Suzlon Energy Limited (Revise)

October 17, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating	Remark
Long Term / Short Term Bank Facilities	9,706.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/A Three Plus)	Reaffirmed
Long Term Bank Facilities	6,770.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
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), improvement in financial metrics during FY17 and foray into solar segment.

However, the rating strengths are tempered by negative net worth due to past losses, 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, moderate project execution 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 monetisation of its OMS business and exit from CDR and improve its order book position in the short term are the key rating sensitivities.

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 33% in FY17 from 26% in FY16 and 19% in FY15. 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 current year onwards. 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 250 MW in the first round of SECI 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.

Improvement in Financial metrics

Operating Revenue has improved by 57% in FY17 to Rs.11,807 crores from Rs.7,519 crores in FY16 backed by growth in volume from 1,131 MW in FY16 to 1,573 MW in FY17. The interest coverage ratio has also improved from 1.53x in FY16 to 2.37x in FY17. Further, Total debt to GCA (Gross Cash Accruals) has improved from 9.87x as on March 31, 2016 to 3.10x as on March 31, 2017.

Improved working capital cycle as a result of faster collection

The collection period has improved to 96 days in FY17 as compared to 189 days in FY16, a substantial improvement over the past years. Over the period FY12-15, receivables remained highly stretched in both the domestic and export market due to non-performance of contract in the past and thereby leading to non-payment from customers. In FY17, IPPs and PSU accounted for around 80-90% of the total sales as compared to 53% of the sales in the past while the balance sales came from retail clients. Going forward, the customer profile is expected to further move in favor of IPPs which have comparatively better financials than retail clients thereby ensuring faster collections.

Diversification into solar space to become full scope renewable energy player

STG has also forayed into the solar energy market and has 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 have been signed. Suzlon will benefit from deriving synergies from its existing wind customer database, experience and networks.

Key Rating Weaknesses

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. STG estimates to execute around 2201 MW including export order in FY18. In order to fulfill the order, STG proposes to enhance its fund based limits by Rs.2850 cr.

Moderate order book position with major orders from IPP's

As on June 30, 2017, the order book stands at 1,169 MW (translating into revenue of Rs.7757 cr.) the composition of which constitutes about 86% of Independent power producers (IPPs) exhibiting an increasing shift towards independent power production from the retail/SMEs. However, out of this, almost half are PPA backed and captive orders. In addition to this order book, Andhra Pradesh recently approved PPAs of 837MW for Suzlon which are expected to be signed in the near future. 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.

Moderate project execution risk

STG plans to incur a capex in FY18 towards its tower and blade plants in Tamil Nadu, Andhra Pradesh and Gujarat. STG has carried out the projects on larger scale in the past and current project primarily involves the incremental capital expenditure for upgrading the products as a result, the project execution risk appears to be moderate. Nonetheless, timely tie-up of funds remains crucial.

Delay in OMS Monetization

There has been a delay in monetization of OMS business. As per the company, the initial plan was to raise debt at SGSL level by a single lender. However, now they are planning to raise debt from multiple lenders. This has delayed the process and the same could not be done in FY17. STG expects the closure of the transaction in FY18.

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 by end of FY18.

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)	FY16 (A)	FY17 (A)
Total operating income	7656	11938
PBILDT	1293	2295
PAT	-206	555
Overall gearing (times)	NM	NM
Interest coverage (times)	1.53	2.37

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; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	6406.00	CARE BBB; Stable / CARE A3+
Term Loan-Long Term	-	-	Sept-2025	2631.01	CARE BBB; Stable
Non-fund-based - LT-Letter of credit	-	-	-	4139.00	CARE BBB; Stable
Commercial Paper	-	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	1300.00	Provisional CARE A+ (SO); Stable / CARE A1+ (SO)	-	1)Provisional CARE A+ (SO); Stable / CARE A1+ (SO) (22-Dec-16) 2)Provisional CARE A+ (SO) / CARE A1+ (SO)	-	1)CARE A+ (SO) (In Principle) / CARE A1+ (SO) (In Principle) (26-Mar-15)
2.	Fund-based-Working capital facilities	LT	3300.00	CARE BBB; Stable	-	1)CARE BBB (28-Oct-16)	1)CARE BBB- (08-Oct-15)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	6406.00	CARE BBB; Stable / CARE A3+	-	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; Stable	-	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; Stable	-	1)CARE BBB (28-Oct-16)	1)CARE BBB- (08-Oct-15)	-
6.	Commercial Paper	ST	1000.00	CARE A3+	-	1)CARE A3+ (28-Oct-16)	1)CARE A3 (08-Oct-15)	-

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