

RESULTS REVIEW

Suzlon Energy Limited

Hold

Share Data

Market Cap	Rs. 511.7 bn
Price	Rs. 1,778.1
BSE Sensex	18,814.07
Reuters	SUZL.BO
Bloomberg	SUEL.IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 1,811/932
Shares Outstanding	287.8 mn

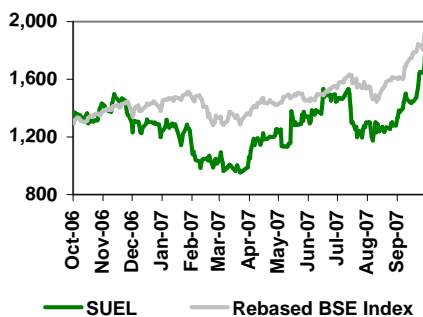
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	38.3	58.5
+/- (%)	27.1%	53.0%
PER (x)	46.5x	30.4x
EV/ Sales (x)	4.3x	2.9x
EV/ EBITDA (x)	30.1x	20.1x

Shareholding Pattern (%)

Promoters	70
FII's	22
Institutions	0
Public & Others	7

Relative Performance



Disappointing results; spoiled by rising salaries and interest costs

Suzlon Energy Limited (SEL) reported sales increase of 81.9% yoy to Rs. 19,446 mn in Q1FY08 owing to increased volume and higher realization rates. Despite substantial increase in sales, EBITDA declined by 24.8% yoy to Rs. 1,398 mn. Decline in EBITDA was on account of rupee appreciation in the last four months, increased manpower cost as a result of new recruitments, and higher other operating costs. Lower EBITDA coupled with higher interest outgo resulted in 80.2% yoy dip in net profits to Rs. 189 mn.

SEL's sales are expected to grow at a CAGR of 56.3% during FY07-09E as a result of rising demand for wind energy which will be satisfied by substantial capacity additions. However, considering the change in business model from equipment supplier to equipment supplier plus EPC and rising interest costs, margins are expected to be under pressure in FY08E as compared to FY07.

Currently, SEL is trading at 30.1x and 20.1x EV/EBITDA for FY08E and FY09E, respectively. At the current price, the stock is trading at a P/E of 59.1x. Our analysis of the results and valuations suggests that the stock is fairly valued at present and hence, we downgrade our rating to **Hold**.

Key Figures (Consolidated)

Quarterly data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	10,689	29,159	19,446	81.9%	(33.3)%
EBITDA	1,858	4,954	1,398	(24.8)%	(71.8)%
Net Profit	953	3,590	189	(80.2)%	(94.7)%
Margins(%)					
EBITDA	17.4%	17.0%	7.2%		
NPM	8.9%	12.3%	1.0%		
Per Share Data (Rs.)					
Adjusted EPS	3.3	12.4	0.7	(80.2)%	(94.8)%

Result Highlights

Increased volumes and higher realization rate pushed revenues

SEL's topline appreciated by 81.9% yoy to Rs. 19,446 mn owing to 61.7% yoy increase in volumes to 317 MW and 23% yoy higher realization rate to Rs. 47.3 mn per MW. The share of international business in the sales volume increased from 13% to 60% while domestic share declined by 25.6% yoy. During the quarter, there was a slippage of 100 MW in sales volume due to local site problems in India and tower delivery problems in the US.

WTG business grew by 97.9% yoy to Rs. 14.9 bn, contributing 76.5% to the total revenues. While Gearbox division stood at Rs. 4.4 bn contributing 22.8% to the total revenues. The revenues for the Gearbox division are not exactly comparable to the previous quarter, as sales contribution from Hansen was not fully integrated in Q1FY07 results since it was acquired w.e.f. May 9, 2006.

Segment wise performance

Revenue (in Rs. mn)	1Q'07	1Q'08	% YOY
WTG	7,518	14,880	97.9%
Gear box	3,152	4,429	N.M.
Others	23	167	627.1%
Intersegment	(3)	(28)	-
Total revenue	10,689	19,446	81.9%

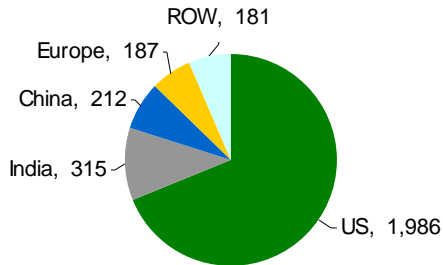
EBITDA margin declined by 1,019 bps

EBITDA declined by 24.8% yoy to Rs. 1,398 mn. EBITDA margin dipped 1,019 bps to 7.2% on account of, (a) major rupee appreciation in the last 4 months, which is the cycle period for converting inventory to sales, (b) additional manpower recruitment for the planned capacity addition in Hansen and Suzlon, and (c) higher other operating costs.

Interest expense increased as a result of additional debt raised for REpower acquisition

Net profit dipped 80.2% yoy, primarily due to increased interest outgo (up 195% yoy). Higher depreciation expenses also created pressure on the net margin. Both these reasons coupled with decrease in EBITDA pulled down net profit margin by 794 bps to 1%.

Order book as on 30 June 07 (in MW)



In the near future, Suzlon is expected to consolidate REpower in its accounts

Large orders expected to boost revenue growth

As on 30th June 07, the Company's order book stood at 2,881 MW i.e. approx. Rs. 135 bn. The present order book stands higher in comparison to the order book position in Q4FY07 which was 1,958 MW (Rs. 94.9 bn), and in Q1FY07 which was 816 MW (Rs. 37.6 bn). Presently, value of outstanding orders stands at nearly 1.69 times FY07 revenues, thus providing strong revenue visibility for the future.

Key Events

➤ ***Binding agreement with Areva and Martifer to increase Suzlon's share in REpower***

Through a binding agreement with Martifer (holding interest of 23%) and Areva (holding interest of 30%) and through direct holding of 33.5%, Suzlon secured 86.5% of the total voting rights in REpower.

➤ ***Recently, Suzlon bagged massive orders for its business. Some of them are:***

- 400 MW order from Horizon Wind of Houston, US wind power developer.
- 155 MW order from Servtec Instalacoses E Sistemas Integrados Ltda, Brazilian utility.
- 150 MW order from DLF Limited, India's infrastructure development company.
- 31.5 MW order from Ayen Enerji Co. Inc., Turkish utility.

Outlook and Valuation

Suzlon is expected to almost double its production capacity by FY09

Earnings to grow at a CAGR of 39.4% over FY07-09E driven by the overseas acquisition

Suzlon expects to grow at double the wind energy market growth rate of 20-25% over the next few years. In order to achieve this, the Company plans to increase the turbine manufacturing capacity from 2.7 GW to 5.7 GW by FY09 and the gear box manufacturing capacity from around 3.6 GW to 9.3 GW over the next two years. Suzlon is likely to spend USD 820 mn over the next two years. Suzlon is also planning to expand the manufacturing capacity of REpower from current 800 MW to 1,200 MW by FY08 and to 2,000 MW thereafter.

Driven by its presence in all the key markets, access to world-class technology, and a fully backward integrated model, Suzlon is well placed to capitalise on the growth opportunity in wind power sector. However, considering the change in business model from equipment supplier to equipment supplier plus EPC, and rising interest costs, margins are expected to decline in FY08E as compared to FY07.

Currently, SEL is trading at 30.1x and 20.1x EV/EBITDA for FY08E and FY09E, respectively. At the current price, the stock is trading at a P/E of 59.1x. Our analysis of the results and valuations suggests that the stock is fairly valued at present and hence, we downgrade our rating to **Hold**.

Key risks to our rating are site problems, component shortages, and execution risks.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	19,425	38,410	79,857	134,468	195,002	56.3%
EBITDA	4,697	8,799	13,232	19,094	28,665	47.2%
Net Profit	3,659	7,602	8,670	11,009	16,839	39.4%
Margins(%)						
EBITDA	24.2%	22.9%	16.6%	14.2%	14.7%	
NPM	18.8%	19.8%	10.9%	8.2%	8.6%	
Per Share Data (Rs.)						
EPS	14.5	27.8	30.1	38.3	58.5	39.5%
PER (x)	47.7x	46.9x	59.1x	46.5x	30.4x	

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