

Suzlon Energy Limited

February 14, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating	Remark
Long Term / Short Term Bank Facilities	4442.21(6406.00)	CARE BB; Negative/CARE A4 (Double B ; Outlook: Negative/ A Four)	Revised from CARE BBB-; Negative/CARE A3 (Triple B Minus; Outlook: Negative/A Three)
Long Term Bank Facilities	9823.71(10070.00)	CARE BB; Negative (Double B; Outlook: Negative)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Total facilities	14265.92 (Rs. Fourteen Thousand Two Hundred Sixty Five Crore Only)		
Commercial Paper	1000.00 (Rs. One Thousand Crore Only)	CARE A4 (A Four)	Revised from CARE A3 (A Three)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings revision to the Proposed CP issue of Suzlon Energy Ltd (SEL) factors in the tightened liquidity conditions as a result of moderation in operational performance as a result of wind industry's transitional phase and losses in 9MFY19 and delay in monetisation of assets. The rating also factors in increase in FCCB redemption pressure on account of significant variation in current share price and redemption price as well as exchange rate variation. Further, with already tight liquidity position the company would find it challenging to redeem its FCCB due in July 2019; if not converted. The rating is further tempered by SEL's negative net worth, working capital intensive operations, foreign exchange risk and susceptibility of the business to policy change and macro-economic slowdown.

The ratings assigned take into account the established track record of the company as a fully-integrated solution provider in the wind power segment.

The ability of SEL to further scale up the operations to envisaged levels with improvement in PBILDT, effective working capital management, timely asset monetisation, deleveraging, exit from CDR and improve its order book position are the key rating sensitivities.

Outlook: Negative

The company is evaluating options for monetization of certain core assets. The outlook is 'Negative' on account of losses in 9M FY19 (Unaudited) and delay in monetization of assets. Monetization of asset becomes critical in light of significant upcoming repayments and SEL's tight liquidity position. The outlook would be revised to 'Stable' in case such monetization of assets takes place within envisaged timelines leading to reduction in debt.

Detailed description of the key rating drivers

Key Rating Strengths

Strong track record in India wind market

With over 20 years of experience and proven project execution capabilities, Suzlon is well positioned in the India Wind Turbine market. It is one of the few full turnkey solution providers with Pan-India spread and presence across value chain and customer segments. Suzlon has been consistently increasing its market share to reach 35% in FY18 from 33% in FY17 and 26% in FY16. On a cumulative installation basis, Suzlon maintains market leadership with ~35% market share and installations of over 12 GW. As on December 31st, 2018, the firm wind order book stands at 1,379 MW (translating into revenue of Rs.7749 cr.) the composition of which constitutes about 91% of auction based order book with signed PPAs. STG's share was 23% of the volume auctioned for FY19 and orders placed. Further, the Company also has around 700MW of framework agreements (PPAs signed, ratification pending) and 100 MW of signed LOIs (Letters of Intent).

Fully integrated solution provider in the domestic market

STG's key business streams comprise WTG segment and service segment. In WTG segment, it design, develop and manufacture WTGs, including developing and manufacturing some of the key WTG components. The Group has the capacity to manufacture nacelles, hubs, rotor blades, panels, nacelle covers, tower and generators. Suzlon is the only company in India with blade manufacturing capacity in every windy state, thus easing logistical hurdles for transporting blades. In Service segment, it provides services such as EPC, O&M, Power Evacuation, Land acquisition.

Key Rating Weaknesses**Deterioration in financial performance in 9MFY19 and tight liquidity position**

Operating Revenue of Suzlon The Group (STG) has declined 31% in FY18 to Rs.8,170 crores from Rs.11,938 crores in FY17 backed by decline in volume to 1,173 MW in FY18 from 1,573 MW in FY17. The PBILDT interest coverage ratio has declined from 0.26x in FY17 to -1.14x in FY18. In 9MFY19, the operating revenue decline by 47% to Rs. 3003 crores; from Rs. 5710 crores in 9MFY18. It also reported a net loss of Rs.794 crore in 9M FY19 as against a loss of Rs.276 crores in 9M FY18. STG has been funding its losses and repayment obligations through working capital reduction and cash and bank balance. The company's unencumbered cash and bank balances and liquid investments have reduced from Rs.486 crore as on March 31st 2018 to Rs.124 crore as on Dec. 31, 2018. The company's working capital limits remain fully utilized.

Further executions were muted with only 349MW done in 9MFY19 as opposed to 844 MW in 9MFY18. The decline in installations has affected its revenue for FY 19 significantly.

The Group has repayments of Rs.156 crores due as on 9MFY 19 and Rs 639 crores (excluding FCCB) in FY 20. In light of the company's tight liquidity position asset monetization becomes critical for debt servicing.

High dependency on external funding in the backdrop of high working capital intensity of operations

STG is an integrated solution provider and the overall time frame from the notice to proceed (NTP) till commercial operation date takes around 9 months. Around 75% of creditors are backed by LC and against the receipt of advance, STG needs to provide bank guarantee, restricted to the value of advance received at NTP stage, which will be valid till the completion of order. Besides, performance guarantee in case of export orders also needs to be extended.

FCCB redemption risk

Out of the total FCCBs of USD 547 mn, the company has converted FCCBs of USD 375 mn till December 30th, 2018. With this the FCCBs remaining are of USD 172 mn, the redemption of which is in July 2019. July 2019 series has conversion terms of Rs.15.46 per share and exchange rate of 1 USD 60.225 INR which is higher the current market price is Rs. 3.63 as on February 5th, 2019. Considering the current market price as opposed to the conversion rate, redemption of the FCCBs will be challenging.

Delay in Asset Monetization

The Company is looking to monetize some of its businesses and assets in order to reduce the debt at SEL level and has guided for 30-40% debt reduction during the current financial year. The company is exploring various options for asset monetization. The timeliness of the asset monetization remains a key rating monitor able.

Moderate foreign currency risk

Around 15-20% of overall purchases are projected to be met through imports and on the other hand STG has reduced the exports. STG has hedging policy wherein 20-30% of foreign exposure is covered through the contracts. However, the cash flows are susceptible to foreign currency risk pertaining to un-hedged exposure.

Uncertainty on recompense amount payable and consequent delay in exit from CDR

The recompense amount payable by STG is contingent on the factors including improved performance. In case of CDR lenders who have exercised the right of issuance of equity shares, the cost is amortised over the period of sacrifice. The company is in discussion with the lenders on recompense amount for the exit from CDR.

Industry prospects

Indian wind power sector has become competitive with switch to bid based model instead of Feed in tariffs. Under the auction regime, there is high visibility on volume given the competitive tariffs discovered in the auction regime. Increased volumes will also facilitate the Government to achieve its target of renewable power capacity in the country. However the switch to auction based regime has resulted in muted volumes in FY 19.

So far, around 10.7 GW of projects have been auctioned of which ~30% is yet to be tied up; a further potential for OEMs like Suzlon. These auctioned projects have an execution timeline of 21 months from the date of auction; therefore commissioned volumes in FY 20/FY21 are expected to improve.

Liquidity position

The Group has repayments of Rs.156 crores due as on 9MFY 19 and Rs 639 crores (excluding FCCB) in FY 20. STG has been funding its losses and repayment obligations through working capital reduction and cash and bank balance. The company's unencumbered cash and bank balances and liquid investments have reduced from Rs.486 crore as on March 31st 2018 to Rs.124 crore as on Dec. 31, 2018. The company's working capital limits remain fully utilized.

Analytical approach:

Combined Financials of SEL along with its three subsidiaries and one jointly controlled entity have collectively been referred to as Suzlon The Group (STG) and the asset and liabilities of the entities are collectively considered co-obligors under Corporate Debt Restructuring (CDR) Scheme.

The details of SEL, its 3 subsidiaries and 1 jointly controlled entity (jointly referred to as Suzlon The Group) are as follows:

Sr. No	Company Name	Activity	SEL Holding
1	Suzlon Energy Limited (SEL)	Manufacturer of Wind Turbine Generator (WTG)	-
2	Suzlon Global Services Limited (SGSL)(formerly known as Suzlon Structures Ltd)	Operation and Maintenance Services	100%
3	Suzlon Gujarat Wind Park Ltd. (SGWPL)	Engaged in erection, installation & commissioning, setting up and sale of power evacuation facility (project execution) & sale and lease/ sublease of land of WTGs	100%
4	Suzlon Power Infrastructure Ltd. (SPIL)	Engaged in business of setting up & sale of Power Evacuation Facility	100%
5	Suzlon Generators Ltd. (SGL)	Manufacturer of Generators of various capacities & its various components, Also engaged in generation of electricity and provides repairing and after sale services for generators	75%

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

SEL, promoted by Mr Tulsi Tanti, is fully-integrated wind power solution provider and its activities include wind resource mapping, land & infrastructure development, creation of power evacuation facilities, component manufacturing, wind turbine installation, commissioning and Operation & Maintenance Services (OMS) both in domestic and international markets. SEL, through its wholly owned subsidiary namely SE Forge Limited undertakes the manufacturing and machining of large forging and casting products. SEL has formed a number of subsidiaries in India & overseas for component manufacturing, Wind Turbine Generator (WTG) marketing and for providing Engineering Procurement & Construction (EPC) and OMS.

SEL along with its three subsidiaries (catering to captive usage as well) and one joint venture has collectively been referred to as Suzlon the Group (STG) and the asset and liabilities of the entities are collectively considered under CDR Scheme. In FY13, STG was referred to the CDR Cell for restructuring of its debt considering positive long-term outlook of the wind energy sector and the package was approved by CDR Empowered Group in December 2012. The approved CDR package was implemented by execution of Master Restructuring Agreement (MRA) by all CDR lenders on March 28, 2013.

Combined Financials of Suzlon The Group

Brief Financials (Rs. crore)	FY17 (A)	FY18 (UA)
Total operating income	11938	8170
PBILD	2295	1085
PAT	555	(990)
Overall gearing (times)	NM	NM
Interest coverage (times)	2.37	0.86

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Working capital facilities	-	-	-	3345.27	CARE BB; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	4442.21	CARE BB; Negative / CARE A4
Term Loan-Long Term	-	-	Sept-2022	2454.26	CARE BB; Negative
Non-fund-based - LT-Letter of credit	-	-	-	4024.18	CARE BB; Negative
Commercial Paper	-	-	7days – 1 year	1000.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016

1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	-	-	-	1)Withdrawn (12-Jan-18) 2)CARE A+ (SO); Stable / CARE A1+ (SO) (29-Dec-17)	1)Provisional CARE A+ (SO); Stable / CARE A1+ (SO) (22-Dec-16) 2)Provisional CARE A+ (SO) / CARE A1+ (SO) (01-Apr-16)	-
2.	Fund-based-Working capital facilities	LT	3345.27	CARE BB; Negative	1)CARE BBB-; Negative (23-Nov-18) 2)CARE BBB; Negative (14-Aug-18)	1)CARE BBB; Stable (17-Oct-17)	1)CARE BBB (28-Oct-16)	1)CARE BBB- (08-Oct-15)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	4442.21	CARE BB; Negative / CARE A4	1)CARE BBB-; Negative / CARE A3 (23-Nov-18) 2)CARE BBB; Negative / CARE A3+ (14-Aug-18)	1)CARE BBB; Stable / CARE A3+ (17-Oct-17)	1)CARE BBB / CARE A3+ (28-Oct-16)	1)CARE BBB- / CARE A3 (08-Oct-15)
4.	Term Loan-Long Term	LT	2454.26	CARE BB; Negative	1)CARE BBB-; Negative (23-Nov-18) 2)CARE BBB; Negative (14-Aug-18)	1)CARE BBB; Stable (17-Oct-17)	1)CARE BBB (28-Oct-16)	1)CARE BBB- (08-Oct-15)
5.	Non-fund-based - LT-Letter of credit	LT	4024.18	CARE BB; Negative	1)CARE BBB-; Negative (23-Nov-18) 2)CARE BBB; Negative (14-Aug-18)	1)CARE BBB; Stable (17-Oct-17)	1)CARE BBB (28-Oct-16)	1)CARE BBB- (08-Oct-15)
6.	Commercial Paper	ST	1000.00	CARE A4	1)CARE A3 (23-Nov-18) 2)CARE A3+ (14-Aug-18)	1)CARE A3+ (17-Oct-17)	1)CARE A3+ (28-Oct-16)	1)CARE A3 (08-Oct-15)

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