

# Suzlon Energy

## Wind tariffs become more competitive

- The results for first 1GW wind auction are out with tariffs at Rs3.46/unit. We interacted with two wind power developers who secured 50% of these orders. The developers are confident of sustainable IRR of 14% at this bid price.
- To achieve desirable IRRs, the developers would install wind turbines which can operate at 30% PLFs (easily available in the market). They expect the wind equipment suppliers to pass on the benefits from better realizations on advanced turbines.
- We believe this is positive for the wind sector as power tariffs are now competitive to the recent solar biddings and thermal power tariffs. This should diminish the investor concerns that the state electricity boards prefer solar over wind energy.
- The government has already planned second wind auction of 2GW in next 3 months. We believe Indian wind market size can increase to 4.5-5GW pa from current 4GW. This is after factoring that demand from state feed-in-tariffs process will subside.
- SUEL will benefit from increased wind power demand. In our view, its new product model S111-120 is best suited for new projects as it can generate 40% PLF. SUEL controls 31% of domestic wind market. We maintain BUY with Rs23 TP.

### 14% Equity IRR at Rs3.46/unit tariff

The developers confirmed to us that these wind projects can generate equity IRRs of 14% at tariff of Rs3.46/unit. This is good news for the wind sector as there were concerns that low tariffs could disrupt the industry and demand may eventually decline. The IRRs for wind projects remain better than solar IRRs which are at 11-12%.

### Market expansion of wind power

These bid-based projects of 1GW have helped in market expansion of wind power. The government has planned further projects of 2GW in next 3 months. We continue to be positive on the long term prospects of wind sector given its improving competitiveness. We expect wind market size to increase to 4GW in FY17 and 5GW in FY18 (vs 3.4GW in FY16).

### SUEL among large beneficiaries

SUEL now controls 31% of domestic wind market (second after Gamesa). However in terms of capacity, SUEL is the largest with 3.6GW capacity. SUEL is the only company which controls end-to-end supply chain for wind based projects. We expect SUEL's volume to rise to 2GW in FY19 from 1.5GW in FY17. We like SUEL due to strong growth prospects in the Indian wind energy space and its strong positioning.

### Financial Snapshot (Consolidated)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Revenue	1,99,544	95,626	1,20,560	1,30,622	1,43,133
EBITDA	8,011	13,786	20,408	20,900	22,580
EBITDA Margin (%)	4.0	14.4	16.9	16.0	15.8
APAT	(23,606)	(1,715)	4,573	6,452	8,553
EPS (Rs)	(6.4)	(0.3)	0.8	1.1	1.4
EPS (% chg)	0.0	0.0	0.0	41.1	32.6
ROE (%)	61.4	2.4	(7.6)	(13.7)	(21.6)
P/E (x)	(2.8)	(52.8)	23.6	16.7	12.6
EV/EBITDA (x)	27.4	14.2	9.8	9.2	8.0
P/BV (x)	(0.9)	(1.3)	(2.1)	(2.5)	(3.1)

Source: Company, Emkay Research

CMP	Target Price
Rs18	Rs23 (■)
Rating	Upside
BUY (■)	26.7 %

### Change in Estimates

EPS Chg FY17E/FY18E (%)	NA
Target Price change (%)	NA
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY17E	FY18E
Emkay	0.8	1.1
Consensus	0.7	1.0
Mean Consensus TP	Rs 24	

### Stock Details

Bloomberg Code	SUEL IN
Face Value (Rs)	2
Shares outstanding (mn)	5,024
52 Week H/L	19 / 12
M Cap (Rs bn/USD bn)	91 / 1.36
Daily Avg Volume (nos.)	274,13,900
Daily Avg Turnover (US\$ mn)	6.7

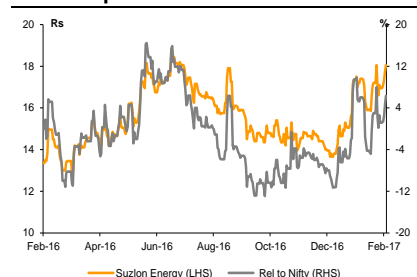
### Shareholding Pattern Dec '16

Promoters	21.0%
FIIIs	11.9%
DIIIs	10.1%
Public and Others	57.0%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	3	28	9	37
Rel. to Nifty	(3)	15	6	11

### Relative price chart



Source: Bloomberg

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**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
<b>Revenue</b>	<b>1,99,544</b>	<b>95,626</b>	<b>1,20,560</b>	<b>1,30,622</b>	<b>1,43,133</b>
<b>Expenditure</b>	<b>1,91,533</b>	<b>81,839</b>	<b>1,00,152</b>	<b>1,09,722</b>	<b>1,20,554</b>
<b>EBITDA</b>	<b>8,011</b>	<b>13,786</b>	<b>20,408</b>	<b>20,900</b>	<b>22,580</b>
Depreciation	8,088	4,033	4,205	4,378	4,551
<b>EBIT</b>	<b>(76)</b>	<b>9,754</b>	<b>16,202</b>	<b>16,522</b>	<b>18,029</b>
Other Income	533	655	554	565	576
Interest expenses	20,647	12,261	11,783	10,070	9,304
<b>PBT</b>	<b>(20,190)</b>	<b>(1,852)</b>	<b>4,973</b>	<b>7,017</b>	<b>9,301</b>
Tax	3,173	(110)	0	0	0
Extraordinary Items	(67,971)	6,541	(442)	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>(91,577)</b>	<b>4,826</b>	<b>4,131</b>	<b>6,452</b>	<b>8,553</b>
<b>Adjusted PAT</b>	<b>(23,606)</b>	<b>(1,715)</b>	<b>4,573</b>	<b>6,452</b>	<b>8,553</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Equity share capital	7,415	10,041	11,972	11,972	11,972
Reserves & surplus	(80,579)	(80,834)	(62,277)	(55,825)	(47,272)
<b>Net worth</b>	<b>(73,164)</b>	<b>(70,793)</b>	<b>(50,305)</b>	<b>(43,853)</b>	<b>(35,300)</b>
<b>Minority Interest</b>	<b>636</b>	<b>32</b>	<b>38</b>	<b>46</b>	<b>55</b>
<b>Loan Funds</b>	<b>1,80,527</b>	<b>1,14,685</b>	<b>98,328</b>	<b>95,328</b>	<b>85,328</b>
Net deferred tax liability	6,489	126	133	139	146
<b>Total Liabilities</b>	<b>1,14,489</b>	<b>44,050</b>	<b>48,194</b>	<b>51,661</b>	<b>50,230</b>
<b>Net block</b>	<b>58,434</b>	<b>16,976</b>	<b>14,593</b>	<b>11,630</b>	<b>8,017</b>
<b>Investment</b>	<b>152</b>	<b>448</b>	<b>470</b>	<b>494</b>	<b>519</b>
<b>Current Assets</b>	<b>1,55,167</b>	<b>79,963</b>	<b>1,06,257</b>	<b>1,20,353</b>	<b>1,32,685</b>
Cash & bank balance	27,933	9,455	6,907	11,868	12,133
Other Current Assets	27,605	7,842	8,234	8,645	9,078
<b>Current liabilities &amp; Provision</b>	<b>1,02,826</b>	<b>55,615</b>	<b>75,404</b>	<b>83,095</b>	<b>93,269</b>
<b>Net current assets</b>	<b>52,341</b>	<b>24,348</b>	<b>30,853</b>	<b>37,259</b>	<b>39,416</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>1,14,489</b>	<b>44,050</b>	<b>48,194</b>	<b>51,661</b>	<b>50,230</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>(20,723)</b>	<b>(2,508)</b>	<b>4,419</b>	<b>6,452</b>	<b>8,725</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(20,120)	3,152	(9,046)	(1,438)	(1,885)
<b>Operating Cashflow</b>	<b>(15,281)</b>	<b>17,048</b>	<b>11,361</b>	<b>19,462</b>	<b>20,694</b>
Capital expenditure	69,396	38,709	(1,822)	(1,416)	(938)
<b>Free Cash Flow</b>	<b>54,115</b>	<b>55,757</b>	<b>9,540</b>	<b>18,046</b>	<b>19,756</b>
Investments	(115)	(296)	(22)	(24)	(25)
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>69,814</b>	<b>39,068</b>	<b>(1,290)</b>	<b>(874)</b>	<b>(386)</b>
Equity Capital Raised	2,439	2,626	1,931	0	0
Loans Taken / (Repaid)	8,527	(65,842)	(16,357)	(3,000)	(10,000)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(48,428)	883	13,590	(557)	(739)
<b>Financing Cashflow</b>	<b>(58,109)</b>	<b>(74,595)</b>	<b>(12,619)</b>	<b>(13,627)</b>	<b>(20,043)</b>
<b>Net chg in cash</b>	<b>(3,577)</b>	<b>(18,478)</b>	<b>(2,548)</b>	<b>4,960</b>	<b>265</b>
Opening cash position	31,510	27,933	9,455	6,907	11,868
<b>Closing cash position</b>	<b>27,933</b>	<b>9,455</b>	<b>6,907</b>	<b>11,868</b>	<b>12,133</b>

**Key Ratios**

<b>Profitability (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EBITDA Margin	4.0	14.4	16.9	16.0	15.8
EBIT Margin	0.0	10.2	13.4	12.6	12.6
Effective Tax Rate	(15.7)	5.9	0.0	0.0	0.0
Net Margin	(11.7)	(1.8)	4.1	5.4	6.5
ROCE	0.3	13.1	36.3	34.2	36.5
ROE	61.4	2.4	(7.6)	(13.7)	(21.6)
RoIC	(0.1)	17.0	46.0	43.7	49.9

<b>Per Share Data (Rs)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
EPS	(6.4)	(0.3)	0.8	1.1	1.4
CEPS	(4.2)	0.5	1.5	1.8	2.2
BVPS	(19.7)	(14.1)	(8.4)	(7.3)	(5.9)
DPS	0.0	0.0	0.0	0.0	0.0

<b>Valuations (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
PER	(2.8)	(52.8)	23.6	16.7	12.6
P/CEPS	(4.3)	39.1	12.3	10.0	8.2
P/BV	(0.9)	(1.3)	(2.1)	(2.5)	(3.1)
EV / Sales	1.1	2.0	1.7	1.5	1.3
EV / EBITDA	27.4	14.2	9.8	9.2	8.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

<b>Gearing Ratio (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Net Debt/ Equity	(2.1)	(1.5)	(1.8)	(1.9)	(2.1)
Net Debt/EBIDTA	19.0	7.6	4.5	4.0	3.2
Working Cap Cycle (days)	44.6	56.8	72.5	71.0	69.6

<b>Growth (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Revenue	(2.2)	(52.1)	26.1	8.3	9.6
EBITDA	598.5	72.1	48.0	2.4	8.0
EBIT	0.0	0.0	66.1	2.0	9.1
PAT	0.0	0.0	(14.4)	56.2	32.6

<b>Quarterly (Rs mn)</b>	<b>Q2FY16</b>	<b>Q3FY16</b>	<b>Q1FY17</b>	<b>Q2FY17</b>	<b>Q3FY17</b>
Revenue	17,490	18,846	16,551	27,521	33,114
EBITDA	1,018	2,568	1,228	6,188	7,163
<b>EBITDA Margin (%)</b>	<b>5.8</b>	<b>13.6</b>	<b>7.4</b>	<b>22.5</b>	<b>21.6</b>
PAT	(1,385)	(409)	(3,499)	2,472	2,362
<b>EPS (Rs)</b>	<b>(0.3)</b>	<b>(0.1)</b>	<b>(0.7)</b>	<b>0.5</b>	<b>0.5</b>

<b>Shareholding Pattern (%)</b>	<b>Dec-15</b>	<b>Mar-16</b>	<b>Jun-16</b>	<b>Sep-16</b>	<b>Dec-16</b>
Promoters	21.1	21.0	21.0	21.0	21.0
FIIIs	16.5	12.8	12.6	12.5	11.9
DIIIs	12.1	10.2	10.3	10.1	10.1
Public and Others	50.3	56.0	56.1	56.5	57.0

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BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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