

Suzlon Energy Ltd.

Q2 FY16 Quarterly Update

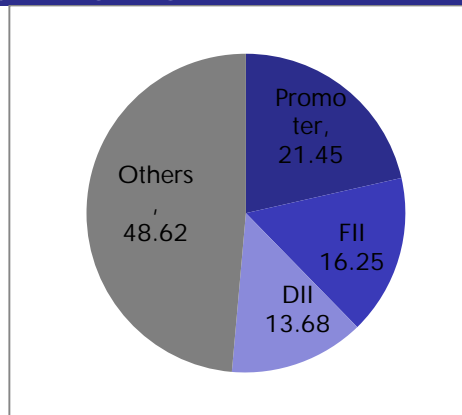
MARKET DATA

NSE TICKER	SUZLON
Net worth (₹ Cr)	-7,185
P/BV Ratio (FY16E) (x)	-3.0
Recurring EPS (FY16E) (₹)	-0.6
Reported EPS (FY16E) (₹)	1.7
Market Price (₹)	23
52 Week High (19/03/2015) (₹)	31
52 Week Low (15/12/2014) (₹)	12
Market Capitalisation (₹ Cr)	11,513

AVERAGE MONTHLY VOLUME ('000)

BSE	12,610.2
NSE	55,786.2

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Suzlon Energy	-5.7	-3.6	72.0
Sensex	-5.7	-1.6	-4.6

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Quarterly Performance:

Particulars Rs. Cr	Q2 FY16	Q2 FY15	% YoY	Q1 FY16	%QoQ	FY15	FY14	% YoY
Net Sales	1,768	5,331	-66.8	2,606	-32.1	19,837	20,403	NM
EBITDA	97	114	-15.1	212.2	-54.3	316	-141	NM
EBITDA Margin	5.5%	2.1%	335	8.1%	-260	1.6%	-0.7%	227
Interest	258	523	-50.8	400	-35.6	2,065	2,070	-0.3
PBT	-214	-574	NM	-280	NM	-2,505	-2,917	NM
Recurring PAT	-214	-656	NM	-297	NM	-3,061	-2,822	NM
Reported PAT	-181	-656	NM	1,048	NM	-9,158	-3,548	NM
Recurring EPS	-0.4	-2.1	NM	-0.9	NM	-12.2	-7.5	NM

Suzlon's reported earnings was ahead of expectation. Revenue for the quarter was ₹1,768 crs. while PAT was ₹-181.1 crs. EBITDA margin, without forex and LD charges, was ahead of expectation at ~18%. The figures are not comparable with the earlier reported numbers as the figures of corresponding period last year included revenue from its subsidiary Servinon which it exited in April 2015.

■ Topline growth in line with expectation; Reports strong margin for the quarter

During the quarter, Suzlon executed orders worth 227 MW totalling ₹1,768 crs. The maintenance contract revenue stood at ₹371 crs. Order intake for the quarter stands at 213 MW with contract outstanding of 1,092 MW. The order intake mix between IPP and Non IPP for H1 stands at 85:15. For the wind industry, H1 FY16 (~35%) is seasonally weak with sharp pick in the H2 FY16 (~65%). The AD market is expected to pick up in H2 FY16 where Suzlon is dominant player.

We expect total execution of ~1060 MW in FY16. As most states are lowering preferential tariff on renewable, realisation can come under pressure in FY17 onwards; however, given technology upgradation, the industry would continue to be competitive. On the operating margin front, Suzlon reported of ~18%, excluding the effect of forex and LD charges. Gross margin improved by 19.2% q-o-q to ₹827 crs. During the quarter, Suzlon incurred forex and LD charges of ₹209 crs. and ₹12 crs. Forex loss was largely due to amortisation of mark to market losses and translation losses of loan given to Brazilian subsidiary.

■ Capital cost and debt in line with our expectation

Interest cost for the quarter was ₹233 crs. Gross debt stands at ₹10,801 crs. (₹2,744 rupee loan and balance foreign currency loan). The implied interest rate is 9.3% is higher than our expectation due to inclusion of interest on FCCB bonds maturing in 2019. As the bond is deep in the money, this interest cost is expected to be reversed on the bonds getting converted into shares. In our financial model, we have considered full conversion of the FCCB totalling \$289 mn. (\$261 mn outstanding). On the working capital front, debtor and inventory stand at 108 days and 105 days respectively. As on H1FY16, cash and bank balance is ₹718 crs.

■ Outlook and Valuation

We believe that the wind industry in India has huge potential supported by government's policy. We expect robust improvement in Suzlon's financial as it scales up its volumes and benefit of operating leverage starts kicking in. We expect PAT to improve to ₹1,261 crs. in FY18E. At CMP of ₹23, Suzlon trades at 23.6x FY16E and 10.7x FY17E EV / EBITDA. We maintain BUY rating on the stock with price target of ₹30 with an upside potential of 30% by Mar'16.



QUARTERLY PERFORMANCE:

Particulars (rs. Crs.)	Q2 FY16	Q2 FY15	QoQ%	Q1 FY16	YoY%	FY15	FY14	YoY%
Sales	1768.4	5330.6	-66.83	2605.8	-32.14	19954.4	20402.9	-2.20
Other Operating Income	3.3	48.3	-93.17	21.9	-84.93	0.0	0.0	NM
Net Sales	1771.7	5378.9	-67.06	2627.7	-32.58	19954.4	20402.9	-2.20
Expenditure								
Raw Material	1100.9	3674.5	-70.04	946.1	16.36	13625.9	13375.8	1.87
Employee Cost	199.2	550.8	-63.83	320.7	-37.89	2227.5	2231.4	-0.17
Other Expenses	374.6	1039.3	-63.96	1148.7	-67.39	17071.9	12809.2	33.28
Total Expenditure	1674.7	5264.6	-68.19	2415.5	-30.67	19638.8	20544.0	-4.41
EBITDA	97.0	114.3	-15.14	212.2	-54.29	315.6	-141.1	-323.64
Depreciation	77.9	178.2	-56.29	107.3	-27.40	808.8	776.9	4.11
Other Income	24.7	12.9	91.47	15.4	60.39	53.3	71.5	-25.45
EBIT	43.8	-51.0	-185.88	120.3	-63.59	-439.9	-846.5	-48.03
Interest Cost	257.6	523.4	-50.78	400.2	-35.63	2064.7	2070.0	-0.26
PBT	-213.8	-574.4	-62.78	-279.9	-23.62	-2504.6	-2916.5	-14.12
Tax	0.3	59.7	-99.50	-14.9	-102.01	317.3	144.4	119.74
PAT	-181.6	-634.1	-71.36	1049.5	-117.30	-9133.6	-3548.2	157.41
Minority Interest	0.5	-21.9	-102.28	-2.0	-125.00	-24.3	0.0	NM
PAT	-181.1	-656.0	-72.39	1047.5	-117.29	-9157.9	-3548.2	158.10
Networth	-7184.6	-1815.5	295.74	-7316.3	-1.80	-7316.3	-375.9	1846.34
FV	2.0	2.0	NM	2.0	NM	2.0	2.0	NM
EPS	-0.4	-2.1	-82.82	2.2	-117.00	-24.7	-14.3	73.20

P&L on 100

Particulars	Q2 FY16	Q2 FY15	Q1 FY16	FY15	FY14
Sales	99.81	99.10	99.17	100.00	100.00
Other Operating Income	0.19	0.90	0.83	0.00	0.00
Net Sales	100.00	100.00	100.00	100.00	100.00
Expenditure					
Raw Material	62.14	68.31	36.00	68.29	65.56
Employee Cost	11.24	10.24	12.20	11.16	10.94
Other Expenses	21.14	19.32	43.72	85.55	62.78
Total Expenditure	94.53	97.88	91.92	98.42	100.69
EBITDA	5.47	2.12	8.08	1.58	-0.69
Depreciation	4.40	3.31	4.08	4.05	3.81
Other Income	1.39	0.24	0.59	0.27	0.35
EBIT	2.47	-0.95	4.58	-2.20	-4.15
Interest Cost	14.54	9.73	15.23	10.35	10.15
PBT	-12.07	-10.68	-10.65	-12.55	-14.29
Tax	0.02	1.11	-0.57	1.59	0.71
PAT	-10.25	-11.79	39.94	-45.77	-17.39
Minority Interest	0.03	-0.41	-0.08	-0.12	0.00
PAT	-10.22	-12.20	39.86	-45.89	-17.39



OUTLOOK & VALUATION: -

We believe that the wind industry in India has huge potential supported by government's policy. We expect robust improvement in Suzlon's financial as it scales up its volumes and benefit of operating leverage starts kicking in. We expect PAT to improve to `1,261 crs. in FY18E.

At CMP of `23, Suzlon trades at 23.6x FY16E and 10.7x FY17E EV / EBIDTA. We maintain BUY rating on the stock with price target of `30 with an upside potential of 30% by Mar'16.

REVISED ESTIMATES: -

Particulars (rs. Crs.)	FY16			FY17		
	Revised	Old	%Change	Revised	Old	%Change
Sales	8,611	8,027	7.28	12,015	11,819	1.66
EBITDA	865	925	-6.49	1,905	1,747	9.04
Recurring PAT	-332	-164	NM	714	683	4.54



Profit & Loss

(Rs. Crs.)	FY15	FY16E	FY17E	FY18E
Net sales	19,954	8,611	12,015	16,091
YoY (%)	-2%	-57%	40%	34%
Total expenses				
Raw Material Cost	13,619	5,102	7,114	9,633
Employee costs	2,228	830	906	1,013
Other Manufacturing Cost	3,307	1,813	2,089	2,727
EBITDA	316	865	1,905	2,719
YoY (%)	-324%	174%	120%	43%
EBIDTA (%)	2%	10.0%	15.9%	16.9%
Depreciation	809	338	389	403
EBIT	-493	527	1,516	2,316
Interest	2,065	838	834	837
Other income	53	-20	32	5
PBT	-2,505	-332	714	1,484
Less: Taxation	317	0	0	223
Effective tax rate (%)	-12.7%	0.0%	0.0%	15.0%
Less: Minority Interest	0	0	0	0
Recurring PAT	-2,822	-332	714	1,261
YoY (%)	-7.8%	NM	NM	76.6%
PAT (%)	-14.1%	-3.9%	5.9%	7.8%
Exceptional items (net of tax)	-6,312	1,347	0	0
Reported PAT	-9,134	1,015	714	1,261

Key Ratios

	FY15	FY16E	FY17E	FY18E
Recurring EPS (Rs)	(7.5)	(0.6)	1.2	2.1
Reported EPS (Rs)	(24.4)	1.7	1.2	2.1
Book value (Rs)	(11.6)	(7.3)	(6.1)	(4.0)
Dividend per share (Rs)	0.0	0.0	0.0	0.0
Net Debt Equity Ratio	(1.7)	(1.6)	(1.9)	(3.8)
Payable Days	83	95	85	80
Debtor Days	50	85	80	75
Inventory Days	90	80	75	75
ROCE (%)	-3.2%	6.7%	31%	38%
Recurring ROE (%)	NM	NM	NM	NM
ROA (%)	-10.9%	-2.1%	6%	9%
Div Yield (%)				
Valuation Ratios				
PE (x)	(2.9)	(40.1)	18.7	10.6
Cash P/E (x)	(0.9)	13.1	18.7	10.6
Price/book value (x)	(1.9)	(3.0)	(3.6)	(5.5)
Market cap/sales (x)	1.7	1.5	1.1	0.8
EV/sales (x)	2.2	2.6	1.9	1.4
EV/EBITDA (x)	8.1	23.6	10.7	7.4
Earnings growth				
EBITDA (%)	-324%	NM	NM	43%
EPS (%)	-100%	NM	NM	77%
PAT (%)	-8%	NM	NM	77%

Balance Sheet

(Rs. Crs.)	FY15	FY16E	FY17E	FY18E
Equity capital	748	1,198	1,198	1,198
Reserves	-9,872	-5,574	-4,860	-3,599
Net worth	-9,124	-4,377	-3,662	-2,401
Total borrowings	17,811	9,101	8,958	9,191
Minority Interest + other	1,872	64	64	64
Non Current Liabilities	1,040	379	430	491
Current Liabilities	10,133	5,144	6,609	8,222
Total liabilities	21,732	10,310	12,399	15,567
Net block	5,843	1,805	1,716	1,663
Investments	15	65	165	365
Others	1,188	601	857	1,061
Current assets				
Inventories	3,361	1,887	2,469	3,306
Debtors	2,755	2,005	2,633	3,306
Cash	2,543	2,013	1,899	2,337
Other Current assets	6,027	1,934	2,659	3,527
Total assets	21,732	10,310	12,399	15,567

Cash Flow

(Rs. Crs.)	FY15	FY16E	FY17E	FY18E
Net profit	-2,822	-332	714	1,261
Depn and w/o	809	338	389	403
Others	2,019	665	629	694
Change in working cap	-1,419	1,326	-469	-766
Op. Cash flow	-1,413	1,997	1,263	1,592
Capex (Gross*)				
Capex (Net)	6,940	3,800	-300	-350
Investments	-11	-50	-100	-200
Inv. Cash flow	6,928	3,750	-400	-550
Dividend	0	0	0	0
Fresh Equity	1,880	1,925	0	0
Minority interest	0	0	0	0
Debt	758	-8,711	-142	232
Others	-2,065	-838	-834	-837
Fin. Cash flow	573	-7,624	-976	-604
Net change in cash	6,089	-1,877	-113	438
Opening cash	2,448	2,543	2,013	1,899
Closing cash	2,543	2,013	1,899	2,337



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