

Industry : Power
IPO Price Band : Rs.425-510
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Script Scan

Face Value (INR)	10.0
Book Value (INR) FY'05	93.7
Equity (INR Mn.) (pre issue)	2608.0
Equity (INR Mn.) (post issue)	2875.3
EPS (INR) (FY'05)	12.7
(post issue, fully dialuated)	
P/E (FY'05)	40.1
(post issue, fully dialuated)	
Market Cap (INR Bn.)	122.2-146.6
(post-issue)	

No of Shares to be issued (Mn)	29.34
Premium (INR)	415-500
Issue Size (INR Bn.)	12.17-14.67
Issue Opens on	23-Sept. 05
Issue Closes on	29-Sept. 05
Listing	BSE & NSE

Shareholding Pattern	(%)
(Post Issue)	
Promoters	69.78
Public	30.22
Total	100.0

Issue Details

Suzlon Energy Ltd is Asia's strongest growing, fully integrated wind power solution provider and ranks sixth in the world. The demand for power in India has traditionally exceeded the supply resulting into peak deficit of 11.7% in 2005. The wind power installation in India is growing at 26.9% CAGR in past five years with total installation base reaching to 3000MW. Suzlon having domestic market leadership position is going global to tap the huge opportunity coming in the form renewed demand for renewable energy. Suzlon is coming out with public issue cum offer for sale to fund its expansion program.

Key takeaways

- Suzlon integrates consultancy, design, manufacturing, operation and maintenance services to provide customers with total wind power solutions.
- Suzlon currently derives 99.7% of the revenues come from India and rest from US
- It has an installation base of 1,126.6 MW as of March 31, 2005 and has market share of 42.8% in terms of the total capacity installed in India during the year ended December 31, 2004
- Suzlon has established international presence through its 100% subsidiaries AE Rotor Holdings B.V. (Netherland), Suzlon Energy GmbH (Germany), Suzlon Energy A/S (Denmark), Suzlon Energy Australia Pty Ltd and Suzlon Wind Energy Corp. (USA). It plans to invest Rs.1bn in US subsidiary and Rs.2.2bn in China to manufacture blades for wind energy turbine generator.
- Suzlon has an associate companies, Suzlon Realities Ltd., which procures sites in India that have been identified by the company as suitable for WTG installation and Suzlon Developers Ltd which undertakes the project execution work, including site development, civil works and electrical works, as well as erection and commissioning of WTGs and construction of power evacuation facilities.
- Suzlon has operational subsidiary namely Suzlon Windfarm Services Ltd engaged in maintainance of wind farms and Suzlon Structures Ltd (75% holding) and Suzlon Generators Pvt. Ltd (74.9%) engaged in tower manufacturing and generator manufacturing (production started in Aug 2005).
- Suzlon plans to focus on the development and construction of a gearless 1.25 MW WTG and WTGs with 1.50 MW and 2.10 MW capacity, as well as improved control systems for its current WTG models. It has independently designed, developed and launched the MW and multi-MW series of WTGs, becoming one of the first Asian companies to manufacture 1.00 MW, 1.25 MW and 2.00 MW WTGs.

Estimated Use of Funds	(in Rs. Million)
Setting up and expansion of manufacturing facilities in India	1,950.4
Capitalisation of Subsidiaries	3,524.9
New corporate house and corporate learning center	967.9
Redemption of Preference Shares allotted to the Private Equity Investors	1,000.0

	7443.2

Industry Scenario

Global Scenario

The global wind energy industry is worth US\$ 11.3 billion as of end 2004, according to BTM Consult ApS. With over 8,000 MW of installations in 2004, the cumulative global installations of WTGs was 47,912 MW by the end of 2004. Cumulative installations have grown at a CAGR of 26.9% in the last 4 years. According to The IEA estimates the wind power share in total electricity generation will grow from 0.2% in 2002 to 3.0% in 2030. The Spanish market was the largest market in the world in 2004, with 2,064 MW of installations. India, with 875 MW installed in 2004, was the largest market in Asia and the third largest market in the world in terms of annual installations in 2004.

Europe with 34,725 MW, accounts for over 72.5% of the cumulative installations as on December 31, 2004. Germany alone accounts for 34.7% of the global installations with cumulative installations of 16,649 MW at the end of 2004. The offshore WTG market presents a new opportunity for wind power, especially in Europe. According to BTM Consult ApS, the cumulative installed capacity for wind power is expected to grow from 47,912 MW in 2004 to 117,412 MW by 2009, representing a CAGR of 19.6% and 2,35,000 MW by 2014, representing a CAGR of 17.2%. Annual global installations are expected to grow from 8,154 MW in 2004 to 17,605 MW in 2009 and 29,000 MW in 2014.

Global Wind power potential			
Country	Current (MW)	Target (MW)	Time Frame
UK	889	10000	2010
Portugal	585	3750	2010
France	386	10000	2010
Norway	158	1000	2010
Canada	444	10000	2010
Brazil	31	3000	2005
China	728	4000/20000	2010/2020
Japan	1000	3000	2010

Indian Scenario

Ministry of Non-conventional Energy Resource carried out wind resource assessment studies and accordingly has revised its estimate for gross wind power potential in India from 20,000 MW to 45,000 MW. Rajasthan, Gujarat, Maharashtra, Karnataka and Tamil Nadu accounts for above 90% of wind energy installation in the country. BTM Consult ApS has estimated that cumulative installed MW capacity for wind power in India will grow from 3,000 MW in 2004 to 8,300 MW in 2009, representing a CAGR of 22.6%.

Valuations

Suzlon has emerged as one of the strong players in wind energy solution segment having established global presence. The company has rolled out the infrastructure to tap the growing global market for renewable energy which is expected to be a major growth driver in coming years. The strong R&D (spends Rs.600mn p.a.) base and increasing integration with in-house manufacturing of component is expected improve the margins in coming years. Considering the upper band of the price the issue is priced at 40.1x diluted FY05 earnings. With rising crude oil prices and increasing awareness by developed countries to comply with Kyoto Protocol, the demand for wind power installations is expected to speed up. Looking at the strong growth rate and strong global positing of Suzlon, we recommend investors to subscribe to the issue for medium to long term returns.

Financials (Consol.)

	March 2003	March 2004	March 2005
Net sales	2605.6	8574.9	19424.8
Total Expenses	2281.0	7124.7	14734.1
Operating Profit	324.6	1450.2	4690.7
Other income	91.4	173.6	234.3
Interest & finance charges	88.5	275.6	458.2
Depreciation	99.6	136.1	493.2
Provision for taxation	27.1	29.91	322.3
Net Profit	37.2	1449.2	3651.2
OPM (%)	12.4	16.9	24.1

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