

# UBS Investment Research

## Suzlon Energy

### Orders revival in 1HCY10

#### ■ Our latest Q-series on wind power expects recovery in 1H10

In the Q-series on wind titled: "Are skies clear again for wind power?", dated 15 Oct'09, we conclude that the sector should re-activate from H1/10 on improved economics, as (1) turbine prices should be c20% lower in 2010 vs 2008; (2) credit spreads are back to pre-crisis levels and project financing returns; (3) base rates are at trough level. After 3% y/y growth in global installations to 29.1GW in '09E, we forecast growth by 15% to 33.3GW in '10E and 16% to 38.6GW in '11E.

#### ■ We think Suzlon could re-rate on industry-wide recovery in orders

We raise our PT from Rs60/sh to Rs100/sh and upgrade rating from Sell to Neutral as we see expect recovery in wind orders in 1H10 to re-rate the stock. Our rating upgrade is after lowering FY10/11E EPS, and reflects lower capex over '11-14E, and lower intermediate growth owing to this. However, we believe upside is capped in near-term due to estimated loss of Rs1.75bn in 2QFY10E and consensus downgrades, and Suzlon's weak liquidity position.

#### ■ Lower near term estimates for Suzlon

We lower MW sales for FY10/11E by 100MW to 1,900/2,350. We also lower EBITDA margins for FY10/11E by 90bps and lower FY10/11/12E EPS from Rs3.8/7.4/13.8 to Rs1.6/4.2/11.6. Our estimates are 44-66% below consensus. There are no positive catalysts near-term except recovery in wind orders in 1H10E.

#### ■ Valuation – Raise Price Target and Upgrade Rating to Neutral

The key reasons for changes to our DCF-based price target are: 1) rolling forward to FY11, 2) lower capex in FY11-14E; and 3) lower intermediate growth from 15% to 10%.

| Highlights (Rsm)  | 03/08      | 03/09      | 03/10E     | 03/11E     | 03/12E     |
|-------------------|------------|------------|------------|------------|------------|
| Revenues          | 136,794.30 | 262,587.90 | 225,243.93 | 258,729.10 | 336,946.50 |
| EBIT (UBS)        | 15,488.20  | 18,316.40  | 11,452.84  | 15,656.41  | 29,464.83  |
| Net Income (UBS)  | 10,305.50  | 6,316.70   | 2,481.28   | 6,585.49   | 18,208.74  |
| EPS (UBS, Rs)     | 7.00       | 4.20       | 1.58       | 4.20       | 11.61      |
| Net DPS (UBS, Rs) | 1.14       | 1.14       | 1.14       | 1.14       | 1.14       |

| Profitability & Valuation | 5-yr hist av. | 03/09 | 03/10E | 03/11E | 03/12E |
|---------------------------|---------------|-------|--------|--------|--------|
| EBIT margin %             | 16.7          | 7.0   | 5.1    | 6.1    | 8.7    |
| ROIC (EBIT) %             | 25.6          | 11.7  | 5.0    | 6.7    | 12.6   |
| EV/EBITDA (core) x        | -             | 13.0  | 14.1   | 10.9   | 6.7    |
| PE (UBS) x                | -             | 35.6  | 56.3   | 21.2   | 7.7    |
| Net dividend yield %      | -             | 0.8   | 1.3    | 1.3    | 1.3    |

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs89.15 on 15 Oct 2009 23:40 EDT

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### Global Equity Research

India

Industrial, Diversified

12-month rating **Neutral**  
Prior: *Sell*

12m price target **Rs100.00/US\$2.17**  
Prior: *Rs60.00/US\$1.30*

Price **Rs89.15/US\$1.94**

RIC: SUZL.BO BBG: SUEL IB

15 October 2009

#### Trading data (local/US\$)

|                          |                              |
|--------------------------|------------------------------|
| 52-wk range              | Rs136.80-33.30/US\$2.91-0.64 |
| Market cap.              | Rs128bn/US\$2.79bn           |
| Shares o/s               | 1,438m (ORD)                 |
| Free float               | 10%                          |
| Avg. daily volume ('000) | 14,251                       |
| Avg. daily value (Rsm)   | 1,343.2                      |

#### Balance sheet data 03/10E

|                      |           |
|----------------------|-----------|
| Shareholders' equity | Rs88.2bn  |
| P/BV (UBS)           | 1.6x      |
| Net Cash (debt)      | (Rs124bn) |

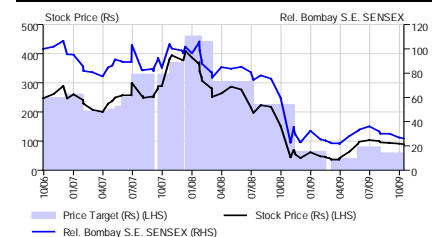
#### Forecast returns

|                             |        |
|-----------------------------|--------|
| Forecast price appreciation | +12.2% |
| Forecast dividend yield     | 1.3%   |
| Forecast stock return       | +13.5% |
| Market return assumption    | 12.1%  |
| Forecast excess return      | +1.4%  |

#### EPS (UBS, Rs)

|        | 03/10E |      | 03/09 | Actual |
|--------|--------|------|-------|--------|
|        | From   | To   | Cons. |        |
| Q1E    | -      | -    | -     | 0.00   |
| Q2E    | -      | -    | -     | 0.00   |
| Q3E    | -      | -    | -     | 0.00   |
| Q4E    | -      | -    | -     | 0.00   |
| 03/10E | 3.84   | 1.58 | 4.18  |        |
| 03/11E | 7.36   | 4.20 | 8.54  |        |

#### Performance (Rs)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 8.

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*The following 2 sections are from the Q-series on wind power titled "Are skies clear again for wind power?" dated 15 October 2009*

### **Introducing the proprietary UBS wind market model**

Our new proprietary global market model is driven by the IRR/WACC spread on a country-by-country basis. In most key markets, that spread remains attractive, despite the recent drop in power prices and cost of substitutes. After the crisis year 2009, for which we estimate 'only' 3% y/y growth in global new installations to 29.1GW, we forecast accelerated market growth by 15% to 33.3GW in 2010 and 16% to 38.6GW in 2011, respectively. Ex China, which is dominated by local suppliers, global new additions should be down 8% in 2009, up 16% in 2010 and up 20% in 2011. The wind turbine revenue pool should grow to €32.4bn, from €25.5bn in 2009.

In the next three years, the US market is the key swing factor: After a substantial drop in 2009, momentum in new installations should pick up sharply in H2 2010. We forecast 40% y/y growth in 2010 to 9.4GW and another 20% growth in 2011 to 11.2GW. Due to saturation and grid connection constraints in the US and developed Europe, we expect slowing momentum in capacity additions from 2012 onwards, whilst cumulative capacity should keep growing by >10% pa. We expect the share of wind power in global electricity generation to increase to 3.2% in 2013 and 5.1% in 2018, from 1.8% in 2009.

### **Introducing the new KGI – wind turbine price per MW**

We have established a proprietary key global indicator (KGI) for the wind turbine price per MW, based on commodity costs, component prices, manufacturing costs and the negotiating power of wind turbine manufacturers.

After a 13% drop y/y to €1.00m per MW in 2009 (ranging from €0.72m to €1.05m per MW across regions), we expect another 7% decline in 2010, due to time lag effects between order intake and the shipments of the turbines. However, the turbine price should bottom out next year, as (i) commodities (mainly steel) have already recovered substantially from trough level (ii) turbine manufacturers outside China change have made significant capacity adjustments and (iii) order intake should pick up in H1 2010. For 2011/12, we expect an increase in the global ASP by 4% y/y each. The turn-key IC per MW (including shipment and installation costs) should decrease by 14% to €1.12m (ranging from €0.96m to €1.30m across regions) in 2009 and decline by another 5% in 2011. For 2011/12, we expect an increase by 3%/4% y/y. Hence, even by 2012, the IC per MW should be 12% below the 2008 peak level, which implies improved wind farm economics.

### **Changes to estimates for Suzlon**

The estimate changes follow: 1) lower MW sales for Suzlon; and 2) lower estimates for Hansen in line with changes made by our Hansen analyst to reflect lower FY10E business levels.

Table 1: Estimate changes

|                   | FY09    | FY10E | FY11E   | FY12E   |         |
|-------------------|---------|-------|---------|---------|---------|
| Suzlon MW         | 2,500   |       | 1,900   | 2,350   | 3,450   |
| Changes in MW     | -       |       | (100)   | (100)   |         |
| Hansen MW         | 6,500   |       | 6,336   | 7,739   | 9,742   |
| Repower MW        | 1,149   |       | 1,502   | 1,684   | 2,003   |
| Sales (Rsmn)      | 262,588 |       | 225,244 | 258,729 | 336,946 |
| % change          | 0%      |       | 0%      | -1%     |         |
| EBITDA (Rsmn)     | 24,048  |       | 19,295  | 24,888  | 38,961  |
| % change          | 0%      |       | -9%     | -9%     |         |
| Margin            | 9.2%    |       | 8.6%    | 9.6%    | 11.6%   |
| Bps change        | -       |       | (82)    | (89)    | (12)    |
| Net Profit (Rsmn) | 2,365   |       | 2,481   | 6,585   | 18,209  |
| EPS (Rs)          | 4.2     |       | 1.6     | 4.2     | 11.6    |
| % change          | -0.1%   |       | -58.8%  | -42.9%  | -15.2%  |

Source: UBS estimates

We are at lower end of consensus for the next 2 years as seen from table below.

Table 2: UBS vs. consensus

| Rsmn          | FY10    |           |          | FY11    |           |          | FY11    |           |          |
|---------------|---------|-----------|----------|---------|-----------|----------|---------|-----------|----------|
|               | UBS     | Consensus | % diff   | UBS     | Consensus | % diff   | UBS     | Consensus | % diff   |
| Sales         | 225,244 | 246,716   | -9%      | 258,729 | 296,243   | -13%     | 336,946 | 348,489   | -3%      |
| EBITDA        | 19,295  | 24,709    | -22%     | 24,888  | 32,389    | -23%     | 38,961  | 39,280    | -1%      |
| EBITDA Margin | 9%      | 10%       | -145 bps | 10%     | 11%       | -145 bps | 12%     | 11%       | -145 bps |
| PAT           | 2,481   | 7,303     | -66%     | 6,585   | 11,869    | -45%     | 18,209  | 18,025    | 1%       |
| EPS           | 1.58    | 4.64      | -66%     | 4.20    | 7.56      | -44%     | 11.60   | 11.20     | 4%       |

Source: UBS

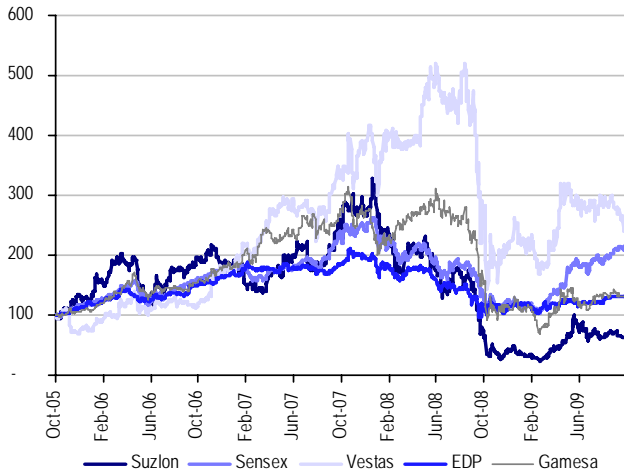
## Valuation – upgrade PT and rating

Our PT is DCF based. The main changes to the DCF to derive our PT are: 1) lower capex between FY11-14E as we expect the company to achieve 100% capacity utilisation only by 2015E vs. 2013E earlier; and 2) lower intermediate growth rate of 10% vs. 15% earlier. The lower intermediate growth is value enhancing due to high working capital requirements of Suzlon at 28% of sales. All the other assumptions are retained. The key assumptions being 1) operating margin of 8.8% during intermediate growth (FY15-18E) compared to 6.1%-10.3% between FY11-14E, 2) working capital of 28% of sales, 3) terminal growth rate of 5% (to reflect Indian business).

At our PT, Suzlon would trade at a higher multiple on FY11E basis compared to peers due to higher growth momentum vs. peers. We think upside though is capped for Suzlon as we expect 2QFY10E to be a loss of Rs1.75bn following which we expect consensus downgrades to FY10E EPS, and 2) liquidity position which continues to be bad for Suzlon. In our view, Suzlon will have to sell Hansen in full or in part in order to address the liquidity concerns following

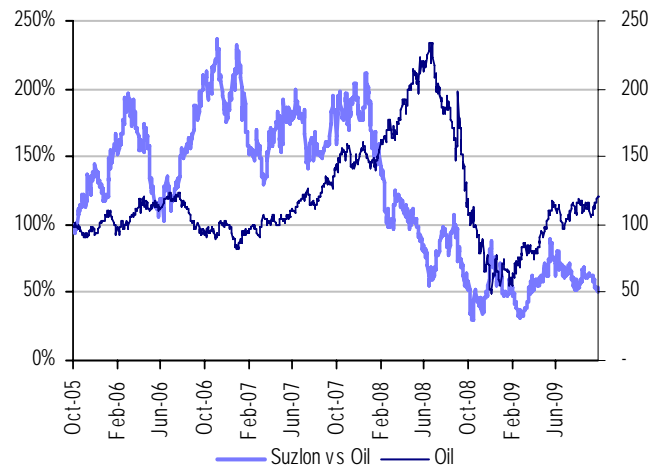
which the Suzlon story shifts to Repower and to Suzlon's own wind turbine business. We think covenants would be breached in the testing in Oct'09 which could result in higher interest costs. However, we rule out any forced sell-out as Suzlon has been making timely payments of interest.

**Chart 1: Suzlon has underperformed peers due to liquidity**



Source: UBS

**Chart 2: Suzlon share price no longer follows oil prices**



Source: UBS

## Valuation summary

Table 3: Valuation summary

| Company Name       | Rating        | Price     | M_Cap   | PE(x) |       |       | EPS CAGR      | EV/EBITDA(x) |        |        | ROCE (%) |       |       |
|--------------------|---------------|-----------|---------|-------|-------|-------|---------------|--------------|--------|--------|----------|-------|-------|
|                    |               |           |         |       |       |       |               |              |        |        |          |       |       |
|                    |               | 15-Oct-09 | (US\$m) | FY09  | FY10E | FY11E | FY08 -11E (%) | FY09         | FY10 E | FY11 E | FY09     | FY10E | FY11E |
| ABB India          | Sell          | 813       | 3,725   | 32.7  | 35.5  | 30.0  | 4.4           | 22.6         | 21.9   | 18.7   | 45.2     | 33.2  | 37.3  |
| Alstom Projects    | Not rated     | 560       | 774     | 29.8  | 27.6  | 21.8  | 17.0          | 22.1         | 33.1   | NA     | NA       | NA    | NA    |
| BHEL               | Sell          | 2,495     | 26,414  | 35.4  | 25.7  | 20.0  | 32.8          | 14.0         | 17.2   | 13.1   | 80.8     | 90.0  | 94.2  |
| L & T              | Suspended     | 1,692     | 21,490  | 34.3  | 28.3  | 22.8  | 22.6          | 12.8         | 17.2   | 13.8   | 18.5     | 17.8  | 18.2  |
| Siemens India      | Not rated     | 592       | 4,116   | 32.6  | 30.3  | 29.4  | 5.2           | 21.3         | 19.4   | 17.6   | NA       | NA    | NA    |
| Thermax            | Not rated     | 578       | 1,420   | 21.4  | 17.1  | 14.6  | 21.0          | 16.4         | 15.1   | 12.9   | 14.9     | 15.1  | 15.1  |
| Crompton Greaves   | Not rated     | 356       | 2,690   | 25.6  | 20.1  | 16.8  | 23.5          | 14.3         | 12.1   | 10.2   | 15.2     | 11.4  | 11.4  |
| Voltas             | Not rated     | 164       | 1,122   | 21.7  | 17.5  | 15.2  | 19.7          | 17.9         | 15.5   | 12.0   | 10.2     | 12.2  | 12.2  |
| ABB Group          | Buy           | 22        | 50,328  | 15.6  | 18.3  | 17.9  | (6.6)         | 10.7         | 10.8   | 10.4   | 33.4     | 35.5  | 26.0  |
| Alstom             | Neutral       | 52        | 22,075  | 13.7  | 12.3  | 14.4  | (2.5)         | 7.0          | 6.0    | 6.9    | 62.0     | 60.4  | 37.6  |
| Siemens            | Neutral       | 69        | 91,434  | 28.0  | 14.5  | 17.9  | 25.0          | 10.4         | 7.9    | 9.8    | 10.3     | 14.4  | 9.8   |
| Legrand            | Buy           | 21        | 8,283   | 15.1  | 22.8  | 14.6  | 1.6           | 7.7          | 10.9   | 8.9    | 10.0     | 7.1   | 9.8   |
| Nexans             | Buy           | 58        | 2,194   | 7.7   | NA    | 23.2  | (42.3)        | 4.6          | 7.8    | 6.5    | 10.4     | 0.3   | 5.3   |
| Schneider Electric | Buy           | 76        | 26,353  | 10.9  | 25.1  | 19.2  | (24.7)        | 6.9          | 11.4   | 9.8    | 12.1     | 6.6   | 7.9   |
| Technip            | Buy           | 47        | 7,580   | 11.6  | 12.7  | 16.6  | (16.6)        | 5.7          | 5.4    | 5.7    | 21.8     | 22.9  | 17.7  |
| Wood Group         | Neutral       | 342       | 2,900   | 6.7   | 8.5   | 8.6   | (11.8)        | 7.8          | 7.7    | 7.5    | 20.4     | 15.3  | 14.4  |
| Vestas             | Buy           | 45        | 13,644  | 16.3  | 18.7  | 18.2  | (5.2)         | 14.9         | 10.4   | 8.9    | 35.7     | 18.9  | 15.1  |
| Gamesa             | Buy           | 14        | 4,993   | 21.6  | 23.1  | 20.0  | 4.0           | 19.7         | 9.6    | 9.1    | 15.0     | 11.1  | 12.2  |
| Hansen             | Neutral (CBE) | 126       | 1,374   | 18.8  | NA    | 42.8  | (33.7)        | 16.7         | 22.5   | 13.1   | 8.2      | 0.9   | 3.7   |
| Suzlon Energy      | Neutral       | 89        | 2,772   | 21.2  | 56.3  | 21.2  | (0.0)         | 13.0         | 13.9   | 10.7   | 8.7      | 2.6   | 4.6   |
| Punj Lloyd         | Buy           | 288       | 2,068   | 30.7  | 20.1  | 18.6  | 28.5          | 10.1         | 12.5   | 11.5   | 7.8      | 10.0  | 10.1  |
| Nagarjuna          | Buy           | 177       | 980     | 26.3  | 22.8  | 17.4  | 23.0          | 9.6          | 12.3   | 9.9    | 10.5     | 11.7  | 12.8  |
| IVRCL              | Sell (CBE)    | 407       | 1,188   | 23.3  | 19.8  | 16.6  | 18.3          | 9.1          | 10.4   | 8.8    | 12.3     | 12.4  | 13.2  |

Source: UBS

# Suzlon Energy

| Income statement (Rsm)                   | 03/05       | 03/06       | 03/07       | 03/08        | 03/09        | 03/10E       | % ch   | 03/11E       | % ch   | 03/12E       | % ch  |
|--|-------------|-------------|-------------|--------------|--------------|--------------|--------|--------------|--------|--------------|-------|
| Revenues                                 | 19,454.72   | 38,839.00   | 79,991.80   | 136,794.30   | 262,587.90   | 225,243.93   | -14.2  | 258,729.10   | 14.9   | 336,946.50   | 30.2  |
| Operating expenses (ex depre)            | (14,529.58) | (29,618.00) | (66,658.30) | (118,412.50) | (238,540.10) | (205,949.00) | -13.7  | (233,841.06) | 13.5   | (297,985.04) | 27.4  |
| EBITDA (UBS)                             | 4,925.14    | 9,221.00    | 13,333.50   | 18,381.80    | 24,047.80    | 19,294.93    | -19.8  | 24,888.04    | 29.0   | 38,961.46    | 56.5  |
| Depreciation                             | (423.80)    | (715.90)    | (1,718.00)  | (2,893.60)   | (5,731.40)   | (7,842.09)   | 36.8   | (9,231.63)   | 17.7   | (9,496.63)   | 2.9   |
| Operating income (EBIT, UBS)             | 4,501.34    | 8,505.10    | 11,615.50   | 15,488.20    | 18,316.40    | 11,452.84    | -37.5  | 15,656.41    | 36.7   | 29,464.83    | 88.2  |
| Other income & associates                | 201.50      | 474.90      | 830.50      | 2,645.50     | 1,817.50     | 2,893.06     | 59.2   | 3,117.95     | 7.8    | 3,821.98     | 22.6  |
| Net interest                             | (458.25)    | (647.70)    | (2,763.40)  | (5,969.40)   | (9,012.10)   | (8,485.67)   | -5.8   | (7,721.94)   | -9.0   | (7,846.14)   | 1.6   |
| Abnormal items (pre-tax)                 | 3.00        | 0.00        | 0.00        | 0.00         | (3,951.90)   | 0.00         | -      | 0.00         | -      | 0.00         | -     |
| Profit before tax                        | 4,247.59    | 8,332.30    | 9,682.60    | 12,164.30    | 7,169.90     | 5,860.23     | -18.3  | 11,052.42    | 88.6   | 25,440.67    | 130.2 |
| Tax                                      | (391.14)    | (568.10)    | (1,034.60)  | (1,988.30)   | (2,881.20)   | (2,840.92)   | -1.4   | (3,540.05)   | 24.6   | (5,606.24)   | 58.4  |
| Profit after tax                         | 3,856.45    | 7,764.20    | 8,648.00    | 10,176.00    | 4,288.70     | 3,019.30     | -29.6  | 7,512.37     | 148.8  | 19,834.43    | 164.0 |
| Abnormal items (post-tax)                | 0.00        | 0.00        | 0.00        | 0.00         | 0.00         | 0.00         | -      | 0.00         | -      | 0.00         | -     |
| Minorities / pref dividends              | (20.25)     | (10.20)     | (7.70)      | 129.50       | (1,923.00)   | (538.03)     | -72.0  | (926.88)     | 72.3   | (1,625.69)   | 75.4  |
| Net income (local GAAP)                  | 3,836.20    | 7,754.00    | 8,640.30    | 10,305.50    | 2,364.80     | 2,481.28     | 4.9    | 6,585.49     | 165.4  | 18,208.74    | 176.5 |
| Net Income (UBS)                         | 3,833.20    | 7,754.00    | 8,640.30    | 10,305.50    | 6,316.70     | 2,481.28     | -60.7  | 6,585.49     | 165.4  | 18,208.74    | 176.5 |
| Tax rate (%)                             | 9.21        | 6.82        | 10.69       | 16.35        | 40.18        | 48.48        | 20.6   | 32.03        | -33.9  | 22.04        | -31.2 |
| Pre-abnormal tax rate (%)                | 9.22        | 6.82        | 10.69       | 16.35        | 25.91        | 48.48        | 87.1   | 32.03        | -33.9  | 22.04        | -31.2 |
| Per share (Rs)                           | 03/05       | 03/06       | 03/07       | 03/08        | 03/09        | 03/10E       | % ch   | 03/11E       | % ch   | 03/12E       | % ch  |
| EPS (local GAAP)                         | 2.94        | 6.99        | 5.99        | 7.00         | 1.57         | 1.58         | 0.6    | 4.20         | 165.4  | 11.61        | 176.5 |
| EPS (UBS)                                | 2.94        | 6.99        | 5.99        | 7.00         | 4.20         | 1.58         | -62.3  | 4.20         | 165.4  | 11.61        | 176.5 |
| Net DPS                                  | 0.30        | 1.15        | 1.16        | 1.14         | 1.14         | 1.14         | 0.8    | 1.14         | 0.0    | 1.14         | 0.0   |
| Cash EPS                                 | 3.26        | 7.63        | 7.18        | 8.97         | 8.02         | 6.58         | -17.8  | 10.09        | 53.2   | 17.67        | 75.2  |
| BVPS                                     | 27.44       | 18.90       | 24.29       | 54.12        | 54.54        | 56.26        | 3.2    | 59.32        | 5.4    | 69.80        | 17.7  |
| Balance sheet (Rsm)                      | 03/05       | 03/06       | 03/07       | 03/08        | 03/09        | 03/10E       | % ch   | 03/11E       | % ch   | 03/12E       | % ch  |
| Net tangible fixed assets                | 3,078.60    | 6,408.60    | 23,088.50   | 42,952.60    | 80,884.00    | 81,544.16    | 0.8    | 74,300.66    | -8.9   | 66,744.72    | -10.2 |
| Net intangible fixed assets              | 0.00        | 0.00        | 17,643.20   | 13,923.10    | 71,770.20    | 71,770.20    | 0.0    | 71,770.20    | 0.0    | 71,770.20    | 0.0   |
| Net working capital (incl. other assets) | 8,363.95    | 19,929.90   | 32,251.80   | 34,790.20    | 75,156.50    | 86,506.84    | 15.1   | 88,673.68    | 2.5    | 102,508.25   | 15.6  |
| Other liabilities                        | 0.00        | 0.00        | (1,624.90)  | (2,058.90)   | (4,417.40)   | (4,417.40)   | 0.0    | (4,417.40)   | 0.0    | (4,417.40)   | 0.0   |
| Operating invested capital               | 11,442.55   | 26,338.50   | 71,358.60   | 89,607.00    | 223,393.30   | 235,403.79   | 5.4    | 230,327.15   | -2.2   | 236,605.77   | 2.7   |
| Investments                              | 77.62       | 76.00       | 155.70      | 31,418.00    | 50.80        | 50.80        | 0.0    | 50.80        | 0.0    | 50.80        | 0.0   |
| Total capital employed                   | 11,520.17   | 26,414.50   | 71,514.30   | 121,025.00   | 223,444.10   | 235,454.59   | 5.4    | 230,377.95   | -2.2   | 236,656.57   | 2.7   |
| Shareholders' equity                     | 7,889.23    | 27,172.71   | 35,110.80   | 81,013.30    | 82,312.30    | 88,201.23    | 7.2    | 92,992.69    | 5.4    | 109,419.91   | 17.7  |
| Minority interests                       | 67.45       | 99.70       | 166.10      | 10,268.80    | 23,134.50    | 23,672.53    | 2.3    | 24,599.41    | 3.9    | 26,225.10    | 6.6   |
| Total equity                             | 7,956.70    | 27,272.40   | 35,276.90   | 91,281.10    | 105,446.80   | 111,873.76   | 6.1    | 117,592.10   | 5.1    | 135,645.02   | 15.4  |
| Net debt / (cash)                        | 3,563.47    | (857.90)    | 36,237.40   | 29,743.90    | 117,997.30   | 123,580.84   | 4.7    | 112,785.85   | -8.7   | 101,011.55   | -10.4 |
| Debt deemed provisions                   | 0.00        | 0.00        | 0.00        | 0.00         | 0.00         | 0.00         | -      | 0.00         | -      | 0.00         | -     |
| Total capital employed                   | 11,520.17   | 26,414.50   | 71,514.30   | 121,025.00   | 223,444.10   | 235,454.59   | 5.4    | 230,377.95   | -2.2   | 236,656.57   | 2.7   |
| Cash flow (Rsm)                          | 03/05       | 03/06       | 03/07       | 03/08        | 03/09        | 03/10E       | % ch   | 03/11E       | % ch   | 03/12E       | % ch  |
| Operating income (EBIT, UBS)             | 4,501.34    | 8,505.10    | 11,615.50   | 15,488.20    | 18,316.40    | 11,452.84    | -37.5  | 15,656.41    | 36.7   | 29,464.83    | 88.2  |
| Depreciation                             | 423.80      | 715.90      | 1,718.00    | 2,893.60     | 5,731.40     | 7,842.09     | 36.8   | 9,231.63     | 17.7   | 9,496.63     | 2.9   |
| Net change in working capital            | (5,484.66)  | (13,261.51) | (12,589.10) | (5,371.60)   | (41,009.00)  | (12,708.12)  | -69.0  | (3,714.63)   | -70.8  | (15,797.68)  | 325.3 |
| Other (operating)                        | 822.20      | 2,272.10    | 897.70      | 3,226.00     | 1,351.10     | 1,357.78     | 0.5    | 1,547.78     | 14.0   | 1,963.11     | 26.8  |
| Operating cash flow                      | 262.68      | (1,768.41)  | 1,642.10    | 16,236.20    | (15,610.10)  | 7,944.59     | -      | 22,721.20    | 186.0  | 25,126.89    | 10.6  |
| Net interest received / (paid)           | (458.25)    | (647.70)    | (2,763.40)  | (5,969.40)   | (9,012.10)   | (8,485.67)   | -5.8   | (7,721.94)   | -9.0   | (7,846.14)   | 1.6   |
| Dividends paid                           | (396.24)    | (1,646.90)  | (1,673.80)  | (1,713.46)   | (1,713.46)   | (1,794.35)   | 4.7    | (1,794.35)   | 0.0    | (1,781.73)   | -0.7  |
| Tax paid                                 | (391.14)    | (568.10)    | (1,034.60)  | (1,988.30)   | (2,881.20)   | (2,840.92)   | -1.4   | (3,540.05)   | 24.6   | (5,606.24)   | 58.4  |
| Capital expenditure                      | (1,849.79)  | (4,058.02)  | (22,160.00) | (23,167.70)  | (45,822.00)  | (8,502.25)   | -81.4  | (1,988.14)   | -76.6  | (1,940.69)   | -2.4  |
| Net (acquisitions) / disposals           | 0.00        | 0.00        | 0.00        | 0.00         | 0.00         | 0.00         | -      | 0.00         | -      | 0.00         | -     |
| Other                                    | 65.12       | 1.62        | (79.70)     | 155.70       | (50.80)      | 0.00         | -      | (0.00)       | -      | (0.00)       | -50.0 |
| Share issues                             | 625.75      | 2,006.08    | 2.49        | 116.30       | 2.50         | 116.80       | 4572.0 | 0.00         | -      | 0.00         | -     |
| Cash flow (inc)/dec in net debt          | (1,962.73)  | (6,206.53)  | (25,236.41) | (13,685.16)  | (73,269.66)  | (10,668.74)  | -85.4  | 10,794.67    | -      | 11,774.08    | 9.1   |
| FX / non cash items                      | 252.25      | 10,627.90   | (11,858.89) | 20,178.66    | (14,983.74)  | 5,085.20     | -      | 0.32         | -100.0 | 0.22         | -31.2 |
| Balance sheet (inc)/dec in net debt      | (1,710.48)  | 4,421.37    | (37,095.30) | 6,493.50     | (88,253.40)  | (5,583.54)   | -93.7  | 10,794.99    | -      | 11,774.30    | 9.1   |
| Core EBITDA                              | 4,925.14    | 9,221.00    | 13,333.50   | 18,381.80    | 24,047.80    | 19,294.93    | -19.8  | 24,888.04    | 29.0   | 38,961.46    | 56.5  |
| Maintenance capital expenditure          | (1,849.79)  | (4,058.02)  | (22,160.00) | (23,167.70)  | (45,822.00)  | (8,502.25)   | -81.4  | (1,988.14)   | -76.6  | (1,940.69)   | -2.4  |
| Maintenance net working capital          | (5,484.66)  | (13,261.51) | (12,589.10) | (5,371.60)   | (41,009.00)  | (12,708.12)  | -69.0  | (3,714.63)   | -70.8  | (15,797.68)  | 325.3 |
| Operating free cash flow, pre-tax        | (2,409.31)  | (8,098.53)  | (21,415.60) | (10,157.50)  | (62,783.20)  | (1,915.44)   | -96.9  | 19,185.28    | -      | 21,223.09    | 10.6  |

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating **Neutral**

12m price target **Rs100.00**

**Company profile**

Suzlon Energy is the world's fifth largest wind turbine manufacturer and the largest in Asia. Suzlon offers integrated wind power solutions, including consultancy, manufacturing, project execution, and operations and maintenance services. Suzlon has made two acquisitions in Europe: 1) gear box manufacturer Hansen Technologies in 2006; and 2) turbine manufacturer Repower in 2007.

| Valuation (x)           | 5Yr Avg | 03/08 | 03/09 | 03/10E | 03/11E | 03/12E |
|-------------------------|---------|-------|-------|--------|--------|--------|
| P/E (local GAAP)        | -       | 43.1  | NM    | 56.3   | 21.2   | 7.7    |
| P/E (UBS)               | -       | 43.1  | 35.6  | 56.3   | 21.2   | 7.7    |
| P/CEPS                  | -       | 33.7  | 18.7  | 13.5   | 8.8    | 5.0    |
| Net dividend yield (%)  | -       | 0.4   | 0.8   | 1.3    | 1.3    | 1.3    |
| P/BV                    | -       | 5.6   | 2.7   | 1.6    | 1.5    | 1.3    |
| EV/revenue (core)       | -       | 3.3   | 1.2   | 1.2    | 1.0    | 0.8    |
| EV/EBITDA (core)        | -       | 24.3  | 13.0  | 14.1   | 10.9   | 6.7    |
| EV/EBIT (core)          | -       | 28.8  | 17.0  | 23.8   | 17.3   | 8.9    |
| EV/OpFCF (core)         | -       | NM    | NM    | NM     | 14.1   | 12.3   |
| EV/op. invested capital | -       | 5.5   | 2.0   | 1.2    | 1.2    | 1.1    |

| Enterprise value (Rsm)          | 03/08       | 03/09     | 03/10E     | 03/11E     | 03/12E     |
|---------------------------------|-------------|-----------|------------|------------|------------|
| Average market cap              | 434,280.7   | 215,126.0 | 128,166.9  | 128,166.9  | 128,166.9  |
| + minority interests            | 10,268.80   | 23,134.50 | 23,672.53  | 24,599.41  | 26,225.10  |
| + average net debt (cash)       | 32,990.65   | 73,870.60 | 120,789.00 | 118,183.30 | 106,898.70 |
| + pension obligations and other | 0.00        | 0.00      | 0.00       | 0.00       | 0.00       |
| - non-core asset value          | (31,418.00) | (50.80)   | (50.80)    | (50.80)    | (50.80)    |
| Core enterprise value           | 446,122.1   | 312,080.3 | 272,577.7  | 270,898.9  | 261,239.9  |

| Growth (%)   | 5Yr Avg | 03/08 | 03/09 | 03/10E | 03/11E | 03/12E |
|--------------|---------|-------|-------|--------|--------|--------|
| Revenue      | 99.7    | 71.0  | 92.0  | -14.2  | 14.9   | 30.2   |
| EBITDA (UBS) | 95.6    | 37.9  | 30.8  | -19.8  | 29.0   | 56.5   |
| EBIT (UBS)   | 94.6    | 33.3  | 18.3  | -37.5  | 36.7   | 88.2   |
| EPS (UBS)    | 67.8    | 16.9  | -40.0 | -62.3  | 165.4  | 176.5  |
| Cash EPS     | 71.1    | 24.9  | -10.7 | -17.8  | 53.2   | 75.2   |
| Net DPS      | 46.1    | -1.1  | -0.8  | 0.8    | 0.0    | 0.0    |
| BVPS         | 44.7    | 122.8 | 0.8   | 3.2    | 5.4    | 17.7   |

| Margins (%)                | 5Yr Avg | 03/08 | 03/09 | 03/10E | 03/11E | 03/12E |
|----------------------------|---------|-------|-------|--------|--------|--------|
| EBITDA / revenue           | 18.8    | 13.4  | 9.2   | 8.6    | 9.6    | 11.6   |
| EBIT / revenue             | 16.7    | 11.3  | 7.0   | 5.1    | 6.1    | 8.7    |
| Net profit (UBS) / revenue | 13.9    | 7.5   | 2.4   | 1.1    | 2.5    | 5.4    |

| Return on capital (%) | 5Yr Avg | 03/08 | 03/09 | 03/10E | 03/11E | 03/12E |
|-----------------------|---------|-------|-------|--------|--------|--------|
| EBIT ROIC (UBS)       | 25.6    | 19.2  | 11.7  | 5.0    | 6.7    | 12.6   |
| ROIC post tax         | -       | 16.1  | 8.7   | 2.6    | 4.6    | 9.8    |
| Net ROE               | 37.7    | 17.7  | 7.7   | 2.9    | 7.3    | 18.0   |

| Coverage ratios (x)             | 5Yr Avg | 03/08 | 03/09 | 03/10E | 03/11E | 03/12E |
|---------------------------------|---------|-------|-------|--------|--------|--------|
| EBIT / net interest             | 7.2     | 3.0   | 2.2   | 1.7    | 2.4    | 4.2    |
| Dividend cover (UBS EPS)        | 6.1     | 6.1   | 3.7   | 1.4    | 3.7    | 10.1   |
| Div. payout ratio (% , UBS EPS) | 18.2    | 16.3  | 27.0  | 72.3   | 27.2   | 9.9    |
| Net debt / EBITDA               | 1.5     | 1.6   | 4.9   | 6.4    | 4.5    | 2.6    |

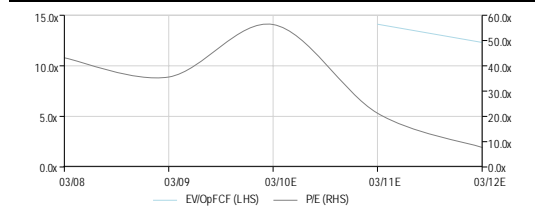
| Efficiency ratios (x)          | 5Yr Avg | 03/08 | 03/09 | 03/10E | 03/11E | 03/12E |
|--------------------------------|---------|-------|-------|--------|--------|--------|
| Revenue / op. invested capital | 1.8     | 1.7   | 1.7   | 1.0    | 1.1    | 1.4    |
| Revenue / fixed assets         | 3.5     | 2.8   | 2.5   | 1.5    | 1.7    | 2.4    |
| Revenue / net working capital  | 3.6     | 4.3   | 5.0   | 2.9    | 3.0    | 3.6    |

| Investment ratios (x) | 5Yr Avg | 03/08 | 03/09 | 03/10E | 03/11E | 03/12E |
|-----------------------|---------|-------|-------|--------|--------|--------|
| OpFCF / EBIT          | NM      | NM    | NM    | NM     | 1.2    | 0.7    |
| Capex / revenue (%)   | 18.4    | 16.9  | 17.5  | 3.8    | 0.8    | 0.6    |
| Capex / depreciation  | 8.8     | 8.0   | 8.0   | 1.1    | 0.2    | 0.2    |

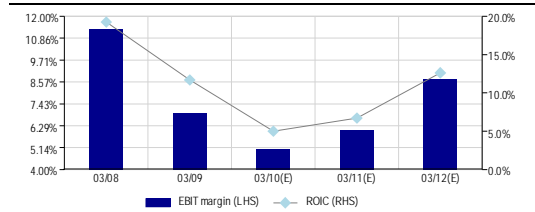
| Capital structure (%)          | 5Yr Avg | 03/08 | 03/09 | 03/10E | 03/11E | 03/12E |
|--------------------------------|---------|-------|-------|--------|--------|--------|
| Net debt / total equity        | 45.6    | 36.7  | NM    | NM     | NM     | 92.3   |
| Net debt / (net debt + equity) | 31.3    | 26.9  | 58.9  | 58.4   | 54.8   | 48.0   |
| Net debt (core) / EV           | -       | 7.4   | 23.7  | 44.3   | 43.6   | 40.9   |

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs89.15 on 15 Oct 2009 23:40 EDT Market cap(E) may include forecast share issues/buybacks.

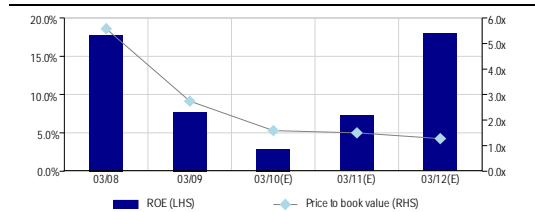
**Value (EV/OpFCF & P/E)**



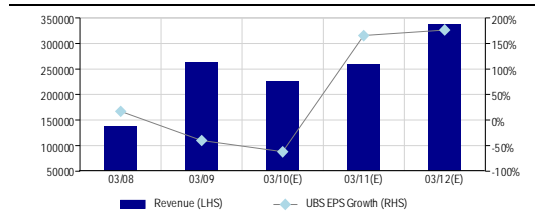
**Profitability**



**ROE v Price to book value**



**Growth (UBS EPS)**



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## ■ **Suzlon Energy**

Suzlon Energy is the world's fifth largest wind turbine manufacturer and the largest in Asia. Suzlon offers integrated wind power solutions, including consultancy, manufacturing, project execution, and operations and maintenance services. Suzlon has made two acquisitions in Europe: 1) gear box manufacturer Hansen Technologies in 2006; and 2) turbine manufacturer Repower in 2007.

## ■ **Statement of Risk**

The main risks in Suzlon are 1) liquidation risks as the balance sheet is stretched, 2) execution related as working capital is high and 3) visibility related to orders as the backlog is only 75% of the full year FY10E sales estimate. From a sector perspective, policy related and project financing are biggest risks.

## ■ **Analyst Certification**

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### UBS Investment Research: Global Equity Rating Allocations

| UBS 12-Month Rating   | Rating Category | Coverage <sup>1</sup> | IB Services <sup>2</sup> |
|-----------------------|-----------------|-----------------------|--------------------------|
| Buy                   | Buy             | 44%                   | 39%                      |
| Neutral               | Hold/Neutral    | 40%                   | 35%                      |
| Sell                  | Sell            | 15%                   | 27%                      |
| UBS Short-Term Rating | Rating Category | Coverage <sup>3</sup> | IB Services <sup>4</sup> |
| Buy                   | Buy             | less than 1%          | 33%                      |
| Sell                  | Sell            | less than 1%          | 0%                       |

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2009.

### UBS Investment Research: Global Equity Rating Definitions

| UBS 12-Month Rating   | Definition  |
|-----------------------|---|
| Buy                   | FSR is > 6% above the MRA.  |
| Neutral               | FSR is between -6% and 6% of the MRA.   |
| Sell                  | FSR is > 6% below the MRA.  |
| UBS Short-Term Rating | Definition  |
| Buy                   | Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.  |
| Sell                  | Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. |

**KEY DEFINITIONS**

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

**Equity Price Targets** have an investment horizon of 12 months.

**EXCEPTIONS AND SPECIAL CASES**

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

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**UBS Securities India Private Ltd:** Suhas Harinarayanan; Pankaj Sharma.

**Company Disclosures**

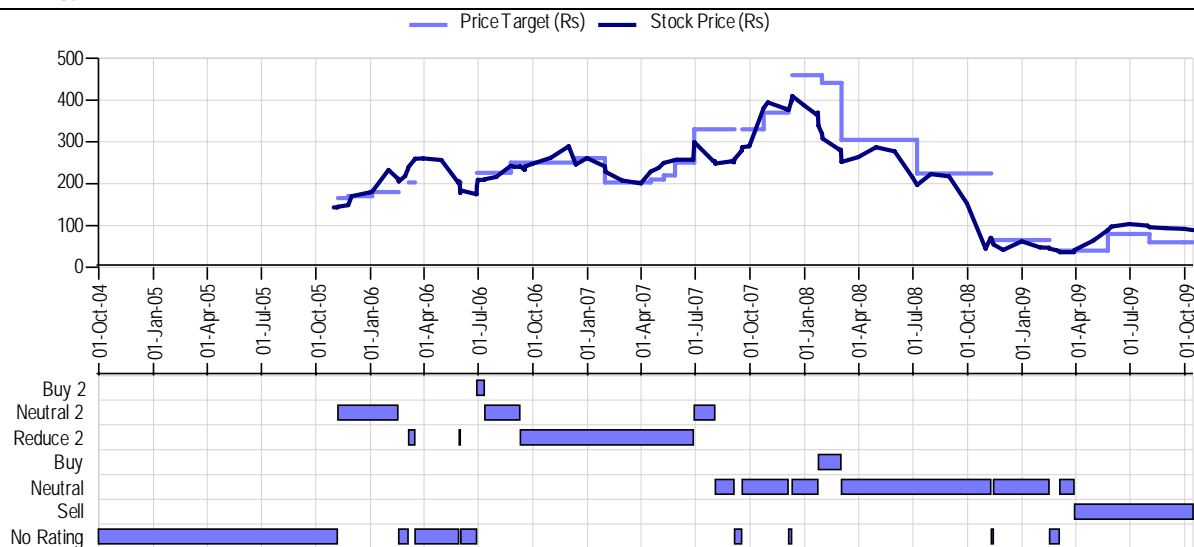
| Company Name  | Reuters | 12-mo rating | Short-term rating | Price   | Price date  |
|---------------|---------|--------------|-------------------|---------|-------------|
| Suzlon Energy | SUZL.BO | Sell         | N/A               | Rs89.15 | 15 Oct 2009 |

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Suzlon Energy (Rs)



Source: UBS; as of 15 Oct 2009

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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