



Suzlon Energy Ltd. Q4 FY16 Quarterly Update

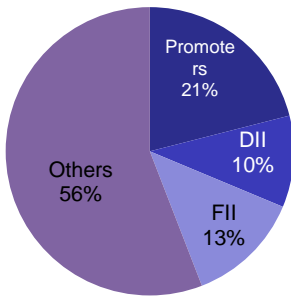
MARKET DATA

NSE TICKER	SUZLON
Net worth (₹ Cr)	-7,083
P/BV Ratio (FY17E) (x)	-1.7
Recurring EPS (FY17E) (₹)	0.8
Reported EPS (FY17E) (₹)	0.8
Market Price (₹)	16
52 Week High (05/08/2015) (₹)	28
52 Week Low (11/02/2016) (₹)	13
Market Capitalisation (₹ Cr)	7,958

AVERAGE MONTHLY VOLUME ('000)

BSE	86.8
NSE	887.7

SHARE HOLDING PATTERN



RETURN %	3M	6M	12M
Suzlon Energy	2.5	6.0	19.0
Sensex	8.7	4.4	0.0

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Quarterly Performance:

Particulars ₹ Crs.	Q4 FY16	Q4 FY15	% YoY	Q3 FY16	%QoQ	FY16	FY15	% YoY
Net Sales	3245	4909	-33.9	1889	71.8	9509	19954	-52.3
EBITDA	419	-167	351.3	240.8	73.9	968.6	315.6	206.9
EBITDA Margin	12.8	-3.4	1617bps	12.7	6bps	10.1	1.6	854bps
Interest	302.2	555.2	-45.6	266.1	13.6	1226.1	2065	-40.6
PBT	-271	-1,107	75.5	-114	-138.6	469	-8,816	NA
Recurring PAT	12	-994	101.2	-113	110.8	-581	-2,846	NA
Reported PAT	-271	-1,212	77.7	-113	139.1	483	-9,158	NA
Recurring EPS	0.0	-2.7	100.9	-0.2	110.8	-1.2	-7.7	NA
Reported EPS	-0.5	-3.3	83.5	-0.2	-137.7	1.0	-24.7	NA

Driven by strong execution, Revenue increased 72% q-o-q, while normalised EBITDA increased 44.9%. On both the counts, results exceeded our expectation.

■ Topline growth in line with expectation

During the quarter, Suzlon executed 443 MW of orders which is an increase of 73% q-o-q. The maintenance contract revenues stood at ₹364 crs. Order intake for the quarter was 790 MW with contracts outstanding for 1,243 MW valued at ₹80 bn. The order is largely from IPP and PSUs. For FY16, the total commissioning increased more than 2x with market share improving from 15.5% to 27%. On sequential basis, due to higher turbines sales, margin adjusted for forex and liquidity charges declined to 15% from 17.4%.

■ Interest costs and debt in line with our expectation

Interest for the quarter was up 13.6% to ₹302 crs. The company has outstanding FCCB bonds conversion (Maturing in 2019) worth \$289 mn at a conversion price of ₹15.5. We expect conversion of this by maturity period.

■ Balance Sheet Key takeaway

FY16 marked good improvement in the working capital cycle. Annualising Q4 sales, both inventory and debtors declined to 72 days from 108days in H1FY16 while debtors declined to 76 days from 105 days. Total debt stood at ₹110 bn out of which FCCB worth ₹16.5 bn is expected to be converted into shares at ₹15.5. Suzlon has refinanced \$590mn worth bonds at 3.3% by incurring one time cost of ₹280crore helping it save ₹75 crore per year.

■ Outlook and Valuation

FY16 was the year of turnaround for Suzlon. The strong improvement in execution along with market share gain is expected to continue in FY17. Also, competitive intensity has reduced with three serious players. However, industry related concerns like cut back on AD benefits and GBI lapsing in FY17 along with wind power tariff cuts in MP and Maharashtra is likely to impact business outlook.

We believe that the wind industry in India has huge potential, which is bolstered by government policy. Also, policy on replacing existing turbines should also boost demand over the medium term. We expect robust improvement in Suzlon's financials as volumes improve and the benefits of operating leverage start kicking in. Innovations through R&D remain key monitorable. We expect PAT to improve to ₹985 crs. in FY18E. At CMP of ₹15.75 Suzlon trades at 10.1x FY17E and 7.4x FY18E EV / EBIDTA. We maintain BUY rating on the stock with price target of ₹25 with an upside of 56%.



QUARTERLY PERFORMANCE:

Particulars (₹ Crs.)	Q4 FY16	Q4 FY15	QoQ%	Q3 FY16	YoY%	FY16	FY15	YoY%
Sales	3245.0	4908.8	-33.90	1889.3	71.76	9508.5	19954.4	-52.3
Other Operating Income	26.9	17.6	52.84	2.0	1238.31	54.1	0.0	NA
Net Sales	3271.9	4926.4	-33.59	1891.3	73.00	9562.6	19954.4	-52.1
Expenditure								
Raw Material	2077.4	3494.5	-40.55	1025.7	102.54	5604.6	13618.7	-58.8
Employee Cost	234.5	526.5	-55.46	199.8	17.37	954.2	2227.5	-57.2
Other Expenses	541.3	1072.0	-49.50	425.0	27.37	2035.2	3792.6	-46.3
Total Expenditure	2853.3	5093.0	-43.98	1650.5	72.87	8594.0	19638.8	-56.2
EBITDA	418.6	-166.6	-351.26	240.8	73.85	968.6	315.6	206.9
Depreciation	119.3	185.7	-35.77	98.8	20.73	403.3	808.8	-50.1
Other Income	14.9	18.9	-21.38	10.6	40.45	65.5	53.3	23.0
EBIT	314.2	-333.4	-194.24	152.6	105.93	630.9	-439.9	-243.4
Interest Cost	302.2	555.2	-45.57	266.1	13.57	1226.1	2064.7	-40.6
PBT	12.0	-888.6	-101.35	-113.5	-110.54	-595.3	-2504.6	-76.2
Tax	3.4	108.4	-96.86	0.2	1378.26	-11.0	317.3	-103.5
PAT	-274.3	-1214.9	-77.42	-113.8	141.12	479.8	-9133.6	-105.3
Minority Interest	0.9	2.8	-67.50	0.6	54.24	0.0	-24.3	-100.0
PAT	-270.6	-1212.1	-77.67	-113.2	139.14	482.6	-9157.9	-105.3
Adjusted PAT								
Networth	-7082.8	-7316.3	-3.19	-7184.6	-1.42	-7082.8	-7316.3	-3.2
FV	2.0	2.0	NM	2.0	NM	2.0	2.0	NM
EPS	-0.5	-3.3	-83.51	-0.2	137.67	1.0	-24.7	-103.9

P&L on 100

Particulars	Q4 FY16	Q4 FY15	Q3 FY16	FY16	FY15
Sales	99.18	99.64	99.89	99.43	100.00
Other Operating Income	0.82	0.36	0.11	0.57	0.00
Net Sales	100.00	100.00	100.00	100.00	100.00
Expenditure					
Raw Material	63.49	70.93	54.23	58.61	68.25
Employee Cost	7.17	10.69	10.56	9.98	11.16
Other Expenses	16.55	21.76	22.47	21.28	19.01
Total Expenditure	87.21	103.38	87.27	89.87	98.42
EBITDA	12.79	-3.38	12.73	10.13	1.58
Depreciation	3.65	3.77	5.22	4.22	4.05
Other Income	0.45	0.38	0.56	0.69	0.27
EBIT	9.60	-6.77	8.07	6.60	-2.20
Interest Cost	9.24	11.27	14.07	12.82	10.35
PBT	0.37	-18.04	-6.00	-6.22	-12.55
Tax	0.10	2.20	0.01	-0.11	1.59
PAT	-8.38	-24.66	-6.01	5.02	-45.77
Minority Interest	0.03	0.06	0.03	0.00	-0.12
PAT	-8.27	-24.60	-5.98	5.05	-45.89



Conference Call Highlights:

- 443MW addition in Q4; more than 50% of the business done in March; ; 39% contribution to the FY16 sales
- Ramping up volume; focus on execution; optimizing maturity profile of debt
- Country needs to add 33 GW in next 6 years to achieve 60GW; annual target of 5GW compared to current of 4GW in FY16
- Further increase in market size expected in FY17; 69% of new orders from new products
- Q4 order intake 790MW; Closing order book-1244MW valued at Rs7989 crore
- Technology innovation- Focus on R&D and technology; even during bad times focused on this;
 - New Research Centre in Denmark focusing on rotor blade technology with smart pitch control
 - Annual spend is 2% of sales
- Prototype new series -PLF above 40%- –looking at commercial launch
- Looking at global markets too; already has O&M contracts to 2.7GW capacity; would be looking at putting additional capex
- USA- tax credit has been extended which would add to the demand; Global wind capacity addition is expected to double
- Forayed in solar -80MW; tariff in excess of 5.5 per unit which is very good; getting investors



OUTLOOK & VALUATION: -

We believe that the wind industry in India has huge potential, which is bolstered by government policy. Also, policy on replacing existing turbines should also boost demand over the medium term. We expect robust improvement in Suzlon's financials as volumes improve and the benefits of operating leverage start kicking in. Innovation through R&D remain key monitorable. We expect PAT to improve to ₹985 crs. in FY18E. At CMP of ₹15.75 Suzlon trades at 10.1x FY17E and 7.4x FY18E EV / EBIDTA. We maintain BUY rating on the stock with price target of ₹25 with an upside of 56%.

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 considering the cut in the wind tariff in MP and Maharashtra, which has been key states with higher wind assets additions, and consequent impact on the realisation per MW and profitability.

Particulars (₹ Crs.)	FY17			FY18		
	Revised	Old	%Change	Revised	Old	%Change
Sales	11,922	11,654	2.30%	15,216	15,322	-0.69%
EBITDA	1,721	1,745	-1.42%	2,138	2,446	-12.58%
Recurring PAT	408	518	-21.24%	886	985	-10.11%



Profit & Loss

(₹Cr.)	FY14	FY15	FY16	FY17E	FY18E
Net sales	20,403	19,954	9,563	11,922	15,216
YoY (%)		-2%	-52%	25%	28%
Total expenses					
Raw Material Cost	14,435	13,619	5,605	7,254	9,520
Employee costs	2,231	2,228	954	880	980
Other Manufacturing Cost	2,404	3,307	410	2,069	2,578
EBITDA	-141	316	969	1,721	2,138
YoY (%)		-324%	207%	78%	24%
EBIDTA (%)	-0.7%	2%	10.1%	14.4%	14.1%
Depreciation	777	809	403	380	372
EBIT	-918	-493	565	1,341	1,766
Interest	2,070	2,065	1,226	893	829
Other income	71	53	66	(40)	(51)
PBT	-2,916	-2,505	-595	408	886
Less: Taxation	144	317	-11	0	0
Effective tax rate (%)	-5.0%	-12.7%	1.8%	0.0%	0.0%
Less: Minority Interest	0	0	0	0	0
Recurring PAT	-3,061	-2,822	-584	408	886
YoY (%)		-7.8%	NM	NM	117.1%
PAT (%)	-15.0%	-14.1%	-6.1%	3.4%	5.8%
Exceptional items (net of tax)	-487	-6,312	1,064	0	0
Reported PAT	-3,548	-9,134	480	408	886

Key Ratios

	FY14	FY15	FY16	FY17E	FY18E
Recurring EPS (Rs)	(12.2)	(7.5)	(1.2)	0.7	1.6
Reported EPS (Rs)	(14.1)	(24.4)	1.0	0.7	1.6
Book value (Rs)	(2.2)	(11.6)	(14.1)	(9.4)	(7.8)
Dividend per share (Rs)	0.0	0.0	0.0	0.0	0.0
Net Debt Equity Ratio	(32.0)	(1.7)	(1.4)	(1.6)	(2.0)
Payable Days	95	83	107	90	90
Debtor Days	48	50	103	90	90
Inventory Days	72	61	98	85	80
ROCE (%)	-5.2%	-3.2%	8.4%	30%	41%
Recurring ROE (%)	NM	NM	NM	NM	NM
ROA (%)	-10.3%	-10.9%	-3.7%	4%	8%
Valuation Ratios					
PE (x)	(1.3)	(2.1)	(13.7)		
Cash P/E (x)	(1.1)	(0.7)	16.7	21.6	9.9
Price/book value (x)	(7.2)	(1.4)	(1.1)	21.6	9.9
Market cap/sales (x)	1.3	1.7	0.8	(1.7)	(2.1)
EV/sales (x)	1.9	2.2	2.1	0.7	0.6
EV/EBITDA (x)	7.7	8.1	19.7	1.5	1.1
Earnings growth				10.2	7.8
EBITDA (%)	-89%	-324%	NM		
EPS (%)	-47%	-100%	NM	NM	24%
PAT (%)	-25%	-8%	NM	NM	117%

* Full FCCB Dilution assumed in FY16.



Balance Sheet

(₹ Crs.)	FY14	FY15	FY16	FY17E	FY18E
Equity capital	504	748	1,004	1,101	1,101
Reserves	-1,051	-9,872	-8,087	(6,273)	(5,387)
Net worth	-547	-9,124	-7,083	(5,172)	(4,286)
Total borrowings	17,053	17,811	11,636	9,308	8,479
Minority Interest + others	230	1,872	7	7	7
Non-Current Liabilities	1,093	1,040	170	105	130
Current Liabilities	12,432	10,133	4,972	5,893	7,292
Total liabilities	30,261	21,732	9,702	10,140	11,622
Net block	13,515	5,843	1,925	1,660	1,488
Investments	4	15	65	265	250
Others	1,272	1,188	1,361	1,410	1,597
Current assets					
Inventories	4,033	3,361	2,565	2,776	3,335
Debtors	2,687	2,755	2,697	2,940	3,752
Cash	2,448	2,543	625	588	648
Other Current assets	6,302	6,027	464	500	551
Total assets	30,261	21,732	9,702	10,140	11,622

Cash Flow

(₹ Crs.)	FY14	FY15	FY16	FY17E	FY18E
Net profit	-3,061	-2,822	-584	408	886
Depn and w/o	777	809	403	380	372
Others	3,310	2,019	183	778	667
Change in working cap	224	-1,419	1,255	430	(22)
Op. Cash flow	1,250	-1,413	1,257	1,997	1,903
Capex (Net)	-2,343	6,940	3,515	(115)	(200)
Investments	32	-11	-50	(200)	15
Inv. Cash flow	-2,311	6,928	3,465	(315)	(185)
Dividend	0	0	0	0	0
Fresh Equity	-282	1,880	1,731	1,503	0
Minority interest	0	0	0	0	0
Debt	1,863	758	-6,175	(2,328)	(829)
Others	-2,070	-2,065	-1,226	(893)	(829)
Fin. Cash flow	-489	573	-5,670	(1,718)	(1,658)
Net change in cash	-1,550	6,089	-948	(37)	60
Opening cash	1,959	2,448	2,543	625	588
Closing cash	2,448	2,543	625	588	648



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