

Suzlon Energy Group Takes the Alternate Route With the Aid of Banks  
written by Shushaanth S | February 18, 2020



Seldom does a case so unique come to our notice that it is not easy to apply strait-laced rules, procedures and even law and draw a conclusion, as someone who is on the judgmental pedestal. One such case of Suzlon further proves that pursuing the safe route of keeping to the beaten track is not judicious. Europe understands the value of renewable energy and its countries like Denmark and Finland have plunged wholeheartedly into this field on a very high scale. To further the vision of a world, relying on renewable energy, Suzlon Energy Group ("Suzlon") was founded. It is a company emboldened by a great vision and entrepreneurial zeal embarked on a monumental project of producing wind energy. It is pertinent to point out a research report from the Aarhus University of Denmark, which declares authoritatively that wind energy has the potential to provide the whole planet with all required energy.[1] Keeping this fact as guidance, the company invested a colossal amount and commenced its business of producing wind turbine energy. Unfortunately, in due course, the company imperceptibly slithered into doldrum owing to the inconducive environment and inhospitable conditions. However, the intention and spirit of the company have been very earnest to turn the company into a profitable venture and honor the commitment completely. Presently, the ball is in the court of a team of lending bankers and government bodies. It is up to them to keep the pot boiling by lending adequate and appropriate support and guidance needed or to snuff out the small ember that is glowing weakly. Suzlon Energy Group's fat chance

There was a time when the Pune based wind supplier was considered to be one of the fifth largest wind turbine supplier and also a leading renewable energy solutions provider in the world with a global presence across 18

countries in Asia, Australia, Europe, Africa, and America. Suzlon was also the favorite amongst many great investors. But, Good times didn't last very long for Suzlon and it got plagued with debts and colossal losses pretty soon. Suzlon's contribution to the renewable energy produced in India has been incomparably great and indisputable. By the end of 2019 Suzlon had defaulted over INR 7,300 crore approximately which included INR 6,717.44 as principal and INR 538.94 as interest. Around 18 banks by way of a consortium granted several loans including working capital loans, term loans, letters of credit, etc., to Suzlon.[2]

#### Fall of Suzlon Energy Group

There has been widespread speculation across the globe that Suzlon has filed for bankruptcy and would be approaching the National Company Law Tribunal (NCLT) to finalize a resolution policy. It should be noted that Suzlon's downfall started not owing to any willful mismanagement or any dastardly act on the part of management but because of the large-scale sectoral slowdown, unavailability of land, infrastructure, uncertain and apathetic policies in many states and its inability to pay long-standing huge debts. One more implacable reason for the problem is that the very nature of the industry itself is cyclical prone and highly unpredictable.

Suzlon with another US\$100 million loss in the third quarter (December 2019), had been continuously working on a resolution plan with the lenders and has also submitted a draft restructuring plan, which segregates the total debt into "sustainable debt and unsustainable debt". Here the defaulting company starts servicing the sustainable portion of debt first, while lenders give a moratorium on payments for unsustainable debt for, say, two years after which this portion also starts getting serviced. Hence, the intention of the company to discharge its financial commitment and obligations completely, is very evident.

Suzlon in order to come out of the debacle, has submitted a restructuring plan in the month of October 2019 to the lenders' consortium and has been actively dealing with them on the same issue unremittingly. The lenders, on the other hand, to be on the safer side, have also signed an inter-creditor agreement (ICA) with the idea of not taking Suzlon to NCLT and to develop a sustainable resolution plan to preserve the value and reputation of the Company. However, in January 2020 the very idea of taking Suzlon to NCLT was actually dropped and the lenders decided to convert more than 50% of the total debt into a new debt and the rest to be a haircut taken by the lenders as unsustainable debt.

Banks

like, State Bank of India, Punjab National Bank (PNB), Union Bank and Bank of Baroda are major lenders to the company. It is pertinent to mention that PNB resisted the resolution plan right from the beginning.

The joint proposition by the Company and the

lenders is to create an escrow account for the company to help complete its pending projects. An Escrow account can be defined as an account, where the funds

are held in trust wherein, two or more parties complete a transaction.[3]

Since the plan of reaching NCLT for initiation of insolvency

proceedings against Suzlon has been dropped, the lenders have

decided to set up an Escrow accounts for a temporary period and to convert the

current debts into Sustainable debts. Opening escrow account can act as a guarantee for the lenders and the company can also do its business without any

funding issues or bottlenecks whatsoever. By this method lender would also get

the returns, and profit margin, if any, will go to Suzlon. The annual amount to be spent from the escrow account

would be in the range of Rs 800-1,200 crore approximately. The lenders after a

brief discussion amongst themselves and with the directors of Suzlon, appeared to have decided

against the idea of initiating insolvency proceedings against the company and will work on the sustainable debt of Suzlon.

Will it rise from the ashes?

Recently, Suzlon has proposed to convert its

outstanding debt into fragments of new debt, which in turn would amount to a discount of 68%. The Lenders had previously consented to take a 50% haircut however, the proposal follows an assessment by Suzlon's rating company, on how much debt can be sustainably

recast. Suzlon could tackle the

current financial predicament by focusing more on the cost optimization process

across the board including cost of goods sold, fixed costs, etc. The company in order to cut costs has scaled down the

manufacturing of wind power equipment from 3000 MW to just about 1200 MW per annum.[4]

Another favorable reason for it to rise from the ashes is the rising crude oil

prices, scarce sources of fossil fuels and the global demand for cleaner, renewable resources of energy. Right now, as a blessing in disguise, even the Tariff rates are stabilizing thus importing and exporting could be much more easier.

The wind power involves converting wind energy into electricity by using wind turbines and this form of energy can be relied on for the long term future especially in India as the power generation is cheaper and there is no shortage

of input costs and recurring expenses. Surprisingly, Suzlon's shares were also found to be trading 20% higher than last

year's 49% decline, Which shows a sign of improvement.

#### Conclusion

It is of paramount

importance that all the lending institutions should be very considerate and pragmatic in understanding the requirement of ailing Suzlon and give the necessary life support it requires. Opening Escrow accounts will be Suzlon's and the lenders last resort

to revive it from the downfall, and if this fails the lenders would have no choice left other than approaching NCLT

to initiate the resolution process. Suzlon Energy should strain every nerve to resuscitate the company and make it viable and profitable at the earliest.

- [1]<https://bss.au.dk/en/insights/business-1/2019/european-wind-could-supply-the-whole-world-with-electricity/>
- [2]<https://www.saurenergy.com/solar-energy-news/suzlon-energy-defaults-rs-7200-cr-worth-loans>
- [3]<https://www.escrow.com/what-is-an-escrow-account>
- [4]<https://www.suzlon.com/press-release-detail/404/suzlon-announces-q1-fy20-results>

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