

Technology company

Technology



**ASSIGN
BUSTER**

The jump in its revenue from 2004-2009 was achieved because of the capacity expansion strategy Suzlon has focussed by acquiring its small competitors and also integrating its supply chain. The trend in the revenues for the last 10 years is shown in the chart- Source: Religare Technova

Suzlon's continuing growth in their operations in all key international wind energy markets and presence in all emerging markets is strengthening their global integration.

With its R&D and engineering offices in Denmark, Germany, India, and the Netherlands, a manufacturing footprint across 22 countries in 3 continents and business units in all major wind markets of the world, Suzlon has its finger on the pulse of the global industry. Suzlon currently has manufacturing facilities in four countries including India, China, USA, and Germany with an aggregate capacity of close to 15, 000 MW / annum.

Source: http://www.suzlon.com/manufacturing/facilities_by_location.aspx?l1=5&l2=19

Suzlon closes on to the 9 GW mark of commissioned installations with cumulative installations reaching at 8908. 89

MW as of March 31, 2010, in 5 continents namely Asia, Australia, North America, South America & Europe. India leads in the overall cumulative total with the highest installations followed by USA, China, Australia, Brazil, Spain, Portugal, Nicaragua & Turkey respectively. Suzlon has consistently held its number one position in India for almost a decade now and has also been the industry leader in Australia over the last couple of years. Recently it has also become a significant player in the Brazilian market.

Sale of 'Suzlon' make turbines comes primarily from sale in India, China, USA , Australia, Brazil, Bulgaria, Nicaragua. Source: Annual Report 2009-10

PROBLEMATIC SITUATION - (EXPANSION) The company's expansion plan was mired on two fronts. The company's leveraging has been increased considerably ever since it bought Belgium's Hansen, a London-listed wind turbine gearbox manufacturer, in 2006 and built up a 91 per cent stake in Germany's REpower in the following two years for \$1. 7 billion (USD) in order to reduce competition and to acquire new product lines.

It can be found out that the cost of acquisition is too high and it has been provided that Suzlon will arrange these payments from external sources as well as from working capital which directly affects company's performance domestically as well as globally. Such lacuna in appropriate and timely decision making in finance is the biggest weakness of Suzlon. The another bigger and main problem which really affected Suzlon's position in the international market as a wind turbine manufacture was cracks developed in its turbine blades which it had supplied to USA based client.

Suzlon not only has to shelve out millions of dollars during the warranty period but it has also affected its positioning as a manufacturer of quality product which results in dwindling orders. With the intense competition in the wind energy space and a decrease in the demand, Suzlon is finding it tough to sustain its global operation. 4. 0 MAJOR ISSUES IN EXPANSION The major issue with the globalizing plan of Suzlon was that its aggressive acquisition policy was reactionary rather than planned.

Combine it with poor execution of the deal and lack of synergy between its different subsidiaries also cost it dearly. The company was unable to estimate proper demand in the turbulent wind energy sector as well as problem with its operation (read poor quality product) also result in the deteriorating health of the company. First, Suzlon expanded rapidly before the financial downturn of 2008, acquiring suppliers to vertically integrate along its supply chain. However, Suzlon has since divested some of these investments and reduced its debt burden.

But the burgeoning debt burden and renegotiation with its borrower is making its investor nervous about its future. A look into the debt book will cast a problem in their international expansion plan. Source: Religare Technova Second, in 2008 Suzlon customers in both the United States and India reported that Suzlon's wind turbines cracked in high winds and failed to deliver the power outputs stated in sales contracts. Other quality control issues led some customers to cancel orders from Suzlon and to purchase wind turbines from other suppliers.

The company repaired 1, 251 turbine blades for a total of \$100 million in warranty costs in 2009. Not only are faulty turbine blades expensive to repair, but they also damage the company's image. The third major issue with Suzlon is that the turbulent economic environment and global credit crunch led some of the fast growing wind energy markets like the U. S. and Europe to slow in terms of new capacity additions. The wind turbines were installed mainly due to incentives from the American Recovery and Reinvestment Act of 2009.

STRATEGY ADOPTED TO RESOLVE THE ISSUE

Suzlon is affected on three front - high leverage (high debt), poor quality of products, weak demand with intense competition. High leverage (high debt): High leverage costs the company not only in terms of lower profit but also access to cheaper loan to finance its project and bridge the gap for its working capital requirement. It sold a 35 per cent stake in subsidiary Hansen Transmission for around \$370 million in November last year to reduce its debts. Post stake sale, Suzlon's shareholding in Hansen declined to 26% from 61%.

This is the second divestment of Suzlon's stake in Hansen, with the firm selling 10% in January this year to the London-based investment firm. Suzlon is also trying to increase its operational efficiency and reduce its working capital to cut its net debt by 17 per cent to Rs 9, 760 crore (\$2. 20 billion). Wind energy major Suzlon is planning to raise up to Rs 5, 000 crore from the secondary market and increase its borrowing limit to Rs 10, 000 crore from the current Rs 7, 000 crore as reported by the Financial daily last month.

Faced with liquidity problems, Suzlon also had to refinance its loans of close to Rs 10, 000 crore with its creditors. Poor quality of products: Apart from the cracking in the blade, some of Suzlon Energy's largest Indian customers said that their turbines fail to generate anywhere near the amount of electricity expected, suffer from excessive vibrations during high winds and have control problems costing them millions of dollars in lost power revenue. Other Suzlon turbines have broken down because of cold weather in the USA.

This shows their incompetency to adapt product as per the local condition. Suzlon engineers had to install heaters for the control panels, which sit just behind the blades atop the windmill's 264ft tower. To overcome the problems in the products, Suzlon immediately undertook a root cause analysis to identify the problem, devise a solution, and resolve the issue in a timely and cost-effective manner. Their retrofit process cost around \$25 million to the company. The Retrofit Process was carried out in a multi-stage process detailed below:

a) Root Cause Analysis and Identification: Working directly with its customers, Suzlon engaged Navigant Consulting, a leading international consulting firm, to conduct an extensive Root Cause Analysis (RCA) examining all primary and secondary contributing causes to the blade crack issue. The RCA team concluded that the S88-V2 blade design, while designed and tested to industry standard certification guidelines, had a weakness in the transition area - about 6 meters (20 feet) from the root of the blade. At the completion of the program, only 179 blades of the total fleet of 1, 251 blades developed cracks.

However, Suzlon upgraded the entire fleet in support of its customers. b) Design Solution and Testing: Suzlon worked with Germany-based Germanischer Lloyd (GL), an internationally-recognized wind energy certification organization, to test and certify the V2 blades according to international standards. Through this process Suzlon has developed a new level of blade testing for all its blades by putting increased loads into the test process which exceed current industry standards, raising the bar in product

design and testing for the industry as a whole. Weak Demand and intense competition:

Mr. Tulsi Tanti in his presentation to the investors predict that exports will jump to 75% of total sales next year, with the US, China and Europe accounting for an equal share. Since it began its push into the US in 2005, Suzlon has secured an 8% share of the US wind market, the world's fastest growing. Source : Annual Report 2009-10 Suzlon is also looking towards China to turnaround its sinking fortunes with even future plans of listing itself in Hong Kong. It plans to expand capacity at its plant in China as that market remains the world's largest and the company returns to profit this financial year.

REpower controls 10% of German market share and gives Suzlon a strong foothold in the Western European market. Additionally, as of November 2010, Suzlon plans to set up offices in several Latin American countries, including Mexico, Argentina, and Chile. Suzlon and REpower are working together aggressively to grow the wind market around the world. The combined entity wants to push itself into promising new geographies, and build on their position in key markets like North America, Australia, Europe, India and China - and taking local and global experience from emerging and developed markets to geographies like Africa Latin America.

Product adaptation is the key to success in the global market. Only good design, neat production and regular service can enable a product to meet the challenge. The manufacturers sometimes only have limited operating experience with their products. They have huge problem in quality control

and service management. This may bring disastrous result to their international sales. So an acquisition of an international firm with R & D will help it improve the product quality and hence the sales.