252MW) execution will get completed in the next 2-3 months. The company will start executing SECI III contracts (500MW) in H2FY19, while SECI IV (286MW) execution could start by the end of Q4FY19. Apart from this, windy states have announced orders to the tune of 1.5GW of which Suzlon won 126MW of orders, which will be executed in FY19 itself. The company also receives captive orders ~300MW every year, which are relatively short term in nature and hence, that provides a visibility of cumulative ~1.2-1.3GW of wind execution in FY19.

28.9%

Revenue CAGR between FY18 and FY20E

41.3%

EBITDA CAGR between FY18 and FY20E

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Further, there has been around 700MW of contracts from AP, which is into framework due to non-signed PPAs. Management believes that PPAs will be signed within next 3-4 months and part of the execution could get completed in FY19, resulting into company to achieve execution of ~1.5-1.6GW in this fiscal.

In terms of the overall wind installation, the country has installed 34.1GW at the end of FY18, of which Tamil Nadu leads the basket with 24% market share followed by Gujarat with 17%. AP and MP have not witnessed large capacity addition, which remained at 12% & 7%, respectively, of the overall pie. Going ahead, as per the government's estimates, AP & MP have to install 4.1GW & 3.7GW of wind energy to meet their targets. Thus, we expect there is high probability that Suzlon's framework contract worth 700MW from AP could get negotiated and eventually PPA could be signed by the end of H1FY19.

The management highlighted that there are already announced bids worth 9.5GW, Suzlon being the market leader with 35% market share in terms of commissioning, while 25% market share in terms of order intake, is expected to garner large orders in the coming period. This could translate into improvement in the order book and thereby the revenues of the company in medium to long term. We expect company could execute 1451MW and 1896MW in FY19E and FY20E respectively. The company generates revenue to the tune of INR 6cr/MW and hence, WTG revenue is expected to grow at a CAGR of 41% to INR 111.59bn over FY18-20E. Apart from this, the company also receives INR 1mn/MW as O&M revenue every year. It has around 12GW of WTG turbines in domestic market, while around 2GW for international market. With rapid execution & commissioning to meet the targeted 60GW of wind capacity in the country, we expect O&M revenue to grow at a CAGR of 12% to INR 22.2bn over the same period. In terms of operational performance, we expect OPM for WTG segment could remain at around 10-12%, while the same for O&M to expand primarily on account of increasing revenue share from domestic O&M as compared to international O&M.

Exhibit 1: List of Wind Auctions post change in FIT regime to competitive bidding

Auction by	Wind Tariff	MW in auction	Auction date	Winners	Suzlon Win	Suzlon Mkt share (%)
SECI 1	INR 3.46/kw h	1050 MW	Feb'17	Mytrah (250MW @ 3.46/kw h), Green infra (249.9MW @ 3.46/kw h), Inox wind (250MW @ 3.46/kw h), Ostro Kutch (250MW @ 3.46/kw h), Adani green (50MW @ 3.46/kw h)	250 MW	24%
Tamil Nadu State (Tengendero)	INR 3.42/kw h	950 MW	Aug'17	Regen (200MW @ 3.42/kw h), Leap green (250MW @ 3.43/kw h), Neyveli lignite (500MW @ 3.45/kw h)	*	
SECI 2	INR 2.64/kw h	1000 MW	Oct'17	Renew (250MW @ 2.64/kw h), Orange Sironj (200MW @ 2.64/kw h), Inox wind (250MW @ 2.65/kw h), Sembcorp (250MW @ 2.65/kw h), Adani green energy (50MW @ 2.65/kw h)	252 MW	25%
Gujarat Urja Vikas Nigam	INR 2.43/kw h	500 MW	Dec'17	Spmg Energy (197.5MW @ 2.43/kw h), KP Energy (30MW @ 2.43/kw h), Vedant renewables (100MW @ 2.44/kw h), Betam wind (29.9MW @ 2.44/kw h), Pow erica (50MW @ 2.44/kw h), Renew (17.6MW @ 2.45/kw h)	*	
SECI 3	INR 2.44/kw h	2000 MW	Feb'18	Renew (400MW @ 2.44/kw h), Sembcorp (300MW @ 2.44/kw h), Inox wind (200MW @ 2.44/kw h), Torrent power (499.8MW @ 2.44/kw h), Adani green energy (250MW @ 2.45/kw h), Alfanar company (300MW @ 2.45/kw h), Betam Wind (50.2MW @ 2.45/kw h)	500 MW	25%
Maharashtra State (MSEDCL)	INR 2.85/kw h	500 MW	Mar'18	Inox wind (50MW @ 2.86/kw h), Mytrah energy (100MW @ 2.86/kw h), Hero wind (75.6MW @ 2.86/kw h), Torrent power (124.4MW @ 2.87/kw h), Adani green (75MW @ 2.85/kw h), KCT Renewables (75MW @ 2.85/kw h)	*	
SECI 4	INR 2.51/kw h	2000 MW	Apr'18	Srijan Energy (250MW @ 2.51/kw h), Spmg Energy (300MW @ 2.51/kw h), BLP Energy (285MW @ 2.51/kw h), Betam Energy (200MW @ 2.51/kw h), Inox wind (100MW @ 2.51/kw h), Adani green energy (300MW @ 2.51/kw h), Mytrah (300MW @ 2.52/kw h), Renew (265MW @ 2.52/kw h)	285 MW	14%

Note: Suzlon also won combined state bids of 126MW from the auctions of 1950MW - Market share - 6.5%

Source: Company data, KRChoksey Research

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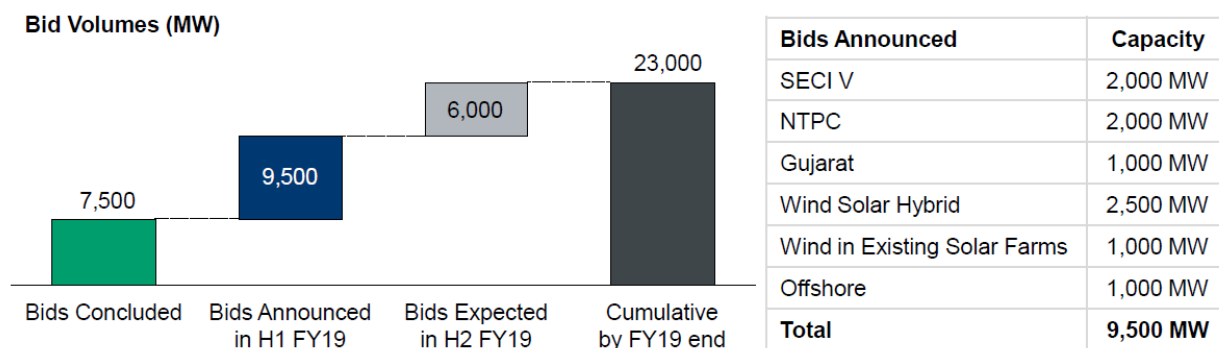
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Exhibit 2: Wind Auction pipelines for FY19E



Source: Company Data

Exhibit 3: Installed Wind Capacity as of March 31, 2018 (in MW)

States	Installed Wind Capacity (in MW)	Tentative Target Installation by 2022 (in MW)
Andhra Pradesh	3,963	8,100
Gujarat	5,702	8,800
Karnataka	4,509	6,200
Kerala	53	-
Madhya Pradesh	2,520	6,200
Maharashtra	4,784	7,600
Rajasthan	4,298	8,600
Tamil Nadu	8,197	11,900
Telangana	101	2,000
Others	4	
Total	34,132	59,400

Source: MNRE

Exhibit 4: Market share of different states in terms of wind installation

States	Installed Wind Capacity as of March 31, 2018 (in MW)	Market share (%)
Andhra Pradesh	3,963	12%
Gujarat	5,702	17%
Karnataka	4,509	13%
Kerala	53	0%
Madhya Pradesh	2,520	7%
Maharashtra	4,784	14%
Rajasthan	4,298	13%
Tamil Nadu	8,197	24%
Telangana	101	0%
Others	4	0%
Total	34,132	100%

Source: MNRE

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Exhibit 5: Target Wind Capacity Addition by 2022 (in MW)

States	Target Wind Capacity Addition by 2022 (in MW)	Market share (%)
Andhra Pradesh	4,137	16%
Gujarat	3,098	12%
Karnataka	1,691	7%
Kerala		0%
Madhya Pradesh	3,680	15%
Maharashtra	2,816	11%
Rajasthan	4,302	17%
Tamil Nadu	3,703	15%
Telangana	1,899	7%
Others		0%
Total	25,326	100%

Source: MNRE

Offshore wind market provides enough potential for the players like Suzlon

The wave for offshore wind installation has emerged in recent times across different parts of the world. It is estimated that global offshore installation by the end of CY17 is 18.8 GW of which UK holds 36% market share followed by Germany 28%. This results into more than 65% of installation only into Europe. The emerging player in the offshore wind market is China with 2.8 GW of overall installation till CY17 representing 15% market share in global offshore pie. It is estimated that China has set 5 GW offshore wind targets by CY20, which represents installation of at least 700MW every year. However, China’s three province such as Jiangsu, Guangdong and Fujian have set target to install 5.5 GW by CY20, which itself could lead China to exceed its nation target of 5GW offshore wind energy. In terms of the top OEM in global offshore market, it is estimated that Siemens Gamesa is foremost supplier in Europe with 64% of total installed capacity followed by Vestas (18%), Senvion (8%) and Adwen (6%).

In terms of the outlook of India’s offshore wind market, despite India is considered as seventh largest country in the world for its coastal area (more than 7500 km), it has still not witnessed capacity addition in offshore market primarily on account of higher WTG cost. It is estimated that India has overall potential of more than 15 GW for offshore wind power, of which major states such as Gujarat and Tamil Nadu could provide fillip to the overall offshore market sentiments. For the same reason, LIDAR unit had been deployed off Gujarat in the Gulf of Khambat at the beginning of Nov’17. Further, another LIDAR unit is to be deployed in Tamil Nadu to assess the overall wind speed. It is estimated that offshore wind turbine can improve PLF to around 50-55% from ~40% in onshore wind. However, higher capital cost along with lack of transmission infrastructure could extend the timeliness of the project execution. Keeping all these factors into consideration, MNRE had invited EOI for 1GW of offshore wind project in April’18. The government has placed provision for domestic OEMs to tie up with foreign player for any offshore wind project in India and hence, players like Suzlon have to tie up with a foreign partner to achieve this milestone. The Suzlon management highlighted that they have already tied up with a foreign partner and hence, any success on winning recent offshore bid could provide boost the overall order backlog. We expect offshore WTG cost could be to the tune of INR 7-8cr/MW as compared to INR 6cr/MW cost for onshore. Increase in the WTG cost could lead to higher wind tariff and hence, the government’s incentive to subsidize can provide boost to the domestic offshore wind market. It is estimated that government of India would like to install 30GW by CY30 and hence, per year tendering could be between 1.5-2.5 GW.

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Exhibit 6: Global Offshore Wind Installations (in MW)

Year	Global Offshore wind Installations (in MW)
2011	4,117
2012	5,415
2013	7,046
2014	8,724
2015	12,167
2016	14,482
2017	18,816

Source: Global Wind Energy Council

Exhibit 7: Global Offshore Installed Capacity (in MW)

Country	Offshore capacity installed upto CY16 (in MW)	Addition in CY17 (in MW)	Offshore capacity installed upto CY17 (in MW)	Market share
UK	5,156	1,680	6,836	36%
Germany	4,108	1,247	5,355	28%
China	1,627	1,164	2,791	15%
Denmark	1,271	0	1,271	7%
Netherland	1,118	0	1,118	6%
Belgium	712	165	877	5%
Sweden	202	0	202	1%
Vietnam	99	0	99	1%
Finland	32	60	92	0%
Japan	60	5	65	0%
South Korea	35	3	38	0%
US	30	0	30	0%
Ireland	25	0	25	0%
Taiwan	0	8	8	0%
Spain	5	0	5	0%
Norway	2	0	2	0%
France	0	2	2	0%
Total	14,482	4,334	18,816	100%

Source: Global Wind Energy Council

Stake Divestment in O&M to curb leverage to certain extent:

Wind portfolio of the company stands at around 14GW presently. We expect the same is expected to grow at a robust pace primarily on account of sturdy renewable capacity addition in the years to come. This could result into decent revenue visibility for Suzlon O&M portfolio. The management had earlier envisaged to divest stake in the O&M portfolio. We expect the O&M business could be valued at INR 60-75bn on EV/EBITDA of 10-12x. The management mentioned to reduce interest cost to INR 11bn in FY19E, which is a reduction of around INR 2-3bn from FY18. Given the average interest cost of the company is around 10%, we expect divestment could be to the tune of 30%. Hence, divestment proceeds could be to the tune of INR 15-30bn. The company has gross term debt of INR 69.7bn as on FY18, which we expect to reduce meaningfully by the end of FY19/20E post divestment of stake in O&M business. This could in turn assist company to reduce leverage, which we expect to remain at 4.8x Net debt/EBITDA by the end of FY20E from 11.4x in FY18.

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Exhibit 8: O&M segment financial performance

Figures in INR mn unless mentioned	FY16	FY17	FY18	FY19E	FY20E
Revenues	16,646	17,551	17,803	20,033	22,237
EBITDA	1,950	2,546	3,448	4,608	6,004
OPM%	11.7%	14.5%	19.4%	23.0%	27.0%

Source: Company data, KRChoksey Research

O&M business valuation

Figures in INR mn unless mentioned	FY20E
EBITDA	6,004
EV/EBITDA (x)	12x
EV	72,049
Less: Net debt	0
MCAP	72,049

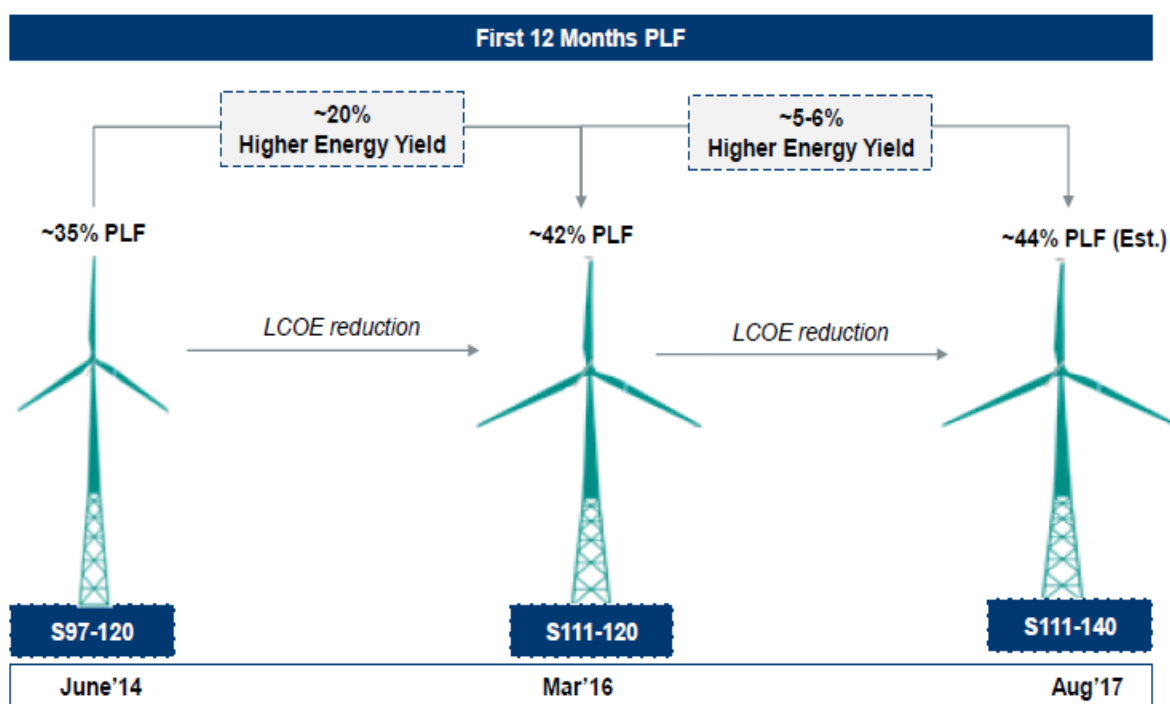
Source: Company data, KRChoksey Research

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Suzlon being a technology efficient player to benefit from transformation such as Hybrid projects:

Suzlon is one of the strongest player for in-house R&D. The company spends ~3-4% of sales on R&D exp, which enabled it to hold efficient technology among various players in wind sector. Over the years, the company has launched various turbines such as S97-120 to recently launched S111-140. This has also resulted improvement in the PLF for IPPs. The PLF under S111-140 is estimated to be around 40-44% as compared to around 30-35% PLF in S97-120. We expect Indian wind sector will witness larger turbines in the years to come and hence, players like Suzlon will benefit from this transformation. Further, the company had also executed 340MW of solar contracts in FY17 & 18, which we expect to help company to win hybrid contracts in the years to come. MNRE has already invited bids for 2500MW worth of contracts. We expect the tariff could be higher than the prevailing tariff in wind sector primarily on account of better PLF. It is expected that PLF could rise to 50-60% in hybrid projects as compared to solely wind of 35-40%.

Exhibit 9: PLF at Different turbines



Source: Company data, KRChoksey Research

Further, the company has also been planning to launch S128-140. The turbine will be of 2.6-2.8MW as compared to around 2MW of turbines sold presently. This technology will help increase in the overall yield to the tune of 20-22%. We also expect, moving towards higher end turbines could aid realization/MW, however the same is not expected to be materially high due to prevailing competition in the sector post change in the tariff regime. We also believe that higher rotor blade along with better heights will improve PLF, which eventually results into more installation of such turbines in wind sector. Gamesa being the largest player in global wind sector has such kind of technology, however the higher price points could make it uncompetitive against Suzlon's turbine.

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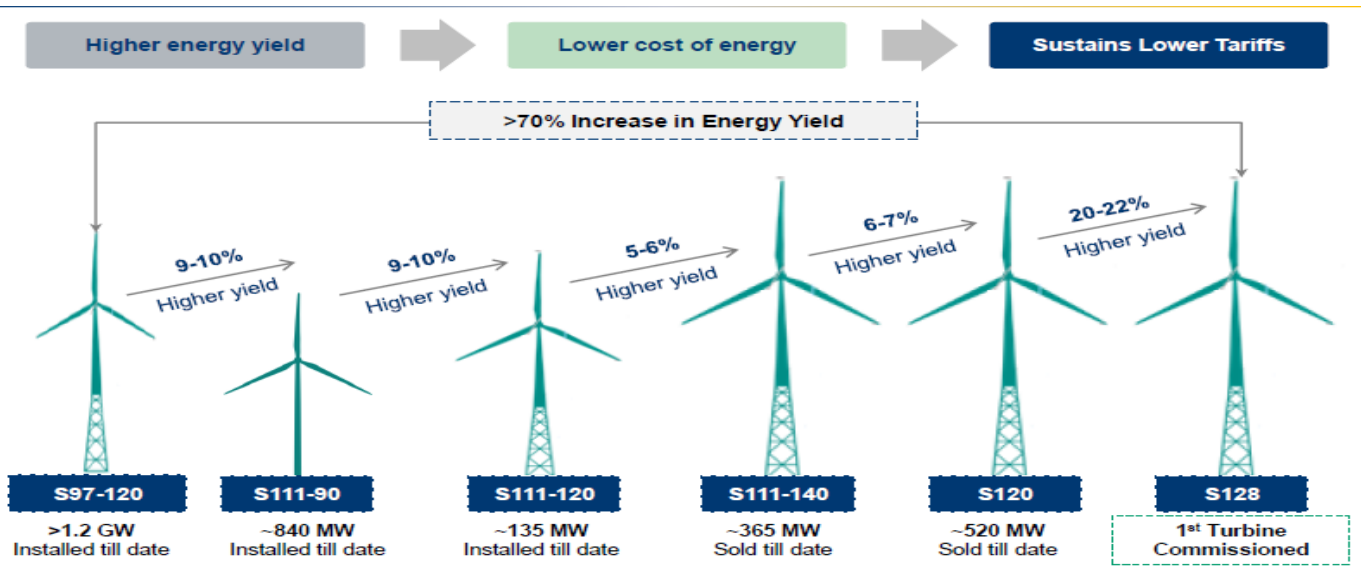
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Exhibit 10: Comparison of yield in different turbines



Source: Company data, KRChoksey Research

Exhibit 11: Suzlon presence in terms of their R&D centres

Suzlon Technology Locations:			
Germany	Hamburg	<ul style="list-style-type: none">- Development & Integration- Certification	 Hamburg
	Rostock	<ul style="list-style-type: none">- Development & Integration- Design & Product Engineering- Innovation & Strategic Research	 Rostock
The Netherlands	Hengelo	<ul style="list-style-type: none">- Blade Design and Integration	 Hengelo
India	Pune	<ul style="list-style-type: none">- Design & Product Engineering- Turbine Testing & Measurement- Technical Field Support- Engineering	 Pune
	Vadodara	<ul style="list-style-type: none">- Blade Testing Center	 Aarhus
	Chennai	<ul style="list-style-type: none">- Design & Product Engineering (Gear Box Team)	 Vejle
Denmark	Aarhus Vejle	<ul style="list-style-type: none">- SCADA- Blade Science Center	

Source: Company data, KRChoksey Research

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Exhibit 12: Comparison of Suzlon vis-à-vis its peers from products, profitability and other key metrics

Comparative Stats	Suzlon	Inox Wind	Siemens Gamesa
Range of Turbines	S-111 (Hub height: 90/120/140m); S-120 (Hub height: 120/140m); S-128 (Hub height: 140m)	DF-93.3 (Hub height: 80m); DF-100 (Hub height: 80/92m); DF-113 (Hub height: 92/120m)	SG-2.1 (Hub height: 114m); SG-3.4 (Hub height: 132m); SG-4.2 (Hub height: 145m)
Nacelles Capacity (MW)	3600	1100	1600-2000
Avg Selling Price/MW in India (INR Cr)	6	6-6.5	6.2-7
Reasons for cost reduction	The company is using different mix such as concrete, tubular, lattice. The higher mix towards tubeus can increase the WTG pricing, however effective use of concrete and lattice in the wind tower can reduce the overall cost	The company majorly uses tubular tower and hence, cost remains high.	The company majorly uses tubular tower and hence cost remains high.
In-house R&D or Technology partner	In-house	Technology partner - AMSC	In-house
R&D as a % of Revenue or Royalty	3.9%	0.5-1%	NA
Average OPM (%)	13-14%	15-16%	10-12%
O&M Cost and by when it starts realising O&M	INR ~1 mn p.a. & from Year 3	INR ~1 mn p.a. & from Year 3	INR ~1 mn p.a. & from Year 3
Manufacturing facilities	15	3	NA
Plant locations	Maharashtra, Tamil Nadu, Karnataka, Gujarat, Andhra Pradesh, Madhya Pradesh, Rajasthan and China	Gujarat, Madhya Pradesh and Himachal Pradesh	Gujarat, Andhra Pradesh and Tamil Nadu
Logistics channel	Suzlon has blade facility across 9 windy states, which helps them to transport across different parts at affordable cost given the blade is the most difficult part to transport.	The company is present in 2 of the 9 windy states in India.	The company is present in 3 of the 9 windy states in India.

Source: Company data, KRChoksey Research

Suzlon Energy Ltd

Valuation & Recommendation

The company had acquired Servion in 2012, which we believe was the distortion point in the overall financial performance during the past few years. The acquisition had resulted in positive net worth to end up into negative zone in FY14 & 15. Further, slack order activity for the wind power from domestic market also affected financial growth during that period. This has hampered overall free cash flows resulting in blowing up of financial leverage, thereby, impacting the overall valuations in past few years. Nevertheless, with the new Government coming into focus with strong initiatives such as increasing renewable capacity i.e. wind to 60GW by 2022 from ~33GW 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 the order flows for the company to rise by 46% CAGR over FY18-20E. This, in turn, could result in improvement in the execution cycle leading to an expansion in the overall revenues. We expect revenues to increase by 29% CAGR to INR 137.82bn in FY20E. In terms of the operational performance, we expect that with competitive bidding coming into radar, the operational performance could remain at around 13-14%, however, an 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 9.5bn over FY18-20E (Visit Note: we have not factored in the O&M stake divestment). This all, in turn, could curb finance cost and translate into strong bottom-line growth.

Further, we also believe that negatives are already discounted in the stock price. Going ahead, better execution largely on account of strong visibility post SECI auctions can augur well for the entire industry. Further, many IPP's have adjusted their IRRs assumptions post witnessed a decline in the wind tariff as OEMs are not going to reduce price beyond certain limit. This, in turn, could provide some stability in the operational performance of wind players in the years to come.

We have valued company on SOTP basis. We believe WTG business could grow at around 15-20% CAGR over the next 4-5 years largely led by healthy order flows from SECI and windy states. Further, increase in the tendering for hybrid wind and offshore wind energy to aid WTG financial performance in the years to come. In terms of O&M, we believe increase in the revenue share for domestic O&M would enhance operational performance for group O&M segment, which has been improving by 300-400bps YoY. We expect OPM for group O&M business to reach at 27% by FY20E from 19% in FY18. This could result into company to demand better valuations at the time of divestment of stake. We have valued WTG business at 9x EV/EBITDA, while O&M at 12x due to healthy FCF than WTG. We have arrived a target price of INR 15.8, an upside potential of 115.1%. We recommend a BUY rating on the stock.

Key Financials (INR bn)

Particulars	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	94.8	127.1	83.3	108.6	138.4
EBITDA	11.0	25.0	10.0	15.0	20.0
EBITDA Margin (%)	11.6%	19.7%	12.0%	13.8%	14.5%
Adjusted Net Income	-5.1	8.6	-8.3	-0.6	4.3
Net Margin (%)	-5.4%	6.7%	-9.9%	-0.6%	3.1%
Adjusted Diluted EPS (INR)	-1.0	1.4	-1.4	-0.1	1.0
EV/EBITDA	12.9	5.8	15.3	9.7	7.0

Source: Company Data, KRChoksey Research

SOTP Valuation:

Segments (INR mn)	FY20E		EV/EBITDA	EV/Revenue	EV
	Revenue	EBITDA			
WTG	111,590	12,275	9x	-	110,474
O&M	22,237	6,004	12x	-	72,049
Foundry	3,993	878	-	2x	7,986
Group EV					190,509
Less: Net debt					95,813
MCAP					94,696
Target PPS					15.8
CMP					7.4
Upside					115%

Source: 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 over 15GW capacity with more than 12GW in India and 3GW overseas. The company keeps upgrading its technological capabilities and has launched 3 new turbines during FY18 – S111-140, S120-140 and S128-140. 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, Wind World, GE, Regen, Nodex

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, Customer base.

Client Base

IPP's, PSU and Captive customers.

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Result highlights

- Suzlon Energy reported subdued revenue performance, which was down by 55.1% YoY to INR 22.4bn against our estimates of INR 29.5bn. The subdued top line performance is mainly on account of lower than anticipated execution during the quarter.
- During the quarter, the operational performance remained subdued owing to unabsorption of fixed overheads with OPM at 15.5% (-643bps YoY). The EBITDA stood at INR 3.4bn (-52.7% YoY).
- Subdued operational performance impacted bottom-line performance, which resulted in loss of INR 4.6bn against our estimates of INR 117mn profit.

Q4FY18 Result Snapshot

Particulars (INR Mn)	Q4 FY18	Q3 FY18	Q4 FY17	Q-o-Q change %	Y-o-Y change %
Net Sales & Other Operating Income	22,445.4	22,200.0	49,993.3	1.1%	-55.1%
Total Expenditure	20,262.4	18,759.4	39,664.5	8.0%	-48.9%
Cost of Raw Materials	9,858.7	5,002.9	31,767.9	97.1%	-69.0%
Changes in Inventory of Finished goods, WIP and Stock in trade	2,204.2	4,646.3	0.0	-52.6%	NM
EPC, O&M and Common Infrastructure Facility expenses	1,972.5	5,538.9	1,180.8	-64.4%	67.0%
Employee Cost	2,025.4	1,931.3	2,791.4	4.9%	-27.4%
Other Expenses	3,190.0	2,610.0	7,037.5	22.2%	-54.7%
EBIDTA	2,183.0	3,440.6	10,328.8	-36.6%	-78.9%
EBITDA Margins (%)	9.7%	15.5%	20.7%	-577bps	-1,093bps
Depreciation	1,014.3	790.0	1,087.4	28.4%	-6.7%
EBIT	1,168.7	2,650.6	9,241.4	-55.9%	-87.4%
Other Income	151.7	173.7	245.1	-12.7%	-38.1%
Interest	6,198.5	3,251.0	3,452.9	90.7%	79.5%
PBT	-4,878.1	-478.4	6,033.6	919.7%	-180.8%
Tax	-37.4	6.1	56.9	-713.1%	-165.7%
PAT before Exceptional	-4,698.5	-275.1	5,948.2	1607.9%	-179.0%
PAT Margin (%)	-20.9%	-1.2%	11.9%	NM	NM
EPS	-0.88	-0.05	1.18	NM	NM

Source: Company, KRChoksey Research

Segmental Revenues (INR Mn)

Particulars	Q4FY18	Q3FY18	Q4FY17	Q-o-Q	Y-o-Y
WTG	17,654.2	13,371.0	39,880.7	32.0%	-55.7%
Foundry & Forging	685.6	926.4	1,106.2	-26.0%	-38.0%
O&M	4,399.6	4,525.9	4,407.6	-2.8%	-0.2%
Others	2,625.8	5,301.3	5,658.7	-50.5%	-53.6%

Source: Company, KRChoksey Research

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Segmental EBIT (INR Mn)

Particulars	Q4FY18	Q3FY18	Q4FY17	Q-o-Q	Y-o-Y
WTG	619.2	2,280.6	8,233.9	-72.8%	-92.5%
Foundry & Forging	49.1	-19.9	239.6	-346.7%	-79.5%
O&M	571.1	951.0	296.8	-39.9%	92.4%
Others	-70.7	-561.1	471.1	-87.4%	-115.0%

Source: Company data, KRChoksey Research

Segmental EBIT Margins (%)

Particulars	Q4FY18	Q3FY18	Q4FY17	Q-o-Q	Y-o-Y
WTG	3.5%	17.1%	20.6%	-1,355bps	-1,714bps
Foundry & Forging	7.2%	-2.1%	21.7%	931bps	-1,450bps
O&M	13.0%	21.0%	6.7%	-803bps	625bps
Others	-2.7%	-10.6%	8.3%	789bps	-1,102bps

Source: Company, KRChoksey Research

Order Details (In MW)

Particulars	Q4FY18	Q3FY18	Q4FY17	Q-o-Q	Y-o-Y
Order inflows	553	323	-7	71.2%	NM
Execution	259	256	554	1.2%	-53.2%
Order backlog	901	607	670	48.4%	34.5%

Source: Company, KRChoksey Research

Key takeaways from Q4FY18 Earnings Call:

- During the year, the company successfully commissioned 626 MW of Wind Power Projects and 340 MW of Solar Projects (210 MW in Telangana, 60 MW in Rajasthan and 70 MW in Maharashtra).
- The management highlighted that Wind and Solar Hybrid is the new growth avenue for the company and the industry as a whole. Wind and Solar hybrid has gained traction with nearly 5 GW of bid pipeline being sanctioned. Similarly, the offshore wind auctions have also gained traction owing to the new government policy. The management expects the fall in wind tariffs to bottom out at current levels.
- During the year, the company launched 3 new turbines – S111-140, S120 and S128. The management expects this to boost Suzlon's product competitiveness in the current bidding regime.
- The management highlighted its intentions to focus on quality of order book rather than just the market share and aims to stay ahead in terms of order intake and execution.
- The company is working towards exiting the CDR by Q3FY19 by focusing on debt reduction (via asset monetisation and cost optimisation efforts). The company will continue to invest in technology to bring about operational efficiencies and focus on reducing working capital requirements by accelerating execution capacity and higher volumes.
- The order book stands at 1203 MW backed by PPAs valued at INR 71.3bn. The company has PPAs in hand of over 700 MW which are expected to be converted once they are ratified.

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Suzlon Energy Ltd.

Key Financials

Consolidated Profit & Loss (INR mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	94835	127144	83338	108635	138370
Cost Of Revenues (incl Stock Adj)	56038	75429	51157	69562	89505
Gross Profit	38797	51715	32181	39073	48866
Employee Cost	9591	10465	8047	9234	10378
Other Operating Expenses	15770	19225	12648	14834	18452
EBITDA	11018	24994	10031	15005	20036
Other Income	984	888	792	824	907
EBITDA, including OI	12002	25882	10822	15829	20943
Depreciation	3920	3890	3416	3822	4174
Net Interest Exp.	13040	12876	15810	12692	12476
EBT	5837	9116	-3907	-684	4292
Taxes	-110	117	-16	0	0
Tax Rate	-1.9%	1.3%	0.4%	0.0%	0.0%
Net Income	5947	8999	-3892	-684	4292
Adjusted Net Income	-5093	8577	-8266	-610	4342
Adjusted Diluted EPS (INR)	-1.0	1.7	-1.6	-0.1	0.7
Shares Outstanding	5020.5	5024.4	5319.8	5670.3	5989.8

Source: Company data, KRChoksey Research

Consolidated Balance Sheet (INR mn)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	10041	10049	10640	11341	11980
Reserves	-85026	-78148	-80308	-76198	-67557
Minority Interest	0	87	102	97	127
Total Shareholders Funds	-74985	-68012	-69567	-64761	-55450
Long Term Borrowings	92246	90380	81060	71220	60140
Net Deferred Tax liability	126	126	0	0	0
Other long term liabilities	1516	2655	853	1113	1418
Long term provisions	2192	1272	1204	1571	2002
Current Liabilities and Provisions					
Short term borrowings	18949	20764	38895	39895	38895
Trade Payables	29699	48123	25266	32595	40780
Other Current Liabilities	22380	18517	22440	25187	30207
Short Term Provisions	5583	8218	8186	8890	9440
Total Liabilities	97,705.0	122,041.6	111,205.7	115,709.2	127,430.8
Net Block	16128	16676	14144	12807	11682
Capital Work in Progress	1972	1186	1734	2300	2300
Goodwill on consolidation	76	76	76	76	76
Non-current investments	929	1886	670	670	670
Deferred tax assets	318	452	93	93	93
Long term loans and advances	7771	7178	5823	7595	9678
Other Non Current Assets	1735	2877	3600	4577	5227
Current Assets, Loans & Advances					
Current Investments	2670	4811	0	0	0
Inventories	25247	34688	30264	33484	38514
Sundry Debtors	25932	36733	29900	34077	40025
Cash and Bank	6266	3361	5811	7289	2552
Loans and Advances	2079	1980	3163	2371	3398
Other Current assets	6583	10138	9306	10371	13216
Total Assets	97,705.0	122,041.6	111,205.7	115,709.2	127,430.8

Source: Company data, KRChoksey Research

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Suzlon Energy Ltd.

Consolidated Cash Flow (INR mn)	FY16	FY17	FY18	FY19E	FY20E
PBT & Extraordinary	(5953)	9116	(3907)	(684)	4292
Depreciation	3920	3890	3416	3822	4174
(Inc) / Dec in Working Capital	(22116)	(6304)	(8305)	987	(3092)
Taxes	238	(117)	16	0	0
Others	15860	12876	15810	12692	12476
Cash from Ops.	(8050)	19461	7029	16817	17851
Purchase of Fixed Assets	(3970)	(3653)	(1433)	(3050)	(3050)
Others	69185	(1439)	1267	3823	80
Cash from Investing	65216	(5091)	(166)	773	(2970)
Proceeds from issue of shares	17826	60	4577	5420	4938
Borrowings (Net)	(61701)	(51)	8811	(8840)	(12080)
Others	(11758)	(12876)	(15810)	(12692)	(12476)
Cash from Financing	(55632)	(12867)	(2422)	(16111)	(19618)
Net Change in Cash	1533	1503	4442	1479	(4737)
BF Cash & Bank	25429	6266	3361	5811	7289
END Cash & Bank	6266	3361	5811	7289	2552

Source: Company data, KRChoksey Research

Ratio Analysis	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Assets (%)	5.8	7.0	-3.4	-0.5	3.4
Return on Capital (%)	38.3	83.2	54.7	131.3	206.8
Return on Equity (%)	-7.6	-12.6	5.4	0.9	-7.8
Margin Trend					
Gross Margin (%)	40.9	40.7	38.6	36.0	35.3
EBITDA Margin (%)	11.6	19.7	12.0	13.8	14.5
Net Margin (%)	6.0	6.7	-4.5	-0.6	3.1
Liquidity					
Current Ratio	0.9	1.0	0.9	0.8	0.8
Quick Ratio	0.6	0.6	0.6	0.5	0.5
Debtor Days	100	106	132	115	106
Inventory Days	98	100	133	113	102
Creditor Days	115	138	111	110	108
Working Capital Days	83	67	154	118	100
Solvency					
Net Debt/EBITDA	9.5	4.3	11.4	6.9	4.8
Interest Coverage	0.6	1.7	0.5	0.9	1.3
Valuation Ratios					
EV/EBITDA	12.9	5.8	15.3	9.7	7.0

Source: Company data, KRChoksey Research

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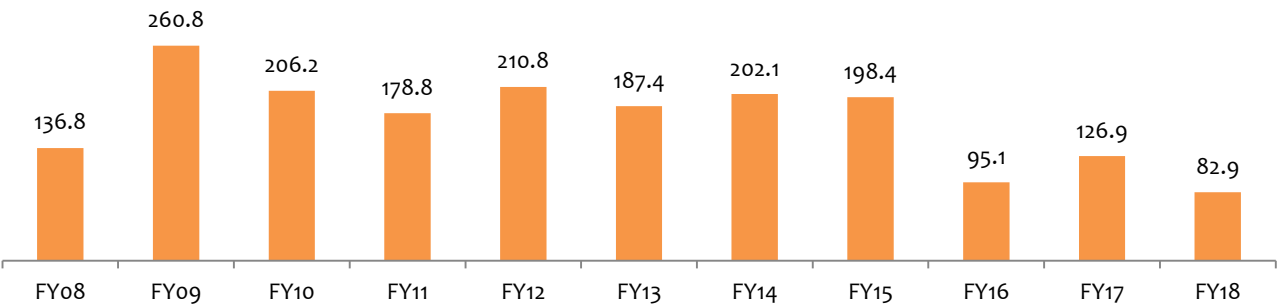
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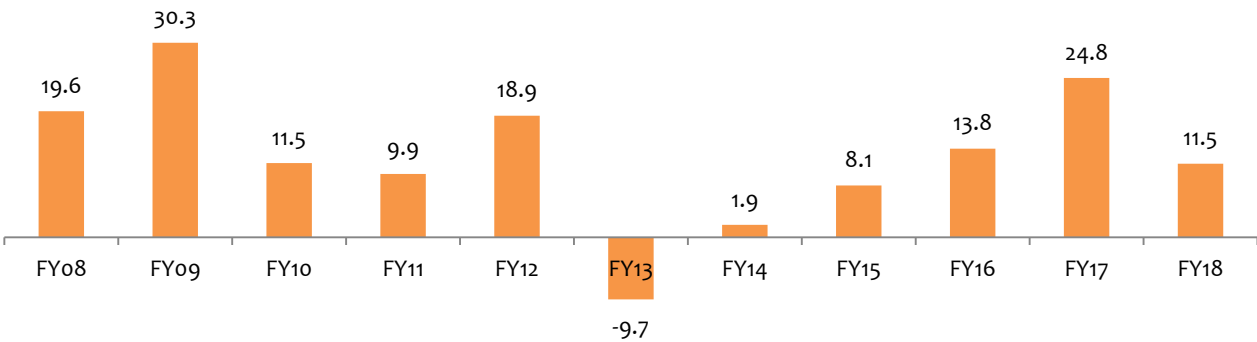
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ANNEXURE 1: Trends in Revenue (INR Bn)



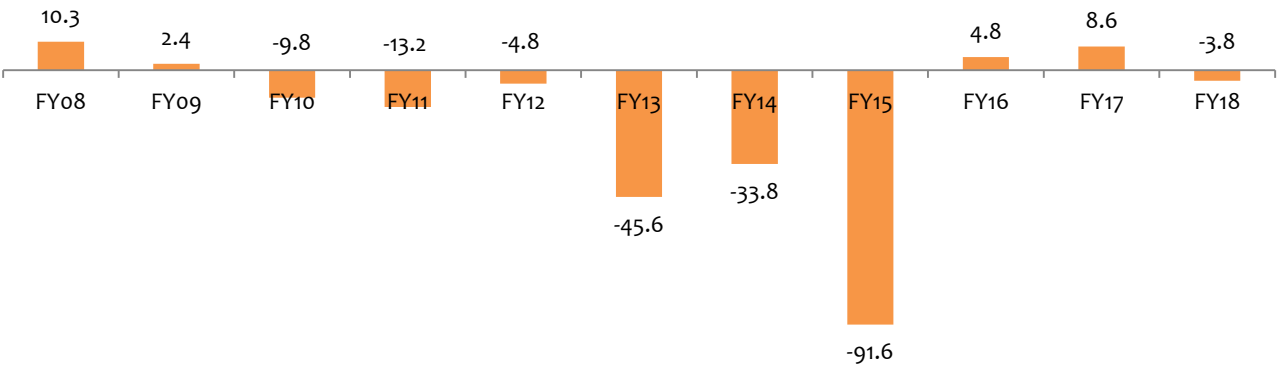
Source: Company data, KRChoksey Research

ANNEXURE 2: Trends in EBITDA (INR Bn)



Source: Company data, KRChoksey Research

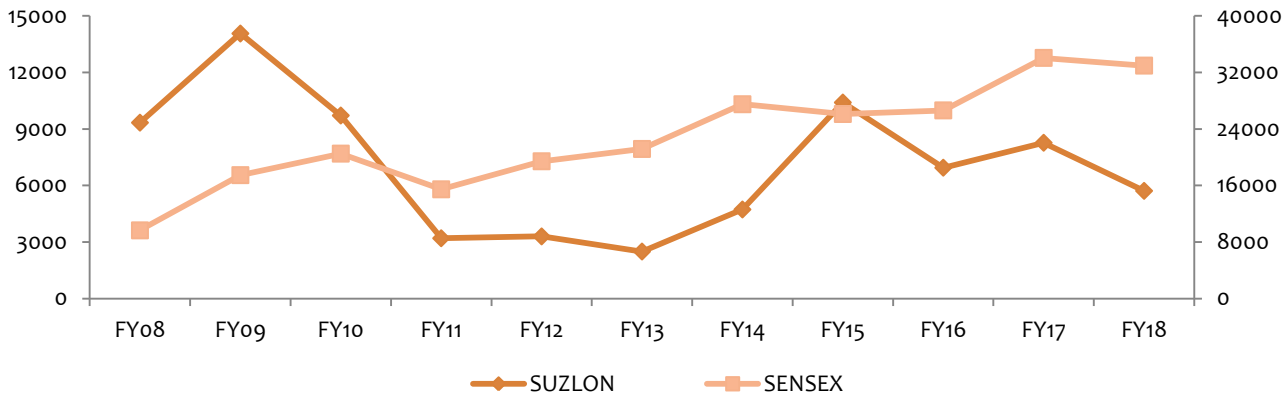
ANNEXURE 3: Trends in PAT (INR Bn)



Source: Company data, KRChoksey Research

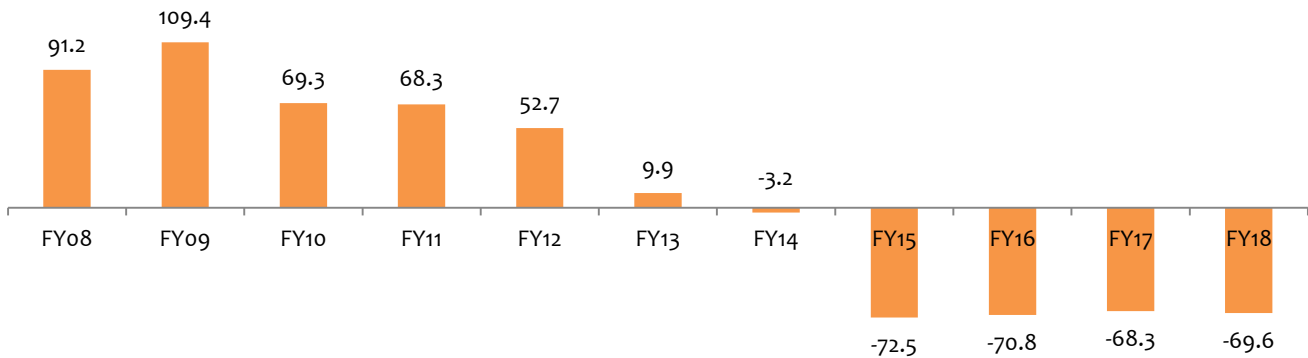
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ANNEXURE 4: Trends in Market Cap



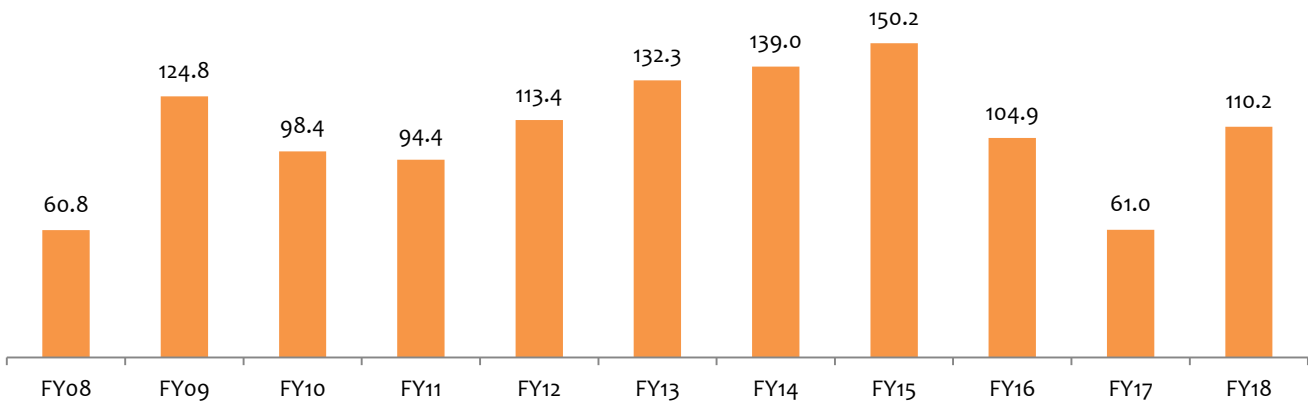
Source: Company data, KRChoksey Research

ANNEXURE 5: Trends in Net Worth (INR Bn)



Source: Company data, KRChoksey Research

ANNEXURE 6: Trends in Net Debt (INR Bn)



Source: Company data, KRChoksey Research

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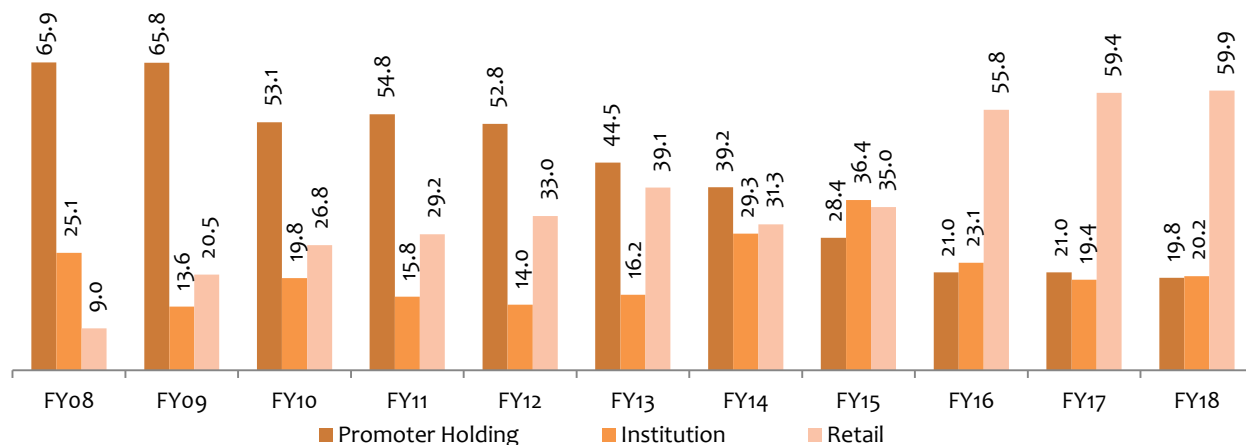
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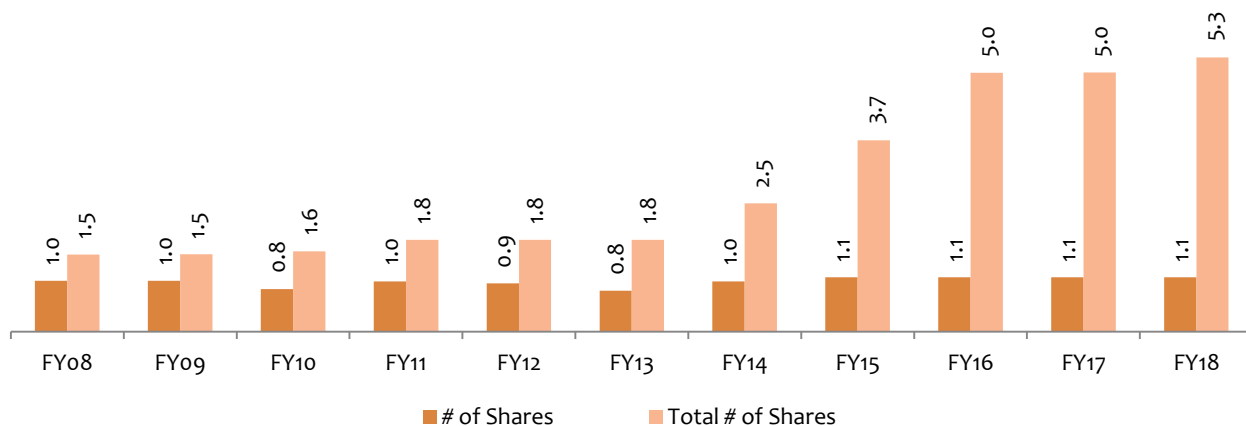
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ANNEXURE 7: Shareholding Pattern (%)



Source: Company data, KRChoksey Research

ANNEXURE 8: Shareholding Pattern – # of Shares held by Promoter Group and Total # of Shares Outstanding (In Bn)



Source: Company data, KRChoksey Research

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ANNEXURE 9: Shareholding Pattern FY14-17

FY14			FY15		
Top 10 Shareholders	# of Shares (Mn)	% of Total Shares	Top 10 Shareholders	# of Shares (Mn)	% of Total Shares
IDBI Bank	162.6	6.53	IDBI Bank	204.5	5.52
SBI	87.9	3.53	Cowell & Lee Investment (Mauritius) Ltd	137.0	3.69
LIC	64.9	2.61	SBI	130.9	3.53
PNB	45.2	1.82	LIC	89.9	2.43
Bank of Baroda	34.8	1.40	PNB	64.6	1.74
Indian Overseas Bank	33.2	1.33	Bank of Baroda	53.1	1.43
Central Bank of India	29.3	1.18	Indian Overseas Bank	51.1	1.38
Citicorp International Finance Corp	25.0	1.00	Barclays Capital Mauritius Ltd	57.9	1.43
Dimensional Emerging Markets Value Fund	17.0	0.68	Morgan Stanley Asia (Singapore) Pte	46.7	1.26
Export-Import Bank of India	16.3	0.65	Central Bank of India	41.2	1.11

FY16		
Top 10 Shareholders	# of Shares (Mn)	% of Total Shares
Cowell & Lee Investment (Mauritius) Ltd	133.0	2.65
Barclays Capital Mauritius Ltd		
Morgan Stanley Asia (Singapore) Pte		
Suraksha Buildwell LLP	110.0	2.19
Family Investment Pvt Ltd J/w. Quality Investment Pvt Ltd J/w. Kumud Shanghavi in capacity of partners of M/s Sunrise Associates	100.9	2.01
Viditi Investment Pvt Ltd J/w. Virtuos Share Investments Pvt Ltd J/w. Vibha Shanghvi in capacity of partners of M/s Pioneer Resources	100.9	2.01
Tejaskiran Pharmachem Industries Pvt Ltd J/w. Virtuous Finance Pvt Ltd J/w. Aalok D Shanghvi in capacity of partners of M/s Goldenstar Enterprises	100.9	2.01
LIC Child Fortune Plus Balanced Fund	118.6	2.36
Real Gold Developers LLP	85.0	1.69
Neostar Developers LLP	85.0	1.69
Vibha D Shanghvi	68.0	1.35
Aalok D Shanghvi	68.0	1.35

FY17		
Top 10 Shareholders	# of Shares (Mn)	% of Total Shares
Cowell & Lee Investment (Mauritius) Ltd	133.0	2.65
Barclays Capital Mauritius Ltd		
Morgan Stanley Asia (Singapore) Pte		
Suraksha Buildwell LLP	110.0	2.19
Family Investment Pvt Ltd J/w. Quality Investment Pvt Ltd J/w. Kumud Shanghavi in capacity of partners of M/s Sunrise Associates	100.9	2.01
Viditi Investment Pvt Ltd J/w. Virtuos Share Investments Pvt Ltd J/w. Vibha Shanghvi in capacity of partners of M/s Pioneer Resources	100.9	2.01
Tejaskiran Pharmachem Industries Pvt Ltd J/w. Virtuous Finance Pvt Ltd J/w. Aalok D Shanghvi in capacity of partners of M/s Goldenstar Enterprises	100.9	2.01
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Vibha D Shanghvi	68.0	1.35
Aalok D Shanghvi	68.0	1.35

Source: Company data, KRChoksey Research

Suzlon Energy Ltd

ANALYST CERTIFICATION:

We, Dhavan Shah [B.Com, MS(Finance)], research analyst and Rajil Shah (B.Com, MS Finance (US)), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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