Suzlon Energy Ltd — Nov 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Q2 FY25 confirms the transition from a "balance sheet recovery" to an "operational scale-up," though the transition is proving working-capital heavy.

Result: Beat on Inflows / Inline on Execution **One-line:** Massive order book expansion (5.1 GW) and the strategic entry into multi-brand O&M (Renom) solidify long-term visibility, but a sharp spike in inventory and margin compression due to front-loaded organizational costs signal a temporary "investment phase" friction.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Prior Quarter	Beat (Volumes/ Inflows)	5.1 GW order book (+34% QoQ); Deliveries 256 MW vs 274 MW (seasonal monsoon impact).	□
Earnings Quality	Low (WC Intensity)	PAT growth aided by non-core monetization; Inventory surged □897 Cr (39%) vs Mar-24 to support future deliveries.	□
Guidance Confidence	Strong	Reiteration of 5 GW industry target; H2 expected to deliver 2/3 of annual volumes.	□
Management Credibility	Strong	Successfully executed largest ever NTPC order win and non-core asset monetization (□440 Cr).	□
Business Quality Signal	Improving	Entry into multi-brand O&M (Renom) shifts Suzlon toward a higher-margin, diversified service model.	□
Key Q&A Exchange	Q# 11 - NTPC Pricing	NTPC pricing is competitive/different but does not compromise the "mid-to-late teens" WTG gross margin floor.	□
The Street's Primary Anxiety	Execution Pace	Monsoon-led commissioning lag and organizational cost bloat; Mgmt promised "auto-mode" execution by FY26.	□
Capital Cycle Stage	Harvesting / Growth	Shift from debt-clearing to ramping manufacturing to 4.5 GW capacity.	□
Margin / Return Ratio Trajectory	Deteriorating (Temp)	EBITDA margins compressed to 14.1% (vs 18.4% QoQ) due to ESOPs and capacity ramp-up costs.	□
Pricing Power	Stable	Maintaining strict margin discipline; refused to take low-margin orders despite competition.	□
FCF Conversion & Quality	Weak	Negative OCF likely due to □3,189 Cr inventory buildup; CFO-to-PAT remains distorted by the delivery-commissioning gap.	□
Competitive Moat Signals	Widening	Only Indian OEM with a 5 GW+ backlog and a 15 GW (Suzlon) + 2.9 GW (Multi-brand) O&M platform.	□
Balance Sheet Strength	Strong	Net Cash □1,277 Cr; Net Worth □4,495 Cr.	□
Working Capital Efficiency	Deteriorating	Inventory days and receivables rising to support the 5.1 GW order book execution.	□
Mgmt Guidance Track Record	Reliable	Consistent ramp of S144 (now 91% of order book mix).	□
Key Vulnerability	WC Bloat	Capital locked in 170 MW of erected-but-not-commissioned turbines.	□
Management Tone	Confident	Bullish on H2 volumes and strategic expansion into non-wind/ storage.	□

Key Takeaways: * **Positives:** The 5.1 GW order book (largest in history) provides 24 months of revenue visibility. The Renom acquisition is a thesis-strengthening move, allowing Suzlon to capture the high-margin "Independent Service Provider" (ISP) market for competitors' turbines. Balance sheet strength is at a multi-decade high with □1,277 Cr net cash. * **Negatives:** Operating leverage was masked this quarter by □32 Cr in ESOP charges and front-loaded hiring/IT costs, leading to a QoQ EBITDA margin drop. Inventory bloat (□3,189 Cr) suggests significant cash is trapped in the supply chain awaiting project-site readiness. * **The Street's Anxiety:** Analysts were concerned about the "One-third (H1) vs. Two-thirds (H2)" delivery trend continuing. Management responded that project sites (not manufacturing) were the bottleneck due to monsoon disruptions, but land-ready PSU orders (NTPC) will ease this from Q4. * **Forward-Looking Watchpoint:** Monitor the

"Balance Sheet Cleanup" process approved by the Board to reorganize legacy reserves, which will make Suzlon more "bankable" for future large-scale PSU tenders.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Consol □ Cr)	2,093	+47.7%	+3.8%	↑	Growth driven by 94% YoY volume rise; QoQ flat due to monsoon.
EBITDA (□Cr)	294	+30.7%	-20.5%	↓	YoY up on volumes; QoQ down due to ESOPs (□32 Cr) & ramp-up costs.
EBITDA Margin %	14.1%	-120 bps	-430 bps	↓	Compressed by organizational buildup and higher variable manpower.
PAT (□Cr)	201	+97.1%	-33.4%	↑	YoY growth reflects lower finance costs; QoQ drop reflects EBITDA dip.
Order Book (GW)	5.1	+218.8%	+34.2%	↑	Highest ever; includes 1.16 GW NTPC order.
Deliveries (MW)	256	+93.9%	-6.6%	↑	Highest Q2 delivery in 7 years despite severe monsoons.
Net Cash / (Net Debt)	1,277	+□2,457 Cr	+6.7%	↑	Net Cash position (vs □1,180 Cr Net Debt in Mar-23).
Installed Base (GW)	15.0	+7.1%	+2.0%	→	Maintaining 32% cumulative market share in India.
OMS Machine Availability	96.1%	-40 bps	-50 bps	→	Slight dip due to monsoon impacts on site access.
Inventory (□Cr)	3,189	+44.6%	+11.8%	↓	Sharp buildup to support the 5.1 GW backlog execution.
Gross Debt (□Cr)	232	-	+91.7%	↓	Increase due to Renom consolidation (Debt on Renom's books).

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (EBITDA)	Trend	vs Co. Avg	Key Development
WTG	1,324.3	+79.4%	6.8%	↑	Below	Contribution margin steady at 22.1% (H1). Capacity hitting 4.5 GW.
OMS (India)	511.6	+5.7%	40.7%	→	Above	Annuity business; Renom adds 2.9 GW multi-brand fleet.
SE Forge	165.7	-4.4%	10.9%	↓	Below	Shifting focus to non-wind/exports; capacity utilization at 18%.

---

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Industry Vol	5 GW (FY25); 6-7 GW (FY26); 9-10 GW (FY27+).	Needs 3.5 GW in H2 FY25. Plausible given 1.47 GW H1 base and stalled inventory.	3.3 GW (FY24)	Moderate
Guidance	Margins	WTG Gross: 15-20%; OMS EBITDA: 40%.	Currently hitting targets; Consol EBITDA needs volume to dilute fixed costs.	Met in H1	Low
Guidance	Capacity	4.5 GW manufacturing by Mar-25.	Pondicherry restarted; Daman debottlenecking. Feasible.	3.1 GW (Q1)	Low
Strategy	O&M Growth	Renom to be the multi-brand growth engine.	Integration of 2.9 GW fleet; expansion into Solar/BoP.	New initiative	Low
Strategy	New Energy	Exploring Storage, Hybrid, and GH2 via Chief Strategy Officer.	Strategy roadmap expected in 4-6 months.	N/A	Low
Macro	Logistics	Project readiness (not mfg) is the bottleneck.	Needs customer/grid readiness for 170 MW erected inventory.	Ongoing lag	High
Balance	Cleanup	Reorganizing Balance Sheet reserves.	6-7 month process to eliminate legacy "negative" items.	Approved	Low

4. ANALYST Q&A

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
1	3.5	Ganesh	Strategy	Business Overview	Came across Moneycontrol discussion where the management said they wanted to get into the non-wind sectors as well particularly solar. I just want to check what is the Management's current thought process around this?	Management clarified they are not pivoting to solar as a standalone business but will offer it only as part of a single-supplier hybrid project if requested by a client. This protects the core wind specialization while allowing participation in the hybrid project trend.	None	5.0	Clear and quantified
2	4.5	Shweta Dikshit, Systematix	Execution	Industry Outlook	What gives us confidence that in the second half it will be sufficient to reach the 5 GW number?	Management noted that 2.8 GW of turbines were in pre-commissioning stages (stalled by monsoons) and that H2 typically accounts for two-thirds of annual installations. This suggests a massive revenue/cash-flow catch-up in Q3 and Q4.	Specific site-wise breakup	4.0	Directional with evidence
3	3.0	Anupam Goswami, SUD Life	Financials	Financials	Going forward, what sort of a gross margin are we looking at?	Management reiterated that WTG gross margins will remain in the mid-to-late teens, while OMS margins are stable at ~65%. The consol margin dip is a mathematical	None	5.0	Specific target given

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						artifact of the faster-growing (but lower margin) WTG business mix.			
4	4.0	Deepesh Agarwal, UTI AMC	Financials	Financials	Was there any extra cost or the ESOP cost is resulting in this decline [in contribution margin]?	Management explained that the □32 Cr ESOP charge impacts EBITDA but not contribution margins, which fluctuate slightly due to commodity prices. This clarifies that the core unit-level profitability of turbines remains intact.	None	4.0	Follow-up forced clarity
5	4.0	Deepesh Agarwal, UTI AMC	Execution	Business Overview	The 5.1 GW order book... ideally everything should be getting executed in next 18, 20 months subject to any delays?	Management confirmed that the entire 5.1 GW consists of firm orders (with advances) and is slated for completion within an 18–24 month window. This locks in ~□30,000 Cr+ of revenue visibility (at □6 Cr/MW).	None	5.0	Specific timeline given
6	4.5	Amit Bhide, Morgan Stanley	One-offs	Financials	How much is the lease expense related cost in the other expense and the interest cost [from	Management confirmed a gross monthly P&L charge of □4 Cr for leasing back the headquarters, which they are	Net sub-lease income	3.5	Specific and verified

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
					One Earth sale]?	working to offset through sub-leasing. This adds a permanent ₹48 Cr annual fixed cost to the "Other Expenses" line.			
7	3.5	Subhadip Mitra, Nuvama	Execution	Business Overview	Would I be right in assuming that you would roughly hit a run rate of 2, 2.5 GW per random kind of execution?	Management appeared to agree with the implied run-rate based on the 18-24 month execution timeline for the 5.1 GW backlog. Achieving this would represent a 2.5x scale-up from current execution levels.	None	3.0	Vague but consistent
8	4.0	Aadesh Mehta, Motilal Oswal	Financials	Financials	Can you quantify how [investments] can lead to higher growth?	Management argued that the current cost structure is built for a much higher delivery run-rate than the current 256 MW per quarter. This implies significant operating leverage once quarterly deliveries cross the 500-600 MW mark.	Incremental margin %	3.0	Directional with evidence
9	3.5	Manoj (Retail)	Product	Business Overview	Is there any other turbine which is in	Management confirmed that a new, larger	Exact MW rating	2.5	Evasive on

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
					R&D process let's say for 5 MW?	turbine is on the drawing board to succeed the S144 but refused to specify the exact MW rating. This ensures Suzlon remains technologically competitive as the industry moves toward 5MW+ machines.			product spec
10	4.0	Sudhanshu Bansal, JM Financial	Competition	Management Outlook	How do you see the competitive intensity emerging as some of the Chinese players and the Indian players both are becoming prominent?	Management acknowledged intensifying competition but stated they would rather lose market share than compromise on their margin floor. This discipline is a positive signal for long-term ROE protection.	None	4.0	Clear and quantified
11	3.0	Marcel (Retail)	Execution	Business Overview	NTPC order when it will start executed and like what will be its quarterly [delivery]?	Management indicated that actual deliveries for the 1.16 GW NTPC order will start gradually in Q3 and ramp up significantly from Q4 FY25. This project is high-quality as land and evacuation are already secured by NTPC.	None	4.0	Specific timeline given

PATTERN FLAGS & SENTIMENT

- **Fixed Cost Anxiety:** Analysts repeatedly questioned the spike in "Other Expenses" and the margin contraction. Management’s posture was highly defensive, framing this as a necessary "organizational buildup" phase for future scale. They argued that the current employee/IT/IT infrastructure is built for a 4.5 GW execution run-rate, implying that margin expansion will only return once volumes catch up to the cost base.
- **The "H2 Catch-up" Skepticism:** There is palpable concern that Suzlon is falling back into the old pattern of back-ended execution. Management was confident, citing the 170 MW of erected-but-not-commissioned turbines as evidence that they are working ahead of the reported COD (Commercial Operations Date) numbers.
- **Expansion into Non-Core:** Questions about Solar and Storage reveal analyst fears of "di-worsification." Management effectively calmed this by stating they are hiring a "strategy consultant" to evaluate risk-free ways to enhance value, rather than jumping blindly into new sectors.

Analyst Sentiment Verdict: The overall sentiment was **cautiously optimistic**. Analysts are impressed by the order book (5.1 GW) and the Renom acquisition but are "trusting but verifying" the margin trajectory. The friction point remains the ₹4 Cr monthly lease cost and the ESOP impact, which are seen as drags on earnings quality in a high-growth phase. Management’s credibility remains high due to their transparency on the "investment phase" of the P&L.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
EBITDA Margins	Focus on growth trajectory.	Consol margins may face "percentage" dips.	Shifted focus from Consol % to Segment-specific health.	Low; reflects business mix reality.
Non-Wind Strategy	Sticking to core.	Considering Storage/ Adjacencies.	Hiring strategy consultants to find "what is next."	Moderate; potential for capex diversion.
Execution	Highest Q2 deliveries.	Significant gap between Supply and COD.	170 MW ready but not commissioned; revenue locked in inventory.	High; impacts cash flow timing.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter	This Quarter	Direction
Order Book	3.8 GW	5.1 GW	↑
O&M Strategy	15 GW (Suzlon only)	17.9 GW (Suzlon + Renom multi-brand)	↑
Net Cash	₹1,197 Cr	₹1,277 Cr	↑
Margin Profile	18.4% EBITDA	14.1% EBITDA	↓
Fixed Cost Base	Asset owner of "One Earth"	Tenant (₹4 Cr/month lease)	↓
Inventory Bloat	Not flagged	₹3,189 Cr (Significant WC lock-up)	↓
Manufacturing	Ramping up	Pondicherry operational; hitting 4.5 GW target by Mar-25	↑
Leadership	Focus on WTG/OMS	Added Strategy Officer; hiring global consultants	↑