

Suzlon Energy

BUY

INDUSTRY CAPITAL GOODS

CMP (as on 14 Aug 17) Rs 17

Target Price Rs 25

Nifty 9,794

Sensex 31,449

KEY STOCK DATA

Bloomberg /Reuters SUEL IN

No. of Shares (mn) 5,291

MCap (Rs bn) / (\$ mn) 92 / 1,436

6m avg traded value (Rs mn) 1,092

STOCK PERFORMANCE (%)

52 Week high / low Rs 22 / 12

3M 6M 12M

Absolute (%) (16.1) 1.8 5.1

Relative (%) (20.3) (9.2) (6.6)

SHAREHOLDING PATTERN (%)

Promoters 20.31

FIs & Local MFs 12.32

FPIs 6.99

Public & Others 60.38

Source : BSE

A shock, though a positive one

After a lacklustre performance by Inox Wind and Sanghvi Movers, Suzlon's (SUEL) 1QFY18 results surprised positively, with volume doubling to 412MW (vs. 204 MW in 1QFY17). Revenues / EBITDA grew 62 / 177% YoY. EBITDA margins stood at 17.8% (+740bps YoY). APAT came in at Rs 915mn (vs. loss of Rs 2.1bn YoY). The order backlog stands at 1,169 MW, half of which is PPA-backed or for captive consumption. Despite the shift from a FIT-based regime to a bid-based one, mgt expects the industry size in FY19 to be ~6 GW, and grow further.

While FY18 could be challenging for the wind industry with no new PPAs being signed and tenders from SECI and State Governments yet to meaningfully pick up, we believe the bid-based regime will have a positive impact on the sector in the long run. This is because it would also enable participation from non-windy states. While we reduce our volume estimates for FY18/19E by 200 MW each, we believe SUEL is well poised to benefit from the Govt's thrust on renewables. Reiterate BUY

Financial Summary: Consolidated

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)	FY16P	FY17P	FY18E	FY19E	FY20E
Net Sales	26,762	16,551	62	49,993	(46)	94,835	127,144	124,220	138,772	153,558
EBITDA	4,752	1,713	177	7,216	(34)	13,436	22,025	18,931	20,792	22,565
APAT	915	(2,115)	NM	2,677	(66)	(2,675)	5,426	5,288	8,002	10,615
Diluted EPS (Rs)	0.2	(0.4)	NM	0.4	(66)	(0.4)	0.9	0.9	1.3	1.8
P/E (x)						(39.0)	19.2	19.7	13.0	9.8
EV / EBITDA (x)						15.4	9.3	10.3	8.8	7.6

Source: Company, HDFC sec Inst Research

with a TP of Rs 25/share (11x Jun-19E EV/EBITDA).

Highlights of the quarter

- After the first successful bidding for the 1 GW tender by SECI, states namely TN and Gujarat have come out with 500 MW each and SECI with another 1 GW tender. The mgt expects the wind market size to be ~6 GW FY19 onwards.
- The SUEL order book stands at 1,169 MW, of which 145 MW relates to solar and the balance 1,024 MW to wind (inclusive of 250 MW won in the first SECI bid). ~50% of this order backlog is PPA-backed, and likely to be commissioned in FY18.
- The S111-120 model has registered PLF of 42% in the past year. Further, SUEL has commissioned a newer model (S111-140), which is likely to result in 5-6% higher yield as compared to S111-120 model.
- OMS revenues grew 7.5% YoY on the back of a higher installed base. We expect CAGR of 7.1% over FY17-20E.
- Near-term outlook:** With improving volumes and profitability, we have a positive view on SUEL. BUY.

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Revenue grew 62% YoY, led by strong volumes of 412 MW in 1QFY18 (vs. 204 MW YoY)

E/o item pertains to forex gain/ (loss) amounting to Rs (0.4)/(0.5)/3.1bn for 1QFY18/1QFY17/4QFY17 respectively

Quarterly Financials: Consolidated

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Net Sales	26,762	16,551	62	49,993	(46)
Material Expenses	15,633	9,142		32,949	
Employee Expenses	2,010	2,593		2,791	
Other Operating Expenses	4,368	3,103		7,038	
EBITDA	4,752	1,713	177	7,216	(34)
Interest Cost	3,113	3,041		3,453	
Depreciation	820	836		1,095	
Other Income	249	139		245	
Forex Gain/(Loss)	(424)	(485)		3,113	
PBT	644	(2,511)	NM	6,026	(89)
Tax	8	40		57	
Minority Interest	(146)	(50)		(179)	
Reported PAT (before MI)	491	(2,600)	NM	5,790	(92)
EO Items	(424)	(485)		3,113	
APAT	915	(2,115)	NM	2,677	(66)

Source: Company, HDFC sec Inst Research

Margin Analysis: Consolidated

	1QFY18	1QFY17	YoY (bps)	4QFY17	QoQ (bps)
Material Expenses as % of Net Sales	58.4	55.2	318	65.9	-749
Employee Expenses as % of Net Sales	7.5	15.7	-816	5.6	193
Other operating expenses as % of Net Sales	16.3	18.7	-243	14.1	224
EBITDA Margin (%)	17.8	10.3	741	14.4	332
Tax Rate (%)	1.2	(1.6)	274	0.9	22
Net Profit Margin (%)	3.4	(12.8)	1620	5.4	-193

Source: Company, HDFC sec Inst Research

Consolidated debt continues to remain high at ~Rs 115bn. However, the maturity profile is back-ended (FY19 onwards), providing comfort on the short-term liquidity profile of the company

Since the beginning of FY18, FCCBs amounting to USD 76mn have been converted into equity shares

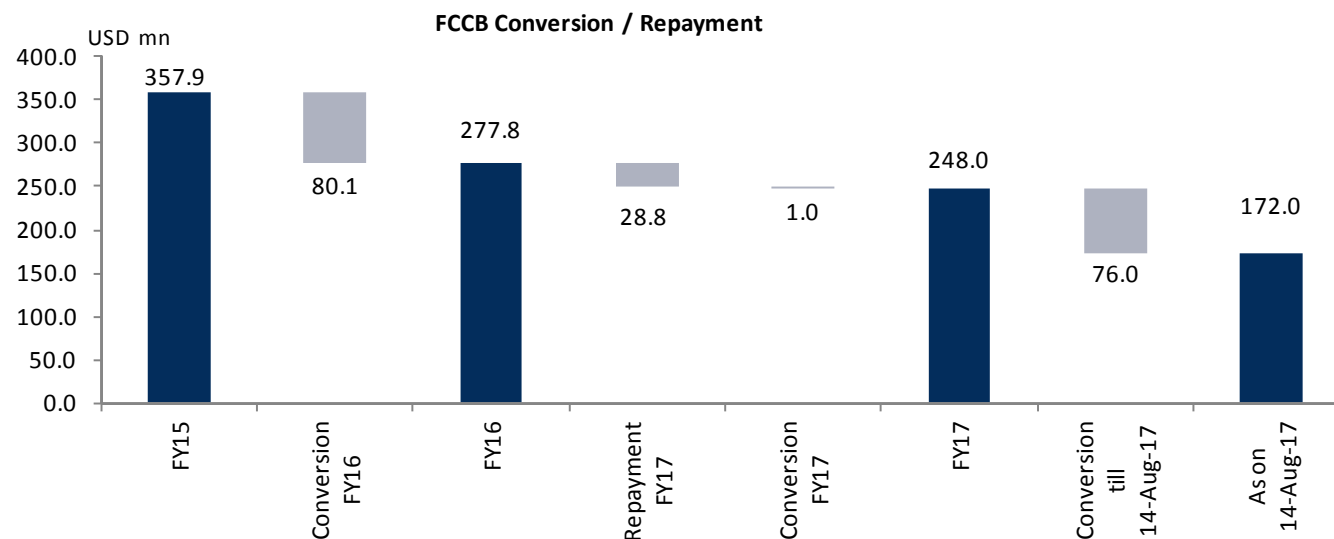
Consolidated Debt Breakdown

Particulars	Rs mn	Comments
Term debt	28,590	
Wcap debt	25,450	
Total Domestic Debt	54,040	
Forex debt	USD mn	
FCCB	248	Conversion price Rs 15.46 and Exchange Rate Rs 60.225
CE bond	626	SBLC have extended facility till 2023.
Others	72	
Total Forex Debt*	946	
Total Debt (Rs mn)	115,133	
Debt (ex-FCCB) (Rs mn)	99,117	

*Exchange Rate for conversion - 1 US\$ = Rs 64.58

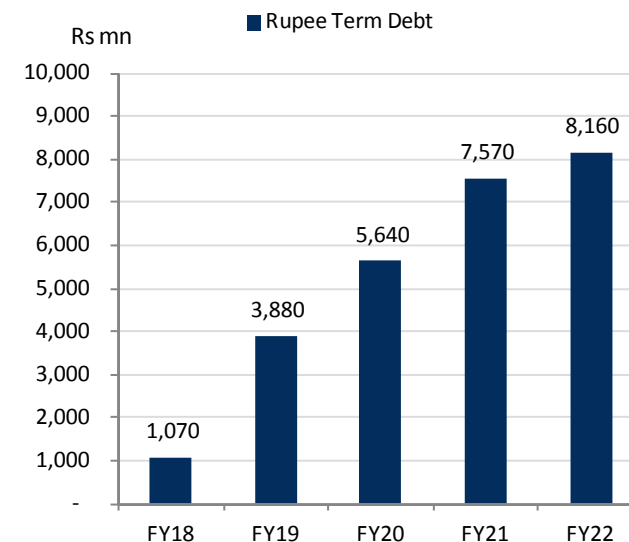
Source: Company, HDFC sec Inst Research

FCCB Movement



Source: Company, HDFC sec Inst Research

Rupee Term Debt: Maturity Profile (Next 5 Years)

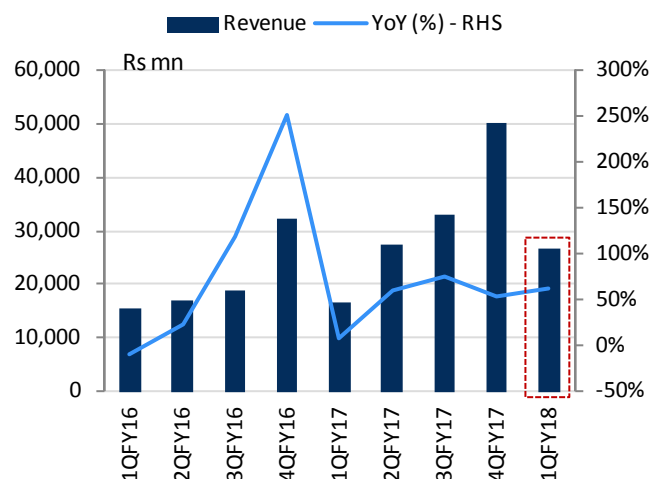


Source: Company, HDFC sec Inst Research

With volumes of 412MW (+102% YoY) and realisations at Rs 54 mn/MW, revenue grew to Rs 26.8bn in 1QFY18

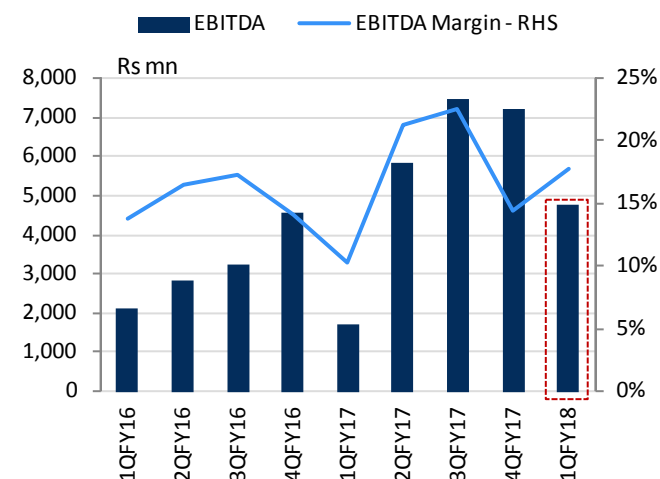
After the first successful bidding for the 1 GW tender by SECI, states, namely TN and Gujarat, have come out with 500 MW each and SECI with another 1 GW tender

Quarterly Revenue Trend



Source: Company, HDFC sec Inst Research

EBITDA And EBITDA Margin Trend



Source: Company, HDFC sec Inst Research

Key Estimates: Consolidated

Rs mn	FY18E	FY19E	FY20E
WTG Revenue	105,600	118,800	132,000
MW sales	1,600	1,800	2,000
Rs mn/MW	66	66	66
OMS Revenue	18,620	19,972	21,558
Revenue from operations	124,220	138,772	153,558
EBITDA	18,931	20,792	22,565
EBITDA Margin (%)	15.2%	15.0%	14.7%
APAT	5,288	8,002	10,615
APAT margins (%)	4.3%	5.8%	6.9%
Total debt	94,157	86,044	78,044

Source: Company, HDFC sec Inst Research

Peer Valuation

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Cummins India *	246	887	NEU	974	26.1	28.2	31.3	34.0	31.4	28.3	30.0	27.5	24.4	20.0	20.0	20.4
Suzlon	92	17	BUY	25	0.9	0.9	1.3	19.2	19.7	13.0	9.3	10.3	8.8	NA	NA	NA
Engineers India *	95	151	BUY	174	6.2	5.9	7.7	24.5	25.4	19.5	22.6	21.1	13.6	14.1	15.1	21.7
KEC International	74	286	BUY	330	11.9	14.4	18.2	24.1	19.9	15.7	11.1	10.7	9.0	21.2	21.2	22.1
Kalpataru Power * ^	54	351	BUY	426	17.5	18.6	22.0	15.5	14.6	12.3	11.1	10.1	8.7	11.5	11.0	11.7
Triveni Turbine	44	134	BUY	147	3.7	4.2	4.8	35.9	31.7	28.2	26.5	24.0	20.8	35.2	31.1	28.5
Skipper Limited *	22	212	BUY	253	9.6	12.0	15.1	22.2	17.6	14.1	11.3	9.5	8.1	22.3	22.5	23.1

*Note - represent SA numbers ^ P/E adjusted for value of Subs /JV's / non-core businesses

Source: Company, HDFC sec Inst Research

Income Statement: Consolidated

(Rs mn)	FY16P	FY17P	FY18E	FY19E	FY20E
Net Revenues	94,835	127,144	124,220	138,772	153,558
Growth (%)	(52.5)	34.1	(2.3)	11.7	10.7
Material Expenses	56,038	75,429	73,948	82,996	92,356
Employee Expenses	9,591	10,465	11,428	12,906	14,281
SG&A Expenses	15,770	19,225	19,913	22,078	24,357
Total Expenses	81,399	105,119	105,289	117,980	130,993
EBITDA	13,436	22,025	18,931	20,792	22,565
EBITDA Margin (%)	14.2	17.3	15.2	15.0	14.7
EBITDA Growth (%)	67.7	63.9	(14.0)	9.8	8.5
Depreciation	3,920	3,922	3,940	4,094	4,246
EBIT	9,516	18,103	14,991	16,698	18,319
Interest	13,040	12,876	10,336	9,374	8,432
Other income (including EO Items)	9,361	3,857	933	979	1,028
PBT	5,837	9,084	5,588	8,302	10,915
Tax (Incl Deferred)	(110)	117	-	-	-
Minority Interest	245	572	300	300	300
RPAT	5,702	8,395	5,288	8,002	10,615
EO (Loss) / Profit (net of tax)	8,377	2,969	-	-	-
APAT	(2,675)	5,426	5,288	8,002	10,615
APAT Growth (%)	88.7	302.8	(2.6)	51.3	32.6
Adjusted EPS (Rs)	(0.4)	0.9	0.9	1.3	1.8
EPS Growth (%)	88.7	302.8	(2.6)	51.3	32.6

Source: Company, HDFC sec Inst Research

Balance Sheet: Consolidated

(Rs mn)	FY16P	FY17P	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	10,041	10,049	11,606	11,980	11,980
Share application money, pending allotment	-	-	-	-	-
Reserves	(85,026)	(78,148)	(72,860)	(62,119)	(51,503)
TOTAL SHAREHOLDERS FUNDS	(74,985)	(68,099)	(61,254)	(50,139)	(39,524)
Minority Interest	-	87	87	87	87
Share Capital - Preference	-	-	-	-	-
Long Term Debt	92,246	88,410	75,397	72,284	72,284
Short Term Debt	18,949	20,764	18,760	13,760	5,760
TOTAL DEBT	111,195	109,174	94,157	86,044	78,044
Net Deferred Taxes	126	126	126	126	126
Other Non-current Liabilities & Provns	3,707	3,927	3,403	3,802	4,207
TOTAL SOURCES OF FUNDS	40,044	45,215	36,519	39,921	42,941
APPLICATION OF FUNDS					
Net Block	16,462	17,018	15,214	13,119	10,873
CWIP	2,325	2,060	2,000	2,000	2,000
Goodwill	76	76	76	76	76
Investments	929	1,886	1,886	1,886	1,886
Other Non-current Assets	8,818	8,840	8,508	9,505	10,518
Total Non-current Assets	28,610	29,879	27,684	26,586	25,352
Cash & Equivalents	8,936	8,172	3,731	7,632	11,278
Inventories	25,247	34,688	32,331	36,119	39,967
Debtors	25,932	36,733	35,734	39,921	44,174
Other Current Assets	8,980	12,570	11,911	13,307	14,725
TOTAL CURRENT ASSETS	60,159	83,991	79,977	89,346	98,866
Creditors	29,699	48,123	40,839	45,624	50,485
Other Current Liabilities & Provns	27,963	28,704	34,033	38,020	42,071
TOTAL CURRENT LIABILITIES	57,661	76,827	74,872	83,643	92,556
Net Current Assets	2,497	7,164	5,105	5,703	6,311
TOTAL APPLICATION OF FUNDS	40,044	45,215	36,519	39,921	42,941

Source: Company, HDFC sec Inst Research

Cash Flow: Consolidated

(Rs mn)	FY16P	FY17P	FY18E	FY19E	FY20E
Reported PBT	5,837	9,084	5,588	8,302	10,915
Non-operating & EO items	(9,361)	(3,857)	(933)	(979)	(1,028)
Interest Expenses	13,040	12,876	10,336	9,374	8,432
Depreciation	3,920	3,922	3,940	4,094	4,246
Working capital change	14,386	(4,469)	1,867	(1,196)	(1,215)
Tax Paid	110	(117)	-	-	-
Other operating items	(13,409)	5,634	3,046	4,771	1,756
OPERATING CASH FLOW (a)	14,523	23,074	23,844	24,367	23,106
Capex	39,213	(4,214)	(2,000)	(2,000)	(2,000)
Free Cash Flow	53,736	18,860	21,844	22,367	21,106
Investments	(777)	(956)	-	-	-
Non-operating Income	(9,361)	(3,857)	(933)	(979)	(1,028)
INVESTING CASH FLOW (b)	29,075	(9,027)	(2,933)	(2,979)	(3,028)
Debt Issuance/(Repaid)	(66,918)	(2,022)	(15,016)	(8,113)	(8,000)
Interest	(13,040)	(12,876)	(10,336)	(9,374)	(8,432)
FCFE	(26,223)	3,963	(3,508)	4,880	4,674
Share Capital Issuance	18,000	-	-	-	-
Minority Interest	(636)	87	-	-	-
Dividend	-	-	-	-	-
FINANCING CASH FLOW (c)	(62,595)	(14,812)	(25,352)	(17,487)	(16,432)
NET CASH FLOW (a+b+c)	(18,997)	(765)	(4,441)	3,901	3,646
Closing Cash & Equivalents	8,936	8,172	3,731	7,632	11,278

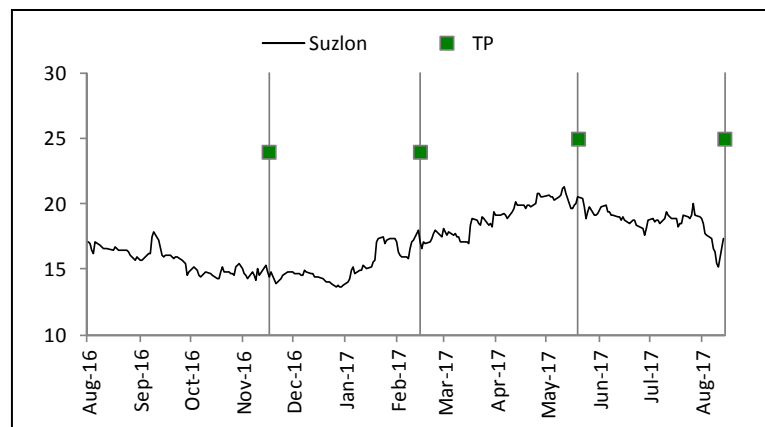
Source: Company, HDFC sec Inst Research

Key Ratios: Consolidated

	FY16P	FY17P	FY18E	FY19E	FY20E
PROFITABILITY %					
GPM	40.9	40.7	40.5	40.2	39.9
EBITDA margin	14.2	17.3	15.2	15.0	14.7
APAT margin	(2.8)	4.3	4.3	5.8	6.9
RoE	NA	NA	NA	NA	NA
Core RoCE (RoIC)	16.3	52.4	42.9	51.3	57.3
RoCE	13.6	42.5	38.2	45.5	46.0
EFFICIENCY					
Tax Rate (%)	(1.9)	1.3	-	-	-
Fixed Asset Turnover (x)	5.0	6.6	7.2	9.1	11.9
<i>Inventory (days)</i>	<i>97.2</i>	<i>99.6</i>	<i>95.0</i>	<i>95.0</i>	<i>95.0</i>
<i>Debtors (days)</i>	<i>99.8</i>	<i>105.5</i>	<i>105.0</i>	<i>105.0</i>	<i>105.0</i>
<i>Other Current Assets (days)</i>	<i>34.6</i>	<i>36.1</i>	<i>35.0</i>	<i>35.0</i>	<i>35.0</i>
<i>Payables (days)</i>	<i>114.3</i>	<i>138.1</i>	<i>120.0</i>	<i>120.0</i>	<i>120.0</i>
<i>Other Current Liab & Provns (days)</i>	<i>107.6</i>	<i>82.4</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
<i>Cash conversion cycle (days)</i>	<i>9.6</i>	<i>20.6</i>	<i>15.0</i>	<i>15.0</i>	<i>15.0</i>
Debt/EBITDA (x)	8.3	5.0	5.0	4.1	3.5
Net D/E (x)	(1.4)	(1.5)	(1.5)	(1.6)	(1.7)
Interest Coverage (x)	0.7	1.4	1.5	1.8	2.2
PER SHARE DATA (Rs)					
EPS	(0.4)	0.9	0.9	1.3	1.8
CEPS	0.2	1.6	1.5	2.0	2.5
Dividend	-	-	-	-	-
Book Value	(12.5)	(11.4)	(10.2)	(8.4)	(6.6)
VALUATION					
P/E (x)	(39.0)	19.2	19.7	13.0	9.8
P/BV (x)	(1.4)	(1.5)	(1.7)	(2.1)	(2.6)
EV/EBITDA (x)	15.4	9.3	10.3	8.8	7.6
EV/Revenues (x)	2.2	1.6	1.6	1.3	1.1
OCF/EV (%)	7.0	11.2	12.2	13.3	13.5
FCF/EV (%)	26.0	9.2	11.2	12.2	12.3
FCFE/Mkt Cap (%)	(25.2)	3.8	(3.4)	4.7	4.5
Dividend Yield (%)	-	-	-	-	-

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
16-Nov-16	15	BUY	24
14-Feb-17	18	BUY	24
22-May-17	21	BUY	25
14-Aug-17	17	BUY	25

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

