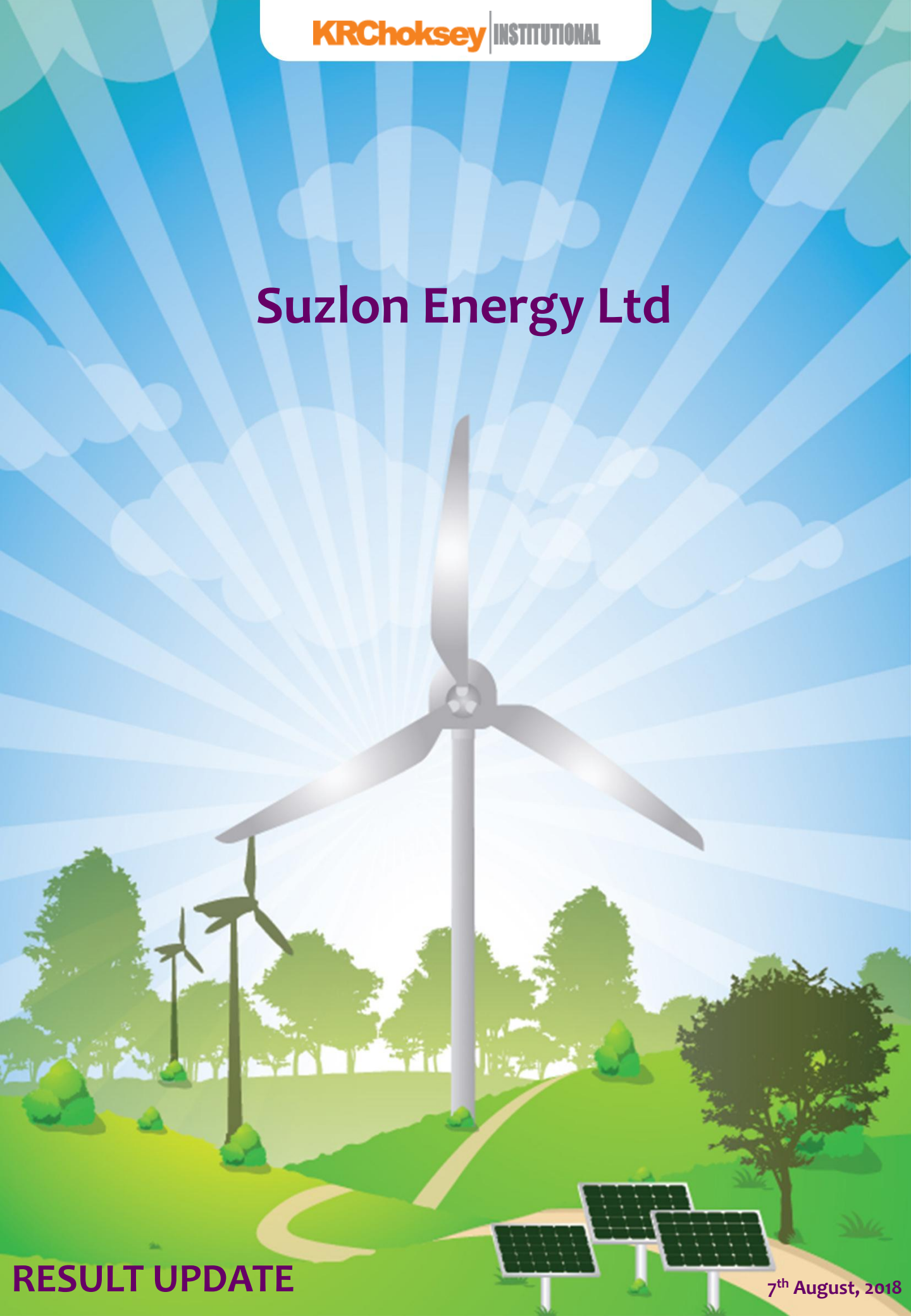


Suzlon Energy Ltd



Suzlon Energy Ltd.

Stake divestment in OMS to unlock group valuation

CMP INR 7.2	Target INR 15.8	Potential Upside 119%	Market Cap (INR mn) 38,142	Recommendation BUY	Sector Renewables
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Result highlights

- Suzlon reported revenue a fall of 50.5% YoY to INR 12.8bn against our estimates of INR 16.05bn. The subdued growth is on account of lower than estimated execution, which was 155MW against our estimates of 200MW. There was solar revenue in Q1FY18, which was not the case in Q1FY19 and hence other revenues declined from INR 3.31bn in Q1FY18 to INR 0.27bn.
- EBITDA excl fx remained at INR 77cr against INR 475cr in Q1FY18 due to poor executions which impacted operational performance of WTG segment. WTG segment reported EBITA loss of INR 3.85bn against a profit of INR 2.1 bn in Q1FY18.
- There is bottom line loss of INR 321cr excl fx impact against our estimates of loss of INR 147cr.

MARKET DATA

Shares outs (mn)	5319
EquityCap (INR mn)	10640
Mkt Cap (INR mn)	38142
52 Wk H/L (INR)	18/7
Volume Avg (3m K)	33022
Face Value (INR)	2
Bloomberg Code	SUEL IN

KEY FINANCIALS

Particulars (INR bn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	94.8	127.1	83.3	73.5	145.6
EBITDA	11.0	25.0	10.0	10.1	20.5
Adj. PAT	-5.1	8.6	-8.3	-4.0	4.6
OPM	11.6%	19.7%	12.0%	13.8%	14.1%
ANPM	-5.4%	6.7%	-9.9%	-5.5%	3.2%
Adj. Diluted EPS	-1.0	1.4	-1.4	-0.7	0.8
EV/EBITDA	12.8	5.8	15.2	13.7	6.9

Source: Company data, KRChoksey Research

Revenue impacted due to subdued execution:

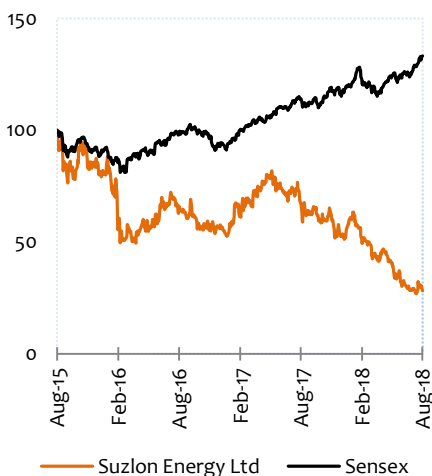
Suzlon reported decline in revenues primarily on account of poor executions. The company executed around 155MW against 326MW in Q1FY18. Management highlighted that subdued execution is primarily due to transmission related connectivity issues, which have been largely sought out and thus, one can see improvement in the execution in later part of the year largely from H2FY19. Further, there has been 20% bids of 7.5GW conducted auctions have been opened for EPC players and management said that they are into advance discussion with some of IPPs. Any positive development can lead to improvement in the overall order backlog, which stood at 1134MW as on date. Moreover, any surprise in AP framework contracts can also give boost to the overall backlog and thereby the executions in FY20E. We expect India could witness capacity addition of 2500MW in FY19E, while the same could be at least 7000MW in FY20E. Suzlon being the market leader is expected to report strong commissioning from FY20E onwards. We expect company to commission around 900MW in FY19E, while the same could be around 2200MW in FY20E largely led by SECI II, SECI III & SECI IV.

OPM hit by poor operating leverage:

OPM excl. fx fell by 1180bps YoY to 6% due to poor execution resulting into unabsorption of more fixed overheads. EBITDA excl. fx stood at INR 0.77bn against INR 4.75bn in Q1FY18.

In terms of segmental operational performance, WTG segment reported EBITDA loss of INR 75cr against a profit of INR 3.1bn in Q1FY18, while O&M segment registered an expansion in operational performance by 918bps YoY to 30%. OPM from foundry business stood at 3.1% (-40bps YoY), while other business OPM expanded by 188bps YoY to 11.6%.

SHARE PRICE PERFORMANCE

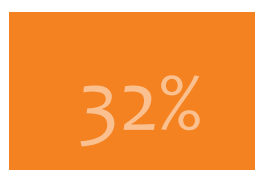


MARKET INFO

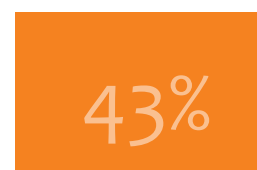
SENSEX	37666
NIFTY	11389

SHARE HOLDING PATTERN (%)

Particulars	Jun 18	Mar 18	Dec 17
Promoters	19.79	19.79	19.79
FIIIs	9.29	10.04	11.07
DIIIs	9.33	10.15	9.31
Others	61.59	60.03	59.84
Total	100	100	100



Revenue CAGR between FY 18 and FY 20E



EBITDA CAGR between FY 18 and FY 20E

ANALYST

 Dhavan Shah, dhavan.shah@krchoksey.com, +91-22-6696 5574

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Thomson Reuters, Factset and Capital IQ

 +91-22-6696 5555 / +91-22-6691 9576
www.krchoksey.com

Suzlon Energy Ltd.

Valuation & View:

The prolonged timeline for settling grime has impacted Suzlon's financial performance since last few quarters. We believe commissioning can ramp up post Q3FY19 and hence one can expect FY19 to be washout year as FY18. On the other side, it is expected that SECI VI will open in Aug'18 and Suzlon historically garnered 25% market share in terms of overall order wins. Thus, this improves order backlog visibility in the coming period. Apart from this, the company is already into advance negotiation with few IPPs for 20% of the earlier 7.5GW auctioned orders; any positive surprise can augur well for the company going ahead.

We have lowered FY19E estimates, while maintained FY20E estimates. We valued the company on SOTP basis and arrived a target price of INR 15.8, upside potential of 119%. **We retain BUY rating on the stock.**

Q1FY19 Result Snapshot

Particulars	Q1 FY19	Q4 FY18	Q1 FY18	Q-o-Q change %	Y-o-Y change %
Net Sales & Other Operating Income	12,774.9	22,445.4	26,762.4	-43.1%	-52.3%
Total Expenditure	12,004.6	19,250.8	22,010.4	-37.6%	-45.5%
Cost of Raw Materials	6,622.2	9,858.7	15,795.4	-32.8%	-58.1%
Purchase of stock in trade	0.0	2,204.2	2,183.4	-100.0%	NM
(Increase) / Decrease In Stocks	1,203.7	1,972.5	-2,345.8	-39.0%	-151.3%
Employee Cost	1,939.6	2,025.4	2,009.9	-4.2%	-3.5%
Other Expenses	2,239.1	3,190.0	4,367.5	-29.8%	-48.7%
EBIDTA excl. fx	770.3	3,194.6	4,752.0	-75.9%	-83.8%
EBITDA Margins (%)	6.0%	14.2%	17.8%	-820bps	-1,173bps
Depreciation	839.9	1,014.3	819.7	-17.2%	2.5%
EBIT	-69.6	2,180.3	3,932.3	-103.2%	-101.8%
Other Income	124.5	151.7	248.8	-17.9%	-50.0%
Interest	3,279.5	6,198.5	3,112.7	-47.1%	5.4%
PBT	-3,224.6	-3,866.5	1,068.4	NM	NM
Tax	-28.1	-37.4	7.5	NM	NM
PAT excl. fx	-3,237.0	-3,650.4	915.1	NM	NM
PAT Margin (%)	-25.3%	-16.3%	3.4%	-908bps	-2,876bps
EPS	-0.61	-0.69	0.18	NM	NM

Source: Company, KRChoksey Research

Suzlon Energy Ltd.

Segmental Revenues

Particulars	Q1FY19	Q4FY18	Q1FY18	Q-o-Q	Y-o-Y
WTG	7,750.0	17,069.6	17,795.7	-54.6%	-56.5%
Foundry & Forging	582.0	685.6	1,255.3	-15.1%	-53.6%
O&M	4,567.1	4,278.9	4,522.1	6.7%	1.0%
Others	270.7	2,625.8	3,314.2	-89.7%	-91.8%
Less: Inter segment Revenue	453.8	3,004.1	1,177.2	-84.9%	-61.5%
TOTAL	12,716.0	21,655.8	25,710.1	-41.3%	-50.5%

Source: Company, KRChoksey Research

Segmental EBIT

Particulars	Q1FY19	Q4FY18	Q1FY18	Q-o-Q	Y-o-Y
WTG	-3,848.2	619.2	2,090.7	-721.5%	-284.1%
Foundry & Forging	-20.2	49.1	177.4	-141.1%	-111.4%
O&M	1,316.7	571.1	931.1	130.6%	41.4%
Others	-54.3	-70.7	308.8	-23.2%	-117.6%
Total EBIT	-2,606.0	1,168.7	3,508.0	-323.0%	-174.3%

Source: Company, KRChoksey Research

Segmental EBIT Margins

Particulars	Q1FY19	Q4FY18	Q1FY18	Q-o-Q	Y-o-Y
WTG	-49.7%	3.6%	11.7%	-5,328bps	-6,140bps
Foundry & Forging	-3.5%	7.2%	14.1%	-1,063bps	-1,760bps
O&M	28.8%	13.3%	20.6%	1,548bps	824bps
Others	-20.1%	-2.7%	9.3%	-1,737bps	-2,938bps

Source: Company, KRChoksey Research

Order Details (in MW)

Particulars	Q1FY19	Q4FY18	Q1FY18	Q-o-Q	Y-o-Y
Order inflows	388	553	680	-29.8%	-42.9%
Execution	155	259	326	-40.2%	-52.5%
Order backlog	1,134	901	1,024	25.9%	10.7%

Source: Company, KRChoksey Research

Suzlon Energy Ltd.

Key takeaways from Conference call:

- Revenue and EBITDA guidance withdrawn keeping into consideration the subdued commissioning due to transmission related issues.
- On track to reduce LT debt by 30-40% this fiscal by monetizing assets
- SECI V tender cancelled, however the same as SECI VI (2500MW) is expected to open in August
- Expecting 3000MW worth of industry size this fiscal, while the same could increase to 8000MW in FY20 and 10000MW in FY21. Suzlon is expected to maintain its market share.
- Poor operational performance for WTG segment is attributed to subdued execution.
- Execution during Q1FY19 was 155MW, while commissioning was 99MW. Order backlog is 1134MW excl framework contracts of around 700MW.
- In talks for some IPPs for around 1500MW worth of contacts still not found EPC players. Any positive progress can meaningfully improve order book.

ANALYSTDhavan Shah, dhavan.shah@krchoksey.com, +91-22-6696 5574**KRChoksey Research**is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

+91-22-6696 5555 / +91-22-6691 9576

www.krchoksey.com

Suzlon Energy Ltd.

Key Financials

Consolidated Profit & Loss (INR mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	94835	127144	83338	73489	145645
Cost Of Revenues (incl Stock Adj)	56038	75429	51157	47077	98861
Gross Profit	38797	51715	32181	26412	46784
Employee Cost	9591	10465	8047	8084	9030
Other Operating Expenses	15770	19225	12648	8220	17256
EBITDA	11018	24994	10031	10108	20498
Other Income	984	888	792	593	922
EBITDA, including OI	12002	25882	10822	10702	21419
Depreciation	3920	3890	3416	3822	4174
Net Interest Exp.	13040	12876	15810	11012	12688
EBT	5837	9116	-3907	-4132	4557
Taxes	-110	117	-16	0	0
Tax Rate	-1.9%	1.3%	0.4%	0.0%	0.0%
Net Income	5947	8999	-3892	-4132	4557
Adjusted Net Income for parent	-5093	8577	-8266	-4033	4605
Adjusted Basic EPS (INR)	-1.0	1.7	-1.6	-0.7	0.8

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	-79622	-70718
Total Shareholders Funds	-74985	-68012	-69567	-68208	-58633
Long Term Borrowings	92246	90380	81060	71220	60140
Net Deferred Tax liability	126	126	0	0	0
Other long term liabilities	1516	2655	853	751	1493
Long term provisions	2192	1272	1204	1060	2107
Current Liabilities and Provisions					
Short term borrowings	18949	20764	38895	33895	38895
Trade Payables	29699	48123	25266	21603	43727
Other Current Liabilities	22380	18517	22440	17003	31802
Short Term Provisions	5583	8218	8186	6001	9938
Total Liabilities	97705	122042	111206	83325	129468
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	5127	10188
Other Non Current Assets	1735	2877	3600	3806	5386
Current Assets, Loans & Advances					
Current Investments	2670	4811	0	0	0
Inventories	25247	34688	30264	20003	43727
Sundry Debtors	25932	36733	29900	22003	41740
Cash and Bank	6266	3361	5811	7438	1282
Loans and Advances	2079	1980	3163	2000	2385
Other Current assets	6583	10138	9306	7001	9938
Total Assets	97705	122042	111206	83325	129468

Source: Company data, KRChoksey Research

ANALYST

Dhavan Shah, dhavan.shah@krchoksey.com, +91-22-6696 5574

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+91-22-6696 5555 / +91-22-6691 9576

www.krchoksey.com

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Consolidated Cash Flow (INR mn)	FY16	FY17	FY18	FY19E	FY20E
PBT & Extraordinary	(5953)	9116	(3907)	(4132)	4557
Depreciation	3920	3890	3416	3822	4174
(Inc) / Dec in Working Capital	(22116)	(7993)	(12677)	10583	(10775)
Taxes	238	(616)	594	0	0
Others	15860	11622	11481	11012	12688
Cash from Ops.	(8050)	16019	(1094)	21285	10644
Purchase of Fixed Assets	(3970)	(4140)	(7096)	(3050)	(3050)
Others	69185	(2294)	5761	3823	80
Cash from Investing	65216	(6434)	(1335)	773	(2970)
Proceeds from issue of shares	17826	0	0	5420	4938
Borrowings (Net)	(61701)	(2210)	15401	(14840)	(6080)
Others	(11758)	(10280)	(10477)	(11012)	(12688)
Cash from Financing	(55632)	(12490)	4924	(20431)	(13830)
Net Change in Cash	1533	(2905)	2495	1627	(6156)
BF Cash	25429	6266	3361	26594	7438
END Cash	6266	3361	26594	7438	1282

Source: Company data, KRChoksey Research

Ratio Analysis	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Assets (%)	5.8	7.0	-3.4	-4.8	3.6
Return on Capital (%)	38.3	83.2	54.7	142.6	337.7
Return on Equity (%)	-7.6	-12.6	5.4	5.9	-7.9
Margin Trend					
Gross Margin (%)	40.9	40.7	38.6	35.9	32.1
EBITDA Margin (%)	11.6	19.7	12.0	13.8	14.1
Net Margin (%)	6.0	6.7	-4.5	-5.5	3.2
Liquidity					
Current Ratio	0.9	1.0	0.9	0.7	0.8
Quick Ratio	0.6	0.6	0.6	0.5	0.4
Debtor Days	100	106	132	110	105
Inventory Days	98	100	133	100	110
Creditor Days	115	138	111	108	110
Working Capital Days	83	67	154	102	105
Solvency					
Total Debt / Equity	NM	NM	NM	NM	NM
Interest Coverage	0.6	1.7	0.5	0.6	1.4
Valuation Ratios					
EV/EBITDA	12.8	5.8	15.2	13.7	6.9

Source: Company data, KRChoksey Research

ANALYST

 Dhavan Shah, dhavan.shah@krchoksey.com, +91-22-6696 5574

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+91-22-6696 5555 / +91-22-6691 9576

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Suzlon Energy Ltd.

SUZLON ENERGY LTD.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
07-Aug-18	7.2	15.8	BUY	Buy	More than 15%
02-Jul-18	7.5	15.8	BUY	Accumulate	5% – 15%
12-Feb-18	13.9	21	BUY	Hold	0 – 5%
13-Nov-17	14.7	21	BUY	Reduce	-5% – 0
16-Aug-17	18	27	BUY	Sell	Less than – 5%
23-May-17	21	32	BUY		
05-April-17	19	31	BUY		

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Kisan Ratilal Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.

ANALYST

Dhavan Shah, dhavan.shah@krchoksey.com, +91-22-6696 5574

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+91-22-6696 5555 / +91-22-6691 9576

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