

Suzlon: Swaying High with the Wind



Dr. Kapil Pandla

Faculty,
NIIT University, Neemrana
Email: kapilpandla@gmail.com



Dr. Anurag Dugar

Faculty,
IIM Shillong



Dr. Prashant Gupta

Assistant Professor,
IMI, New Delhi



Dr. Om Prakash

Faculty,
Gautam Buddha University,
Greater Noida

"Our country needs power for its economic growth, and clean, green power is the best option," says Tulsi Tanti, the alchemist who swiftly passed over his textile business and created an opportunity into what is now Suzlon Energy, world's fifth largest wind turbine manufacturing company.

This case is prepared solely for the basis of class discussion. Cases are not designed to present illustrations of either correct or incorrect handling of administrative problems. Case is written on the basis of the material taken from the published sources.

Preamble

1994 was the year of a new beginning in Tanti's young textile business which was already confronted with irregular and low supply of electricity posing a dire threat to its survival. Tanti envisaged a solution that proved to be a huge opportunity literally blowing in his favour. Commissioning two windmills to supply electricity for the family's factory in Gujarat, on India's west coast, he realized that he had stumbled onto a promising business opportunity. In a power-starved nation, renewable energy was his response to the immediate threat to his family textile business. What started off as an initiative to meet his own demand for energy to run his textile plants resulted in the world's third largest wind power equipment company. So what led to this tectonic shift and resulted in one of the world's best energy company?

Genesis

Why 'Suzlon'? "In Gujarati, the term 'Suz-Bhuz' means 'intelligence'. So, the 'Suz' came from there and the 'Lon' came from 'loan', it's really as simple as that," Tanti explains. However, the polyester business was hard for Tanti, squeezed by larger producers and erratic and expensive electricity supplies, Tanti wanted to secure his costs. "In 1994, I had heard that the government was giving a lot of benefits to people who set up windmills, so I decided to import a couple, thinking that it would ease the electricity pressures on my business. Once we got the machines, I thought that it might be a worthwhile business to enter," he says.

On April 10, 1995, Suzlon Energy was incorporated with Rs 1 crore as its paid-up capital. A few years ago one would not have heard too much of the company that made this behemoth until it stormed the capital markets with a Rs 1,500-crore initial public offering in September 2005.

Today, Suzlon Energy is not only a darling of the Indian stock exchanges with a market cap of Rs 37,000 crore at last count, it is trying to secure its place among the ranks of the world's leading renewable energy providers. Today, Suzlon Energy, as Tanti never fails to mention, is the World's only 'fully integrated' wind energy company. The last missing piece in the value chain came in the mid-March when Tanti acquired a Belgian wind turbine gearbox designer, developer and maker, Hansen, for all of \$565 million or Rs 2,542.5 crore. With Hansen in the bag, Suzlon now owns the intellectual property of every stage of the windmill manufacturing process. "From the design to the manufacturing and the actual operation of the sites, we do it all," Tanti says proudly.

Global Renewable Energy Industry

Renewable energy is obtained from natural resources including wind, tides and sunlight. It is one of the fastest-growing sector among energy sources worldwide in terms of consumption, which is rising close to 3% annually. According to the International Energy Agency, renewable energy's share of worldwide primary energy demand will rise to 10% over the next two decades, up from 7% in 2006. Electricity from renewable energy is estimated to reach almost 25% in 2030, up from under 20% in 2006. Renewable-based electricity generation is expected to be second only to coal by 2015.

The global market for renewable energy is anticipated to grow at a compound annual growth rate of close to 8.5%, bringing it to a value of almost \$480 billion in 2015. This represents an almost 50% increase in five years in terms of revenue and more than a 25% rise in energy to over 4,200 billion kilowatt hours (kWh).

Company

Suzlon Energy is India's largest wind-energy provider. Suzlon provides total solutions in Wind Power Generation with cohesive integration of consultancy, design, manufacturing, installation, operation and maintenance services. The products include the integrated service for the wind turbines and wind parks. In 1995 it started with just 20 people, Suzlon is now a leading wind power company with:

- Over 13,000 people in 33 countries
- Operations across the Americas, Asia, Australia and Europe
- Fully integrated supply chain with manufacturing facilities in three continents
- Sophisticated R&D capabilities in Belgium, Denmark, Germany, India and The Netherlands
- Market leader in Asia, Suzlon Market Share (Combined with RE power) rose to 9.8% thereby making Suzlon 5th largest wind turbine manufacturing company in the world

Philosophy

- To be a company that serves society with sustainable wind-power on a commercial scale with a focus on continuously increasing efficiency and reliability of our wind turbines.
- To always be committed to a life-long relationship with customers and work towards total customer satisfaction.
- To lay importance on bettering our quality, safety and environmental standards.
- To build partnerships with all stakeholders; employees, customers, vendors, service providers, local communities and governments.

- To conduct business only with the highest standards of ethics.
- To contribute to the reduction of use of fossil fuels by reducing our carbon footprint in all our operations. (source: www.suzlon.com)

Strategy

Suzlon as a group aims to provide a strong renewable energy platform thereby promising to power a greener tomorrow, today. Together with its subsidiary RE power, Suzlon has grown to be the 5th largest wind turbine supplier in the world ensuring it builds a strong and futuristic path for the wind energy sector. From initiating a wind power project, till completion and even beyond, Suzlon ensures that nothing stands in the way of it serving its purpose. This is with the support of its key differentiators; it is the very philosophy of questioning ourselves at every step that has helped us sustain our vision. Our approach, insight, objectives and our reports stand testimony to that.

Suzlon's vertical integration has been its success driver. Foresight of the current economic challenge and adopting a visionary strategy has set us forth to become the most vertically integrated wind turbine maker in the world. We embarked on a journey to develop leading edge technology and build manufacturing capability for all key components in the wind power domain.

The Wind Industry's supply chain experiences the critical bottleneck of a long production lead time for key components such as Bearings, Gearboxes, Forging materials etc. However, Suzlon has gained the critical competitive advantage with:

- Better control over time, cost & quality
 - Long-term service support to customers
 - Turbine technology integration
 - Faster product rollout
- (source: www.suzlon.com)

Leadership

Tulsi Tanti Chief Promoter of Suzlon Energy Ltd, a company dealing in wind energy. He is one of those first time entrepreneurs who saw potential in an idea, ventured into it, and made it big. He ranked 8th in 2005 and 10th in 2007 richest men of India (Forbes List).

A commerce graduate and a diploma holder in mechanical engineering, Tulsi Tanti originally hails from Gujarat and is presently based in Pune, Maharashtra. Tulsi Tanti was earlier into textiles. He started his textile business in Gujarat. But he found that the prospects stunted due to infrastructural bottlenecks. The biggest of them all was

the cost and unavailability of power, which formed a high proportion of operating expenses of textile industry.

In 1990, Tulsi Tanti invested in two windmills and realized its huge potential. In 1995, he formed Suzlon and gradually quit textiles. It is presently building what will be among the world's largest wind parks of its kind at 1,000 MW capacities.

Suzlon concentrated on global expansion drive. It acquired Hansen Transmissions, a Belgian maker of wind-turbine gearboxes. It also build a rotor-blade factory in Minnesota and has invested \$60m in a factory in Tianjin, China. Tulsi Tanti was poised to make India a wind-power export hub.

Innovation by businesses is achieved in many ways, with much attention now given to formal research and development for "breakthrough innovations." But innovations may be developed by less formal on-the-job modifications of practice, through exchange and combination of professional experience and by many other routes. The more radical and revolutionary innovations tend to emerge from R&D, while more incremental innovations may emerge from practice – but there are many exceptions to each of these trends. Suzlon is one such exception.

The bright future scenario for the industry, coupled with Tanti's entrepreneurial instincts, have made investors like Ashish Dhawan, Managing Director of private equity firm Chrys Capital, particularly bullish on Suzlon. "Tulsi Tanti is a visionary and the most ambitious entrepreneur I have met," says Dhawan. According to Dhawan, Suzlon is well equipped to take advantage of its low-cost manufacturing base and give large global players in the market like Vestas, Enercon and GE a run for their money.

Managing Talent

'global experience, local expertise' approach to talent capital has ensured a 23-nationality multi-faceted talent pool that goes wide and deep. This gives Suzlon the advantage of leveraging local talent and creating a truly global expert workforce. Our continuing growth in our operations in all key international wind energy markets and presence in all emerging markets is further strengthening our global integration.

Currently, we do aerodynamics research in The Netherlands, develop wind turbines and components in Germany, and optimize gearboxes in Belgium. Our manufacturing footprint spans 3 countries: China, India and USA, and our 13 units make all key components of wind turbines. This is a testimonial to our focus on global integration and our passion to make Suzlon a company as global as the wind.

Products and Services

Suzlon's turnkey services range from complex front-end engineering design, construction, installation and commissioning to long-term operations and maintenance as well as the length, breadth and depth of customer requirements across the wind energy value chain. Our key differentiator is having both strong front-end engineering and the benefit of local experience, interface management and construction know how.

Key benefits we offer clients range from development, to construction to operations. Manufacturing-driven supply chain strengths and global expertise help offer customers the best in quality services. Suzlon is well placed to assist clients in overall wind power project delivery. The major sections of the delivery process where Suzlon can add value are Micrositing, Grid Connection, HV/ Substation creation, Electrical (Reticulation), Laying Roads and Foundations and Project Scheduling. Suzlon also offers end-to-end solutions in select geographies whenever required. In India Suzlon's end-to-end solutions start at wind mapping and land sourcing, and extend right across the entire value chain. (exhibit product)

Golden Era (2005-08)

- Supplied over 8,000 MW across the world
- Registering 100% growth rate year on year
- Was ranked the 3rd leading wind power equipment* manufacturer
- Earned a global market share of 9.8 %*
- Maintained market leadership in Asia
- Suzlon installed over 4800 MW of wind turbine capacity, acquired over 50% market share(YOY) and reigned as the market leader consecutively for the last 11years.

*combined (Suzlon + RE power)

Source: -*BTM Consult ApS March 2010

Hiccups

Suzlon Energy Ltd. posts a loss of Rs. 4.69 billion in Fy-09, while it was in profit of Rs. 12.65 billion in Fy-08. The total income of the company grew 5.12 percent to Rs. 74.12 billion for the year ended 31 March 09 from Rs. 70.51 billion in the previous period. The company said that this poor performance is due to the external economic environment. FY-09 has been a challenging year for all industries, and the wind sector is no exception.

The group, along with its subsidiaries, posted a net consolidated profit of Rs. 2.36 billion in Fy-09, a decrease of 77.04 percent from Rs. 10.3 billion Fy-08.

In 2008, when financial struck, Suzlon also faced the heat. "In September 2008, when Lehman Brothers collapsed, our sales team could not believe that the market was not there," says Robin Banerjee, chief financial officer at Suzlon. The management still believed that it was a temporary situation and market will improve. "But December came and there were still no orders, and then there was nothing in January or February either. By March 2009, we realized it was going to be a long term," adds Banerjee.

"For about six months, Mr. Tanti questioned all the assumptions on which he had built the business. He wanted to understand why Suzlon was in the middle of such a big crisis," says Sumant Sinha, former COO of Suzlon.

The crisis provided perfect opportunity for Mr. Tanti to reflect and consolidate. "If I am in a growth situation, then I cannot consolidate my organization, and for the past decade we had just been growing. So, now I had the chance to build the organization for the next 10 years. Because a lot of change is needed, like product, organizational structure, management bandwidth and resource planning," says Tanti.

Till the end of 2008, there were no new orders from Europe or the U.S., the two biggest wind energy markets of the world. For Tanti, it also meant falling back on the Indian market. India was the only country slightly insulated from the global meltdown. Suzlon, the market leader, decided that a good way to go about it would be to expand the market.

However simple this may sound, this didn't happen overnight. Instead of battling rivals like Vestas and Enercon in the more established markets of Maharashtra, Gujarat or Tamil Nadu, Suzlon's research and sales teams ventured out to new states like Madhya Pradesh, Andhra Pradesh and Kerala. Most of these are low to moderate wind power markets. And, unlike other multinational companies that focused on merely selling turbines, Suzlon had a complete turnkey solution approach. It involved studying the wind potential, acquiring land, setting up financing and post-sale services and then selling the whole proposition to an interested customer. That helped significantly ease the process and create more value for the customer.

In May 2011, Suzlon announced returning to profitability after the financial crisis of 2008-09

In October 2011, Suzlon sold its remaining 26.06% stake in Hansen Transmissions International NV to ZF Friedrichshafen AG for Rs 890Cr (\$178 million). [16] In the same month, it also achieved full control of its German subsidiary Re power by acquiring the remaining 5% stake held by minority shareholders that resisted the takeover. The takeover was completed through the squeeze-out procedure by paying EUR 63 Million.

The company, whose business has suffered in recent times owing to the global economic slowdown, removal of certain tax breaks for wind power producers in India and onslaught of cheap products from China, recently got a breather. In October, it was referred for corporate debt restructuring (CDR) after it defaulted on payments of foreign currency convertible bonds (FCCBs) worth \$221 million. The lenders restructured its loans to the tune of Rs 9,500 crore, giving it a two-year holiday from interest payment, and enhanced working capital facilities.

Present State

Suzlon Energy, hit by liquidity issues, took a 20 per cent cut on sales in the December 2012 quarter. Compared to last year, total income was lower by about Rs 1,000 crore at Rs 4,074 crore. This was not even enough to cover the operating expenses of Rs 4,563, leading to an operating loss of Rs 516 crore. Add to it interest cost and other non-operating expenses, and losses totaled a whopping Rs 1,155 crore. The poor financial performance is attributed to liquidity woes. Despite Suzlon's huge order book position, it is unable to convert these into sales.

According to press report by Suzlon, the FY13 financial result was impacted by non-routine costs, including foreign exchange losses, asset impairments, tax credit reversal et al, totaling approximately Rs 1,100 cr.

According to Mr Kirti Vagadia, Group Head of Finance, "While our FY13 numbers are extremely disappointing, the business is starting to stabilize. We embark into FY14 with additional working capital support, a leaner workforce, lower fixed costs, and a more efficient cash cycle. While the market environment continues to remain extremely challenging, we are positioning the business to take advantage of the market recovery, which is independently projected for CY2014."

Mr Tulsi Tanti, Chairman – Suzlon Group, said "This has been an extremely difficult year for the Suzlon Group. We faced both significant internal challenges on the liability management front, and externally with a highly competitive global wind sector, and turbulent India market which shrank by almost 50 per cent. Breaking out of this cycle required a strategic shift on our part in order to preserve value and

ensure the sustainability of our business in the long-term. This meant that, over the fiscal, the business was under-resourced which contributed to what is a very poor result. However, we consider this to have been a necessary sacrifice and have made substantial and real progress in addressing our liabilities, as well as in improving our business efficiency. Despite these challenges, we secured new orders of nearly US\$ 4.3 bn over the year, RE power continued to outperform the sector, and we enter the new fiscal focusing 100 per cent on execution.”

Let us hope that these orders convert into real sales for the company which started from nowhere, reached pinnacle of success and then badly hurt by the financial downturn of economy.

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