Company Focus

14 February 2008 | 31 pages

Suzlon Energy (SUZL.BO)

Target price change ☑
Estimate change ☑

Buy: Growth Comes at a Cost; Cut Target Price to Rs396

- **At the time of the IPO —** Suzlon was India-oriented with a comparatively simple supply chain making ~20%+ EBITDA margins. If Suzlon had maintained the status quo (1) margins could have been maintained for 3-4 years, (2) MW sales could have grown 10-20%, (3) earnings would have tracked MW sales and (4) the company would have turned free cash flow positive.

- **But for the longer term** — Suzlon had to grow outside India. As Suzlon has expanded outside India, managing a global supply chain has put immense pressure on margins. We believe that these reasons could have led to Suzlon's China and US operations making losses in 9mFY08 with the domestic WTG business being the key driver of profitability.

- **Problem areas include** — (1) Supply delays, (2) tower shortages in the international markets, (3) key component shortages, (4) negative effects of forex movements and (5) negative effects of custom duty changes in the US.

- **Product liabilities a key risk** — WTG manufacturers introduce new products/upgrades to manage competition. It is important to balance long pre-launch test times with the necessity to introduce products fast to capitalize on the window of opportunity. Minimizing product liabilities and managing unfavorable events like the blade damages in the US is critical for Suzlon's success.

- **Target price cut to Rs396** — We cut our target price to Rs396 (from the split adjusted Rs445.40) to factor in our 17-25% FD EPS cut over FY08E-10E and a roll forward of our target P/E multiple to Dec09 from Sep09 earlier.

Buy/Low Risk	1L
Price (14 Feb 08)	Rs338.15
Target price	Rs396.00
from Rs445.40	
Expected share price return	17.1%
Expected dividend yield	0.3%
Expected total return	**17.4%**
Market Cap	Rs506,188M
	US$12,736M

Price Performance (RIC: SUZL.BO, BB: SUEL IN)

Figure 1. Suzlon + Hansen + REPower Consolidated Statistical Abstract

Year to 31-Mar	Net Profit (Rsmn)	FD EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	3,654	8.41	-13%	40.2	18.6	63.9%	0.2%
2006A	7,562	5.26	-37%	64.3	17.9	43.1%	0.3%
2007A	8,648	6.00	14%	56.4	13.9	27.8%	0.3%
2008E	11,115	7.15	19%	47.3	5.6	17.7%	0.3%
2009E	17,897	11.52	61%	29.4	4.7	18.2%	0.3%
2010E	24,841	15.99	39%	21.1	3.9	21.1%	0.4%
2011E	32,152	20.69	29%	16.3	3.2	22.3%	0.4%

Source: Citi Investment Research estimates

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See Appendix A-1 for Analyst Certification and important disclosures.

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	64.3	56.4	47.3	29.4	21.1
EV/EBITDA adjusted (x)	56.8	40.7	27.2	18.6	14.5
P/BV (x)	17.9	13.9	5.6	4.7	3.9
Dividend yield (%)	0.3	0.3	0.3	0.3	0.4
Per Share Data (Rs)					
EPS adjusted	5.26	6.00	7.15	11.52	15.99
EPS reported	5.26	6.00	7.15	11.52	15.99
BVPS	18.91	24.40	60.50	71.24	86.45
DPS	1.00	1.00	1.10	1.10	1.20
Profit & Loss (RsM)					
Net sales	38,410	79,857	136,202	197,149	261,452
Operating expenses	-30,146	-68,617	-118,966	-171,782	-226,688
EBIT	**8,265**	**11,240**	**17,236**	**25,367**	**34,763**
Net interest expense	-648	-2,523	-5,170	-5,976	-8,639
Non-operating/exceptionals	556	965	1,428	2,051	3,497
Pre-tax profit	**8,173**	**9,683**	**13,495**	**21,441**	**29,621**
Tax	-568	-1,035	-2,110	-3,127	-4,214
Extraord./Min.Int./Pref.div.	-43	0	-270	-417	-566
Reported net income	**7,562**	**8,648**	**11,115**	**17,897**	**24,841**
Adjusted earnings	7,562	8,648	11,115	17,897	24,841
Adjusted EBITDA	8,980	12,958	20,236	30,922	41,888
Growth Rates (%)					
Sales	97.7	107.9	70.6	44.7	32.6
EBIT adjusted	96.9	36.0	53.3	47.2	37.0
EBITDA adjusted	91.5	44.3	56.2	52.8	35.5
EPS adjusted	-37.4	14.0	19.3	61.0	38.8
Cash Flow (RsM)					
Operating cash flow	**-3,288**	**-331**	**-19,203**	**-13,948**	**-8,357**
Depreciation/amortization	716	1,718	3,000	5,555	7,124
Net working capital	-10,989	-11,691	-35,040	-37,400	-40,323
Investing cash flow	**-4,061**	**-18,457**	**-28,561**	**-25,115**	**-9,534**
Capital expenditure	-4,063	-18,377	-28,561	-25,115	-9,534
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**11,320**	**46,303**	**77,998**	**39,652**	**30,044**
Borrowings	549	47,113	24,284	41,151	31,569
Dividends paid	-1,647	-1,640	-1,918	-1,917	-2,091
Change in cash	**3,970**	**27,515**	**30,234**	**589**	**12,153**
Balance Sheet (RsM)					
Total assets	**49,024**	**125,413**	**236,572**	**315,176**	**390,722**
Cash & cash equivalent	5,515	15,383	45,617	46,206	58,359
Accounts receivable	16,473	25,704	48,918	71,914	96,129
Net fixed assets	6,425	23,085	48,646	68,206	70,615
Total liabilities	**21,585**	**90,136**	**136,465**	**198,672**	**250,902**
Accounts payable	7,253	0	0	0	0
Total Debt	4,507	51,620	75,904	117,056	148,625
Shareholders' funds	**27,439**	**35,277**	**100,106**	**116,504**	**139,820**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	23.4	16.2	14.9	15.7	16.0
ROE adjusted	43.1	27.8	17.7	18.2	21.1
ROIC adjusted	36.1	19.2	13.9	13.1	13.8
Net debt to equity	-3.7	102.7	30.3	60.8	64.6
Total debt to capital	14.1	59.4	43.1	50.1	51.5

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Growth comes at a cost

- At the time of the initial public offering (IPO), Suzlon was India-oriented with a comparatively simple supply chain making ~20%+ EBITDA margins. If Suzlon had maintained the status quo, these margins could have been maintained for 3-4 years with the MW sales growing at 10-20%. Earnings growth would have broadly tracked MW sales or perhaps been higher by 5% than the MW sales, as depreciation and interest costs would not have grown at the same pace. Further, the company would have turned free cash flow positive.

- However, market share gains by Vestas, Vestas RRB and Enercon in India could not be ruled in this period, which could have negatively affected earnings growth.

- Suzlon had to grow outside India to sustain long-term growth aspirations beyond this 3- to 4-year period. As Suzlon expanded outside India and tried to vertically integrate to mitigate component supply bottlenecks, managing the global supply chain has put immense pressure on margins.

- The international expansion has taken its toll in the form of (1) supply delays, (2) tower shortages in the international markets, (3) other key component shortages, (4) negative effects of foreign currency movements and (5) negative effects of nacelle custom duty changes in the US.

- *We believe that these reasons could have led to Suzlon's operations in China and the US making losses in 9mFY08 with the domestic WTG business being the key driver of profitability.*

- Nevertheless, we believe Suzlon's proactive steps in (1) acquiring Hansen, (2) expanding Hansen's capacity, (3) acquiring REPower and (4) the IPO of Hansen are all steps in the right direction, as Suzlon tries to emerge as one of the top 3 WTG manufacturers in the world.

- *A key risk that would emerge progressively is product liability, which has reared its head in 3QFY08 in the form of blade damages in the US. WTG manufacturers globally come up with new products/product upgrades from time to time to manage the competitive environment. In an ideal world these products would be tested for 1-3 years before they are introduced in the end markets. However, this typically means missing out on that 1- to 3-year window of opportunity. So WTG manufacturers have to balance out testing times and new product introductions. Inadequate testing could lead to potential liabilities on product failure. Suzlon's blade damage issue is not an isolated case, with similar incidents being reported in the case of Gamesa and Clipper Wind in the recent past. But the key question – "Is Suzlon providing enough for these product related liabilities?"*

- If one analyzes any capital goods company, one would see that these companies significantly expand margins when there is spare capacity and sales grow at a rapid pace benefiting from operating leverage. However, as soon as capacity is utilized and capacity expansion happens, profitability comes off on labor costs, overheads, depreciation and interest costs, as the new capacity is not optimally utilized immediately. Suzlon seems to be almost in a perpetual capex spree given that the company is anxious to capitalize on the growth opportunity and needs to ramp up on capacity. But one has to wonder if this growth – organic and inorganic – is coming at a cost, as there is hardly any correlation among sales growth, earnings growth and the company's RoE. Margins and RoE seem to be on secular decline and the key question is, "What are steady EBITDA margins and RoE for the WTG business?"

Target price cut to Rs396

Approach 1: One can value Suzlon as using a P/E multiple for the entire entity Suzlon WTG + REPower WTG + Hansen Gearbox. In this approach we use a P/E multiple of 26x December 2009 and we get a fair value of Rs387.

Approach 2: We can value Suzlon + REPower using a P/E of 26x December 2009 multiple for Suzlon WTG +REPower WTG and add value of Hansen at a 25% discount to market capitalization. We get a fair value of Rs406 in this approach.

We take an average of the above two and set a target price of Rs396 for Suzlon.

Figure 2. Suzlon – Approaches To Valuation

Year End Mar31 (Rsmn)	FY07A	FY08E	FY09E	FY10E	FY11E
P/E multiple for Suzlon + REPower + Hansen					
Suzlon WTG PAT	7,250	11,519	17,125	23,294	28,278
Share of REPower PAT	0	241	867	2,380	3,986
REPower Acquisition Interest	0	(1,368)	(1,214)	(2,354)	(2,718)
Suzlon + REPower WTG PAT	7,250	10,391	16,777	23,320	29,546
Suzlon WTG FD EPS	5.0	6.7	10.8	15.0	19.0
Dec 09 EPS (0.25 X FY09E +0.75 X FY10E)	14.0				
P/E Multiple	26.0				
WTG (Suzlon + REPower Value) - A	**363**				
Hansen PAT	1,390	993	1,537	2,087	3,576
Less Minority Interest	0	(270)	(417)	(566)	(970)
Suzlon Gearbox PAT	1,390	724	1,120	1,521	2,606
Suzlon Gearbox FD EPS	1.0	0.5	0.7	1.0	1.7
Dec 09 EPS (0.25 X FY09E +0.75 X FY10E)	0.9				
P/E Multiple	26.0				
WTG (Suzlon + REPower Value) - B	**24**				
Fair Value Approach 1 - (A + B)	**387**				
P/E multiple for (Suzlon + REPower) + Hansen at a 25% discount to market capitalization					
Hansen Share Outstanding (mn)	670				
Shares Price(GBP)	2.34				
GBPINR (Exchange Rate)	78.2				
Mkt Cap (Rsmn)	122621				
FD Shares in Suzlon (mn)	1554				
Suzlon Stake in Hansen	72.9%				
Per Share	58				
Holding Company Discount	25%				
Hansen Per Share Value - C	**43**				
Suzlon + REPower at 26x FY09E - D	**363**				
Fair Value Approach 2 - (C + D)	**406**				

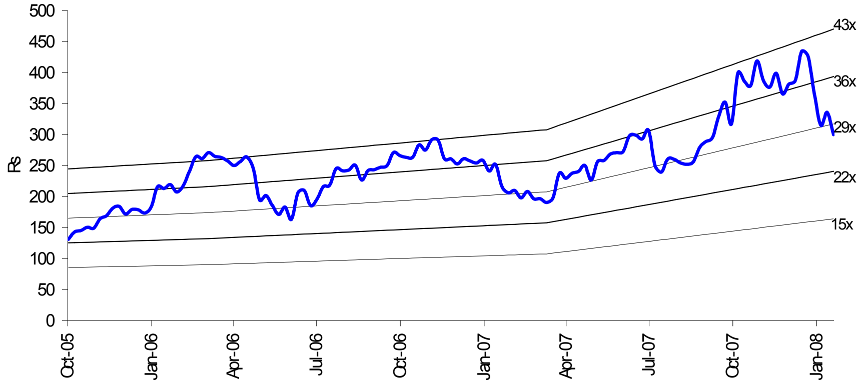
Source: Citi Investment Research estimates

Figure 3. Electric Equipment Global Comparables

Company	Price	RIC/Rating	Mcap (USD bn)	P/E			EPS CAGR	P/B			ROE			EV/EBITDA		
				FY08E	FY09E	FY10E	07E-10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
WTG Companies																
Vestas	540 DKK	VWS.CO/2H	19.5	57.3	29.3	23.4	72%	8.9	6.8	5.3	17%	26%	25%	25.6	16.3	13.1
Gamesa	27 EUR	GAM.MC/2M	9.5	27.4	25.4	24.3	-5%	5.2	4.5	3.9	20%	19%	17%	14.7	13.1	11.7
Clipper Wind.	5.3 GBP	CWPR.L/2H	1.1	na	64.0	19.3	-243%	24.9	18.0	8.5	na	26%	68%	na	31.2	9.2
Average				**41.7**	**36.6**	**21.6**	**-32%**	**12.6**	**9.4**	**5.9**	**24%**	**27%**	**37%**	**22.7**	**20.0**	**12.1**
Indian Electric Equipment																
BHEL	2232 INR	BHEL.BO/1L	27.5	33.0	24.8	18.6	34%	9.7	7.4	5.6	33%	34%	34%	23.1	16.6	11.8
ABB (India)	1305 INR	ABB.BO/2 L	7.0	52.6	33.9	24.5	49%	16.6	11.4	7.9	37%	40%	38%	35.2	22.5	16.2
Average				**42.8**	**29.4**	**21.6**	**42%**	**13.1**	**9.4**	**6.7**	**35%**	**37%**	**36%**	**29.1**	**19.6**	**14.0**
Chinese Electric Equipment																
Dongfang	53 HKD	1072.HK/1M	1.2	16.3	15.2	14.1	22%	2.9	2.6	2.3	31%	18%	17%	20.3	17.8	16.3
Harbin Power	18 HKD	1133.HK/2M	3.2	16.7	14.2	12.4	19%	3.2	2.7	2.2	23%	21%	20%	9.2	7.8	6.9
Shanghai Electric	6 HKD	2727.HK/3L	9.6	23.1	21.3	18.9	22%	3.6	3.2	2.9	17%	16%	16%	11.7	12.1	11.0
Average				**18.7**	**16.9**	**15.1**	**21%**	**3.3**	**2.8**	**2.5**	**23%**	**18%**	**18%**	**13.8**	**12.6**	**11.4**
Asian Electric Equipment																
Hyundai	71200KRW	12630.KS/2H	5.7	21.5	24.2	17.3	2%	2.6	2.4	2.2	13%	10%	13%	12.9	14.1	9.6
Doosan	126000KRW	34020.KS/1M	14.0	43.7	28.4	21.0	104%	5.6	4.7	3.9	14%	18%	20%	33.4	18.0	13.8
Mitsubishi	956 JPY	6503.T/1H	18.9	11.5	10.7	9.9	19%	1.7	1.5	1.3	16%	15%	14%	5.1	4.6	4.0
Average				**25.6**	**21.1**	**16.1**	**42%**	**3.3**	**2.9**	**2.5**	**14%**	**14%**	**16%**	**17.1**	**12.2**	**9.2**
European Electric Equipment																
ABB Ltd	27 CHF	ABBN.VX/3H	56.3	19.8	15.3	15.0	37%	6.0	4.6	3.8	37%	34%	28%	12.3	9.7	8.3
Alstom	145 EUR	ALSO.PA/2H	29.7	24.6	19.6	15.6	35%	8.9	6.1	4.3	38%	38%	33%	13.9	10.6	8.4
Schneider	74 EUR	SCHN.PA/2H	26.3	10.8	10.0	8.9	11%	1.6	1.5	1.4	16%	15%	16%	8.4	8.2	7.3
Siemens AG	90 EUR	SIEGn.DE/1M	120.1	16.4	12.8	10.9	33%	2.8	2.6	2.5	14%	35%	21%	10.2	8.3	6.7
Average				**17.9**	**14.4**	**12.6**	**29%**	**4.8**	**3.7**	**3.0**	**26%**	**31%**	**25%**	**11.2**	**9.2**	**7.7**
US Electric Equipment																
GE	35 USD	GE.N - 1 L	353.5	15.9	14.4	13.1	13%	3.2	3.0	2.9	20%	21%	22%	20.4	14.0	12.4
Emerson	53 USD	EMR.N - 1 M	41.7	20.0	17.7	15.8	14%	4.9	4.4	4.0	25%	26%	27%	10.7	9.6	8.7
Honeywell	59 USD	HON.N - 1 M	43.9	18.6	15.7	13.9	19%	5.1	4.7	4.3	26%	29%	31%	9.9	8.7	7.9
Average				**18.2**	**15.9**	**14.2**	**15%**	**4.4**	**4.1**	**3.7**	**24%**	**26%**	**27%**	**13.6**	**10.8**	**9.7**

Source: Citi Investment Research estimates

Figure 4. Suzlon Consolidated 1 Year Forward Rolling P/E Bands



Source: DataCentral and Citi Investment Research estimates

Earnings revised downwards

We are cutting our FD EPS estimates by 17-25% over FY08E-FY10E and introduce estimates for FY11E to factor in:

- **Suzlon WTG business:** We have cut FY08E MW sales by 4% as Suzlon has sold 1546MW in 9mFY08, and we expect 850MW of sales in 4QFY08. We cut our FY09E MW sales assumption by 100MW and retain FY10E estimates. We have marginally lowered our realization expectations. Blade damages, additional nacelle custom duty in US and rupee appreciation have lowered our structural WTG margin expectations to the 15-15.5% levels.

- **Hansen gearbox business:** We have also lowered our sales expectations for Hansen by 6-19% but increased margins by 55-145 bps.

- **REPower WTG business:** We have re-jigged our REPower numbers after the 3QCY07 results guidance of (1) sales of €1,000mn in CY08E and expectations of 40% CAGR growth over CY08E-CY10E and (2) EBIT margins of 4-6% in CY08. We have now consolidated REPower in our numbers.

- **QIP dilution –** Suzlon has completed a US$552mn fund raising, and we have diluted for the same.

We expect Suzlon + Hansen + REPower consolidated EPS to grow at a CAGR of 42.5% over FY08E-FY11E with RoEs in the 18-23% band.

Figure 5. Suzlon Consolidated Earnings Revision Table

Year End Mar31 (Rsmn)	FY08E	FY09E	FY10E	FY11E	- Remarks
Suzlon MW Sold					
Old	2,500	3,700	4,800		- Adjusting FY08E MW sales downwards based on trends in 9mFY08
New	2,395	3,600	4,800	5,500	- Cutting FY09E expectation marginally
% Chg	-4.2%	-2.7%	0.0%	nm	- Introducing estimates for FY11E
Suzlon Sales					
Old	123,445	183,756	241,403		- Sales are down by a larger amount than MW sales
New	114,390	173,660	234,835	276,026	- Based on 9mFY08 realizations of sales booked and backlog realization
% Chg	-7.3%	-5.5%	-2.7%	nm	
Hansen Sales					
Old	25,220	36,110	50,554		- Hansen growth expectations have also been rationalized
New	23,708	31,319	40,949	54,456	
% Chg	-6.0%	-13.3%	-19.0%	nm	
Suzlon Margins %					
Old	16.1%	16.1%	16.4%		- Blade damages/nacelle custom duties/rupee appreciation we have structurally
New	15.0%	15.2%	15.3%	15.4%	- brought down our WTG margin expectations
% Chg	(110)	(90)	(110)		
Hansen Margins %					
Old	12.0%	13.0%	14.0%		- We are more positive on Hansen's margins than before
New	13.0%	14.5%	14.6%	15.2%	
% Chg	98	145	55	nm	
Consolidated Recurring PAT					
Old	14,279	20,880	29,568		- REPower has been consolidated in the numbers
New	10,875	17,030	22,461	28,165	- 18 - 24% PAT cut mainly driven by lower WTG sales, margins and higher taxes
% Chg	-23.8%	-18.4%	-24.0%	nm	
FD EPS Estimates					
Old	9.51	13.91	19.69		- FD EPS cut is 17 - 25%, higher than PAT cut as we factor in QIP dilution
New	7.15	11.52	15.99	20.69	
% Chg	-24.8%	-17.2%	-18.8%	nm	

Source: Citi Investment Research estimates

Suzlon – WTG business update

Disappointing 3QFY08

- Suzlon had a disappointing quarter with 3QFY08 PAT at Rs1.5bn down 13% YoY, which was 39% below CIR expectations of Rs2.5bn on the back of poor operating margins especially on the WTG side, higher depreciation and exceptionally high tax.

- The Rs960mn of hits in the 3QFY08 can be explained by (1) Rs140mn - 2.5% customs duty on nacelles sent to the US, (2) Rs190mn – cost of 34 defective blades supplied in the US, (3) 150mn - shift of projects from Maharashtra to Gujarat, (4) Rs200mn - reversal of deferred tax assets in the US and (5) Rs280mn - inability to tax deduct hedging losses on the Brazilian currency hedges done in Denmark.

- Suzlon also had to reverse a 21MW/Rs970mn sale to Maestrale Energy, which had been accounted as sales of Rs440mn in 4QFY07 AND Rs530mn in 1QFY08.

- Suzlon ended 3QFY08 with an order backlog of Rs177bn, up 122% YoY, comprising Rs147bn of international orders and Rs24bn. In MW terms Suzlon has a robust order backlog of 3,358MW comprising 2,917MW of international orders and 441MW of domestic orders.

Figure 6. Suzlon 3QFY08 Results

Consolidated Results	Q307	Q308	% Chg	Q308E	% Chg
Income from operations	**19,139**	**31,698**	**66%**	**27,309**	**43%**
(Increase)/ Decrease in stock in trade	46	812		0	
Consumption of raw material	(11,316)	(21,919)		(16,659)	
as a % of sales	58.9%	66.6%		61.0%	
Staff Cost	(1,803)	(2,460)	36%	(2,271)	26%
as a % of sales	9.4%	7.8%		8.3%	
Other expenditure	(3,520)	(4,242)		(4,000)	
as a % of sales	18.4%	13.4%		14.6%	
Total Expenditure	**(16,593)**	**(27,809)**	**68%**	**(22,930)**	**38%**
EBITDA	**2,546**	**3,889**	**53%**	**4,380**	**72%**
EBITDA margin %	**13.3%**	**12.3%**		**16.0%**	
Depreciation	(343)	(747)		(590)	
EBIT	**2,204**	**3,141**		**3,790**	**72%**
Interest Charges	(638)	(1,565)		(1,400)	
Other Income	254	725		580	
PBT	**1,820**	**2,302**	**26%**	**2,970**	**63%**
Tax	(93)	(873)		(445)	
Effective Tax Rate	5.1%	37.9%		15.0%	
Minority Interest	17	(6)		(40)	
Share of Profit of Associate	0	95		5	
Reported PAT	**1,744**	**1,517**	**-13%**	**2,484**	**42%**

Source: Suzlon and Citi Investment Research estimates

4QFY08 should be better

We expect Suzlon to deliver 4QFY08 PAT of Rs6.1bn up 70% YoY on the back of 59% YoY growth in MW sales to 850MW and a 19% YoY increase in WTG realizations to Rs49mn/MW. Overall company margins should be higher YoY at 18.1% in 4QFY08.

Figure 7. Suzlon 4QFY08 Results Preview

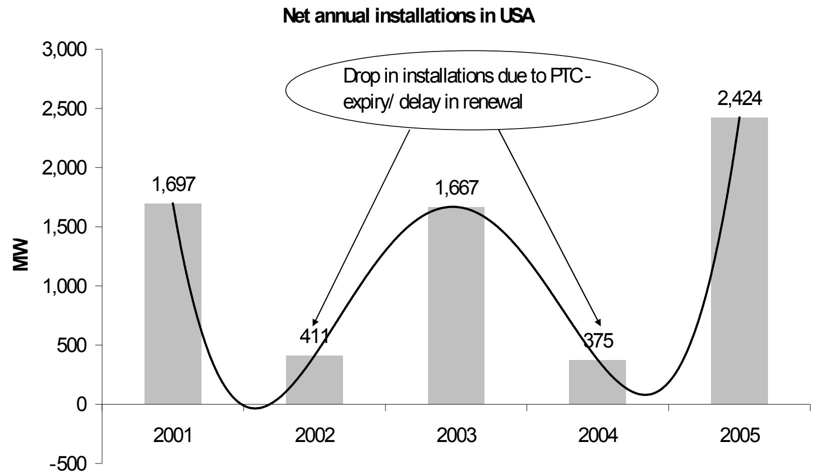
Consolidated Results	Q407	Q408E	% Chg
WTG MW Sales	533	850	59%
Realizations (Rsmn/MW)	41.2	49	19%
Income from operations	**29,159**	**49,958**	**71%**
(Inc)/ Dec in stock in trade	3,890	0	
Consumption of raw material	(21,749)	(33,016)	
as a % of sales	61.2%	66.1%	
Staff Cost	(1,838)	(2,636)	
as a % of sales	6.3%	5.3%	
Other expenditure	(4,510)	(5,250)	
as a % of sales	15.5%	10.5%	
Total Expenditure	**(24,206)**	**(40,902)**	
EBITDA	**4,954**	**9,055**	**83%**
EBITDA margin %	**17.0%**	**18.1%**	
Depreciation	(600)	(1,100)	
EBIT	**4,354**	**7,955**	**83%**
Interest Charges	(972)	(1,470)	
Other Income	463	450	
PBT	**3,846**	**6,935**	**80%**
Tax	(256)	(813)	218%
Effective Tax Rate	6.6%	11.7%	
Minority Interest	0	(179)	
Share of Profit of Associate	0	166	
PAT	**3,590**	**6,110**	**70%**

Source: Citi Investment Research estimates

PTC non extension effect difficult to gauge at the moment

- The US Energy Bill did not extend production tax credits (PTC) beyond 2008, creating uncertainty for windfarm developers. In the past, US wind markets have reacted negatively to PTC not being extended. One cannot rule out the possibility of PTC being extended in a separate bill before December 2008.

Figure 8. US Wind Energy Market - PTC Driven In The Past



Source: AWEA, Global Wind Energy Council and Citigroup Investment Research

- RPS - A requirement that by 2020 utilities in all US states source 15%-20% of power from clean sources has also not been implemented. However, 21 states in the US that have RPS of 15 -20% will continue to have the same.

- According to Suzlon, it is unlikely to be negatively affected under the scenario of PTC not being extended beyond December 2008 as (1) it has orders for the next 1-1.5 years, (2) it can divert sales to other markets and (3) US utilities might pay more to take care of the PTC losses to windfarm developers.

- Meanwhile, the US Wind Energy industry installed 5,244MW of capacity in 2007, expanding the nation's total wind power generating capacity by 45% in a single calendar year.

- Suzlon ended 3QFY08 with an order backlog of 3358MW of which 1832MW was the US order backlog. 1117MW of orders are from RPS, which are unlikely to be cancelled. Further, the order backlog has an 800MW order from a non-RPS state, out of which 400MW will be executed before PTC expires in December 2008, leading us to conclude that in the worst scenario not more than 400MW could be cancelled in the US, giving us comfort on our MW sales assumptions for FY09E.

- US wind markets have reacted severely in the past on PTC non extension. We do not believe that such severe corrections would be repeated, given that the oil/coal price scenario is very different now. Besides, the global approach to wind energy as a renewable option is very different today given the wind power has turned much more economical over the years.

- Lastly, one cannot rule out the PTC extension coming through before December 2008 given that the US Senate Finance Committee has now included an extension of the expiring tax credits for wind, solar and other renewable energy technologies as part of its economic stimulus package now working its way through the US Congress.

- *But it is pertinent to note, if Suzlon does manage to win orders from the US over the next 6-9 months, which would require implementation in CY09, this will determine how dependent the US wind markets are to PTC and whether RPS is enough to continue to drive investments in wind energy.*

Figure 9. Suzlon: Minimal Cancellation Risk

Orders	Client	Details	MW	Delivery	RPS State	STATE/ COUNTRY	Cancellation Risk
Apr-07	Tierra Energy, Austin, Texas	42X2.1MW	88		Yes	TEXAS	NO
May-07	PPM Energy, Portland	191X2.1MW	401	2009	No	OREGON	Risky
		143X2.1MW	300	2008	No	OREGON	Less Risky
Jun-07	Edison Mission Group	150X2.1MW	315	2008	Yes	CALIFORNIA	NO
		150X2.1MW	315	2009	Yes	CALIFORNIA	NO
Sep-07	Ayen Enerji Co. Inc. , Turkey	15X2.1MW	31.5			TURKEY	NO
Oct-07	Horizon Wind of Houston, Texas	95X2.1MW	200	2008	Yes	TEXAS	NO
		95X2.1MW	200	2009	Yes	TEXAS	NO
Oct-07	Servtec Instalacoses E Sistemas Integrados		155	Aug-08		BRAZIL	NO
Nov-07	Renewable Power Ventures	63X2.1MW	138.6	1H2009		AUSTRALIA	NO
Nov-07	AGL Energy	34X2.1MW	71.4	NA		AUSTRALIA	NO
Jan-08	Jingneng Group	33x1.5MW	49.5	May-08		CHINA	NO
		40X1.25MW	50	May-08		CHINA	NO
Jan-08	Eolia Renovables SRC S.A.	22X2.1MW	46.2	2008		SPAIN	NO
Feb-08	Viento Energía/ Spanish Savings Bank	49X2.1MW	102.9	NA		SPAIN	NO
Feb-08	Melbourne's Pacific Hydro Limited	27X2.1MW	56.7	Early 2010		AUSTRALIA	NO
Total			**2520**				
Order Backlog – End 3QFY08		3358	MW				
US Order Backlog –End 3QFY08		1832	MW				
Explained by wins in FY08		1818	MW				
Orders From RPS States		1117	MW				

Source: Citi Investment Research estimates

Removal of accelerated depreciation benefits in India?

As Budget 2008 comes closer investors cannot ignore that there could be debate on the replacement of an investment-linked incentive like accelerated depreciation with a generation-linked incentive similar to the US PTC. We think its is unlikely that the Government of India would remove its support to renewable energy in general and wind energy in particular, as it effectively means India would be more exposed (1) to ever-increasing crude oil prices and (2) to the slow capex investments in coal mining by Coal India.

Suzlon's management believes that accelerated depreciation benefits would definitely continue for captive users and a concept similar to the US PTC may be introduced to replace the accelerated depreciation benefits for IPPs. Suzlon does not expect this to change demand patterns, as project and equity IRRs should remain the same.

In the event that the accelerated depreciation benefits are removed, the Suzlon stock could react negatively over the short term. However, the long-term effect can only be analyzed after analyzing the demand pattern over a period after such an announcement.

Hansen Transmission business update

- Following Siemens AG (one of SUEL's key competitors) taking control of the market leader in gearboxes, Winergy AG, through its acquisition of Flenders, SUEL acquired a 100% stake in Hansen Transmissions. SUEL paid €465m (implying a trailing EV/EBITDA of 10x) to Allianz Capital Partners and Apax Partners Worldwide.

- Suzlon is expanding Hansen's Belgian capacity to 6033MW by the end of FY08E and will add 5000MW of capacity in India by FY11E and 3000MW of capacity in China by FY11E. The India and China capacity expansion will happen in phases with the Indian facility commencing manufacturing from September 2008 and the China facility commencing assembling gearboxes from September 2008.

Figure 10. Hansen Capex Plans

	Euro mn	Capacity	Euro mn/MW	FY07	FY08E	FY09E	FY10E	FY11E
Lommel	180	3,800	47,368	50	130	0	0	0
China Capex	160	3,000	53,333		34	66	30	30
India Capex	240	5,000	48,000		98	117	20	20
Maintenance Capex				12	12	12	12	12
Total	**580**	**11800**	**49,153**	**62**	**274**	**195**	**62**	**62**

Source: Hansen and Citi Investment Research estimates

- Hansen Transmission raised £318mn (€426mn) in an initial public offering of 182mn shares (165mn of initial issue + 17mn of overallotment) at 175 pence. After the issue Suzlon holds a 72.9% stake in Hansen Transmission.

Figure 11. Hansen Operational Statistics

Year End Mar31	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E
Lommel + Edegem Installed Capacity	2,400	3,500	4,767	6,033	7,300	7,050	6,800
Coimbatore Greenfield	0	0	0	0	500	2,750	5,000
China Greenfield	0	0	0	0	500	1,750	3,000
Total Installed Capacity	**2,400**	**3,500**	**4,767**	**6,033**	**8,300**	**11,550**	**14,800**
MW Sales							
- Europe	2,427	3,480	3,795	4,500	5,700	5,100	5,700
- India					180	1,500	3,000
- China					180	1,400	2,000
Wind	**2,427**	**3,480**	**3,795**	**4,500**	**6,060**	**8,000**	**10,700**
Growth		*43.4%*	*9.1%*	*18.6%*	*34.7%*	*32.0%*	*33.8%*
Realizations (Euro/MW)							
Industrial							
Wind	66,914	63,592	70,250	75,870	77,388	78,936	80,514
Growth		-5.0%	10.5%	8.0%	2.0%	2.0%	2.0%

Source: Hansen and Citi Investment Research estimates

Figure 12. Hansen Profit & Loss Statement

Year End Mar31 (Euro mn)	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E
Sale of Goods	211	285	336	416	549	718	955
YoY growth		*35.5%*	*17.6%*	*24.0%*	*32.1%*	*30.7%*	*33.0%*
Cost of Sales	146	196	239	303	393	509	671
As % of Sale	69.3%	68.8%	71.2%	72.8%	71.6%	70.9%	70.2%
Selling and Distribution Costs	20	20	26	35	47	64	85
As % of Sale	9.4%	7.2%	7.7%	8.5%	8.5%	8.9%	8.9%
Administrative Expenses	19	17	15	18	22	29	37
As % of Sale	9.2%	5.8%	4.6%	4.4%	4.0%	4.0%	3.9%
Research and Development	6	6	7	9	12	15	20
As % of Sale	3%	2%	2%	2%	2%	2%	2%
EBITDA (Ex. Other operating Income)	**19.1**	**46.0**	**48.5**	**50.6**	**76.0**	**101.1**	**142.2**
EBITDA Margin	**9.1%**	**16.1%**	**14.5%**	**12.2%**	**13.8%**	**14.1%**	**14.9%**
Other Operating Income	1	1	3	3	3	3	3
EBITDA (Incl. Other operating Income)	**20**	**47**	**52**	**54**	**79**	**105**	**146**
EBITDA Margin	**9.7%**	**16.5%**	**15.5%**	**13.0%**	**14.5%**	**14.6%**	**15.2%**
Depreciation and Amortization	11	12	13	21	34	44	50
EBIT	**10**	**35**	**39**	**33**	**45**	**60**	**96**
EBIT Margin	**4.6%**	**12.4%**	**11.6%**	**7.9%**	**8.2%**	**8.4%**	**10.1%**
Finance revenue	0	0	1	2	2	0	0
Finance costs	7	5	5	10	10	11	13
PBT	**2**	**31**	**34**	**24**	**37**	**49**	**84**
Tax	1	11	10	7	10	13	21
Tax Rate	50.3%	35.6%	28.9%	28.0%	27.0%	26.0%	25.0%
Recurring PAT	**1**	**20**	**24**	**17**	**27**	**37**	**63**
PAT Margin	**0.6%**	**6.9%**	**7.2%**	**4.2%**	**4.9%**	**5.1%**	**6.6%**
YoY growth		*1508%*	*23%*	*-28%*	*55%*	*36%*	*71%*

Source: Hansen and Citi Investment Research estimates

Figure 13. Hansen Balance Sheet

Year End Mar31 (Euro mn)	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E
Gross PP&A	**192**	**203**	**264**	**538**	**733**	**795**	**857**
Accumulated Depreciation	52	63	74	95	129	173	223
Net PP&A	**139**	**140**	**190**	**443**	**603**	**621**	**634**
Goodwill and Intangible Assets	10	9	9	9	9	9	9
Deferred Charges	1	1	1	1	1	1	1
Inventories	43	51	68	87	113	146	192
Trade Receivables	52	68	141	171	218	276	366
Derivative Financial Instruments	0	0	0	0	0	0	0
Cash and Short Term Deposits	16	30	39	185	30	30	30
Current Assets	**111**	**150**	**248**	**443**	**361**	**452**	**589**
Current Liabilities	**68**	**83**	**111**	**138**	**177**	**227**	**294**
NCA	**43**	**67**	**137**	**304**	**184**	**225**	**295**
Total Assets	**193**	**217**	**337**	**757**	**797**	**856**	**938**
Total Equity	**119**	**139**	**162**	**606**	**633**	**669**	**732**
LT Loans	50	45	74	50	63	85	105
Hansen acquisition debt	0	0	60	60	60	60	60
ST Loans	3	8	7	7	7	7	7
Total Loans	**53**	**54**	**140**	**117**	**130**	**152**	**172**
Provisions	1	1	1	1	1	1	1
Employee Benefit Liability	3	3	3	3	3	3	3
Deferred Income (grant)	6	3	8	8	8	8	8
Deferred tax liability	11	17	23	23	23	23	23
Total Liabilities	**193**	**217**	**337**	**757**	**797**	**856**	**938**

Source: Hansen and Citi Investment Research estimates

Figure 14. Hansen Cash Flow Statement

Year End Mar31 (Euro mn)	FY06	FY07	FY08	FY09	FY10	FY11
PAT	20	24	17	27	37	63
Depreciation	12	13	21	34	44	50
Change in Deferred Taxes	7	5	0	0	0	0
Chg in WC	(10)	(62)	(21)	(34)	(41)	(70)
Provisions	0	0	0	0	0	0
Employee Benefit	1	(0)	0	0	0	0
Deferred Income (Grant)	(3)	5	0	0	0	0
Operating Cash Flow	**26**	**(15)**	**18**	**27**	**40**	**42**
Capex	(13)	(63)	(274)	(195)	(62)	(62)
Change in Goodwill/Deferred Charges	1	0	0	0	0	0
Investing Cash flow	**(12)**	**(62)**	**(274)**	**(195)**	**(62)**	**(62)**
Chg in Equity	0	0	0	0	0	0
Chg in Reserves	(0)	(1)	426	0	(0)	0
Chg in Debt	0	87	(24)	13	22	20
Financing Cash Flow	**0**	**86**	**402**	**13**	**22**	**20**
Change in Cash	**15**	**8**	**146**	**(155)**	**0**	**0**
Opening Cash	**16**	**30**	**39**	**185**	**30**	**30**
Closing Cash	**30**	**39**	**185**	**30**	**30**	**30**

Source: Citi Investment Research

REPower business update

- At the close of the bidding war, Suzlon has a 33.85% direct stake, 23.15% stake through Martifer and 30.10% stake through Areva in REPower.
- If Areva exercises its put option after 1 year[1], Suzlon will have to fund the acquisition cost of €1.2bn over a three-year period with outflows of €453mn in CY07E/FY08E, €466mn in CY08E/FY09E and €269mn in CY09E/FY10E. This is to be funded with debt with an effective interest rate of 5.25%.
- Suzlon has already repaid €351mn using the US$500mn of FCCBs that it has issued in the recent past and currently has €102mn of REPower acquisition loans. We expect payments to Areva in May 2008 and to Martifer in May 2009.

Figure 15. REPower Acquisition Transaction Structure

	Stake	Shares	Price	Euro Million	Remarks
Suzlon	7.84%	699,969	150.0	105	- Shares bought in the open market and rights issue subscribed
Suzlon	26.01%	2,322,219	150.0	348	- Shares tendered in the open offer
Areva	30.10%	2,687,381	173.4	466	- Areva has a put option to sell to Suzlon any time after 1 year. We estimate a price of Euro 173.4/share
Martifer	23.15%	2,066,873	130.0	269	- We expect Suzlon to acquire these shares after 2 years
	87.10%			**1188**	

Source: Citigroup Investment Research estimates

[1] We have assumed a value creation of €350mn for Areva, in line with their press release and arrived at a price of €173.4/share.

Reasons for Suzlon acquiring REPower

- We believe that progressively the WTG opportunity would become more of a volume game, and the acquisition helps Suzlon accelerate this growth. It provides entry into the mature European markets of Germany, UK and France. According to Citi global wind forecasts over the next 5 years Europe, America and Asia offer an average annual opportunity of 11.7GW, 6.6GW and 6.3GW respectively. This implies that Suzlon definitely needs a strong presence in Europe. Further according to Suzlon, over the next 50 years, estimated global installations are 128GW and 50% will be in Europe. The European Union has also passed a regulation that 20% of energy requirements should come from renewable energy by 2020.

- An alternate approach would have involved Suzlon putting up capacity on its own in Europe, which implies longer lead times for product acceptability. During Suzlon's initial entry in the US markets, its turbines were relatively unknown outside India. Suzlon started out targeting smaller projects in the US, a segment that was effectively being ignored by market leaders such as GE, Vestas and Mitsibushi. After acceptance of its turbine in the US markets, Suzlon has started winning larger orders. REPower is viewed as a great technology company with a widely accepted product portfolio among European customers

- Suzlon and REPower have a complementary product portfolio with Suzlon having a presence in low and medium capacity while REPower has a presence in high and medium capacity. Suzlon had earlier planned to develop high and medium capacity products suited for the European markets from CY09 and now it does not have to do the same.

- REPower also has a commercially proven 5MW turbine for offshore installations and is developing a 6MW prototype, which could be a great long-term advantage.

- REPower is a good technology company that is into designing the WTG systems, assembling components to produce WTGs and doing operation and maintenance. It has minimal backward integration, which implies it has very low EBITDA and EBIT margins of 3.5% and 2.6%, respectively. This implies there is plenty of room to accelerate top-line growth and improve margins.

Figure 16. REPower Business Model

Source: REPower and Citigroup Investment Research

- REPower products are variable speed generator machines suited for the European market whereas Suzlon's products are simpler fixed speed generator machines suited for the Indian and Chinese markets. In the

European market customers prefer variable speed machines for the more stabilized European grids vis-à-vis the erratic Indian and Chinese grids.

REPower acquisition is EPS accretive from CY09E/FY10E

To work out the REPower math we have assumed the following:

- After the 3QCY07 results, REPower has given a sales guidance of €1,000mn in CY08E and expectations of 40% CAGR growth over CY08E-CY10E.
- Further, the company has also guided for EBIT margins of 4-6% in CY08.
- Margin expansion should largely be driven by increased volumes bringing in operating leverage; and sourcing of bearings, supply of rotor blades, tubular towers, gearboxes, castings and forgings either from Suzlon or Suzlon's suppliers.
- Our synergy benefits assumptions are largely conservative, as we would prefer factoring in higher benefits once we see actual benefits of the same flowing through in the coming years. This is apparent from the fact that our PAT expectations are below consensus expectations.
- We expect the acquisition to be EPS dilutive in CY07E/FY08E and CY08E/FY09E and expect it to turn EPS accretive from CY09E/FY10E.

Figure 17. REPower Profit & Loss Statement

Year End Dec31 (Euro mn)	CY06A	CY07E	CY08E	CY09E	CY10E	Remarks
MW Sales	492	702	1,050	1,400	1,800	- REPower has given sales guidance of Euro 1,000mn in CY08
Turbine Sales	419	598	928	1,306	1,767	- Growth guidance over CY08E - CY10E is 40%
Others Sales	47	57	77	99	128	
Gross Sales	**466**	**655**	**1,005**	**1,405**	**1,895**	
EBITDA	**17**	**32**	**61**	**102**	**147**	
Margin %	**3.5%**	**4.9%**	**6.0%**	**7.3%**	**7.8%**	
D&A	(4)	(8)	(10)	(12)	(14)	- REPower EBIT margin guidance of 4 - 6% in CY08E
EBIT	**12**	**24**	**50**	**90**	**133**	
Margin %	**2.6%**	**3.7%**	**5.0%**	**6.4%**	**7.0%**	
Interest	(1)	(3)	(4)	(5)	(6)	
PBT	**11.2**	**21.6**	**46.9**	**85.6**	**127.4**	
Tax	(4)	(8)	(17)	(32)	(47)	
CIR PAT	**7**	**14**	**30**	**54**	**80**	
Bloomberg Consensus	**7**	**19**	**39**	**55**	**na**	
Difference	0%	30%	24%	3%	nm	
Debt For Acquisition						
- Suzlon 7.84%		105.0				- Open market purchase
- Suzlon 26.01%		348.3				- Open offer purchase
- Areva 30.10%			465.9			- Assume Areva sells out in May 2008
- Martifer 23.15%				268.7		- Assume Martifer sells out in May 2009
- Debt Repayment (Using FCCB proceeds)		351				
Total Acquisition Debt End of Year		**102**	**568**	**837**	**837**	
Interest Rate Assumed	5.70%					
Interest Cost		**24**	**21**	**41**	**48**	- Interest expense on acquisition debt
Suzlon Stake in Company		33.85%	63.95%	87.10%	87.10%	- We only assume Suzlon's direct stake on CY07E
Suzlon Attributable PAT		4.2	15.2	41.8	69.9	- We add stake bought from Areva in CY08E
Less Interest Cost		(24.0)	(21.3)	(41.3)	(47.7)	- We add stake bought from Martifer in CY09E
No Interest Tax Shield Assumed		0.0	0.0	0.0	0.0	
Suzlon Attribuable PAT post interest		**(19.8)**	**(6.1)**	**0.5**	**22.2**	- Acquisition breaks even at PAT level in CY09E
PAT In Rsmn @ Rs57/Euro		(1,127)	(348)	26	1,268	
FD Suzlon Shares		1554	1554	1554	1554	
REPower EPS		**-0.73**	**-0.22**	**0.02**	**0.82**	- Dilutive in CY07E/08E and EPS accretive CY09E onwards

Source: Citi Investment Research

Figure 18. Suzlon + Hansen + REPower Consolidated Profit & Loss Statement

Year End Mar31 (Rsmn)	FY05A	FY06A	FY07A	FY08E	FY09E	FY10E	FY11E	CAGR FY08E -11E
- Suzlon Sales			61,300	114,390	173,660	234,835	276,026	34.1%
% growth				*86.6%*	*51.8%*	*35.2%*	*17.5%*	
- Hansen Sales			18,560	23,708	31,319	40,949	54,456	31.9%
% growth				*27.7%*	*32.1%*	*30.7%*	*33.0%*	
- Less: Hansen Sales to Suzlon			0	(1,897)	(7,830)	(14,332)	(21,783)	
% of Hansen Sales				*8.0%*	*25.0%*	*35.0%*	*40.0%*	
Sales	**19,425**	**38,410**	**79,857**	**136,202**	**197,149**	**261,452**	**308,700**	**31.4%**
% growth	126.5%	97.7%	107.9%	70.6%	44.7%	32.6%	18.1%	
COGS	(11,377)	(23,091)	(48,114)	(89,275)	(128,178)	(170,374)	(200,431)	
% of sales	58.6%	60.1%	60.2%	65.5%	65.0%	65.2%	64.9%	
Staff Cost	(618)	(1,216)	(6,496)	(9,385)	(12,498)	(15,343)	(17,734)	
% of sales	3.2%	3.2%	8.1%	6.9%	6.3%	5.9%	5.7%	
% growth	129.3%	96.8%	434.3%	44.5%	33.2%	22.8%	15.6%	
Operating Cost	(2,738)	(5,121)	(12,290)	(17,305)	(25,551)	(33,847)	(39,727)	
% of sales	14.1%	13.3%	15.4%	12.7%	13.0%	12.9%	12.9%	
Write Offs	(2)	(2)	0	0	0	0	0	
EBITDA	**4,691**	**8,980**	**12,958**	**20,236**	**30,922**	**41,888**	**50,808**	**35.9%**
- Suzlon EBITDA	4,691	8,980	10,210	17,160	26,396	35,930	42,508	
Suzlon Margins %	24.1%	23.4%	16.7%	15.0%	15.2%	15.3%	15.4%	
- Hansen EBITDA			2,770	3,076	4,526	5,958	8,300	
Hansen Margins %			14.9%	13.0%	14.5%	14.6%	15.2%	
Overall EBITDA Margin %	**24.1%**	**23.4%**	**16.2%**	**14.9%**	**15.7%**	**16.0%**	**16.5%**	
% growth	*223.4%*	*91.5%*	*44.3%*	*56.2%*	*52.8%*	*35.5%*	*21.3%*	
Depreciation	(493)	(716)	(1,718)	(3,000)	(5,555)	(7,124)	(7,774)	
EBIT	**4,197**	**8,265**	**11,240**	**17,236**	**25,367**	**34,763**	**43,034**	**35.7%**
EBIT Margin %	**21.6%**	**21.5%**	**14.1%**	**12.7%**	**12.9%**	**13.3%**	**13.9%**	
% growth	*219.4%*	*96.9%*	*36.0%*	*53.3%*	*47.2%*	*37.0%*	*23.8%*	
Operations Interest		(648)	(1,523)	(2,472)	(3,319)	(4,842)	(5,437)	
Hansen Interest		0	(1,000)	(1,330)	(1,443)	(1,443)	(1,443)	
REPower Acquisition Interest		0	0	(1,368)	(1,214)	(2,354)	(2,718)	
Total Interest	(458)	(648)	(2,523)	(5,170)	(5,976)	(8,639)	(9,598)	
Other Income	234	556	965	1188	1184	1116	1116	
PBT	**3,974**	**8,173**	**9,683**	**13,254**	**20,575**	**27,241**	**34,553**	**37.6%**
PBT Margin %	**20.5%**	**21.3%**	**12.1%**	**9.7%**	**10.4%**	**10.4%**	**11.2%**	
% growth	*227.8%*	*105.7%*	*18.5%*	*36.9%*	*55.2%*	*32.4%*	*26.8%*	
Total Tax	**(322)**	**(568)**	**(1035)**	**(2110)**	**(3127)**	**(4214)**	**(5417)**	
Effective Tax Rate	8.1%	7.0%	10.7%	15.9%	15.2%	15.5%	15.7%	
Share of Minorities (Hansen)	2	(10)	0	(270)	(417)	(566)	(970)	
Preference Dividend	0	(33)	0	0	0	0	0	
Recurring PAT - Pre REPower	**3,654**	**7,562**	**8,648**	**10,875**	**17,030**	**22,461**	**28,165**	**37.3%**
PAT Margin %	**18.8%**	**19.7%**	**10.8%**	**8.0%**	**8.6%**	**8.6%**	**9.1%**	
% growth	*211.1%*	*106.9%*	*14.4%*	*25.7%*	*56.6%*	*31.9%*	*25.4%*	
Share of Profit of Associate (REPower)	0	0	0	241	867	2380	3986	
Recurring PAT to equity holders	**3,654**	**7,562**	**8,648**	**11,115**	**17,897**	**24,841**	**32,152**	
% growth	*211.1%*	*106.9%*	*14.4%*	*28.5%*	*61.0%*	*38.8%*	*29.4%*	
Tax Adjustments	(1)	0	0	0	0	0	0	
Exceptional	0	0	0	0	0	0	0	
Reported PAT	**3,653**	**7,562**	**8,648**	**11,115**	**17,897**	**24,841**	**32,152**	**42.5%**

Source: Company and Citi Investment Research estimates

Figure 19. Suzlon + Hansen + REPower Consolidated Balance Sheet

Year End Mar31 (Rsmn)	FY05A	FY06A	FY07A	FY08E	FY09E	FY10E	FY11E
Equity Capital	869	2,875	2,878	2,991	2,991	2,991	2,991
Reserves & Surplus	7,024	24,217	31,226	86,574	102,554	125,304	155,365
Misc Exp	(4)	(9)	0	0	0	0	0
ESOPs	0	104	117	117	117	117	117
Share Application Money	1	2	0	0	0	0	0
Management options from subs	0	0	890	890	890	890	890
Total Networth	**7,889**	**27,189**	**35,111**	**90,572**	**106,553**	**129,303**	**159,363**
Preference Capital	1,150	150	0	0	0	0	0
Preference Shares Issued by Sub	3	25	25	25	25	25	25
Minority Interest	64	75	141	9,509	9,926	10,492	11,462
Secured Loans (Suzlon + Hansen)	3,567	3,899	16,544	14,791	15,542	16,795	17,931
Unsecured Loans (Suzlon)	391	608	11,151	11,155	25,000	40,000	35,000
Hansen Acquisition Loans			23,925	24,045	24,045	24,045	24,045
REPower Acquisition Loans				5,814	32,370	47,685	47,685
FCCB - I				12,237	12,237	12,237	12,237
FCCB - II				7,862	7,862	7,862	7,862
Loans	**3,958**	**4,507**	**51,620**	**75,904**	**117,056**	**148,625**	**144,760**
DTL	0	0	177	1,898	1,898	1,898	1,898
NETWORTH + LIABILITIES	**13,065**	**31,946**	**87,074**	**177,909**	**235,458**	**290,343**	**317,509**
Gross Block	**3,597**	**6,293**	**25,568**	**56,186**	**81,301**	**90,835**	**95,369**
Accumulated Depreciation	(808)	(1,536)	(7,020)	(10,020)	(15,575)	(22,699)	(30,473)
Net Block	**2,789**	**4,757**	**18,548**	**46,166**	**65,726**	**68,135**	**64,896**
CWIP	289	1,668	4,498	2,480	2,480	2,480	2,480
Preoperative Expense			39	0	0	0	0
Net Fixed Assets	**3,079**	**6,425**	**23,085**	**48,646**	**68,206**	**70,615**	**67,376**
Hansen Goodwil	0	0	17647	17647	17647	17647	17648
Investments	78	76	156	156	156	156	156
Inventories	5,756	13,310	31,363	55,219	81,670	110,076	131,066
Sundry Debtors	6,929	16,473	25,704	48,918	71,914	96,129	116,173
Cash and Bank Balances	1,545	5,515	15,383	45,617	46,206	58,359	60,237
Loans & Advances	3,247	6,407	12,075	20,369	29,377	37,739	42,141
Current Assets	**17,477**	**41,705**	**84,525**	**170,123**	**229,167**	**302,304**	**349,617**
CL	5,980	12,977	33,340	50,386	69,748	88,350	103,350
Provisions	1,829	4,101	4,999	8,277	9,970	12,030	13,938
CL + Provisions	**7,809**	**17,078**	**38,339**	**58,663**	**79,718**	**100,379**	**117,288**
NCA	**9,668**	**24,627**	**46,186**	**111,460**	**149,449**	**201,925**	**232,329**
DTA	241	818	0	0	0	0	0
ASSETS	**13,065**	**31,946**	**87,074**	**177,909**	**235,458**	**290,343**	**317,509**

Source: Company and Citi Investment Research estimates

Figure 20. Suzlon + Hansen + REPower Consolidated Cash Flow Statement

Year End Mar31 (Rsmn)	FY05A	FY06A	FY07A	FY08E	FY09E	FY10E	FY11E
Recurring PAT	3654	7562	8648	11115	17897	24841	32152
Change in DTL	(67)	(577)	994	1721	0	0	0
Add: D&A	493	716	1718	3000	5555	7124	7774
Chg in Inventories	(3543)	(7555)	(18053)	(23856)	(26451)	(28406)	(20990)
Chg in Debtors	(3486)	(9544)	(9231)	(23214)	(22996)	(24215)	(20044)
Chg in Loans & Advances	(1446)	(3160)	(5668)	(8294)	(9008)	(8362)	(4402)
Chg in CL & Provisions	3812	9269	21261	20324	21055	20661	16909
Change in Working Capital	(4662)	(10989)	(11691)	(35040)	(37400)	(40323)	(28526)
Cash Flow from Operations	**(582)**	**(3288)**	**(331)**	**(19203)**	**(13948)**	**(8357)**	**11399**
Capex	(1920)	(4063)	(18377)	(28561)	(25115)	(9534)	(4534)
Change in Investments/Assets	65	2	(80)	0	0	0	0
Cash Flow from Investing Activities	**(1855)**	**(4061)**	**(18457)**	**(28561)**	**(25115)**	**(9534)**	**(4534)**
Change in Debt	1574	549	47113	24284	41151	31569	(3864)
Change in Goodwill	0	0	(17647)	0	0	0	(1)
Change in Minority Interest	64	10	66	9368	417	566	970
Change in Preference Shares	973	(978)	(150)	0	0	0	0
Change in Equity	626	2006	2	114	0	0	0
Change in Reserves	460	11379	911	46151	0	0	0
Dividend and Dividend Tax	(396)	(1647)	(1640)	(1918)	(1917)	(2091)	(2091)
Cash Flow from Financing Activities	**3301**	**11320**	**28656**	**77998**	**39652**	**30044**	**(4986)**
Extrordinary Items + Tax Adjustments	(1)	0	0	0	0	0	0
Increase/(Decrease) in Cash	**864**	**3970**	**9868**	**30234**	**589**	**12153**	**1878**
Opening Cash and Bank Balance	**681**	**1545**	**5515**	**15383**	**45617**	**46206**	**58359**
Closing Cash and Bank Balance	**1545**	**5515**	**15383**	**45617**	**46206**	**58359**	**60237**

Source: Company and Citi Investment Research estimates

Figure 21. Suzlon + Hansen + REPower Consolidated Valuations and Key Ratios

Year End Mar31	FY05A	FY06A	FY07A	FY08E	FY09E	FY10E	FY11E
Shares Price	338	338	338	338	338	338	338
Consolidated FD EPS	8.41	5.26	6.00	7.15	11.52	15.99	20.69
% growth	-12.8%	-37.4%	14.0%	19.3%	61.0%	38.8%	29.4%
CEPS	9.54	5.76	7.19	9.09	15.09	20.57	25.70
DPS	0.80	1.00	1.00	1.10	1.10	1.20	1.20
BV	18.15	18.91	24.40	60.50	71.24	86.45	106.55
P/E	40.2	64.3	56.3	47.2	29.3	21.1	16.3
P/CEPS	35.4	58.7	47.0	37.2	22.4	16.4	13.2
Yield	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%
P/BV	18.6	17.9	13.9	5.6	4.7	3.9	3.2
EV/EBITDA	31.8	54.0	40.3	26.5	18.6	14.2	11.6
EV/Sales	7.7	12.6	6.5	3.9	2.9	2.3	1.9
RoE	63.9%	43.1%	27.8%	17.7%	18.2%	21.1%	22.3%
PAT/EBIT	87.1%	91.5%	76.9%	64.5%	70.6%	71.5%	74.7%
EBIT/Sales	21.6%	21.5%	14.1%	12.7%	12.9%	13.3%	13.9%
Sales/Assets	202.6%	170.7%	134.2%	102.8%	95.4%	99.4%	101.6%
Assets/Networth	167.7%	128.3%	191.0%	210.8%	209.7%	222.9%	210.6%
RoCE	40.2%	34.2%	16.9%	10.9%	10.4%	11.2%	11.9%
D/E	50.2%	16.6%	147.0%	83.8%	109.9%	114.9%	90.8%
Net Debt/Equity	30.6%	-3.7%	103.2%	33.4%	66.5%	69.8%	53.0%
Net Debt	2414	(1008)	36237	30287	70850	90266	84523
EV	149296	484920	522535	536285	576390	595806	590063
Depreciation/Gross Block	17.9%	14.5%	10.8%	7.3%	8.1%	8.3%	8.3%
Effective Interest Rate	14.5%	15.3%	9.0%	8.1%	6.2%	6.5%	6.5%
Dividend Payout	9.5%	19.0%	16.6%	15.1%	9.7%	8.0%	6.4%
Depreciation/Net Block	22.9%	19.0%	14.7%	9.3%	9.9%	10.6%	11.7%

Source: Company and Citi Investment Research estimates

Suzlon Energy

Company description

Suzlon Energy Limited is the world's fifth-largest wind turbine generator (WTG) company, and the largest WTG manufacturer in India and Asia. Suzlon is a fully integrated wind power company that provides customers with consultancy, design, manufacturing, operations, and maintenance services. Suzlon has a subsidiary in Germany for technology development, an R&D facility in the Netherlands for rotor blade molding and tooling, and wind turbine and rotor blade manufacturing facilities in India. The company is implementing a capacity expansion program to set up an integrated manufacturing facility in China, a rotor blade manufacturing facility in the US and a forging and foundry plant in India that should increase its capacity from the current 1500MW to 6100MW by FY10E. SUEL's product range includes turbines of 350kW, 600kW, 950kW, 1000kW, 1250kW, 1500kW, 2000kW, and 2100kW capacity.

Investment strategy

We rate Suzlon shares Buy/Low Risk (1L) in view of the following:

We believe investors are largely ignoring the robust growth in WTG volumes over FY08E-11E on the back of 6.7% YoY FY07 WTG margins compression. It is pertinent to note that end FY07 EBITDA margins of 16.7% were somewhere close to the trough. We expect Suzlon + Hansen to grow FD EPS at robust CAGR of 43% over FY08E-10E with RoE in the 18-23% band.

By the end of CY09E Suzlon would have acquired an 87.10% stake in REPower on the payment of ~€1.2bn, which should be funded through debt at an interest cost of 5.7%. That this would be staggered over a three-year period means that the acquisition should turn EPS positive from CY09E.

The REPower acquisition provides Suzlon: (1) immediate access to the mature European markets, the largest WTG market in terms of absolute volumes over the next five years, (2) acceptance in the European markets as REPower is viewed as a strong technology company, with a widely accepted product portfolio, (3) a complementary product portfolio in terms of high and medium capacity WTGs, (4) REPower margin is one of the lowest in the industry as it is basically an assembler. With Suzlon's vertical integration, we believe there is plenty of room to accelerate top-line growth and improve margins, and (5) REPower also has a commercially proven 5MW turbine for offshore installations.

According to our latest Citi global wind power forecasts, the average annual WTG market is set to jump to 26GW/year over the next five years compared with 10GW/year over the previous five years.

Suzlon is one of the most vertically integrated WTG suppliers in the world, and we believe is one of the best equipped to cash in on this significant WTG opportunity on the back of some prudent steps that it has taken.

Valuation

Approach 1: One can value Suzlon as using a P/E multiple for the entire entity Suzlon WTG + REPower WTG + Hansen Gearbox. In this approach we use a P/E multiple of 26x December 2009 and we get a fair value of Rs387.

Approach 2: We can value Suzlon + REPower using a P/E of 26x December 2009 multiple for Suzlon WTG +REPower WTG and add value of Hansen at a 25% discount to market capitalization. We get a fair value of Rs406 in this approach.

We take an average of the above two and set a target price of Rs396 for Suzlon.

Risks

We rate Suzlon shares Low Risk based on a number of factors, namely: industry-specific risks, financial risk and management risks. Our Low risk is also based on the fact that:

The uncertainties regarding the REPower acquisition are a thing of the past

After some uncertainty on EBITDA margins, we now believe EBITDA margins should largely hover in the 15-17% band over the medium term

With its backward integration strategy Suzlon appears much better placed to withstand key component shocks going forward and exploit the robust outlook for WTG growth.

The key downside risks that could prevent the shares from reaching our target price include higher oil prices, which would lower the attraction of renewable energy sources; withdrawal of policy support; foreign currency risk; employee retention; supply chain risks as the company expands internationally; technology obsolescence; interest rate risk; outstanding litigation, and competition.

Appendix A-1

Analyst Certification

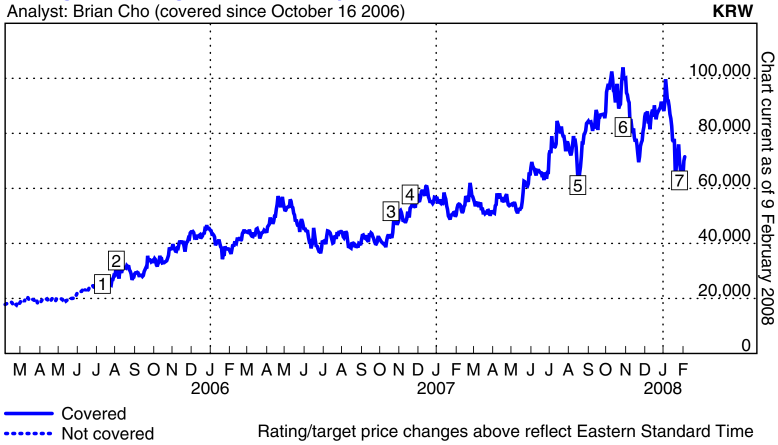
Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed by that research analyst, strategist or research associate in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s), strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

IMPORTANT DISCLOSURES

Hyundai Development (012630.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Brian Cho (covered since October 16 2006)



Rating/target price changes above reflect Eastern Standard Time

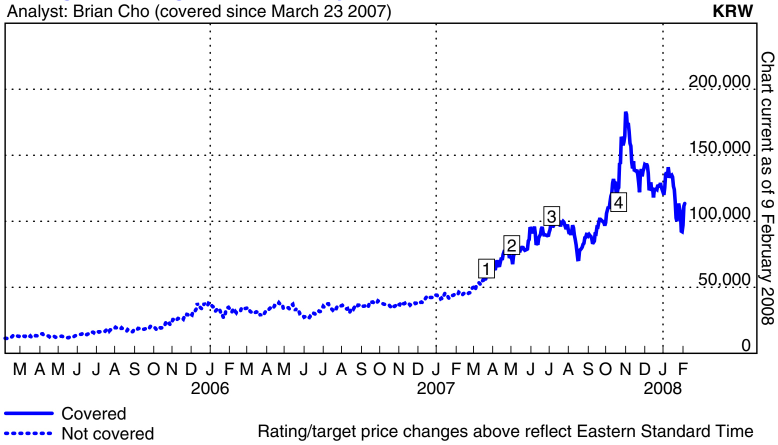
#	Date	Rating	Target Price	Closing Price
1:	12 Jul 05	*3M	*23,500.00	23,450.00
2:	3 Aug 05	3M	*29,000.00	31,000.00
3:	19 Oct 06	*3H	*38,400.00	42,600.00
4:	20 Nov 06	3H	*47,000.00	52,800.00
5:	16 Aug 07	*1H	*90,000.00	63,800.00
6:	28 Oct 07	*2H	*117,000.00	104,000.00
7:	28 Jan 08	2H	*82,000.00	70,100.00

*Indicates change.

Doosan Heavy Industries & Construction (034020.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Brian Cho (covered since March 23 2007)



Rating/target price changes above reflect Eastern Standard Time

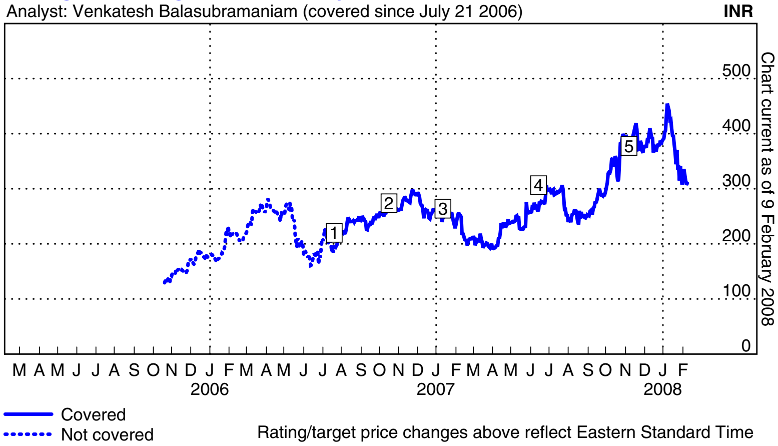
#	Date	Rating	Target Price	Closing Price
1:	22 Mar 07	1M	68,500.00	59,500.00
2:	2 May 07	1M	*87,000.00	71,500.00
3:	5 Jul 07	1M	*125,000.00	99,500.00
4:	22 Oct 07	1M	*160,000.00	125,500.00

*Indicates change.

Suzlon Energy (SUZL.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Venkatesh Balasubramaniam (covered since July 21 2006)



Rating/target price changes above reflect Eastern Standard Time

#	Date	Rating	Target Price	Closing Price
1:	20 Jul 06	1M	266.40	197.41
2:	17 Oct 06	*2M	*303.20	271.03
3:	11 Jan 07	*3M	*227.40	248.13
4:	14 Jun 07	*1M	*340.00	262.14
5:	7 Nov 07	*1L	*445.40	378.96

*Indicates change.

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% of companies in each rating category that are investment banking clients	52%	53%	40%

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