



Suzlon Energy

STOCK INFO.	BLOOMBERG
BSE SENSEX: 15,235	SUEL IN
	REUTERS CODE
S&P CNX: 4,445	SUZL.BO

27 July 2007

Neutral

Previous Recommendation: Neutral

Rs1,305

Equity Shares (m)	294.4
52-Week Range	1,569/932
1,6,12 Rel. Perf. (%)	-20/-5/-17
M.Cap. (Rs b)	384.2
M.Cap. (US\$ b)	9.4

YEAR	NET SALES*	PAT*	EPS*	EPS*	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	79,858	8,655	30.0	13.9	43.4	11.5	29.0	21.0	5.2	31.7
3/08E	135,473	11,957	40.6	35.0	32.2	7.3	28.0	17.8	3.2	21.1
3/09E	195,706	17,621	59.8	47.4	21.8	5.9	29.9	19.6	2.3	15.2

* Consolidated nos

- Disappointing 1QFY08 performance:** During 1QFY08, Suzlon reported revenues of Rs19.5b (up 81.9% YoY), EBIDTA of Rs1.4sb (down 24.8% YoY) and net profit after minority interest of Rs189m (down 80.2% YoY). The reported numbers does not include share of profits from REpower (economic interest of 34%), which will be consolidated with time lag of 3 months.
- Consolidated EBIDTA margins at 7.2% in 1QFY08:** In 1QFY08, Consolidated EBIDTA margins stood at 7.2%, vs. 17.4% during 1QFY07. The key reasons for decline in EBIDTA margins are: 1) Lower volumes of ~100MW due to site related problem in India (50MW) and tower supply constraints in US (50MW) 2) impact of rupee appreciation of 200bp and 3) higher fixed costs in Suzlon and Hansen in lieu of ongoing capacity expansion.
- Robust order book position:** The company has an order book position of Rs135b (2882MW) representing 1.7x FY07 consolidated revenues of Rs79.9b. This compares with an order book position of Rs94.9b (1958MW) during 4QFY07 and Rs37.6b (816MW) during 1QFY07.
- Valuation and view:** We downgrade our FY08 consolidated net profit estimates to Rs12b (down 5.7%) and FY09 to Rs17.6b (down 7.7%). The downgrade is to factor in the loss of volumes due to component shortages, rupee appreciation and increase in transit inventory in future. We maintain **Neutral**, with revised price target of Rs1,200/sh (PER of 20x FY09E).

QUARTERLY PERFORMANCE (CONSOLIDATED)

(Rs Million)

Y/E MARCH	FY07				FY08E				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	10,689	20,870	19,139	29,159	19,446	32,348	32,536	51,142	79,857	135,473
Change (%)	243.6	85.8	117.3	91.0	81.9	55.0	70.0	75.4	107.9	69.6
EBITDA	1,858	3,600	2,546	4,954	1,398	4,286	4,392	10,506	12,958	20,583
Change (%)	181.0	42.6	69.8	24.9	-24.8	19.1	72.5	112.1	44.3	58.8
As of % Sales	17.4	17.3	13.3	17.0	7.2	13.3	13.5	20.5	16.2	15.2
Depreciation	347	428	343	600	585	675	800	908	1,718	2,968
Interest	366	547	638	972	1,079	1,015	1,250	1,488	2,523	4,832
Other Income	161	87	254	463	426	65	80	104	965	676
Exceptional items (reported)	0	0	0	0	0	0	0	0	0	0
PBT	1,306	2,711	1,820	3,846	161	2,661	2,422	8,215	9,683	13,459
Tax	346	340	93	256	-40	319	291	932	1,035	1,502
Effective Tax Rate (%)	26.5	12.5	5.1	6.6	(24.6)	12.0	12.0	11.3	10.7	11.2
Reported PAT	960	2,371	1,727	3,590	200	2,342	2,132	7,283	8,648	11,957
Change (%)	115.2	14.7	28.9	-4.3	-79.2	-1.2	23.4	102.9	13.7	38.3
PAT (post Minority Interest)	953	2,354	1,744	3,590	189	2,342	2,132	7,283	8,640	11,957

E: MOSt Estimates

Disappointing 1QFY08 performance

During 1QFY08, Suzlon reported revenues of Rs19.5b (up 81.9% YoY), EBIDTA of Rs1.4sb (down 24.8% YoY) and net profit after minority interest of Rs189m (down 80.2% YoY). Other income for the quarter stood at Rs426m, up by 164% YoY. The reported numbers does not include share of profits from REpower (economic interest of 34%), which will be consolidated with time lag of three months.

Consolidated sales during 1QFY08 stands at 317MW, vs 196MW during 1QFY07; while standalone sales declined to 263MW vs 306MW during the same period. The decline in standalone revenues was due to volume loss of ~100MW for USA and India. The company reported standalone revenues of Rs8.4b (down 10.1% YoY), EBIDTA of Rs1.1b (down 52.9% YoY) and net profit stood of Rs894m (down 53.8% YoY).

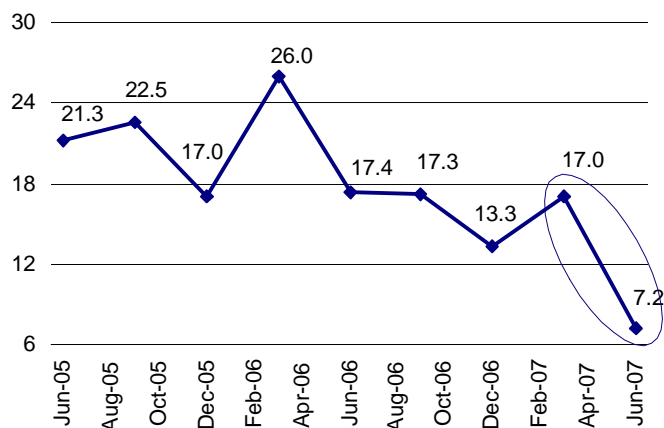
Consolidated EBIDTA margins declined to 7.2% during 1QFY08

In 1QFY08, consolidated EBIDTA margins stood at 7.2%, vs. 17.4% during 1QFY07. The management indicated that the key reasons for decline in EBIDTA margins are:

- ✍ Volumes loss of ~100MW due to: site related issues (Dhule and Sangli in Maharashtra) and heavy rains in India (50MW) and constraints in tower availability in US (50MW).
- ✍ Impact of 200bps due to rupee appreciation and
- ✍ Higher fixed costs in Suzlon and Hansen given ongoing expansion, resulting in mismatch between revenue and cost apportionment.

However, the lower transit inventory at the end of 1QFY08 improved profitability. The transit inventory stood at 178MW at end 1QFY08 vs opening balance of 222MW (March 2007), resulting in profit recognition on 44MW during 1QFY08. The management has indicated that during FY08, WTG margins (incl EPC business) could be ~17% (vs 7.2% during 1QFY08).

TREND IN EBIDTA MARGIN



Source: Company

Segment wise Performance

- ✍ During 1QFY08, WTG business revenues grew by 97.9% YoY to Rs14.9b (vs Rs7.5b in 1QFY07) while revenues for the Gearbox stood at Rs4.4b in 1QFY08. The revenue for the Gearbox division is not comparable as Hansen was acquired w.e.f. May 9,2006. During 1QFY08, WTG business contributed 76.5% to the net segment revenues while Gearbox contributed 22.8%.

TREND IN REVENUE (RS M) AND % YOY

	Q1FY07	Q2FY07	Q3FY07	Q4FY07	1QFY08	% YOY
-WTG Business	7,518	16,087	14,432	21,950	14,880	97.9
-Gearbox (Hansen)	3,152	4,368	4,533	6,508	4,429	N.A.
-Others	23	418	174	706	167	-
Total	10,693	20,872	19,139	29,164	19,475	36,864
Inter-segment	3	3	-	-	28.3	264
Total Revenue	10,689	20,870	19,139	29,164	19,446	36,600

Source: Company

- ✍ During 1QFY08, WTG business reported EBIDTA margins of 8.6% vs 18.8% in 1QFY07, a decline of 1020bp. This was largely impact of increased overheads apportioned over lower volumes, and forex impact. EBIDTA margins for the Hasnen (Gearbox) stood at 7.0% during 1QFY08 vs 16.5% in 1QFY07. Here again, the company could not achieve optimum production as the volumes was impacted due to constraints on availability of bearings.

SEGMENT WISE EBDITA MARGINS (%)

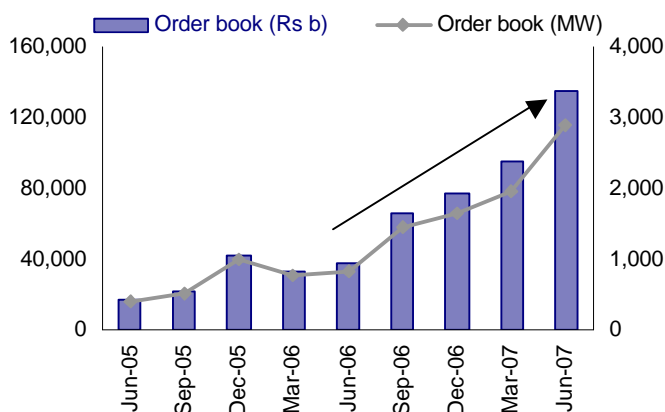
EBIDTA (RS M)	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
- Wind Turbine Generator	1,414	2,962	2,010	3,806	1,282.6
- Gear Box (Hansen)	521	472	491	1,434	310.0
- Others	(38)	111	33	285	36.1
Total	1,896	3,545	2,534	5,525	1,628.7
EBIDTA (%)					
- Wind Turbine Generator	18.8	18.4	13.9	17.3	8.6
- Gear Box	16.5	10.8	10.8	22.0	7.0
- Others	(165.5)	26.5	19.1	40.3	21.7
Total	17.7	17.0	13.2	18.9	8.4

Source: Company

Robust order book position

The company has an order book position of Rs135b (2882MW) representing 1.7x FY07 consolidated revenues of Rs79.9b. This compares with an order book position of Rs94.9b (1958MW) during 4QFY07 and Rs37.6b (816MW) during 1QFY07. The current order book comprise of India: 315MW, China: 212MW, US: 1986MW, Europe: 187MW and Others: 181MW.

TREND IN ORDER BOOK (RS M) AND MW



Source: Company

Capacity expansion plans on stream

Suzlon (including Hansen) has embarked on a capex program of Rs33.1b, to be completed till Mar 09. Of this, Rs15.3b capex is intended for expanding WTG manufacturing capacity to 4,200MW by end FY08 (from current 2,700MW) and establishing Foundry and Forging facility. Hansen is also expanding Gearbox manufacturing capacity in Belgium to 5,800MW (current 3,300MW) and setting up a Greenfield unit in India with capacity of 3500MW at a capex of Rs17.8b.

The company has already spent Rs7.4b till 1QFY08 on the proposed expansion plans, while it would invest additional Rs16.6b during July 07 - Mar 08. The remaining Rs9.1b would be incurred during FY09.

Valuation and view

We downgrade FY08 consolidated net profit estimates to Rs12b (down 5.7%) and FY09 to Rs17.6b (down 7.7%). The downgrade is to factor in impact in volumes due to component shortages, rupee appreciation and possible increase in transit inventory going forward. We now estimate WTG sales of 2376MW during FY08 (vs 1456MW in FY07) and 3241MW during FY09, and WTG EBIDTA margins of 16.2% in FY08 and 16.5% in FY09, as compared to 16.5% in FY07. For Hansen, we estimate sales of 3783MW during FY08 and 5800MW during FY09, up from 3600MW during FY07 and EBIDTA margins of 13.5% during FY08 and FY09, down from 14.9% in FY07. At CMP of Rs1299, the stock trades at a PER of 43.2x FY07, 32x FY08E and 21.7x FY09E. We maintain **Neutral**, with revised price target of Rs1,200/sh (PER of 20x FY09E).

Suzlon Energy: an investment profile

Company description

Suzlon is a “complete integrated solutions” wind energy provider with presence in India, US, China and Europe. It has a global market share of 7.7% measured in terms of annual installation and over 50% in India. It has acquired the Gearbox technology with the acquisition of Hansen and is currently establishing faculties for Foundry and Forgings, final level of integration. It has recently acquired REpower, which gives it access to the European market (largest wind market) and offshore technology.

Key investment arguments

- ✍ Suzlon-REpower combine could be amongst Top 3 WTG suppliers given low cost advantage of Suzlon and dominance of REpower in European markets.
- ✍ Suzlon is the most profitable WTG manufacturer globally given established vendor base in low cost locations and backward integration.
- ✍ Net profit CAGR of 43% till FY09 on consolidated basis, Possibility of Earnings upgrade exists.

Key investment risks

- ✍ Managing the transition of being a global supplier
- ✍ Consolidated gearing of 2.7x on FY09 basis increase the risk in case of major slowdown in demand.

COMPARATIVE VALUATIONS

		SUZLON	BHEL	CROMPTON
P/E (x)	FY08E	32.2	29.3	20.5
	FY09E	21.8	23.4	15.4
P/BV (x)	FY08E	7.3	7.8	9.2
	FY09E	5.9	6.2	6.9
EV/Sales (x)	FY08E	3.2	3.5	1.9
	FY09E	2.3	2.9	1.5
EV/EBITDA (x)	FY08E	21.1	17.7	16.2
	FY09E	15.2	13.9	12.1

SHAREHOLDING PATTERN (%)

	JUN-07	MAR-07	JUN-06
Promoter	69.7	69.7	69.8
Domestic Inst	0.4	0.6	0.8
Foreign	23.1	21.3	21.6
Others	6.8	8.4	7.8

Recent developments

- ✍ It has bagged an order from PPM energy US for 300MW in an extension of an earlier order of 401MW making it the single largest order for Suzlon and probably for wind energy market .

Valuation and view

- ✍ At CMP of Rs1299, the stock trades at a PER of 43.2x FY07, 32x FY08E and 21.7x FY09E.
- ✍ We maintain **Neutral**.

Sector view

- ✍ Global wind energy market has grown at a CAGR of 26.1% over CY00-06. The installed base as at December 2006 stood at 74,306MW.
- ✍ Higher fossil fuel prices, global warming and benefits given to the renewable energy would ensure significant demand going forward, which will also enable technological development
- ✍ We remain positive view on the sector.

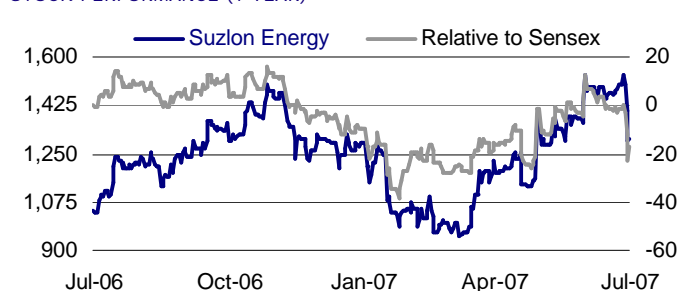
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	40.6	47.0	-13.5
FY09	59.8	66.2	-9.6

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,305	1,200	-8.0	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Net Sales	19,425	38,410	79,858	135,473	195,706
Change (%)	26.5	97.7	107.9	69.6	44.5
Cost of Goods Sold	11,377	23,091	50,408	88,506	131,054
Staff Cost	618	1216	2,781	5,071	7,691
Other Mfg. Expenses	2,737	5,121	13,707	21,313	26,827
EBITDA	4,693	8,982	12,963	20,583	30,135
% of Net Sales	24.2	23.4	16.2	15.2	15.4
Depreciation	493	716	1,718	2,968	4,053
Preliminary Exps written-off	2	2	0	0	0
Interest	458	648	2,522	4,832	7,086
Other Income	234	556	965	676	638
Extra-ord. Itm (as reported)	0	0	0	0	0
PBT	3,974	8,173	9,688	13,459	19,634
Tax	322	568	1,033	1,502	2,013
Rate (%)	8.1	7.0	10.7	11.2	10.3
Reported Con. PAT	3,652	7,605	8,655	11,957	17,621
Adjusted Cons. PAT	3,652	7,605	8,655	11,957	17,621
Change (%)	208.9	108.3	13.8	38.1	47.4

BALANCE SHEET					
Y/E MARCH	2005	2006	2007	2008E	2009E
Equity Share Capital	869	2,875	2,875	2,944	2,944
Preference Share Capital	1,150	150	150	150	150
Share Application Money	0	104	0	0	0
Reserves	7,024	24,217	29,622	49,940	62,080
Less : Misc Exps	4	9	0	0	0
Net Worth	9,039	27,338	32,648	53,034	65,175
Loans	3,958	4,507	51,620	68,236	86,462
Capital Employed	12,997	31,845	84,268	121,271	151,637
Gross Fixed Assets	3,597	6,293	43,200	67,409	81,049
Less: Depreciation	808	1,536	6,994	9,962	14,015
Net Fixed Assets	2,789	4,757	36,207	57,448	67,035
Capital WIP	289	1,668	4,500	2,000	500
Investments	78	76	16	16	16
Deferred Tax Asset	241	818	1,365	300	300
Curr. Assets	17,477	41,705	80,520	116,638	163,741
Inventory	5,756	13,310	31,360	46,778	70,264
Debtors	6,929	16,473	21,700	34,081	53,304
Cash & Bank Balance	1,545	5,515	15,380	17,402	13,522
Loans & Advances	3,247	6,407	12,080	18,377	26,652
Current Liab. & Prov.	7,809	17,078	38,340	55,132	79,955
Net Current Assets	9,668	24,627	42,180	61,507	83,786
Application of Funds	13,065	31,946	84,268	121,271	151,637

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
Consolidated EPS	14.4	26.4	30.0	40.6	59.8
Growth (%)	83.8	83.8	13.9	35.0	47.4
Cash EPS	47.7	28.9	36.1	50.7	73.6
Book Value	90.8	94.6	113.0	179.6	220.8
DPS	6.0	5.0	10.0	12.0	16.5
Equity Div.Payout (incl. Div.)	11.0	21.7	37.4	33.3	31.0
Valuation					
P/E (consolidated)		49.4	43.4	32.2	21.8
Cash P/E		45.1	36.2	25.7	17.7
EV/EBITDA		41.7	31.7	21.1	15.2
EV/Sales		9.7	5.2	3.2	2.3
Price/Book Value		13.8	11.5	7.3	5.9
Dividend Yield (%)		0.4	0.8	0.9	1.3
Profitability Ratios (%)					
RoE	63.5	43.3	29.0	28.0	29.9
RoCE	46.5	39.4	21.0	17.8	19.6
Turnover Ratios					
Debtors (Days)	130	157	101	102	110
Asset Turnover (x)	9.0	10.2	3.9	2.9	3.1
Leverage Ratio					
Debt/Equity (x)	0.4	0.2	1.6	1.3	1.3
CASH FLOW STATEMENT					
Y/E MARCH	2005	2006	2007	2008E	2009E
PBT before Extraordinary Itc	3,974	8,173	9,688	13,459	19,634
Add : Depreciation	495	718	1,718	2,968	4,053
Interest	458	648	2,522	4,832	7,086
Less : Direct Taxes Paid	322	568	1,033	1,502	2,013
(Inc)/Dec in WC	-4,625	-10,957	-7,787	-17,305	-26,159
CF from Operations	-20	-1,987	5,108	2,451	2,601
CF from Oper. incl. EO	-20	-1,987	5,108	2,451	2,601
(Inc)/Dec in FA	-1,922	-4,064	-35,999	-21,709	-12,140
(Pur)/Sale of Investments	65	2	60	0	0
CF from Investments	-1,857	-4,063	-35,939	-21,709	-12,140
(Inc)/Dec in Networth	2,042	11,781	-643	13,485	0
(Inc)/Dec in Debt	1,574	549	47,113	16,616	18,226
Less : Interest Paid	458	648	2,522	4,832	7,086
Dividend Paid	419	1,664	3,250	3,990	5,480
CF from Fin. Activity	2,740	10,018	40,698	21,279	5,659
Inc/Dec of Cash	863	3,969	9,867	2,022	-3,880
Add: Beginning Balance	681	1,545	5,515	15,380	17,402
Closing Balance	1,544	5,513	15,382	17,402	13,522



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Suzlon Energy

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.