

# Suzlon Energy

STOCK INFO.  
BSE Sensex: 8,487

BLOOMBERG  
N.A

21 September 2005

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S&P CNX: 2,567

REUTERS CODE  
N.A

IPO Price Band: Rs425-510



## High velocity

- ✍ Global wind energy market at an inflexion point
- ✍ Suzlon has achieved cost and technology leadership
- ✍ Government directives and incentives are key risks
- ✍ At current offer band, the stock quotes at a PER of 14.5-17.4x FY06E and 11.8-14.2x FY07E; **Subscribe.**

## **Contents**

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	<b>Page No.</b>
<b>Investment positives .....</b>	<b>4-11</b>
<b>Concerns .....</b>	<b>12</b>
<b>Valuations .....</b>	<b>13</b>
<b>IPO mechanics .....</b>	<b>14</b>
<b>Objects of the issue .....</b>	<b>15</b>
<b>Company profile .....</b>	<b>16-18</b>
<b>Financial statements .....</b>	<b>19-22</b>

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Y/E MARCH	2004	2005E	2006E	2007E
Sales (Rs m)	7,912	19,175	27,023	27,625
EBITDA (Rs m)	1,216	4,700	8,273	8,650
NP #	1,518	3,859	8,442	10,328
EPS (Rs) #	6.9	15.3	29.4	35.9
EPS Growth (%)#	244.1	120.2	92.5	22.3
BV/Share (Rs)	157.4	93.7	97.9	114.3
P/E (x) # (Rs425)	61.4	27.9	14.5	11.8
P/E (x) # (Rs510)	73.6	33.4	17.4	14.2
EV/EBITDA (x) (Rs425)	9.8	8.4	13.6	12.7
EV/EBITDA (x) (Rs510)	11.5	9.9	16.6	15.5
RoE (%)	45.3	63.5	40.6	26.0
RocE (%)	24.5	49.3	37.1	25.6

# Consolidated

KEY FINANCIALS POST ISSUE AT	RS425	RS510
Shares Outstanding (m)	287.6	287.6
Market Cap. (Rs b)	123.1	147.7
Market Cap. (US\$ b)	2.8	3.4

SHAREHOLDING PATTERN (%)	PRE-IPO	POST-IPO
Promoters	76.9	69.8
Citicorp	8.9	7.2
Chrys Capital	2.9	2.6
Govt of Singapore Investment	2.8	2.5
T Rowe Price	1.4	1.3
Others	7.1	6.4
Public Holding	0.0	10.2

#### IPO DETAILS

**Issue Size:** 29.3m shares with FV of Rs10 each  
**Price Band:** Rs425 to Rs510 per share  
**Issue Date:** 23 Sept. 2005 to 29 Sept. 2005

### Global wind energy market presents significant growth options:

The global wind energy market is at an inflexion point - installed base in December 2000 was 18,449 MW, which increased to 47,912 MW by December 2004. As per BTM, the global target for this market is 136,000 MW by CY10. Almost 90% of the industry is controlled by six players. Suzlon was the 6<sup>th</sup> largest manufacturer in CY04 and is on course towards becoming the 3<sup>rd</sup> largest by CY08.

**Suzlon's target market is expanding:** In India, the Electricity Act 2003 mandates that all Regulatory Commissions should have policies in place to procure a certain percentage of power generation from renewable sources. Various states like Maharashtra (750 MW by FY07), Karnataka (5-10% through renewable sources) and Madhya Pradesh (0.7% from wind by FY07) have come out with regulations in this regard. On the exports front, the company is targeting markets like the US, China, Australia and parts of Europe to leverage on its cost leadership position. With backward integration, import content for Suzlon will decline to ~20% v/s ~50% in FY05.

**Government directives / incentives are key risk factors:** The biggest risk factor for Suzlon and also the wind energy market is any change in government directives. Even though wind energy has become commercially viable, the industry growth to a large extent depends on government directives and incentives. Apart from India, this is also true for countries like USA, China and Australia, which are the key focus markets for Suzlon.

**Valuations:** At the issue price band of Rs425-510 per share, Suzlon quotes at a PER of 27.9-33.4x for FY05, 14.5-17.4x for FY06E and 11.8-14.2x for FY07E. **Subscribe.**

## Investment positives

### Globally, the wind energy market is at an inflexion point

The global wind energy industry is at an inflexion point. The installed base in December 2000 was 18,449 MW, which increased to 47,912 MW by December 2004. This represents a CAGR of 26.9% in the past four years. As per BTM, the global target in CY10 is an installed capacity of 136,000 MW.

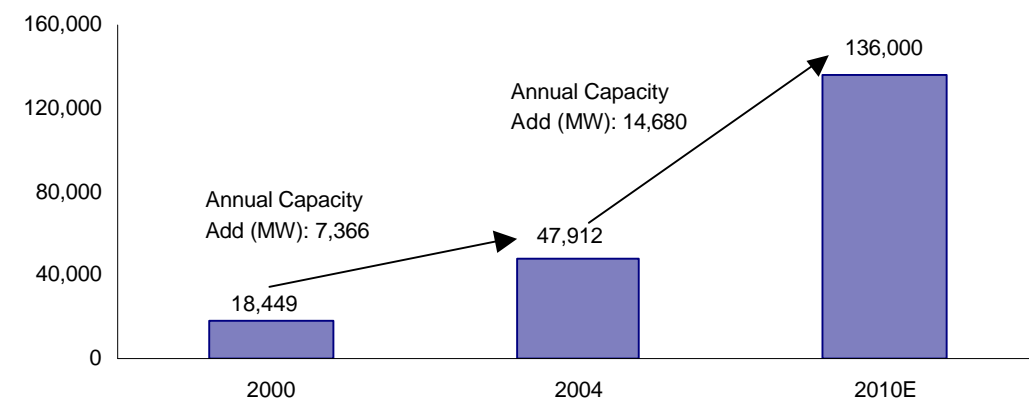
The inflexion point is being driven by: (1) technological developments, which entailed bringing down per MW capital cost and improving PLF, thus increasing the commercial viability, (2) Kyoto Protocol which provides carbon credits (10% of capital costs), (3) higher fossil fuel prices, and (4) increasing sense for energy security.

GLOBAL WIND ENERGY DEMAND (MW)

PARTICULARS	CY00	CY01	CY02	CY03	CY04
New Installed Capacity	4,495	6,824	7,227	8,344	8,154
Accumulated Capacity	18,449	24,927	32,037	40,301	47,912
% YoY	32.4	35.1	28.5	25.8	18.9

Source: BTM Consult ApS Report 2005

GLOBAL WIND ENERGY MARKET IS AT AN INFLEXION POINT



Source: BTM Consult ApS Report 2005, Motilal Oswal Securities

### Industry is highly concentrated: top-6 players control 90% of the market

We note that wind energy equipment manufacturing entails high-end aerodynamics technology through use of sensors, etc which enables the turbines and rotor blades to adjust to the speed and direction of the wind. Access to this technology is one of the biggest entry barriers. This is further evidenced by the fact that six companies control 90% of the global market.

GLOBAL COMPETITION IN WIND ENERGY MARKET (MW)

	COUNTRY	ACCUMULATED 2003	INSTALLED 2004	SHARE (%) 2004	ACCUMULATED 2004	SHARE (%)
Vestas	Denmark	14,797	2,783	32.7	17,580	34.6
Gamesa	Spain	4,965	1,474	17.3	6,439	12.7
Enercon	Germany	5,758	1,288	15.1	7,045	13.9
GE Wind	US	4,428	918	10.8	5,346	10.5
Siemens	Denmark	3,367	507	6.0	3,874	7.6
Suzlon	India	463	322	3.8	785	1.5
Repower	Germany	893	276	3.2	1,169	2.3
Mitsubishi	Japan	806	214	2.5	1,019	2.0
Ecotnia	Spain	531	214	2.5	744	1.5
Nordex	Germany	2,219	186	2.2	2,406	4.7
Others		4,026	334	3.9	4,359	8.6
<b>Total</b>		<b>42,253</b>	<b>8,516</b>		<b>50,766</b>	

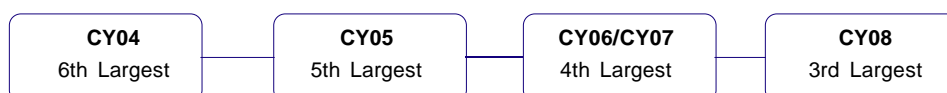
Source: BTM Consult ApS Report 2005

### Suzlon has global size, and cost leadership

Suzlon, with access to one of the best technologies and a lean cost structure, is one of the most profitable companies in the industry and is thus well positioned to capitalize on the global growth opportunity.

In terms of installations during CY04, Suzlon was the sixth largest wind power company globally. During CY04, India added 875MW, which represents 10.7% of global capacity additions.

SUZLON'S POSITIONING IN GLOBAL WIND ENERGY MARKET



Source: Motilal Oswal Securities

### India - demand is no longer an issue

We believe that the growth of the wind energy industry is constrained more by land and infrastructure development, rather than demand. Land locations and infrastructure development entail a time period of ~3-years, as various government and regulatory permissions are required.

TREND IN INSTALLED CAPACITY AND POTENTIAL IN KEY STATES (MW)

STATE	GROSS POTENTIAL	TECHNICAL POTENTIAL	INSTALLED CAPACITY
Andhra Pradesh	8,275	1,920	121
Gujarat	9,675	1,780	253
Karnataka	6,620	1,180	413
Kerala	875	605	2
Madhya Pradesh	5,500	845	29
Maharashtra	3,650	3,040	456
Orissa	1,700	780	2
Rajasthan	5,400	910	285
Tamilnadu	3,050	1,880	2,040
West Bengal	450	450	1
Other States	-	-	2
<b>Total</b>	<b>45,195</b>	<b>13,390</b>	<b>3,602</b>

Source: MNES

- ✍ **Post Electricity Act 2003, the industry now has a regulatory framework to drive growth:** The Electricity Act 2003 mandates that all Regulatory Commissions should procure certain percentage of power generated from renewable sources by all distribution companies. Renewable energy includes wind energy, small hydro, biomass, municipal solid waste conversion and solar energy. As per the current procedure, companies can bid to the state regulators for setting up projects.

#### Recent regulatory enactments in India towards renewable energy sources

- ✍ **Maharashtra** Electricity Regulatory Commission has stipulated that 750MW of supply of electricity shall be sourced from wind power by CY07. The burden has been divided between MSEB (500MW), Tata Power (50MW) and Reliance Energy (100MW).
- ✍ **Karnataka** Electricity Regulatory Commission has stipulated a minimum of 5% and maximum of 10%, and
- ✍ **Madhya Pradesh** Electricity Regulatory Commission has stipulated 0.7% from wind power by CY07

Several other states like Tamilnadu, Rajasthan and Gujarat also are expected to come out with such notifications.

## REGULATORY ENVIRONMENT ACROSS STATES

DESCRIPTION	RAJASTHAN	TAMIL NADU	KARNATAKA	MAHARASHTRA	GUJARAT	MP	ANDHRA PRADESH
Third Party Sale of Power generated	Allowed	Not Allowed	Allowed	Allowed	Not Allowed	Allowed	Not Allowed
Rate p.u. in case of Sale of Power to SEB (from 1.4.2004)	Rs2.91 with escalation of 5 paise for 20 years	Rs2.7 flat an annual	Rs3.4 flat for 10 years from COD	Rs3.5 with an annual escalation of 15 paise per unit up to 13 years from COD	Rs2.6 with an escalation of 5 paise/unit for 10 years	Rs3.97 to Rs2.6 different rate for all 20 years	Rs3.37 flat rate for 5 years then to be reviewed
Wheeling & Transmission Charges for the power generated	10%	5%	Rs0.19/KWH/ Month+Tran. Loss 6% + Rs0.13/unit + Dist. Loss 12%	2% wheeling and 5% transmission charges	4%	NIL	Rs84.65/KW/ Month + Tran. Loss 6.25% +Rs0.51/unit + 6.4% (For 33KV) (For 33/11 KV)
Duration of the Power Purchase Agreement by SEB for purchase of power	20 years	Upto next policy revision	10/20 years	13 years	10 years	20 years	20 years
Banking of power generated	Permitted in same calendar year	Permitted in same financial year	1 year	1 year	6 months	Not Permitted	Permitted for 1 year
Banking Charges	Nil	5% on 2 months basis	2% on monthly basis	Nil	Nil	NA	NA

For sales to State Electricity Boards, state regulators offer RoE of 14-16%, while actual RoE would be higher as the companies can retain the benefits of higher PLF, lower financing costs, etc.

EQUITY IRRS FOR WIND ENERGY PROJECTS (FOR SALE TO SEBS)	(%)
Maharashtra	24.8
Tamilnadu	23.0
Rajasthan	26.9
Karnataka	32.8
Gujarat	30.7
Andhra Pradesh	23.1

Source: Motilal Oswal Securities

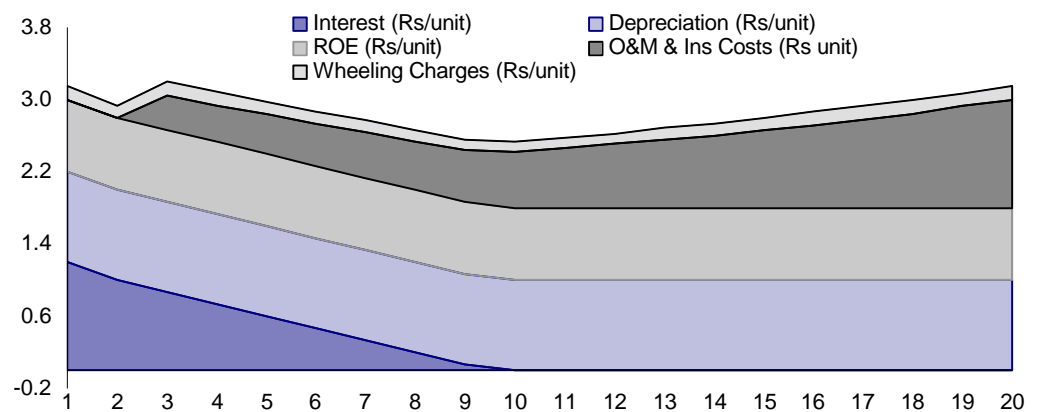
- ✍ **Wind Energy is a commercially viable proposition:** We calculate the levelized tariffs for wind power at Rs2.2-3.0 per unit, which compares with Rs1.9 - 2.4 per unit for coal based projects and Rs2.0-2.5 per unit for large hydro projects. Also, the first year cost at Rs2.8-3.7 per unit for wind power is more competitive than Rs2.9-3.1 per unit for hydro power projects.

## COST COMPETITIVENESS OF WIND ENERGY V/S OTHER RENEWABLE ENERGY SOURCES

TECHNOLOGY	POTENTIAL IN INDIA	COST/ MW (RS M)	PLAUSIBLE CAPACITY UTILIZATION FACTOR	LEVELIZED COST PER KWH (RS/KWH)
Wind Energy	45,000 MW	45-52.5	22% - 32%	2.5-3.7
Small Hydro	15,000 MW	35-62.5	30% - 45%	1.8-3.4
Biomass	3,500 MW	35-40	60% - 80%	2.2-3.2
MSW/ IW to Energy	1,700 MW	50-120	60% - 80%	2.5-3.5
Solar Thermal	20 MW/ sq.km.	100-120	14% - 24%	8-10

Source: Various Regulatory Orders, Motilal Oswal Securities

## PER UNIT TARIFF COST OF WIND ENERGY (RS/UNIT) OVER 20 YEARS LIFE SPAN



Source: Motilal Oswal Securities/Assump.: PLF 30%, Capital Cost Rs50m per MW, Financing @9%

✍ **Carbon credits:** The wind energy is eligible for carbon credit benefits under the Kyoto Protocol for the period CY02-CY12. At 24% PLF, we calculate the amount at Rs0.2/unit, which reduces the cost by 7%.

## GAINS FROM CARBON CREDIT

Capacity (MW)	1.0
PLF (%)	30
Units Generated (MUs)	2.6
Carbon Credit (Rs/Unit)	0.22
Increase in Equity IRR (%)	3.8

Source: Motilal Oswal Securities; Assumption: CR = Euro6/unit, Cost = Euro2/unit

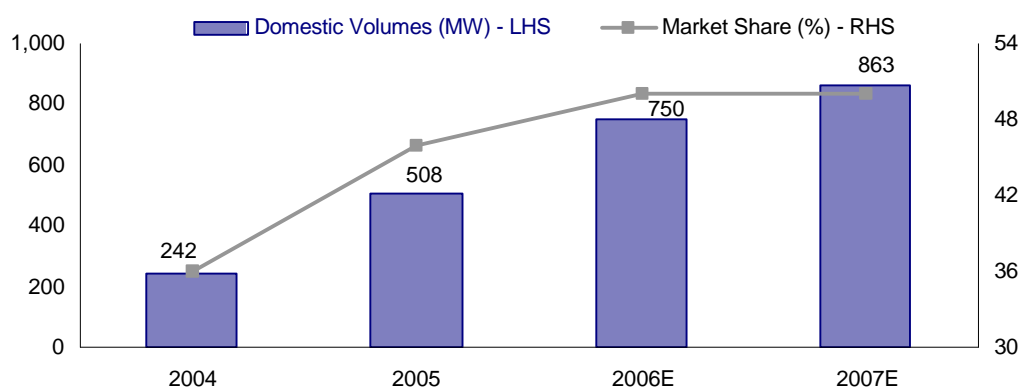


### Market share of Suzlon in India has been increasing

During FY05, Suzlon had a market share of 46% in India as compared to 37% in FY03. Apart from strong after sales service, technology edge, positioning as integrated solutions provider, etc, we outline some reasons contributing to increased market share for Suzlon in India. We believe a further improvement in market share is easily possible going forward.

- ✍ **Product range:** Suzlon has a product range of 1.25 MW and 2 MW, while all other companies in India (except NEG Micon – 1.65 MW) have product ranges below 1 MW. Lower product range entails a high capital cost per MW. As State regulators fix tariffs based on an average cost structure for the state, a higher MW product will earn significantly better RoE.
- ✍ **Operations in several states:** Competitors in India operate in 2-3 states (with land bank), while Suzlon is currently developing land banks in ~7 states.
- ✍ **Backward integration:** Backward integration for Suzlon will result in lowering procurement costs, which can be passed on to the consumers, thus bringing down the per MW capital costs. Competitors will have no such advantage of lower capital costs, as they have limited plans for backward integration. For Suzlon, import content is expected to decline from 50% in FY05 to ~20% post September / October 2005.

SUZLON'S BUILD UP IN DOMESTIC VOLUMES (MW) AND MARKET SHARE (%)



Source: Company/Motilal Oswal Securities

### Exports are becoming an important driver

We believe that the wind energy sector presents an opportunity to Suzlon for utilizing the low cost manufacturing base in India to cater to the export market. The company has already achieved cost leadership in the industry, and is amongst the most profitable companies globally in wind energy segment.

Suzlon has targeted US, China, Australia and parts of Europe (Italy, France and Portugal) as its focus markets internationally.

- ✍ **China:** The Chinese government is encouraging development of renewable energy sources and has declared its intention to get 10% of its electricity from renewable energy sources by CY20. This translates into an installed base of 20,000 MW by CY20 compared to 769 MW at end CY04.
- ✍ **USA:** Growth in USA is largely driven by increased concerns on fuel security, with most states announcing 5-10% of electricity generation through wind power.
- ✍ **Australia:** Australia has introduced the Renewable Portfolio Standard, which mandates that renewable energy sources contribute a specified minimum percentage of total electricity supply. The existing Mandatory Renewable Target requires that renewable energy make up a further 2% of total power generated by CY10.

TREND IN EXPECTED INCREASE IN CAPACITY ADDITIONS IN SUZLON'S TARGET MARKETS

MARKETS	CUMULATIVE INSTALLED CAPACITY AS OF END 2004 (MW)	FORECASTED (INSTALLED) CAPACITY BETWEEN 2005-09 (MW)	CUMULATIVE INSTALLED CAPACITY BY END OF 2009 (MW)
Europe	34,725	39,875	74,600
United States of America	6,750	12,100	18,850
India	3,000	5,300	8,300
China	769	2,350	3,119
Australia	421	1,700	2,121

Source: Company

EXPECTED BUILD UP IN EXPORT VOLUMES FOR SUZLON (MW)

	FY04	FY05	FY06	FY07
US	22.8	0	88	140
Australia	0	0	45	55
China	0	0	10	140
<b>Total</b>	<b>22.8</b>	<b>0</b>	<b>143</b>	<b>335</b>

Source: Company/Motilal Oswal Securities

### Suzlon has higher EBITDA margins than competitors

Unlike most of the global competitors which operate at EBITDA margins of 2-10%, Suzlon has an EBITDA margin of 24.5%. (FY05). The key reasons for this variation are:

- ✍ **Low cost Indian manufacturing:** Unlike competitors, Suzlon has advantage of low cost manufacturing in India, access to latest technology from its R&D centres in Germany and Netherlands and International headquarters in Denmark for overseas operations. Competitors have manufacturing operations in developed countries like US, which entails *high materials and labour costs*.
- ✍ **Access to high end technology:** Through its R&D centres in Germany and Netherlands, Suzlon has access to high end technology. The company developed technology for 1.25 MW and 2 MW products in-house. Also, Suzlon is amongst one of the three manufacturers of rotor blades globally, which involves extensive use of aerodynamics.
- ✍ **Backward integration:** Backward integration for manufacturing of tubular towers (JV with Kalthia group, commenced operations in March 2005) and generators (JV with Elin EBG Motors GmbH, Austria; commenced operations in September 2005) in joint ventures at cost plus conversion premium will entail sizeable reduction in costs. Also, for gearboxes, Winergy has set up a captive plant in India (commenced operations September 2005) which is expected to reduce the procurement costs significantly. Suzlon already manufactures rotor blades, nacelle covers, etc. Import content is likely to come down from ~50% in FY05 to ~20% from September / October 2005.
- ✍ **Increased volumes,** both in India and exports, will entail a better absorption of fixed costs, thus improving margins.

We believe that lower export margins in initial years could be compensated by improved domestic margins (arising from better fixed cost absorption) and thus overall EBITDA margins could be maintained at ~25%. Further, the US / Chinese facilities would just entail mass manufacturing, while the Australian market would be catered to by India.

## Concerns

### Government directives

We believe that the biggest risk factor for Suzlon and also the wind energy market, is the change in government directives. Even though the wind energy market has become commercially viable, the industry growth even today depends to a large extent on the government directives, which specify a minimum percentage of electricity to be generated through renewable sources. Apart from India, this is also true for countries like USA, China and Australia, which are the key focus markets for Suzlon.

### Government incentives

To encourage generation from renewable sources, governments across countries provide incentives for wind generation. In India, currently the wind energy sector enjoys income tax benefits by way of accelerated depreciation (80% of capital cost can be charged as expense for calculating income tax) and income tax holiday. This results in bringing down the capital costs, increasing RoE very significantly for customers.

Going forward, we believe that as the wind energy segment in India attains a critical size, the loss of revenues to the government due to tax incentives could be very sizeable. Thus, there is a strong case for the government to bring down these incentives.

### Highly technology intensive

We note that wind energy equipment manufacturing entails high-end aerodynamics technology through use of sensors, etc which enables the turbines and rotor blades to adjust to the speed and direction of the wind. Access to this technology is one of the biggest entry barriers. This is further evidenced by the fact that six companies control 90% of the global market. Thus, access to latest technology is crucial for margins.

## Valuations

At the issue price band of Rs425-510 per share, Suzlon quotes at a PER of 27.9-33.4x for FY05, 14.5-17.4x for FY06E and 11.8-14.2x for FY07E.

### COMPARISON WITH GLOBAL AND INDIAN COMPANIES

COMPARISON WITH GLOBAL AND INDIAN COMPANIES					
	MARKET	PER		EV/ EBITDA	
	CAP (RS B)	FY06	FY07	FY06	FY07
Indian Peers					
BHEL	276.8	20.9	16.8	12.1	9.6
Gamesa (ES) *	173.2	15.4	13.8	9.0	8.0
Vestas (DK) *	163.7	45.9	25.3	13.4	10.1
Suzlon (at Rs510)	147.7	17.4	14.5	16.6	15.5
Suzlon (at Rs425)	123.1	14.5	11.8	13.6	12.7
Siemens India #	84.0	30.8	20.5	18.7	13.6
ABB India *	73.6	35.5	25.9	23.7	16.4
Cummins India	31.1	19.1	15.8	11.9	9.9

# For Siemens - FY06 is Y/E September 2005 and FY07 is Y/E September 2006;

\* For Gamesa, Vestas, ABB - FY06 is CY05 and FY07 is CY06

Source: Bloomberg / Motilal Oswal Securities

There are no direct comparisons to Suzlon both in India and Overseas. NEPC Micon also operates in the wind energy segment in India, but is not a direct competitor to Suzlon as it has a highest product range of 350 KW v/s 2 MW for Suzlon.

## IPO mechanics

Suzlon Energy has fixed a price band of Rs425-510 per share for its forthcoming maiden IPO of 29.3m shares of Rs10 each. Of these, fresh issue is of 26.76m shares while the balance is offer for sale by Citicorp International Finance Corporation. This offer is being made through a 100% book-building process. Based on the price band of Rs425-510 per share, the total issue size stands at Rs12.5-15b. There will be a 2% reservation for the employees of the company. Further, 60% of the offer will be allotted on a discretionary basis to the Qualified Institutional Investors and 10% will be allotted on a proportionate basis to the non-institutional bidders. The balance 30% will be allotted to the retail bidders. The issue opens on 23 September 2005 and closes on 29 September 2005.

The total dilution of the equity will be 10.2%. The current issue will reduce the promoter holding from 76.9% to 69.8% and that of Citicorp International Finance Corporation from 8.9% to 7.2%. The other major shareholders are Chrys Capital, Government of Singapore Investment Corporation and T Rowe Price.

### DETAILS OF CURRENT EQUITY OFFER

PARTICULARS	EQUITY SHARES (M)	% OF TOTAL
<b>Equity Shares Offered by</b>		
The Company	26.8	91.2
The Selling Shareholder	2.6	8.8
<b>Total Issue</b>	<b>29.3</b>	<b>100.0</b>
Of Which :		
Reservation for Employees	0.6	2.0
Net Issue to the public	28.8	98.0
Of Which :		
Qualified Institutional Buyers Portion	17.3	60.0
Non-Institutional Portion	2.9	10.0
Retail Portion	8.6	30.0
<b>Equity Shares Outstanding prior to the Issue</b>	<b>260.8</b>	<b>-</b>
<b>Equity Shares Outstanding after the Issue</b>	<b>287.5</b>	<b>-</b>

Source: Company

## Objects of the issue

### The key objects of the issue are:

#### ✍ Setting up and expansion of manufacturing facilities in India

- ✍ New manufacturing facilities for components at Daman, Bhuj, Hyderabad and Dhule
- ✍ Tooling facility at Vadodara
- ✍ New storage facility at Daman
- ✍ Expansion of existing facilities to increase the storage capacity at Pondicherry

#### ✍ Capitalization of subsidiaries

- ✍ To set manufacturing facilities in India, United States and China
- ✍ Marketing subsidiary in Denmark to consolidate the company's position in the existing markets and to make in-roads into new markets
- ✍ Research and Development subsidiaries in Germany and Netherlands
- ✍ Operation and Maintenance subsidiary for setting up warehouses and central monitoring stations in India
- ✍ Establishment and construction of a new corporate head office at Pune, additional office premises at New Delhi and Pune and a corporate learning center near Pune.
- ✍ Redemption of Preference Shares (Rs1b) allotted to the Private Equity Investors
- ✍ Growth Opportunities in domestic and international markets and for general corporate purposes

#### DEPLOYMENT OF FUNDS FROM PUBLIC ISSUE (RS M)

	FY06	FY07	TOTAL
Setting up and expansion of manufacturing facilities, in India	1,307	643	1,950
Capitalization of Subsidiaries	2,285	1,240	3,525
Corporate House, Office Premises and Corporate Learning Centre	268	700	968
Redemption of Preference Shares allotted to the Private Equity Investors	1,000	-	1,000
<b>Sub – Total</b>	<b>4,860</b>	<b>2,583</b>	<b>7,443</b>
Growth Opportunities in domestic and international markets and general corporate purposes #			5,938

# Based on the upper end of price band of Rs510 per share Source: Company/Motilal Oswal Securities

## Company profile

During CY04, in terms of installations, Suzlon was the sixth largest wind power company globally and the market leader in India (Market share 46% in FY05). Suzlon's cumulative installed capacity till March 2005 stood at 1,126.6 MW.

Along with associate companies, Suzlon is a “complete integrated solutions” wind energy provider. The gamut of services provided by the group includes identification of suitable wind energy project sites, which are sold or leased to the customers; wind resource mapping; technical planning for projects; manufacturing Wind Turbine Generators (WTGs); technical implementation of wind farms, including infrastructure development, installation of WTGs, connection to power grids; and after-sale operating and maintaining services.

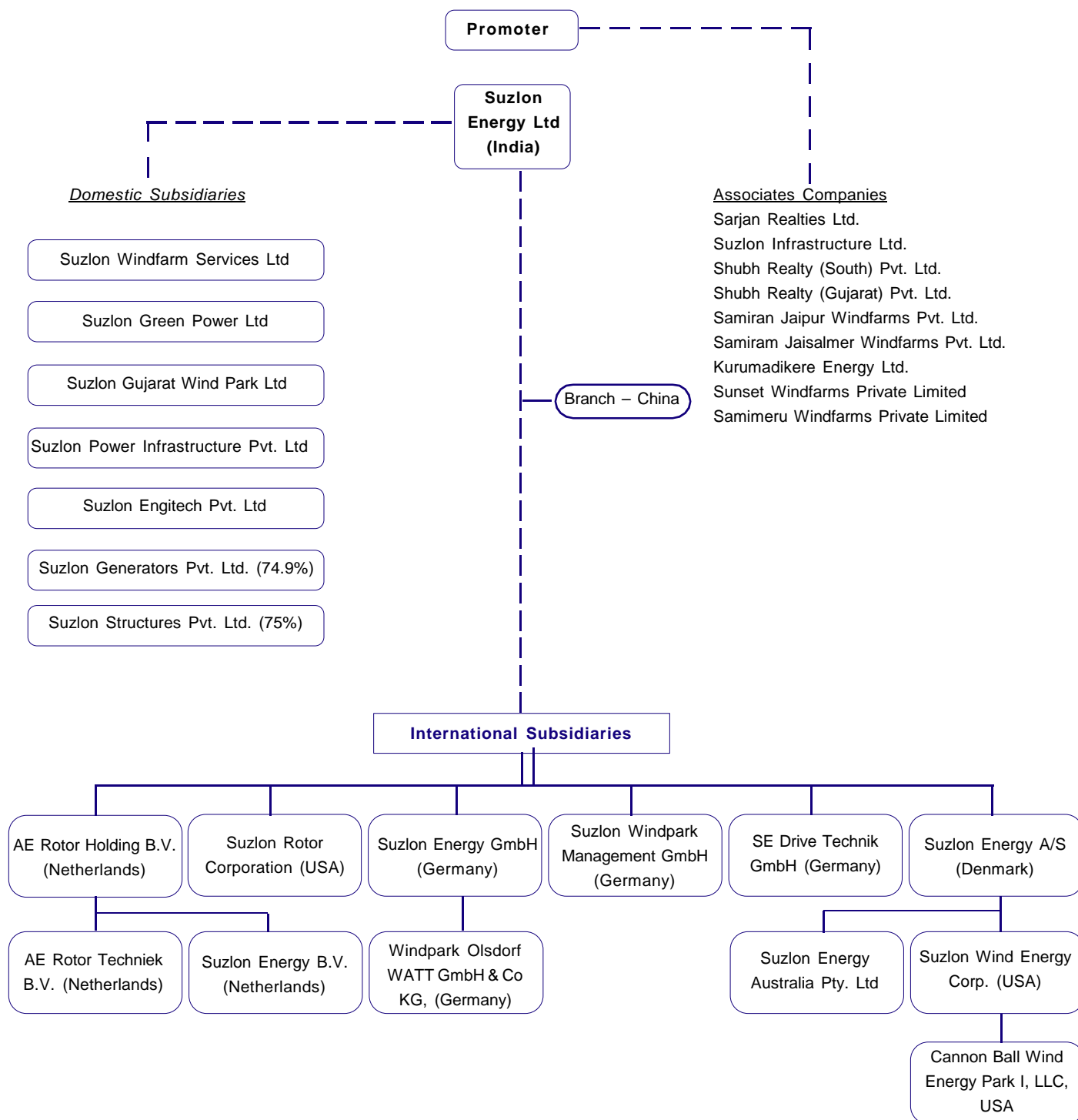
Suzlon's key manufacturing facilities are located at Pondicherry and Daman, both of which produce WTGs and Rotor Blades. The current product range includes 0.35 MW, 0.6 MW, 0.95 MW, 1MW, 1.25 MW and 2 MW WTGs.

Suzlon designs and manufactures WTGs, rotor blades, control panels and nacelle covers in-house using own technology and design capability. It is amongst the three companies globally with access to technology for manufacturing of rotor blades. Apart from this, through its various joint ventures and subsidiaries, the company has integrated backwards into manufacturing of tubular towers (Suzlon Structures), generators (JV with Elin EBG Motors GmbH, Austria), etc.

To tap the export markets of US, China, Australia and parts of Europe, Suzlon has set up its marketing head quarters in Denmark. The research for Rotor Blades and WTGs is undertaken in Netherlands and Germany respectively. During FY04, Suzlon supplied 24 WTGs, each of 0.95 MW capacity for a wind farm project in USA.



## GROUP STRUCTURE



Source: Company

## BUSINESS ACTIVITIES OF KEY SUBSIDIARIES

Suzlon Energy A/S – Denmark	Global headquarters for worldwide sales (except India)
Suzlon Windfarm Services Ltd.	Operation & Maintenance in India
Suzlon Green Power Ltd.	5.8 MW Independent Power Project in India
Suzlon Energy – USA Mftg	Manufacturing – Rotor Blade and towers in USA
AE Rotor Technik	R&D (Rotor Blades) in Netherlands
Suzlon Energy GmbH	R&D (WTGs) in Germany
Suzlon Energy – China Mftg	Manufacturing – WTG, RB and other components
Suzlon Energy – USA	Marketing in USA
Suzlon Energy – Australia	Marketing in Australia
Suzlon Energy – China	Marketing in China

Source: Company

INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2003	2004	2005	2006E	2007E	
Net Sales	3,330	7,912	19,175	27,023	27,625	
Change (%)	-36.6	137.6	142.4	40.9	2.2	
Cost of Goods Sold	2,056	5,031	11,415	14,046	13,504	
Staff Cost	107	177	353	375	380	
Other Mfg. Expenses	699	1,489	2,708	4,329	5,092	
EBITDA	468	1,216	4,700	8,273	8,650	
% of Net Sales	14.1	15.4	24.5	30.6	31.3	
Depreciation	87	139	319	497	700	
Preliminary Exps written-off	0	0	1	0	0	
Interest	78	257	413	405	450	
Other Income	88	138	231	670	1,166	
Extra-ordinary Items (as reported)	172	267	0	0	0	
PBT	563	1,225	4,198	8,041	8,667	
Tax	12	-26	379	615	663	
Rate (%)	2.1	-2.1	9.0	7.7	7.7	
Reported PAT	551	1,251	3,819	7,426	8,004	
Extra-ordinary Income (net of expenses)	172	267	0	0	0	
Adjusted PAT	379	984	3,819	7,426	8,004	
Change (%)	-68.6	159.7	288.1	94.4	7.8	
Consolidated PAT	441	1,518	3,859	8,442	10,328	
Change (%)	-63.6	244.1	154.3	118.8	22.3	
E: MOST Estimates						

E: MOST Estimates

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2003	2004	2005	2006E	2007E	
Equity Share Capital	122	243	869	2,896	2,896	
Preference Share Capital	10	150	1,150	150	150	
Share Application Money	0	0	0	0	0	
Reserves	2,737	3,590	7,276	25,463	30,195	
Less : Misc Exps	0	1	0	0	0	
Net Worth	2,869	3,983	9,296	28,509	33,240	
Loans	849	2,207	3,225	4,500	5,000	
Capital Employed	3,718	6,190	12,521	33,009	38,240	
Gross Fixed Assets	804	1,591	2,179	3,974	5,597	
Less: Depreciation	173	309	576	1,073	1,773	
Net Fixed Assets	631	1,282	1,603	2,901	3,825	
Capital WIP	72	124	179	180	220	
Investments	106	533	1,260	3,545	4,785	
Deffered Tax Asset	34	174	276	300	300	
Curr. Assets, Loans and Advances	5,100	8,080	16,351	36,447	39,707	
Inventory	842	2,017	4,946	7,033	6,812	
Debtors	2,459	3,173	6,763	10,365	10,596	
Cash & Bank Balance	522	604	882	13,867	17,379	
Loans & Advances	1,276	2,287	3,760	5,182	4,920	
Current Liab. & Prov.	2,226	4,005	7,148	10,365	10,596	
Net Current Assets	2,875	4,076	9,203	26,082	29,111	
Application of Funds	3,718	6,190	12,521	33,009	38,240	

E: MOSt Estimates

## RATIOS

Y/E MARCH	2003	2004	2005	2006E	2007E
<b>Basic (Rs)</b>					
<b>Adjusted EPS</b>	<b>3.3</b>	<b>6.9</b>	<b>15.0</b>	<b>25.6</b>	<b>27.6</b>
Growth (%)	-40.2	110.2	117.2	70.2	7.8
<b>Consolidated EPS</b>	<b>2.0</b>	<b>6.9</b>	<b>15.3</b>	<b>29.4</b>	<b>35.9</b>
Growth (%)	-63.6	244.1	120.2	92.5	22.3
Cash EPS	38.2	46.1	47.6	27.4	30.1
Book Value	234.8	157.4	93.7	97.9	114.3
DPS	5.0	10.0	6.0	8.0	10.0
Equity Div.Payout (incl. Div. Tax.)	12.5	22.0	10.4	35.2	40.8
<b>Profitability Ratios (%)</b>					
RoE	27.6	45.3	63.5	40.6	26.0
RoCE	14.4	24.5	49.3	37.1	25.6
<b>Turnover Ratios</b>					
Debtors (Days)	270	146	129	140	140
Inventory (Days)	92	93	94	95	90
Current Liabilities (Days)	244	185	136	140	140
Asset Turnover (x)	6.1	8.3	13.3	12.0	8.2
<b>Leverage Ratio (x)</b>					
Debt/Equity	0.3	0.6	0.3	0.2	0.2
<i>E: MOST Estimates</i>					

## CASH FLOW STATEMENT

Y/E MARCH	2003	2004	2005	2006E	2007E
PBT before Extraordinary Items	<b>391</b>	<b>958</b>	<b>4,198</b>	<b>8,041</b>	<b>8,667</b>
Add :Depreciation	87	139	319	497	700
Interest	78	257	413	405	450
Less:Direct Taxes Paid	12	-26	379	615	663
(Inc)/Dec in WC	-581	-1,120	-4,849	-3,895	485
<b>CF from Operations</b>	<b>-38</b>	<b>260</b>	<b>-297</b>	<b>4,433</b>	<b>9,638</b>
EO Income	172	267	0	0	0
<b>CF from Oper. incl. EO Items</b>	<b>134</b>	<b>527</b>	<b>-297</b>	<b>4,433</b>	<b>9,638</b>
(Inc)/Dec in FA	-309	-843	-695	-1,796	-1,663
(Pur)/Sale of Investments	-36	-427	-727	-2,285	-1,240
<b>CF from Investments</b>	<b>-345</b>	<b>-1,270</b>	<b>-1,422</b>	<b>-4,081</b>	<b>-2,903</b>
(Inc)/Dec in Networth	-14	-1	1,803	14,384	0
(Inc)/Dec in Debt	461	1,357	1,019	1,275	500
Less:Interest Paid	78	257	413	405	450
Dividend Paid	70	276	412	2,621	3,272
<b>CF from Fin. Activity</b>	<b>298</b>	<b>824</b>	<b>1,997</b>	<b>12,632</b>	<b>-3,222</b>
<b>Inc/Dec of Cash</b>	<b>87</b>	<b>81</b>	<b>278</b>	<b>12,985</b>	<b>3,513</b>
Add: Beginning Balance	435	522	604	882	13,867
<b>Closing Balance</b>	<b>522</b>	<b>604</b>	<b>882</b>	<b>13,867</b>	<b>17,379</b>

E: MOSt Estimates

**N O T E S**

For more copies or other information, contact

**Institutional:** Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari

Phone: (91-22) 56575200 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

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#### Disclosure of Interest Statement

#### Suzlon Energy

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|--|----|
| 1. Analyst ownership of the stock            | No |
| 2. Group/Directors ownership of the stock    | No |
| 3. Broking relationship with company covered | No |

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