Suzlon Energy Limited

August 14, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating	Remark
Long Term / Short Term Bank Facilities	9,706.00	CARE BBB; Negative / CARE A3+ (Triple B; Outlook: Negative/A Three Plus)	**Rating Reaffirmed; Outlook revised from Stable**
Long Term Bank Facilities	6,770.00	CARE BBB; Negative (Triple B; Outlook Negative)	**Rating Reaffirmed; Outlook revised from Stable**
Total facilities	**16,476.00 (Rs. Sixteen Thousand Four Hundred Seventy Six Crore Only)**		
Commercial Paper	1000.00 (Rs. One Thousand Crore Only)	CARE A3+ (A Three Plus)	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities/ Proposed CP issue of Suzlon Energy Ltd (SEL) take into account the established track record of the company as a fully-integrated solution provider in the wind power segment, major orders from Independent Power Producers (IPPs), and its foray into solar segment.

However, the rating strengths are tempered by negative net worth, higher reliance on the external funding majorly in the form of non-fund based line of credit for the overall execution of orders, moderate order book position with signed PPA's, FCCB redemption risk, and foreign exchange risk and susceptibility of the business to policy change and macro-economic slowdown.

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

Outlook: Negative

The outlook has been revised from 'Stable' to 'Negative' on account of losses in FY18 and Q1FY19(Unaudited) and the expectation of subdued performance in current financial year given uncertainty in wind energy sector. The Outlook would be revised to 'Stable' in case of improvement in sales and profitability.

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 11 GW.

Well positioned in Competitive Bidding environment

India's wind market shifted from the earlier Feed in Tariff (FiT) mechanism to auction based mechanism from FY 17. Suzlon has adopted a strategy of entering into pre-bid tie up with its customers. This will enable Suzlon to keep its balance sheet asset light. This coupled with its Pan India presence allows it to win orders even in the competitive bidding regime. It has already won 1413 MW in the various SECI and State auctions.

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.

Diversification into solar space to become full scope renewable energy player

STG has also forayed into the solar energy market and had won bids for 515 MW solar power projects across four states, namely, Telangana, Maharashtra, Rajasthan and Jharkhand out of which power purchase agreements for 340 MW were signed. Suzlon has successfully commissioned the entire 340 MW and completed its entire order book. Suzlon will benefit from deriving synergies from its existing wind customer database, experience and networks.

Key Rating Weaknesses

Deterioration in financial performance in Q1FY19 and FY18
Operating Revenue has declined 31% in FY18 to Rs.8,170 crores from Rs.11,938 crores in FY17 backed by decline in volume from 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 Q1FY19, operating revenue decline by 58% to Rs. 1074.76 crores; from Rs. 2573.67 crores in Q1FY18. It also reported a net loss of Rs. 284.25 crores in Q1 FY19 as against a profit of Rs. 62.71 crores in Q1 FY18.

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.

Moderate order book position with major orders from IPP's
As on June 30, 2018, the order book stands at 1,134 MW (translating into revenue of Rs.6627 cr.) the composition of which constitutes about 89% of auction based order book. However, SECI IV and MH bids PPA are yet to be signed. Hence, signing of these PPA's is imperative for STG to achieve its targeted installations.

Moderate foreign currency risk
Around 45% 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.

FCCB redemption risk
Out of the total FCCBs of USD 547 mn, the company has converted FCCBs of USD 375 mn till June 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.7.89 as on Aug 5th, 2018. If the same is not converted, there would be additional debt burden on the already tight liquidity position of the company

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 timeliness and the amount that SEL is able to raise through monetization remains a key rating monitorable.

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. As a result wind power tariffs have fallen to as low as Rs.2.64 per unit. Since states do not have their policy in place for conducting auctions and are not signing new PPAs, there is a temporary period of uncertainty in the industry. Since the beginning of the year, we have witnessed ~3+ GW of auctions from center and few states. In addition, the center plans to come out with more auctions in the current fiscal. As the country shifts from FiT mechanism to auction based regime, there will be high visibility on volume for turbine manufacturers going forward. Increased volumes will also facilitate the Government to achieve its target of renewable power capacity in the country.

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.

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

Background
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 eight subsidiaries (catering to captive usage as well) 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 (Suzlon The Group)

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

A: Audited, NM: Not meaningful

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	-	-	-	3300.00	CARE BBB; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	6406.00	CARE BBB; Negative / CARE A3+
Term Loan-Long Term	-	-	Sept-2025	2631.01	CARE BBB; Negative
Non-fund-based - LT-Letter of credit	-	-	-	4139.00	CARE BBB; Negative
Commercial Paper	-	-	7 days to 1 year	1000.00	CARE A3+

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	3300.00	CARE BBB; Negative	-	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	6406.00	CARE BBB; Negative / CARE A3+	-	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	2631.01	CARE BBB; Negative	-	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	4139.00	CARE BBB; Negative	-	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 A3+	-	1)CARE A3+ (17-Oct-17)	1)CARE A3+ (28-Oct-16)	1)CARE A3 (08-Oct-15)

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