



SUZLON ENERGY

The elephant rising again!

Growth is never by mere chance;
it is the result of forces working
together.

– James Cash Penney

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Setting up & running a business is like a walking on a mountain rope without any safety harness. Growing a business into successful empire is one thing; while turning around a dying is another. During the bad times, you cannot do much except to just push forward.

Our today's research is a perfect example of one such businesses – Suzlon Energy.

Suzlon – The elephant rising again!!

CMP – 18.9 (17 July 2017)

Industry Outlook:

5 Years

- The Solar Energy Corporation of India has announced that it will auction **4,000 megawatts of wind energy** capacity this financial year, i.e. by March 2018
- The agency will offer this capacity to prospective project developers in multiple trenches
- SECI is also expected to launch wind energy tenders of **5,000-6,000 megawatts every year until 2022**
- SECI is opening the tender of **1 GW at the end of July 2017**; With 500 MW each from Gujrat & Tamilnadu, total **3 GW tender to be opened in next 15 days**
- India plans to have an installed wind energy capacity of **60 gigawatts by March 2022**, and these auctions will be aligned to achieve this goal
- India's current installed wind energy capacity stands at just over 32 gigawatts
- Govt's second wind auction attracts bids worth 2,898 MW

10 Years

The formal target is **40% Renewables by 2030** - however government has said that it will exceed this commitment and achieve 57% by 2027. **This potentially indicates 10 years of amazing ride in renewables!**

India's Central Govt has set following target(in MW)

Source	2016-17	2017-18	2018-19
Solar Power	12,000	15,000	16,000
Wind	4000	4600	5200
Biomass	500	750	850
SHP	225	100	100
Grand Total	16725*	20450*	22150*

Last Year wind sector review:

Our Past study: Sintex Industries – The dark horse @ 23.3 on 28th June 2017.

The renewable sectors in India has grown **100% year-on-year for the last 2 years**. It was the first year in India, when the renewable capacity addition exceeds the thermal capacity. Wind installation attained as a **new peak in the FY17 at 5.5 GW installation in a single year, which is a 61% growth** over the last fiscal year, with the cumulative additions reaching 32 GW total installed base in the country, much more ahead of the 30 GW target set by the government until FY17.

India's wind scenario

- Total Wind Installation in India (2017): 32 GW
- India's commitment by 2022: 60 GW
- **Total Backlog of RPO obligation from Non windy states (20 States): 35 GW**
- 10% obligation for PSU's for each auction (provision of 10 per cent additional capacity for Central Public Sector Entities has been kept under the Scheme without participation in the bidding)

Expected Demand

Demand Source	Expected Volume per annum up to 2022
Central Govt	4 GW
Non Windy States (RPO)	3 GW
Windy States	3 GW
PSU & Captives	.5 GW
Total Domestic Market Demand	~ 10 GW

- Centre (as per announcement by SECI): 4-6 GW per annum
- Captive and PSU: 0.5-1 GW per annum
- Non windy States (20 states): 3-4 GW per annum
- Windy States (9 states): 3-4 GW per annum

Total new installation expected by 2022: 50 GW against the committed additional addition of 28 GW. Even if the states and government are able to do half of the addressable size, it would still be able to meet its commitment. So conservatively for further calculation we safely assume additional 28 GW is what we will be able to achieve by 2022

Wind market in India is currently under the transition phase from FIT and incentive regime to the auction-based competitive market. This augurs well from the industry's volume point of view. With participation from the non-windy states, the canvas expand from the 9 windy states to 29 states in the country. The first auctions concluded the last month saw **100% response** in offtakes from non-windy states. Another 1 GW bidding has been announced already. These central-level auction will enable primarily on the non-windy states to meet their RPO obligation backlog of 35 GW. We believe 5 to 6 GW per annum such central-level auction is being planned by the government. Apart from the above,

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existing windy states are also planning auction for their wind power requirement to meet their RPO. Around 3 to 4 GW per annum is expected to come from these windy states.

The huge traction is also seen in the captive and PSU market, which is now estimated 1 GW per annum. And also each bid, central bidding, provisions of the 10% capacity is also allocated especially for PSU.

With all 3 segment put together, industry is on the track become a 10-12 GW annual market from FY19.

Advantage - Suzlon:

1. Suzlon's latest product S111-120 wind turbine generator has achieved **42% plant-load factor** in its first 12 months of operations in Gujarat. This is the highest PLF registered by any renewable technology in India till date.
2. Suzlon's next product under development is 12X, which has potential to further push down the LCOE by another 10%, and is expected to be in the market by mid-2018. **This will enable Suzlon's customer to compete low tariffs while protecting their return.**
3. Suzlon is the most vertically-integrated manufacturer in India, the benefit of operating leverage will be the maximum for them, enabling them to drive the higher cost efficiency.

Opportunity - Suzlon:


Suzlon current market share approx. 32%. The founder, Mr. Tanti expect 40% market share but we can safely assume 35% which appears realistic

Capacity addition by 2022 (GW)	Suzlon's Share (35%)	Suzlon's 5 year Revenue(E) from Capacity Addition
28	9.8	63700
35	12.25	79625
45	15.75	102375

Order Bidding - Suzlon follows a unique model of bidding. They don't bid directly, they do tie ups and those people frontend the bidding. This way it gets a larger share of Pie as to all bidders it can allocate a different site for the bidding and whoever wins it is guaranteed to have Suzlon. Hence the y are insulated from shocks like Inox wind at the same time could backend multiple frontend bids increasing their share of Pie.

News today by Business Line:

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COMPANIES IN FRAY

Orange	200 MW	TN
Renew	250 MW	GJ
Continuum	250 MW	GJ
Mytrah	250 MW	TN
Enel	250 MW	GJ
Inox	250 MW	GJ
Sembcorp	250 MW	TN
Hero	250 MW	TN
Spring	198 MW	GJ
Leapgreen	250 MW	TN
Adani	250 MW	
Regen	250 MW	

CHENNAI, JULY 16:

The second auction for allotting 1,000 MW of wind power capacity has attracted bids worth 2,898 MW. The bids closed on Saturday.

The first auction, also for 1,000 MW, which concluded on February 25 this year, resulted in wind energy companies agreeing to sell wind energy for as low as ₹3.46 a kWhr.

Milestone

The auction was a milestone event in the history of India's renewable energy industry, as it changed the way tariffs are discovered, from negotiated Feed-in Tariffs, to the cheaper tariffs discovered through competitive bidding.

Suzlon's IPP Clients

- CLP India
- Continuum Energy
- Greenko
- Hero Future Energy
- Leap Green
- Mytrah Energy
- Orange Renewable Power
- Orient Green Power
- Ostro Energy
- Reliance Energy
- Renew Power
- Sembcorp Green Infra Limited
- Tata Power
- Techno Electric
- Torrent Power

Original news - <http://www.thehindubusinessline.com/economy/govts-second-wind-auction-attracts-bids-worth-2898-mw/article9771016.ece>

Suzlon Client List - http://www.suzlon.com/about/worldwide_india_project

Almost everyone from the above list except Adani, Enel and Inox are Suzlon's client.

Suzlon's Order Book and Commissioning:

Order Book (June 2016)	1200
Commissioned FY17	1780
Order Book (June 2017)	1738
Commissioned FY 18 E	2200

2 GW bids are in progress and expected to be allotted between 25th July and 5th August. At 32% market share it could result in addition of 640 MW to order book taking total order book to 2.4 GW

Taxation:

Suzlon has 19000 Cr of accumulated losses which means it has to pay literally no tax till it recoups this. Theoretically no tax till 2023-2024. **Loss - A bane earlier is now a boon. Biggest Asset**

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Debt – the biggest overhang and Debt Reduction Scenario:

Remarks	Debt Type	Debt in March 2017	Debt Payoff				Debt in March 2021
			Mar-18	Mar-19	Mar-20	Mar-21	
Conversion to equity	FCCB	1330	0	-700	-630	0	0
Low interest debt	ECB	3800	0	0	-1500	-2300	0
Low interest debt	Other Foreign Debt	450	0	-100	-350	0	0
High Cost Debt	Domestic	4400	-300	-4100	0	0	0
	Total Debt	9980	-300	-4200	-1850	-2300	0
1. Subsidiary 40% stake to provide ~ 3500 cr (2018-19) 2. FCCB conversion will lower debt without impacting Cash flow							

- Subsidiary 40% stake sale is resulting in faster payoff of debt
- Full Debt reduction adds 2 Rs. to EPS

Note: Assumed 2000 Crore working capital requirement when planning for repayment

Financial Statements (E)

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Commissioning Volume (GW)	1.78	2.2	3	3.5	4
AMC Volume (GW)	17	18.78	20.98	23.98	27.48
Revenue (Crs)					
Commissioning Revenue	10680	13200	18000	21000	24000
AMC Revenue	1870	2066	2308	2638	3023
Total Revenue	12550	15266	20308	23638	27023
Operating Profit (Crs)	2510	3206	4062	4964	5675
Depreciation	450	450	450	450	450
Interest	1250	1000	975	318	138
Tax	0	0	0	0	0
Other Income	80	80	80	80	80
Net Profit (Crs)	890	1836	2717	4276	5167
Equity	504	520	600	600	600
EPS	1.8	3.5	4.5	7.1	8.6

EPS	9	10	11	12	13	14	15	18	20	Timeline
1.7	15.3	17	18.7	20.4	22.1	23.8	25.5	30.6	34	Jul-2017
3.5	31.5	35	38.5	42	45.5	49	52.5	63	70	Mar-2018
4.5	40.5	45	49.5	54	58.5	63	67.5	81	90	Mar-2019
7	63	70	77	84	91	98	105	126	140	Mar-2020
8.5	76.5	85	93.5	102	110.5	119	127.5	153	170	Mar-2021

Above chart can be used to determine how Suzlon's EPS & PE will impact is move. For e.g. an EPS 12 at PE of 3.5 gives 42 as price.

Capex

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Suzlon has increased capacity of its 120 M-blades to 1800 MW per year this year onwards. This is apart from older blades it produces. Hence, no major capex requirement is there in near future. Management also indicated that capex for next few years would be less than 300 crs per year.

Triggers

1. CDR Exit
2. Debt repayments
3. De-pledging of Shares
4. *New Orders (three auctions of 2 GW planned between 25 July 2017 and August 5th 2017. Two 500 MW by Gujarat and TN and 1 GW by SECI)*
5. Q1FY18 Results (expected to result in minimal loss or near zero profit). This will increase the TTM EPS by 25%-50%. This is owing to the larger loss in Q1 FY17 Last year as base will be low
6. Subsidiary Listing or stake sale (by 2019)
7. Buyback or open offer – not considered.
8. Export Orders – not considered

Key Advantages:

1. **19000 Cr of accumulated Losses. One of the biggest Assets when turning around no more tax payments till they recoup this loss.**
2. **Best windy sites in the country**
3. **Best PLF generating equipment.** Both these two translate to lower cost of bidding enabling their partner to *compete in lower priced bids and still generating profits.*
4. Auction model of back-ending the bids ensuring larger piece of Pie. Considering they tie up with different vendors for the same tender giving every vendor a different site.
5. *Re-commissioning of old wind farms:* Typical life of wind farms is 20 years. Suzlon came into existence in 1995-1996. Most of these wind farms would now start coming in for redevelopment which will present a sizable opportunity. This has not been considered in the estimation.
6. Suzlon's new blades are *hybrid with solar.* This gives it an *entry into Solar* too. Any opportunity benefits from this has not been included in the estimation.
7. *Central Govt planning to come up with Hybrid policy which Suzlon looks all set to capture as it has already ventured into developing hybrid wind farms*
8. **17 GW of Assets under maintenance this is expected to grow by 10-12% each year adding more revenue.** Expected revenue from AMC by March 2021 looks to be around 3500 crores.

A Real Turnaround?

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Companies that have history of huge investment loss for both promoters & its investors are plagued by biases. A bias of total disbelief. That said, it is natural not to believe any such growth from a company that eroded investor's money. Suzlon isn't different. However, the changes that are evident are too strong to ignore.

- DSA – Dilip Singhvi Associates picked 23% stakes in the company shows renewed confidence in Suzlon's business
- Started closing loss making subsidiaries (Suzlon recently decided to close its Brazil subsidiary)
- Capex, as mentioned in Mgmt con call, will be lower than 300 Crore for next few years
- Suzlon has signed MoU with AP Government for around 4,000 megawatts of renewable power for next 5 years (July 2016)
- 1 year order book with 1700 MW orders in hand almost 50% higher than same time last year
- (With another 1000 MW already announced by states and SECI to bring in 4000 MW of auctions by March 2018) both commissioning and Order Book is poised to grow higher
- Exports orders can be expected to come in with Europe taking the baton. Replacing nuclear with wind
- Suzlon - the only company to have the blade manufacturing facility in every single wind state in the country and also serving every single customer segmentation on this

Global – A positive surprise for our elephant!!

As per recent research by **McKinsey**, Offshore **wind energy might be the next big thing**. Especially, in **coastal countries of Europe, the change will be prominent**. As per the report, the future cost of energy with revolution in offshore wind farms will result is drop of cost by 68%.

In addition, **European countries** have set themselves an agenda to **close nuclear power plants** and **move to** more sustainable & **renewable** energy. ***Wind energy will form a 70% of that agenda.***

Nuclear Power Phase-out

- Germany's 17 nuclear power stations will be shut down by 2022, in a policy reversal following Japan's Fukushima Daiichi nuclear disaster
- Switzerland voted for phase out of nuclear energy with 58.2 per cent of voters supported the phase-out of nuclear
- Austria, Belgium, Italy, Sweden are some other European countries who have decided to phase out nuclear power

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