

Suzlon Energy Ltd.

Q3 FY16 Quarterly Update

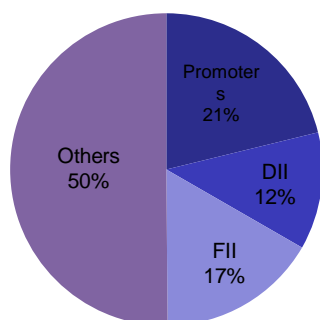
MARKET DATA

NSE TICKER	SUZLON
Net worth (₹ Cr)	-7,299
P/BV Ratio (FY16E) (x)	-2.9
Recurring EPS (FY16E) (₹)	-0.8
Reported EPS (FY16E) (₹)	1.5
Market Price (₹)	16
52 Week High (19/03/2015) (₹)	32
52 Week Low (03/02/2016) (₹)	14
Market Capitalisation (₹ Cr)	7,877

AVERAGE MONTHLY VOLUME ('000)

BSE	30,267
NSE	1,11,797

SHARE HOLDING PATTERN



RETURN %	3M	6M	12M
Suzlon Energy	-27.3	-41.6	-7.6
Sensex	-6.4	-12.8	-14.7

Vishal Rampuria
(Director, Research)

vishal.rampuria@dimensional.in
+91-22-66545256

Preeti Patel
(Research Analyst)

preeti@dimensional.in
+91-22-66545239

Revenue for the quarter was ₹1,889 crs. While PAT was ₹-114 crs. EBITDA margin, without forex losses, were in line with our expectations at ~17%. The figures are not comparable with the earlier reported numbers as the figures of corresponding period last year included revenue from its subsidiary Servion 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 256 MW totalling ₹1,832 crs. The maintenance contract revenues stood at ₹378 crs. Order intake for the quarter was 359 MW with contracts outstanding for 897 MW. The order intake mix between IPP and Non IPP for 9M FY16 was 68:32. For the wind industry, Q3 is seasonally strong with sharp pick up in H2. The AD market, where Suzlon is a dominant player is expected to pick up in Q4 FY16.

We expect execution of ~1060 MW in FY16. As most states are lowering preferential tariff on renewable sources, realisations can come under pressure in FY17; however, given technology up-gradation, we expect the industry to remain competitive. Suzlon reported healthy operating margins of ~18%, excluding the effect of forex and LD charges. Gross margins deteriorated by 106bps q-o-q to 45.71%. Suzlon incurred forex losses of ₹209 crs. for the quarter.

■ Interest costs and debt in line with our expectation

Interest for the quarter was ₹266 crs which is ₹55 crs. higher than our expectation, primarily due to inclusion of interest on FCCB bonds maturing in 2019 which would be reversed on conversion. Despite current market prices hovering around the conversion price, we have considered full conversion of the FCCB totalling \$289 mn. (\$261 mn outstanding) as we expect a re-rating of the stock by maturity in 2019.

■ Financials Projected Downwards:

We revise our earnings estimate downwards given negligible pricing growth for the wind power industry as a result of increased competition from the solar business. As a result of these pricing headwinds, we have assumed zero pricing growth and also 100bps lower margins due to competition from solar. We have also taken into consideration the company's investments in solar power SPV. The company plans to infuse 200 crs. in solar SPV (total investment ₹1,200 crs. for 200MW).

■ Outlook and Valuation

We believe that the wind industry in India has huge potential, which is bolstered by government policy. We expect robust improvement in Suzlon's financials as volumes improve and the benefits of operating leverage start kicking in. We expect PAT to improve to ₹985 crs. in FY18E. At CMP of ₹15.75 Suzlon trades at 10.0x FY17E and 7.1x FY18E EV / EBITDA. We maintain BUY rating on the stock with price target of ₹28 with an upside of 78%.

Quarterly Performance:

Particulars ₹ Crs.	Q3 FY16	Q3 FY15	% YoY	Q2 FY16	%QoQ	FY15	FY14	% YoY
Net Sales	1,889	4,954	-61.9	1,768	-6.8	19,837	20,403	-2.2
EBITDA	241	295	-18.4	97	148.2	316	-141	NM
EBITDA Margin	12.7%	5.9%	725bps	2.4%	558bps	1.6%	-0.7%	227bps
Interest	266	449.0	-40.7	258	3.3	2,065	2,070	-0.3
PBT	-114	-411	-72.4	-22	-46.9	-2,505	-2,917	NM
Recurring PAT	-114	-548	-79.4	-214	-47.0	-2,822	-3,061	NM
Reported PAT	-114	-6,534	98.3	-182	-37.4	-9,158	-3,548	NM
Recurring EPS	-0.2	-1.69	86.5	-0.44	47.7	-12.2	-7.5	NM
Reported EPS	-0.2	-20.9	98.9	-0.4	38.5	-30.5	-15.7	94.3



QUARTERLY PERFORMANCE:

Particulars (₹ Crs.)	Q3 FY16	Q3 FY15	QoQ%	Q2 FY16	YoY%	FY15	FY14	YoY%
Sales	1889.3	4954.2	-61.86	1768.4	6.84	19954.4	20402.9	-2.20
Other Operating Income	2.0	22.9	-91.22	3.3	-39.09	0.0	0.0	#DIV/0!
Net Sales	1891.3	4977.1	-62.00	1771.7	6.75	19954.4	20402.9	-2.20
Expenditure								
Raw Material	1025.7	3388.2	-69.73	941.3	8.97	3527.2	10124.0	-65.16
Employee Cost	199.8	566.7	-64.74	199.2	0.31	2227.5	2231.4	-0.17
Other Expenses	425.0	727.1	-41.55	534.2	-20.44	1493.8	2720.6	-45.09
Total Expenditure	1650.5	4682.0	-64.75	1674.7	-1.44	19638.8	20544.0	-4.41
EBITDA	240.8	295.1	-18.41	97.0	148.23	315.6	-141.1	-323.64
Depreciation	98.8	266.2	-62.89	77.9	26.82	808.8	776.9	4.11
Other Income	10.6	9.4	12.55	24.7	-57.17	53.3	71.5	-25.45
EBIT	152.6	38.3	298.36	43.8	248.33	-439.9	-846.5	-48.03
Interest Cost	266.1	449.0	-40.73	257.6	3.30	2064.7	2070.0	-0.26
PBT	-113.5	-410.7	72.36	-213.8	46.90	-2504.6	-2916.5	14.12
Tax	0.2	132.5	-99.83	0.3	-23.33	317.3	144.4	119.74
PAT	-113.8	-6533.5	98.26	-181.6	37.36	-9133.6	-3548.2	-157.41
Minority Interest	0.6	-5.1	111.57	0.5	18.00	-24.3	0.0	NM
PAT	-113.2	-6538.6	98.27	-181.1	37.51	-9157.9	-3548.2	-158.10
Networth	-7184.6	-1815.5	-295.74	-7184.6	0.00	-7316.3	-375.9	1846.34
FV	2.0	2.0	NM	2.0	NM	2.0	2.0	NM
EPS	-0.2	-20.3	98.88	-0.4	38.52	-24.7	-14.3	-73.20

P&L on 100

Particulars	Q3 FY16	Q3 FY15	Q2 FY16	FY15	FY14
Sales	99.89	99.54	99.81	100.00	100.00
Other Operating Income	0.11	0.46	0.19	0.00	0.00
Net Sales	100.00	100.00	100.00	100.00	100.00
Expenditure					
Raw Material	54.23	68.08	53.13	17.68	49.62
Employee Cost	10.56	11.39	11.24	11.16	10.94
Other Expenses	22.47	14.61	30.15	7.49	13.33
Total Expenditure	87.27	94.07	94.53	98.42	100.69
EBITDA	12.73	5.93	5.47	1.58	-0.69
Depreciation	5.22	5.35	4.40	4.05	3.81
Other Income	0.56	0.19	1.39	0.27	0.35
EBIT	8.07	0.77	2.47	-2.20	-4.15
Interest Cost	14.07	9.02	14.54	10.35	10.15
PBT	-6.00	-8.25	-12.07	-12.55	-14.29
Tax	0.01	2.66	0.02	1.59	0.71
PAT	-6.01	-131.27	-10.25	-45.77	-17.39
Minority Interest	0.03	-0.10	0.03	-0.12	0.00
PAT	-5.98	-131.37	-10.22	-45.89	-17.39



Conference Call Highlights:

- 68% of the orders are for new products; cumulative order-book for new products stands at 800MW
- Q4 is heavy quarter, execution historically has been 490MW
- The company has over 1000 MW under negotiations;
- The solar project to be funded using a 4/1 Debt/Equity mix. The project to be sold once commissioned. No plans for IPP.
- SS forge-Losses continue, EBITDA positive; In Q4 interest to halve due to debt reduction and better interest rate negotiations
- Installed Turbine capacity is 3600 mw; project execution capability is 1200MW, aims at 40% market share for of the industry capacity addition over the next 5 years
- 3000 MW industry additions, next year should be 20% growth, Suzlon aims to grow faster than the industry.
- Technological up-gradations will continue to make wind competitive as compared to solar.
- There is no clarity on GST rates for renewable sector.

**OUTLOOK & VALUATION: -**

We believe that the wind industry in India has huge potential, which is bolstered by government policy. We expect robust improvement in Suzlon's financials as volumes improve and the benefits of operating leverage start kicking in. We expect PAT to improve to ₹985 crs. in FY18E. At CMP of ₹15.75 Suzlon trades at 10.0x FY17E and 7.1x FY18E EV / EBITDA. We maintain BUY rating on the stock with price target of ₹28 with an upside of 78%.

Key Risk: -

Below the price of ₹15.46/share the company faces a risk of the FCCB's not getting converted which could potentially create a cash shortfall of ~USD 200mn to be paid to the bond holders by 9th July, 2019. However given the strong business prospects we expect a sharp rerating of the stock by the conversion date.

REVISED ESTIMATES: -

We revise our earnings estimate downwards given negligible pricing growth for the wind power industry as a result of increased competition from the solar business. As a result of these pricing headwinds, we have assumed zero pricing growth and also 100bps lower margins due to competition from solar. We have also taken into consideration the company's investments in solar power SPV. The company plans to infuse 200 crs. in solar SPV (total investment ₹1,200 crs. for 200MW).

Particulars (₹ Crs.)	FY16			FY17			FY18		
	Revised	Old	%Change	Revised	Old	%Change	Revised	Old	%Change
Sales	8,611	8,611	0.00%	11,654	12,015	-3.00%	15,322	16,091	-4.78%
EBITDA	865	865	0.00%	1,846	1,905	-3.13%	2,581	2,719	-5.05%
Recurring PAT	-478	-332	NM	618	714	-13.45%	1,105	1,261	-12.39%



Profit & Loss

(Rs. Crs.)	FY14	FY15	FY16E	FY17E	FY18E
Net sales	20,403	19,954	8,611	11,654	15,322
YoY (%)		-2%	-57%	35%	31%
Total expenses					
Raw Material Cost	14,435	13,619	5,102	6,973	9,262
Employee costs	2,231	2,228	830	906	1,012
Other Manufacturing Cost	2,404	3,307	1,813	2,030	2,602
EBITDA	-141	316	865	1,745	2,446
YoY (%)		-324%	174%	102%	40%
EBIDTA (%)	-0.7%	2%	10.0%	15.0%	16.0%
Depreciation	777	809	338	389	403
EBIT	-918	-493	527	1,356	2,043
Interest	2,070	2,065	847	843	845
Other income	71	53	-158	4	-38
PBT	-2,916	-2,505	-478	518	1,159
Less: Taxation	144	317	0	0	174
Effective tax rate (%)	-5.0%	-12.7%	0.0%	0.0%	15.0%
Less: Minority Interest	0	0	0	0	0
Recurring PAT	-3,061	-2,822	-478	518	985
YoY (%)		-7.8%	NM	NM	90.2%
PAT (%)	-15.0%	-14.1%	-5.6%	4.4%	6.4%
Exceptional items (net of tax)	-487	-6,312	1,347	0	0
Reported PAT	-3,548	-9,134	869	518	985

Key Ratios

	FY14	FY15	FY16E	FY17E	FY18E
Recurring EPS (Rs)	(12.2)	(7.5)	(0.8)	0.9	1.6
Reported EPS (Rs)	(14.1)	(24.4)	1.5	0.9	1.6
Book value (Rs)	(2.2)	(11.6)	(7.6)	(6.7)	(5.0)
Dividend per share (Rs)	0.0	0.0	0.0	0.0	0.0
Net Debt Equity Ratio	(32.0)	(1.7)	(1.7)	(2.0)	(3.1)
Payable Days	95	83	95	85	80
Debtor Days	48	50	85	80	75
Inventory Days	106	90	80	75	75
ROCE (%)	-5.2%	-3.2%	4.8%	28%	35%
Recurring ROE (%)	NM	NM	NM	NM	NM
ROA (%)	-10.3%	-10.9%	-3.0%	5%	8%
Div Yield (%)					
Valuation Ratios					
PE (x)	(1.8)	(2.9)	(27.8)	25.7	13.5
Cash P/E (x)	(1.6)	(0.9)	15.3	25.7	13.5
Price/book value (x)	(10.0)	(1.9)	(2.9)	(3.3)	(4.4)
Market cap/sales (x)	1.3	1.7	1.5	1.1	0.9
EV/sales (x)	1.9	2.2	2.6	1.9	1.5
EV/EBITDA (x)	7.7	8.1	24.3	12.2	8.7
Earnings growth					
EBITDA (%)	-89%	-324%	NM	NM	40%
EPS (%)	-47%	-100%	NM	NM	90%
PAT (%)	-25%	-8%	NM	NM	90%

* Full FCCB Dilution assumed in FY16.

Balance Sheet

(Rs. Crs.)	FY15	FY16E	FY17E	FY18E
Equity capital	748	1,198	1,198	1,198
Reserves	-9,872	-5,721	-5,203	-4,217
Net worth	-9,124	-4,523	-4,005	-3,020
Total borrowings	17,811	9,238	9,097	9,331
Minority Interest + other	1,872	64	64	64
Non Current Liabilities	1,040	379	425	480
Current Liabilities	10,133	4,713	5,945	7,370
Total liabilities	21,732	9,871	11,525	14,225
Net block	5,843	1,805	1,716	1,663
Investments	15	65	365	565
Others	1,188	601	839	1,022
Current assets				
Inventories	3,361	1,887	2,395	3,148
Debtors	2,755	2,005	2,554	3,148
Cash	2,543	1,573	1,074	1,314
Other Current assets	6,027	1,934	2,582	3,364
Total assets	21,732	9,871	11,525	14,225

Cash Flow

(Rs. Crs.)	FY15	FY16E	FY17E	FY18E
Net profit	-2,822	-478	518	985
Depn and w/o	809	338	389	403
Others	2,019	673	650	717
Change in working cap	-1,419	896	-473	-704
Op. Cash flow	-1,413	1,429	1,084	1,401
Capex (Gross*)				
Capex (Net)	6,940	3,800	-300	-350
Investments	-11	-50	-300	-200
Inv. Cash flow	6,928	3,750	-600	-550
Dividend	0	0	0	0
Fresh Equity	1,880	1,925	0	0
Minority interest	0	0	0	0
Debt	758	-8,573	-141	234
Others	-2,065	-847	-843	-845
Fin. Cash flow	573	-7,495	-984	-612
Net change in cash	6,089	-2,316	-500	240
Opening cash	2,448	2,543	1,573	1,074
Closing cash	2,543	1,573	1,074	1,314



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