

## SUZLON ENERGY

INR 241

*Risk-reward favourable*

BUY

## \* Impact to be one-time and product specific

Suzlon Energy announced a retrofit program to resolve blade cracking issues in the operation of its S-88 turbines in the US. The program involves structural strengthening of 1,251 blades on S-88 turbines, of which, 930 are installed, while the remaining blades are in transit. The process will be completed over a period of 6 months. It will cost INR 1.2 bn, of which, the company had already provided for INR190 mn in Q3FY08; it will provide for the balance in Q4FY08.

The issue of cracks in blade is specific to the S-88 turbines of 2.1 MW only due to issues related to blade surface stiffness. Till date, 45 blades have been detected faulty and the retrofit program is being undertaken as a preventive measure on the 1,251 blades, of which, 942 blades are installed in the US and balance 303 in Europe and Brazil. The rectification involves fitting of glass fibre layer on the outer blades, the cost impact of which is very minimal (1% of the rotor blade cost).

## \* Management geared up to counter generation or project delay losses

Suzlon is undertaking a parallel retrofit program for the installed blades which are in running condition. This is expected to minimise the downtime for the retrofit to 1-2 days per turbine (limiting generation losses), which is well within the performance commitment given to customers (95% availability of turbines). Further, the company has also provided for rolling stock of 20 blades that are shipped to the US and would be fitted during the course of the retrofit program to help executing the orders on time.

## \* Outlook and valuations: Risk reward favorable; upgrading to 'BUY'

We still cannot completely rule out the risk of penalty being levied by customers due to delay in execution of orders and generation loss suffered during this program. However, with the management working on minimising the possible risks of generation and execution delay losses, we believe the risk reward is favourable for the stock post correction. We are revising our FY08E earnings estimate downwards by 10.2% due to the impact. With no change in FY09E and FY10E estimates, the stock is trading at 21.5x and 12.7x FY09E and FY10E earnings, which in our view, is attractive. We are upgrading our recommendation on the stock from 'ACCUMULATE' to 'BUY'.

## Financials

Year to March	FY07	FY08E	FY09E	FY10E
Revenue (INR mn)	79,857	127,853	173,949	255,243
Rev. growth (%)	106.1	60.1	36.1	46.7
EBITDA (INR mn)	13,199	19,767	27,626	43,250
Net profit	8,759	10,576	16,807	28,516
Shares outstanding (mn)*	1,496	1,496	1,496	1,496
Cons EPS	5.8	7.1	11.2	19.1
EPS growth (%)	8.8	22.3	58.9	69.7
P/E (x)	41.9	34.2	21.5	12.7
EV/ EBITDA	27.4	18.3	13.1	8.4
ROE (%)	27.8	21.4	20.3	24.3
ROCE (%)	20.9	16.2	17.3	22.0

\* Fully diluted



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Reuters : SUZL.BO  
Bloomberg : SUEL IN

## Market Data

52-week range (INR) : 460 / 186  
Share in issue (mn) : 1,496  
M cap (INR bn/USD mn) : 361 / 9,002  
Avg. Daily Vol. BSE/NSE ('000) : 4,704.5

## Share Holding Pattern (%)

Promoters : 65.9  
MFs, Fls & Banks : 4.0  
FIIs : 22.5  
Others : 7.6



## Company Description

Suzlon, Asia's largest and the world's fifth-largest wind turbine manufacturer, in terms of market share, provides end-to-end wind energy solutions such as wind resource mapping, identification and procurement of sites, execution of project work, erection and commissioning of WTGs, construction of power evacuation facilities, and operation and maintenance (O&M) services. This, along with its strong technological capabilities overseas and low-cost vertically integrated manufacturing base in India, give it an edge over competitors.

## Investment Theme

Suzlon's strong business model in terms of in-house technology and superior design capabilities has led to a consistent increase in its market share. A bulk of Suzlon's product requirements are manufactured at its Indian facilities, providing it a significant cost advantage. Further capacity expansion in the US and China will help the company cater to the strong global wind energy demand. It is also expanding capacity of Hansen Transmission, which obliterates concerns of gear box supply.

## Key Risks

Suzlon is likely to face increased competition from other global players such as Vestas, Gamesa, and Enercon. India, emerging as one of the fastest growing markets, is likely to see increased focus from players like Siemens and GE. However, we believe that Suzlon with its vertically integrated business model will be able to maintain its leading position in the Indian market. Further, strong technical requirements serve as a barrier to new entrants.

## Financial Statements

Income statement					(INR mn)
Year to March	FY06	FY07	FY08E	FY09E	FY10E
Income from operations	38,749	79,857	127,853	173,949	255,243
Direct costs	26,482	48,114	85,688	116,379	172,423
Employee costs	1,216	6,496	9,693	13,085	17,665
Other expenses	1,730	12,049	12,706	16,858	21,905
Total operating expenses	29,428	66,658	108,086	146,323	211,993
EBITDA	9,322	13,199	19,767	27,626	43,250
Depreciation and amortisation	716	1,718	2,224	3,710	5,028
EBIT	8,606	11,481	17,543	23,916	38,222
Interest expenses	648	2,763	5,006	5,787	7,062
Other income	556	965	672	702	703
Profit before tax	8,514	9,682	13,209	18,831	31,864
Provision for tax	568	923	1,433	2,023	3,348
Extraordinary items	0	0	(1,200)	0	0
Reported profit	7,946	8,759	10,576	16,807	28,516
Adjusted net profit	7,946	8,759	10,576	16,807	28,516
Shares outstanding	1,496	1,496	1,496	1,496	1,496
Dividend per share	1.0	1.2	1.4	2.2	3.8
Dividend payout (%)	18.1	19.7	20.0	20.0	20.0

### Common size metrics- as % of net revenues

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Operating expenses	75.9	83.5	84.5	84.1	83.1
Depreciation	1.8	2.2	1.7	2.1	2.0
Interest expenditure	1.7	3.5	3.9	3.3	2.8
EBITDA margins	24.1	16.5	15.5	15.9	16.9
Net profit margins	20.5	11.0	8.3	9.7	11.2

### Growth metrics (%)

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Revenues	99.5	106.1	60.1	36.1	46.7
EBITDA	98.6	41.6	49.8	39.8	56.6
PBT	114.2	13.7	36.4	42.6	69.2
Net profit	117.6	10.2	20.7	58.9	69.7
EPS	117.6	8.8	22.3	58.9	69.7

### Cash flow statement

Cash flow statement					(INR mn)
Year to March	FY06	FY07	FY08E	FY09E	FY10E
Net profit	7,946	8,648	11,776	16,807	28,516
Add: Depreciation	716	1,718	2,224	3,710	5,028
Add: Misc expenses written off	(4)	9	0	0	0
Add: Deferred tax	(568)	(126)	0	0	0
Gross cash flow	8,090	10,248	14,000	20,518	33,544
Less: Dividends	1,657	1,730	2,115	3,361	5,703
Less: Changes in W. C.	10,989	11,691	7,412	6,509	13,643
Operating cash flow	(4,556)	(3,172)	4,473	10,647	14,198
Less: Change in investments	(2)	80	0	0	0
Less: Capex	4,046	36,003	34,000	13,510	14,828
<b>Free cash flow</b>	<b>(8,601)</b>	<b>(39,255)</b>	<b>(29,527)</b>	<b>(2,863)</b>	<b>(630)</b>

<b>Balance sheet</b>					(INR mn)
<b>As on 31st March</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	<b>FY10E</b>
Equity capital	2,875	2,878	2,993	2,993	2,993
Reserves & surplus	24,217	31,226	60,571	98,767	129,935
Shareholders funds	27,092	35,111	63,564	101,760	132,927
Minority interest	75	141	141	141	141
Secured loans	3,899	19,844	27,844	27,844	27,844
Unsecured loans	889	31,801	31,801	31,801	31,802
Borrowings	4,788	51,645	59,645	59,645	59,646
<b>Sources of funds</b>	<b>31,954</b>	<b>86,897</b>	<b>123,350</b>	<b>161,546</b>	<b>192,715</b>
Gross block	6,293	43,211	77,211	90,721	105,549
Depreciation	1,536	7,016	9,240	12,950	17,978
Net block	4,757	36,195	67,971	77,771	87,571
Capital work in progress	1,652	4,498	4,498	4,498	4,498
Total fixed assets	6,409	40,693	72,469	82,269	92,069
Investments	76	156	156	156	156
Inventories	13,310	31,363	44,959	57,189	69,930
Sundry debtors	16,473	25,704	38,531	47,657	62,937
Cash and equivalents	5,515	15,383	12,687	34,573	42,299
Loans and advances	6,407	12,076	13,283	15,276	17,567
Total current assets	41,705	84,526	109,459	154,695	192,732
Sundry creditors and others	12,977	33,340	50,010	65,013	78,016
Provisions	4,101	4,999	8,547	10,383	14,050
Total CL & provisions	17,078	38,339	58,557	75,396	92,065
Net current assets	24,627	46,187	50,902	79,298	100,667
Net deferred tax	818	(177)	(177)	(177)	(177)
Others	25	39	0	0	0
<b>Uses of funds</b>	<b>31,955</b>	<b>86,897</b>	<b>123,350</b>	<b>161,546</b>	<b>192,715</b>
Book value per share (INR)	18	23	42	68	89

**Ratios**

<b>Year to March</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	<b>FY10E</b>
ROE (%)	45.4	27.8	21.4	20.3	24.3
ROCE (%)	40.7	20.9	16.2	17.3	22.0
Current ratio	2.4	2.2	1.9	2.1	2.1
Debtors (days)	155	117	110	100	90
Fixed assets t/o (x)	8.2	3.4	2.3	2.2	2.9
Debt/Equity	0.2	1.5	0.9	0.6	0.4

**Valuations parameters**

<b>Year to March</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>	<b>FY10E</b>
Cons EPS (INR)	5.3	5.8	7.1	11.2	19.1
<i>Y-o-Y growth (%)</i>	<i>117.6</i>	<i>8.8</i>	<i>22.3</i>	<i>58.9</i>	<i>69.7</i>
CEPS (INR)	30.1	36.4	42.8	68.6	112.1
P/E (x)	45.6	41.9	34.2	21.5	12.7
Price/BV(x)	13.4	10.3	5.7	3.6	2.7
EV/Sales (x)	9.3	4.5	2.8	2.1	1.4
EV/EBITDA (x)	38.8	27.4	18.3	13.1	8.4

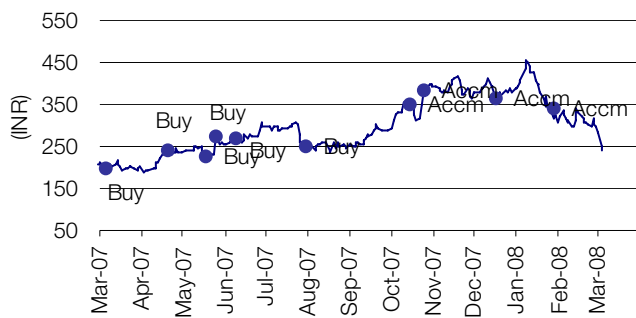
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**Coverage group(s) of stocks by primary analyst(s): Power:**

KEI Industries, Apar Industries, Emco, Kalpataru Power Transmission, KEC International, RPG Transmission, Jyoti Structures, ABB, BHEL, Voltas, L & T, Siemens, Suzlon Energy and Crompton Greaves

**Suzlon Energy**



**Recent Research**

Date	Company	Title	Price (INR)	Recos
26-Feb-08	<b>Power Transmission</b>	What lies beneath; Sector Update		
14-Feb-08	<b>CESC</b>	Powered by mine allocation and retail; <i>Initiating Coverage</i>	535	Buy
7-Feb-08	<b>Power Grid Corp.</b>	Leveraging tower value; <i>Company Update</i>	110	Accumulate
31-Jan-08	<b>NTPC</b>	Burning bright; <i>Result Update</i>	198	Accumulate

**Distribution of Ratings / Market Cap**

**Edelweiss Research Coverage Universe**

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	112	44	11	1	188
* 14 stocks under review / 6 rating withheld					
	> 50bn	Between 10bn and 50 bn	< 10bn		
Market Cap (INR)	88	74	26		

**Rating Interpretation**

Rating	Expected to
<b>Buy</b>	appreciate more than 20% over a 12-month period
<b>Accumulate</b>	appreciate up to 20% over a 12-month period
<b>Reduce</b>	depreciate up to 10% over a 12-month period
<b>Sell</b>	depreciate more than 10% over a 12-month period

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