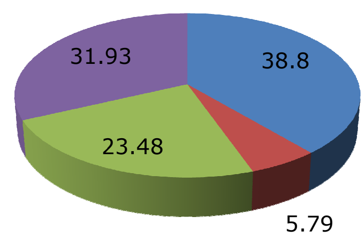
Investor's Delight - Suzlon Energy Ltd. (SEL)

19th June, 2014

The Suzlon Group is one of the world's largest wind turbine supplier, in terms of cumulative installed capacity and market share, at the end of 2013. The company's global spread extends across Asia, Australia, Europe, Africa and North and South America with over 24,200 MW of wind energy capacity installed, operations across over 30 countries and a workforce of over 10,000. The Group offers one of the most comprehensive product portfolios – ranging from sub-megawatt onshore turbines at 600 Kilowatts (KW), to the world's largest commercially-available offshore turbine at 6.15 MW – with a vertically integrated, low - cost, manufacturing base. The Group – headquartered at Suzlon One Earth in Pune, India – comprises Suzlon Energy Limited and its subsidiaries, including Senvion SE.

Industry	**Wind Turbines**
CMP	Rs. 27
Target price	**Rs.45**
Upside	**66%**
Horizon	**9-12 months**
Face Value	Rs. 2
No. of Equity shares	2488.15 mn
Market capitalisation	Rs. 67 bn
Key Management Personnel	Mr. Tulsi Tanti – Chairman & MD

% shareholding as on Mar. 2014



Turnaround started...

An all-round focus on organisational improvement has started to yield results for wind turbine maker Suzlon Energy, under pressure because of high debt, liquidity issues and low demand. Though some issues remain at elevated levels, but since there are some signs of easing, the market is hoping for a turnaround.

The first such sign was when after several quarters the company reported consolidated earnings before interest, taxes, depreciation, and amortisation (Ebitda) of Rs 328 crore in March quarter on a 54 per cent year-on-year growth in revenues at Rs 6,581 crore. But this isn't enough. The sales turnover only covers the business expenses, as the earnings before interest and tax (Ebit of Rs 116 crore) was not enough to pay interest costs of Rs 578 crore in the quarter. But because of higher sales, the intensity of losses is dropping. In March quarter, Suzlon made a net loss of Rs 603 crore compared to Rs 1,913 crore a year ago and Rs 1,075 crore in the December quarter.

The good news is the company has an order book of Rs 45,600 crore (5,300 MW of equipment), 2.2 times its FY14 sales and is deliverable by FY15. Also, earlier, the biggest challenge to grow sales and acquire orders was lack of sufficient working capital. This is easing, with the money coming from bankers and asset monetisation. The company is sitting on a net debt of Rs 12,700 crore and has interest cost of Rs 2,000 crore annually. To cover the interest cost, assuming the Ebitda margin at five per cent, it needs sales turnover of Rs 55,000 crore. So, improvement in sales and margins is vital. At the run rate, it is possible to achieve annual sales of Rs 26-27,000 crore.

The company has received approval of the Corporate Debt Restructuring Empowered Group for the restructuring proposal and has also received approval of the Reserve Bank of India, subject to specified conditions. The restructuring proposal, including the terms of the restructured bonds, is subject to the approval by the requisite majority of the holders of the existing bonds in each series. The meetings of the holders of the existing bonds (the 0 percent October 2012 Bonds, 7.5 percent October 2012 bonds, 0 percent July 2014 bonds and 5 percent April 2016 bonds) are proposed to be held on July 09, 2014. Suzlon further says it has issued a consent solicitation memorandum and an information memorandum each dated June 17, providing further information in relation to the commercial terms of the proposed restructuring of the existing bonds, including the terms and conditions of the new foreign currency convertible bonds (restructured bonds).

But, more important, it will have to shore up operating profit margins. If it is able to achieve an Ebitda margin of 10 per cent, the sales turnover required for servicing the interest cost would not be more than Rs 28,000 crore. There is scope for margins to improve because some of the operational fixed cost will not move as much as the increase in sales. Also, the focus on high-margin orders and execution of low-margin orders in the past could add to margins.

To sum up, though operational and financial restructuring is paying dividends, a lot is yet to be achieved in sales growth, margins and debt reduction. The company is looking to refinance its high cost debt with the low cost forex loans. Also, monetisation of assets, with plans to list its European subsidiary Senvion (earlier REpower), could help cut debt and interest cost, crucial for generating positive return on equity.

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