

# SUZLON

## Burdened by debt and inadequate government support for wind power, the turbine manufacturer awaits shareholder approval for a third bailout

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Shareholders of Suzlon Energy will be voting on Friday to offer a stake to a new consortium of lenders including power infrastructure finance company REC and Indian Renewable Energy Development Agency. This would see the promoters' stake falling to a record low of 13 per cent, and lenders increasing their stake to 34.5 per cent in the company.

The new lenders are bailing out the company by infusing additional funds and converting their loans worth ₹4,100 crore into equity.

Suzlon Energy, which had a market value of ₹8,741 crore as on Monday, sought a bailout package from its lenders after the company defaulted on its loans in 2018 despite generous bailouts by the lenders in the past.

Suzlon Industries, promoted by Tulsi Tanti in 1995, started as a fully-integrated wind power solution provider. But despite the world moving towards renewable power, the company has failed to capitalise on the green energy revolution.

This is not the first time Suzlon is seeking a bailout from banks. In 2013, Suzlon and its subsidiaries were referred to the Corporate Debt Restructuring (CDR) cell with the management promising a potential turnaround in the wind energy sector. The package was approved by the lenders and implemented by March 28, 2013.

In February 2015, Dilip Shanghvi, billionaire promoter of Sun Pharmaceutical Industries, announced plans to acquire a 23 per cent stake in his personal capacity for ₹1,800 crore in Suzlon Energy. The company also sold one of its overseas subsidiaries, Senvion SE, in January 2015 for €1 billion to meet CDR targets.



### SUZLON: BLOWING IN THE WIND

Consolidated financial summary (₹crore)

	FY16	FY17	FY18	FY19	FY20	FY21	HYFY22
Net sales	9,483	12,714	8,116	5,025	2,973	3,346	2,482
Other income	1,445	89	529	119	28	842	96
PBIDT	2,280	2,588	1,532	69	-898	1,360	483
PAT after minority interest & P/L asso.co.	583	858	-377	-1,527	-2,642	104	-33
Total debt	11,414	11,114	11,996	11,552	13,210	6,925	6,640
Cash and bank	627	336	581	75	82	263	235
Net debt	10,788	10,778	11,414	11,477	13,127	6,663	6,405

Source: Capitaline

Compiled by BS Research Bureau

But by fiscal 2018, the company started making losses again, with debt hovering at ₹12,000 crore level (see chart). Group operating revenues declined 31 per cent in FY18 to ₹8,170 crore from ₹11,938 crore in FY17. This was mainly on account of a sharp decline in electricity generation volume to 1,173 Mw in FY18 from 1,573 Mw in fiscal 2017.

Not surprisingly, the company missed all the targets set in the CDR.

High debt was the key cause for Suzlon's financial misfortune but that was a symptom of the undeveloped nature of the wind power market in India. "As a key early leader in the Indian wind sector, Suzlon's own mistakes, particularly in terms of excessive reliance on

financial leverage, have been compounded by the lack of sustained support and order flow to allow Suzlon's factories to operate anywhere near a viable rate in the last three or four years," said Tim Buckley, director of Climate Energy Finance, of Sydney.

External factors also added to the company's woes. Wind requires turbine manufacturing facilities to be largely located within the country, but running factories at just 10-20 per cent of capacity for several years has created a massive under-utilisation problem for the industry, Buckley pointed out.

"Having built capacity ahead of demand, in the expectation of a strong supportive government policy to drive low cost, domestic zero emissions investment in wind infrastructure projects, this has been a major failure of policy delivery, a major missed opportunity for India, particularly now that electricity demand is growing strongly again, and fossil fuel import prices have risen five- to tenfold over the last two years."

As a result, "sustainable economic growth and energy security in India have been set back materially due to this failure to translate clear, positive long-term energy targets into credible investment signals to unlock investment and investor confidence," he said.

So how did Suzlon avoid the bankruptcy courts? "While most defaulting companies were sent to the bankruptcy courts for debt resolutions, the lenders spared the rod for Suzlon. With Covid disrupting companies the world over, Suzlon sent a fresh application to the banks for refinancing of older loans," said a banker requesting anonymity.

Under the new refinancing plan, the company would be repaying part of the lender's older debt by taking a fresh loan from a consortium of lenders led by REC and selling some of its assets. The refinancing proposal envis-

into equity later. REC will hold around 4.36 per cent after the warrants are converted. The older banks will raise their stake in the company with State Bank of India owning around 4.88 per cent.

The shareholders will also decide on Tanti's continuation as the managing director of the company with an annual salary of ₹2.17 crore.

Suzlon did not comment on its refinancing plans. In its December quarter results, the company said it continued to incur losses and its net worth is at a negative ₹3,356.40 crore. The Suzlon group also has an obligation to repay the principal amount to lenders including ₹450 crore due on June 30, 2022.

"These events and conditions indicated a significant doubt on the group's ability to continue as a going concern on the balance sheet date," the firm said. It plans to meet the financial obligation by using cash flows from operations, realisation of trade receivables and financial assets, sale of non-core assets and conversion of share warrants.

Bankers said once they increase their stake, they will look for buyers considering that several Indian groups, including Reliance Industries, the Tata group and the Adani group, have announced plans to invest in renewable energy. "Unlike in the previous cases, where banks waited to sell their equity stake till the companies went bankrupt, there will not be any delay in selling Suzlon shares to the highest bidder," the banker quoted above said.

But Suzlon's lenders may struggle to find a willing buyer as market conditions for wind energy remain unfavourable. Experts said India has added 11.9 Gw of renewable energy in the first 11 months of fiscal 2022, putting new RE installs on track this year to almost double the 7.2 Gw added in 2020/21. But wind installs are running year-to-date at just 0.9 Gw, way below the government's target of 6 Gw annually.

With its rising losses, Suzlon's valuation may fall. One banker put the problem this way: "The next bidder will not be called a white knight but a saviour. The company will need a financially strong promoter to see it through."