

# Suzlon Energy | BUY

## Policy uncertainty not to have killer impact this time



Sudhanshu Bansal

sudhanshu.bansal@jmf.com | Tel: (91 22) 66303128

MNRE in a surprise move, reinstated the earlier bidding approach of 'reverse auctions', limited the bid size to 600MW for plain vanilla wind tenders and, mandated issue of bids on pan-India basis by SECI, NTPC, NHPC and SJVN and State agencies. After the sharp decline in capacity additions, the bidding process was changed to '2-parts closed bids' in early 2023, giving a new lease of life to the sector. Current move, however undesirable from policy uncertainty perspective, is likely to have insignificant impact given the large market size (>10GW/yr) as evident from under-subscription, change in bid's construct to RTC/FDRE (just 2% wind only tenders) and, increasing share of C&I players. However, closely monitoring behaviour of industry in upcoming bids will be crucial for now. Despite prevailing policy uncertainties, we maintain our BUY rating on the stock with a target price of INR 54 (based on a 27x FY26E EPS), underpinned by strengthening order book, enhanced financial health, and a robust bidding pipeline.

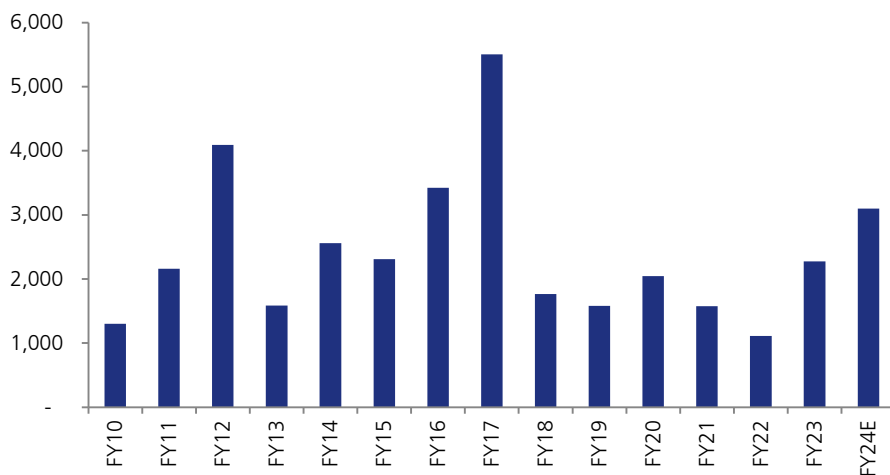
- **Current policy change:** Ministry of New and Renewable Energy (MNRE), in a surprise move, 1) reinstated the earlier approach of 'reverse auctions', 2) limited the size to 600MW for plain vanilla wind tenders and, 3) mandated issue of bids on pan-India basis rather than State-specific for auctioning of wind power capacity by Renewable Energy Implementing Agencies (REIA)- SECI, NTPC, NHPC and SJVN to the developers and State agencies.
- **Peak into the past:** Reverse auction was introduced in 2017 to discover competitive tariff when the bids were oversubscribed under feed-in-tariff mechanism (a tariff fixed by regulator and not discovered through competitive bidding). First reverse e-auction for 1000 MW SECI wind power tender in Feb'17 was oversubscribed 2.7 times and resulted in tariff of INR 3.46/kWh v/s INR 4.16-6.02 /kWh of feed-in-tariffs (FiT). In subsequent auctions, tariffs kept on decreasing, even going lower than INR 3/kWh compared to FiTs. Prior to the introduction of competitive bidding, wind FiTs determined by state electricity regulators varied from INR 4 to INR 6/kWh, depending on the speed and intensity of wind in a given site/region. Consistently declining tariff coupled with delay in signing of PPAs, delayed payments and execution challenges (grid connectivity, land acquisition and ROW) constrained the capacity addition. SO, the bidding method was changed from 'reverse bidding' to '2-parts closed bidding' in Jan'23, leading to the revival of industry.
- **India's RE ambition:** India has a target of 500GW of renewable capacity by 2030. Driven by years of concerted efforts, the industry is on the cusp of significant expansion in capacity additions; however, it faces a threat from consistent policy flip-flops, such as recent uncertainty around ALMM in solar and, now the shift in the bidding method for wind projects. There are concerns that future policy changes, such as the waiver of ISTS charges for renewable energy projects beginning in 2025, could further disrupt the sector, at least optically.
- **JM View:** We believe that the current changes will have limited impact on the sector with high probability of policy reversal in due course, given
  - Market size (current pipeline of combined capacity of solar, wind, and hybrid projects is around 85.9 GW, which is likely to be commissioned in the next 5-7 years) is significantly more than manufacturing capacity and execution capability of the industry
  - Most of the bids in recent months are for supply of Round-the-clock (RTC)/Firm and Dispatchable Renewable Energy (FDRE) power (solar+wind+storage), which invariably are decided through reverse auction (67.6 GW of projects are under the bidding phase i.e., where tenders have been issued but auctions are not yet completed)
  - Wind only tenders insignificant, just 264 MW (2%) in 12,142 MW of total bids finalised during Nov'23 to Jan'24

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- Recent bids are under-subscribed (SECI VII Wind Solar Hybrid, 1012 MW awarded against 2000 MW) ; leaving opportunities for all qualified industry players
- Share of Commercial & Industrial (C&I) orders is gradually increasing (53% in 3QFY24 for Suzlon) due to flexibility in contracts and better execution support

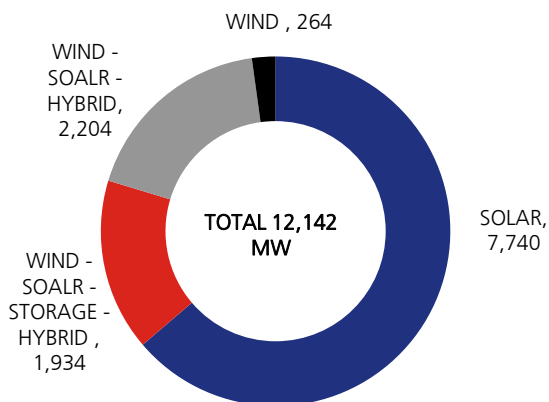
**Exhibit 1. Annual wind power capacity addition (MW)**



Source: MNRE, JM Financial

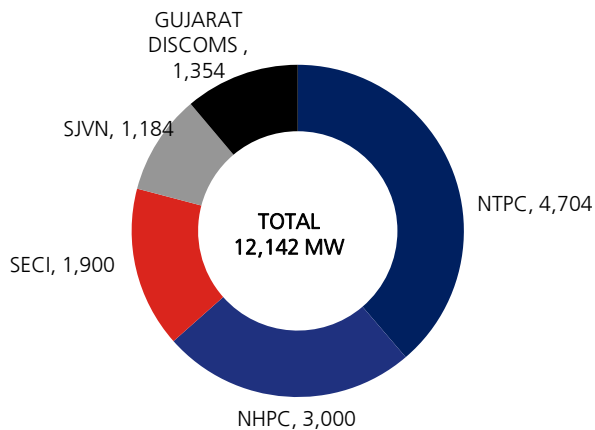
**Renewables project auctions completed during Nov'23 – Jan'24, MW**

**Exhibit 2. Technology, MW**



Source: Industry, JM Financial

**Exhibit 3. Offtakers, MW**

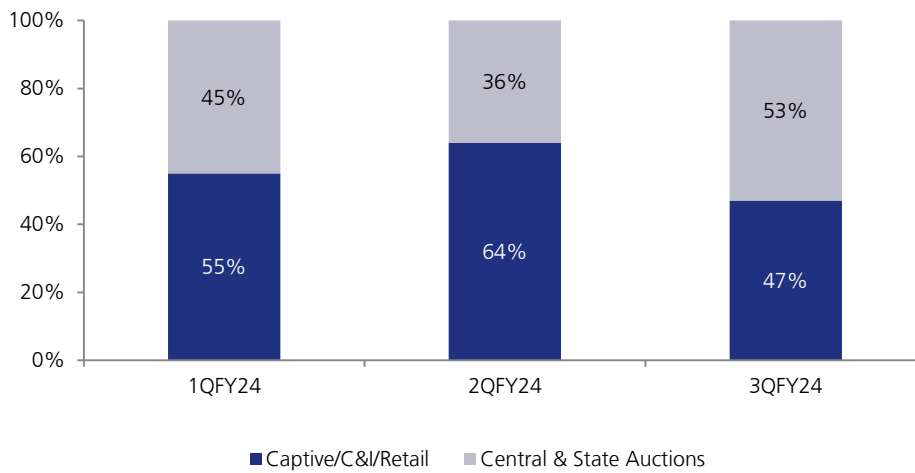


Source: Industry, JM Financial

**Exhibit 4. Bidding of Wind, Hybrid and RTC projects of SECI**

Bid	Date	Capacity under bidding	Bids accepted after technical bid opening	Capacity eligible for award	Tariff INR/kWh
SECI-VII Wind-Solar hybrid	Jan'24	2000 MW	1265 MW	1012 MW	3.15-3.21
SECI-XIV Wind	Jun'23	1200 MW	1540 MW	1200 MW	3.18-3.24
SECI-VI Wind-Solar RTC	Apr'23	1200 MW	2390 MW	1200 MW	4.64-4.73
SECI-XI Wind	Sep'21	1200 MW	2910 MW	1200 MW	2.69-2.70
SECI-IV Wind-Solar hybrid	Aug'21	1200 MW	6280 MW	1200 MW	2.34-2.35
SECI-XII Wind	May'22	1200 MW	3330 MW	1200 MW	2.89-2.94
SECI-V Wind-Solar hybrid	May'22	1200 MW	4370 MW	1200 MW	2.53
SECI-XIII Wind	Dec'22	1200 MW	3010 MW	1200 MW	2.90-2.95

Source: Company, JM Financial

**Exhibit 5. Suzlon's customer segment mix (%)**

Source: Company, JM Financial

## Suzlon's order book position

## Exhibit 6. Orders booked (INR mn)

Date	Developer	Product details	Order wins (MW)
<b>Order book as on 31st Mar'23</b>			<b>652</b>
<b>1QFY24</b>			
Apr-23	Sembcorp	2.1 MW	50
Apr-23	Thermax	3 MW	39
May-23	Juniper Green	3 MW	69
May-23	Vibrant Energy	3 MW	99
May-23	A Nordic company	3 MW	69
May-23	Sri Kumaraswamy Mineral Exports	2.1 MW	25
May-23	Serentica Renewables	3 MW	204
May-23	Torrent power	3 MW	300
	Others		61
	Total Additions		916
	Execution		135
<b>Order book as on 30th Jun'23</b>			<b>1,433</b>
<b>2QFY24</b>			
Jul-23	The KP Group	2.1 MW	48
Jul-23	Everrenew Energy	2.1 MW	101
Aug-23	Integrum Energy Infra.	2.1 MW	32
Aug-23	O2 Power Pvt Ltd	3 MW	202
Sep-23	BrightNight	2.1 MW	29
	Others (including cancelation of 1 previous order)		-99
	Additions		312
	Execution		132
<b>Order book as on 30th Sep'23</b>			<b>1,613</b>
<b>3QFY24</b>			
27 Oct'23	Juniper	3.15 MW	50.4
15 Dec'23	Global utility	3 MW	100.8
21 Dec'23	KP Group	2.1 MW	193.2
27 Dec'23	Mahindra Susten	2.1 MW	100.8
27 Dec'23	Nordic Energy	3.15 MW	100.8
28 Dec'23	Apaava Energy	3 MW	300
	Others		216
	Additions		1,062
	Execution		170
	Cum execution		437
<b>Order book as on 31th Dec'23</b>			<b>2,505</b>
<b>3QFY24</b>			
5 Jan'24	Everrenew (Trichy)	3 MW	225
30 Jan'24	ABC Cleantech	3 MW	642
29 Feb'24	EDF Renewables	3 MW	30
	<b>Total inflows YTFY24</b>		<b>3,402</b>

Source: Company, JM Financial

## APPENDIX I

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SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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