How Suzlon avoided Inox Wind's predicament

R. Sree Ram
sreeram@livemint.com

Suzlon Energy Ltd did not reflect any of the pressures Inox Wind Ltd reported in the March quarter. In contrast, the former reported a strong growth in revenue and profit and exuded confidence that its order book is not facing any risk of cancellation.

To recap, Inox Wind, which released its results earlier than Suzlon, has said that a large part of its order book has turned redundant due to the ongoing transformation in the wind energy market from feed-in tariff-based system to auction-based market.

What explains the dichotomy? The results and the management commentary indicate that Inox Wind has been aggressive in recognizing order inflows.

Suzlon, which has been in the system for quite some time now (more than two decades), has been more cautious.

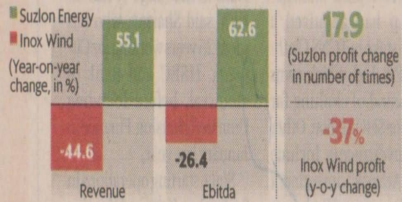
According to Kirti Vagadia, group chief financial officer, Suzlon reduced the risk of contract or order failure through risk management practices such as better planning and other processes.

Suzlon did not give the break-up of the order book. It, however, said that most of its non-auction based order book has power purchasing agreements (PPAs) and is executing them. The rest of the orders are in the process of obtaining PPAs. So, the whole 1,562-megawatt (MW) order book (231MW solar and 1,331MW wind) is intact and executable.

According to Pawan Parakh, an analyst at HDFC Securities Ltd, some states are willing to sign PPAs for projects for which documentation began in 2016-17. Hence, Suzlon's current orders face less risk of cancellation. What's more, Suzlon expects to do well in the current fiscal year, too.

Standing tall

Suzlon maintained growth tempo in revenue, operating profit.



Suzlon's Ebitda, profit figure excludes exceptional items
Ebitda is earnings before interest, taxes, depreciation and amortization

Source: companies

SUBRATA JANA/MINT

In terms of commissioning volumes, the market is expected to see slower growth in the current fiscal, compared with the year gone by. But Suzlon expects to continue to gain market share—it aims to increase it from 32% in 2016-17 to 40% in the current fiscal—helping it outdo industry performance.

The stock is reflecting the optimism. It gained 4.6% in the past four trading days and 48.7% since the beginning of this calendar year. For the stock to continue to do well, the company will have to keep up the momentum.

Suzlon has the problem of too much debt. Last fiscal, almost half of the company's operating profit was eroded by finance costs. According to Parakh, the key is to keep up the business momentum and use the earnings proceeds to meet debt covenants. Suzlon is doing this. Debt has come down from peak levels. But more needs to be done.

The process can be quickened if Suzlon steps up the earnings momentum further by improving profitability. But this game-plan faces challenges.

Transformation of the wind energy market to auctions and competitive tariffs means equipment suppliers can face pricing pressures.

Suzlon is addressing this by offering technologically advanced turbines, which offer better yields and are priced higher. But, given the current lull in the wind energy market, as the states are moving to auctions, competition can be tough.

If auctions send tariffs to unsustainably low levels, then even technologically advanced turbines may face pricing pressures. The coming quarters will provide more clarity.