

Suzlon Energy

STOCK INFO.	BLOOMBERG
BSE SENSEX: 18,493	SUEL IN
	REUTERS CODE
S&P CNX: 5,474	SUZL.BO
Equity Shares (m)	299.0
52-Week Range	1,825/932
1,6,12 Rel. Perf. (%)	11/11/-16
M.Cap. (Rs b)	520.5
M.Cap. (US\$ b)	13.1

23 October 2007

Neutral

Previous Recommendation: Neutral

Rs1,741

YEAR	NET SALES*	PAT*	EPS*	EPS*	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	79,857	8,641	30.0	19.6	58.0	14.6	27.6	21.0	6.7	40.7
3/08E	133,622	12,657	43.8	46.1	39.7	8.0	26.1	17.0	4.5	28.1
3/09E	189,539	17,911	65.0	48.4	26.8	6.5	26.7	15.6	3.4	20.9

* Consolidated nos

- 2QFY08 performance better than estimates:** During 2QFY08, Suzlon reported consolidated revenues at Rs36.4b (up 74.5% YoY), EBIDTA of Rs5.9b (up 63% YoY) and net profit after minority interest of Rs4b (up 67.8% YoY). The reported numbers includes share of profits from REpower (economic interest of 34%) of Rs5.4m for June 2007, as the consolidation for REpower is done with a lag of 3 months due to different dates for reporting of quarterly numbers for both companies.
- Consolidated EBIDTA margins at 16.1% came as a positive surprise:** In 2QFY08, consolidated EBIDTA margins stood at 16.1%, vs. 17.3% during 2QFY07. Adjusted for the extraordinary expense of Rs660m due to site restoration expenses incurred at Dhule, EBIDTA margins in 2QFY08 stood at 17.9%. The key reason for improvement in the EBIDTA margins is improved volumes resulting in better cost apportionment and lower transit inventory levels (38MW in Sept 07, vs 178MW in June 07).
- Capacity expansion plans revised upwards:** Suzlon has announced expansion of its WTG manufacturing capacity to 5,700MW vs 4,200MW earlier and expansion of the foundry and forging facilities. The total capex on proposed expansion is estimated at Rs29.2b (vs Rs18.2b earlier). For Hansen, the company plans to ramp up WTG Gearbox manufacturing capacity to 14,600 MW as compared to 10,100MW (by FY09) announced earlier. The total capex for the proposed expansion to 14,600MW stands at Rs33b.
- Valuation and view:** We upgrade our FY08 consolidated net profit estimates to Rs12.7b (upgrade of 8%) and FY09 to Rs18b (upgrade of 8.7%) to factor in lower interest burden on account of FCCB issue, lower tax rates and improving margin profile. We maintain **Neutral**, with price target of Rs1,560/sh (PER of 24x FY09E).

QUARTERLY PERFORMANCE (CONSOLIDATED)

Y/E MARCH									(Rs Million)	
	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	10,689	20,870	19,139	29,159	19,446	36,413	27,368	50,395	79,857	133,622
Change (%)	243.6	85.8	117.3	91.0	81.9	74.5	43.0	72.8	107.9	67.3
EBITDA	1,858	3,600	2,546	4,954	1,398	5,870	3,832	10,185	12,958	21,284
Change (%)	181.0	42.6	69.8	24.9	-24.8	63.0	50.5	105.6	47.4	64.3
As of % Sales	17.4	17.3	13.3	17.0	7.2	16.1	14.0	20.2	16.2	15.9
Depreciation	347	428	343	600	585	583	640	759	1,718	2,567
Interest	366	547	638	972	1,079	1,387	1,470	1,808	2,523	5,743
Other Income	161	87	254	463	426	535	142	148	965	1,251
PBT	1,306	2,711	1,820	3,846	161	4,434	1,864	7,767	9,683	14,225
Tax	346	340	93	256	-40	457	224	928	1,035	1,568
Effective Tax Rate (%)	26.5	12.5	5.1	6.6	(24.6)	10.3	12.0	11.9	10.7	11.0
Reported PAT	960	2,371	1,727	3,590	200	3,978	1,640	6,839	8,648	12,657
Change (%)	115.2	14.7	28.9	-4.3	-79.2	67.8	-5.1	90.5	13.7	46.4
PAT (post Minority Interest)	953	2,354	1,744	3,590	189	3,978	1,640	6,839	8,640	12,657

E: MOST Estimates

2QFY08 performance better than estimates

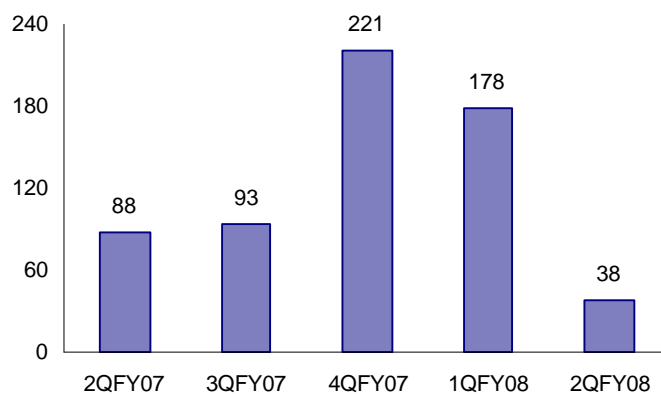
During 2QFY08, Suzlon reported consolidated revenues at Rs36.4b (up 74.5% YoY), EBIDTA of Rs5.9b (up 63% YoY) and net profit after minority interest of Rs4b (up 67.8% YoY). The reported numbers includes share of profits from REpower (economic interest of 34%) of Rs5.4m for June 2007, as the consolidation for REpower is done with a lag of 3 months due to different dates for reporting of quarterly numbers for both companies. The reported numbers are higher than our expectation of revenues of Rs32b, EBIDTA of Rs4b (EBIDTA margin of 12.2%) and net profit of Rs2b, largely due to increased sales volumes which has resulted in much better cost apportionment.

During 2QFY08, volumes on consolidated basis increased by 76% YoY to 683MW (vs 388MW in 2QFY07). The domestic volumes stood at 238MW while exports at 445MW. The standalone volumes increased 52% YoY to 556MW (vs 366 MW in 2QFY07) comprising of domestic 242MW and exports 315 MW. The company reported standalone revenues of Rs16.9b (up 31.3% YoY), EBIDTA of Rs3.9b (up 27.7% YoY) and net profit stood at Rs3.6 (up 40.3% YoY).

Consolidated EBIDTA margins at 16.1% came as a positive surprise

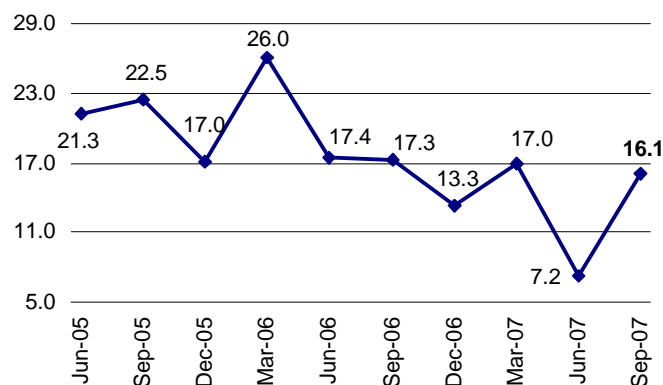
The consolidated EBIDTA margins in 2QFY08 stood at 16.1% vs 17.3% during 2QFY07, down 113bps. Adjusted for the extraordinary expense of Rs660m due to site restoration at Dhule, EBIDTA margins in 2QFY08 stood at 17.9%. The key reason for improvement in the EBIDTA margins is improved volumes resulting in better cost apportionment and lower transit inventory levels. As at Sept 07, transit inventory declined to 38MW, vs 178MW as at June 07 (88MW in 2QFY07), resulting in profit recognition on incremental 140MW during 2QFY08. The management indicated that rupee appreciation is a challenge, and the EBIDTA impact is estimated at 100-150bp (for every 10% rupee appreciation).

TREND IN TRANSIT INVENTORY (MW)



Source: Company

CONSOLIDATED EBIDTA MARGIN (%)



Source: Company

Segment wise performance

- During 2QFY08, WTG business revenues grew by 91.7% YoY to Rs30.8b (vs Rs16.1b in 2QFY07) while revenues for the Gearbox business grew 20.8% YoY to Rs5.3b in 2QFY08 (vs Rs4.4b in 2QFY07). During 2QFY08, WTG business contributed 84.7% (vs 77.1% in 2QFY07) to the net segment revenues while Gearbox contributed 14.5% (vs 20.9% in 2QFY07).

TREND IN REVENUE (RS M) AND % YOY

	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	% YOY
WTG Business	6,087	14,432	21,950	14,879.5	30,834	91.7
Gearbox*	4,368	4,533	6,508	4,428.6	5,276	20.8
Others	418	174	706	166.5	522	25.0
Total	20,872	19,139	29,164	19,474.6	36,632	75.5
Inter-segment	3	-	-	28.3	219	
Total Revenue	20,870	19,139	29,164	19,446.3	36,413	74.5

Hansen*

Source: Company

During 2QFY08, WTG business reported EBIDTA margins of 17.3% vs 18.4% in 2QFY07, a decline of 110bp. Adjusted for the extraordinary expense of Rs660m due to site restoration at Dhule, EBIDTA margins in 2QFY08 stood at 19.5%. EBIDTA margins for the Hansen (Gearbox) stood at 12.4% during 2QFY08 vs 10.7% in 2QFY07.

SEGMENT WISE EBDITA MARGINS (%)

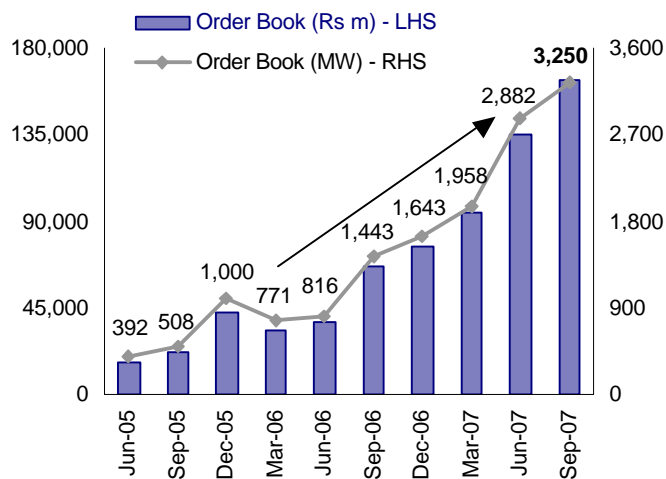
EBIDTA (RS M)	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	% YOY
Wind Turbine Gennator	1,414	2,962	2,010	3,806	1,283	5,338
Gear Box	521	472	491	1,434	310.0	653
Others	(38)	111	33	285	36.1	38
Total	1,896	3,545	2,534	5,525	1,629	6,029
EBIDTA (%)						
Wind Turbine Generator	18.8	18.4	13.9	17.3	8.6	17.3
Gear Box	16.5	10.8	10.8	22.0	7.0	12.4
Others	(165.5)	26.5	19.1	40.3	21.7	7.2
Total	17.7	17.0	13.2	18.9	8.4	16.5

Source: Company

Robust order book position

The company has an order book position of Rs163b (3250MW) representing 2x FY07 consolidated revenues of Rs79.9b. This compares with order book position of Rs135b (2882MW) during 4QFY07 and Rs66.4b (1443MW) during 2QFY07. The current order book comprise of India: 369MW, USA – 1921MW, Brazil, Turkey – 342MW, Europe – 242MW, China – 143MW and Australia / New Zealand – 235MW.

TREND IN ORDER BOOK (RS M) AND MW



Source: Company

Capacity expansion plans revised upwards

Suzlon has announced further expansion of its WTG manufacturing capacity to 5,700MW vs 4,200MW earlier. The company will be expanding the proposed 1,500MW capacity in SEZ at Karnataka to 3,000 MW, focused on the exports market. It has also announced expansion of the foundry and forging facilities at an additional capex of Rs3.5b to cater to increased turbine manufacturing capacity. The total capex on proposed expansion of integrated WTG manufacturing facility is estimated at Rs29.2b (vs Rs18.2b earlier).

For Hansen, the company plans to ramp up WTG Gearbox manufacturing capacity to 14,600 MW as compared to 10,100MW (by FY09) announced earlier. The total capex for the proposed expansion to 14,600MW stands at Rs33b.

SUZLON'S CAPACITY EXPANSION PLANS (RS M)

PARTICULARS	CAPACITY	INVESTMENT	PLACE	TARGETED COMMENCEMENT
Wind Business				
Integrated Turbine Manufacturing facility	3,000 MW	15,000	India	Phased manner in Q1, Q2, Q3 FY09
Forging & Machining	70,000 MT	11,000	India	Q2 FY09
Foundry & Machining	120,000 MT		India	Q1 FY09
Suzlon Campus		3,610	India	Q1 FY09
Total		29,610		

Source: Company

Capacity ramp up in a phased manner: The proposed capacity expansion would commission in a phased manner starting from 1QFY09 till 3QFY09. The management indicated that based on the commissioning schedule, the production capability during FY08 stands at 2700MW, increasing to ~4200MW in FY09 and 5700MW in FY10. We expect Suzlon to record WTG volumes of 2,376MW in FY08 and 3,241MW in FY09, which provides scope for positive surprises.

Other recent developments

- 1. Raised US\$500m in 2QFY08, enabling resolution to raise Rs50b:** Suzlon has recently raised US\$500m in two tranches to fund capex plans (balance to be spent Rs57b) and acquisition of REpower stake (Euro453m). Further, till FY10, the company needs ~Euro 675m for acquisition of REpower stake from Areva (29.6%) and Martifer (23.7%).
- 2. Proposed listing of Hansen:** Suzlon has approved resolution for an offering of shares of Hansen (100% subsidiary) to institutional investors and a listing on the London Stock Exchange.
- 3. Split of shares:** The board has also proposed a split of equity capital of the company in the ratio of 5:1 (face value of Rs2/sh from Rs10/sh).

Valuation and view

We upgrade our FY08 consolidated net profit estimates to Rs12.7b (upgrade of 8%) and FY09 to Rs18b (upgrade of 8.7%) to factor in lower interest burden on account of FCCB issue, lower tax rates and improving margin profile. We estimate WTG sales of 2,376MW during FY08 (vs 1,456MW in FY07) and 3,241MW during FY09, and WTG EBIDTA margins of 17.3% in FY08 and 17.4% in FY09, as compared to 16.5% in FY07. For Hansen, we estimate sales of 3,783MW during FY08 and 5,800MW during FY09, up from 3,600MW during FY07 and EBIDTA margins of 13.5% during FY08 and FY09, down from 14.9% in FY07. At CMP of Rs1,741, the stock trades at a PER of 58x FY07, 39.7x FY08E and 26.8x FY09E. We maintain **Neutral**, with price target of Rs1,560/sh (PER of 24x FY09E).

Suzlon Energy: an investment profile

Company description

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

Key investment arguments

- Suzlon-REpower combine could be amongst Top 3 WTG suppliers given low cost advantage of Suzlon and dominance of REpower in European markets.
- Suzlon is the most profitable WTG manufacturer globally given established vendor base in low cost locations and backward integration.
- Net profit CAGR of 44% till FY09 on consolidated basis, Possibility of Earnings upgrade exists.

Key investment risks

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

COMPARATIVE VALUATIONS

		SUZLON	BHEL	CROMPTON
P/E (x)	FY08E	39.7	32.7	38.4
	FY09E	26.8	24.9	26.3
P/BV (x)	FY08E	8.0	9.7	16.1
	FY09E	6.5	7.5	12.3
EV/Sales (x)	FY08E	4.5	4.3	3.2
	FY09E	3.4	3.3	2.6
EV/EBITDA (x)	FY08E	28.1	20.7	28.5
	FY09E	20.9	15.5	21.8

SHAREHOLDING PATTERN (%)

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

Recent developments

- The board of directors of Suzlon has approved the resolution for an offering of shares of Hansen (100% subsidiary) to institutional investors and a listing on the London Stock Exchange.
- Also, the board has approved the split of face value of shares from Rs10/sh to Rs2/sh, subject to approval of shareholders.

Valuation and view

- At CMP of Rs1,741, the stock trades at a PER of 58x FY07, 39.7x FY08E and 26.8x FY09E.
- We maintain **Neutral**.

Sector view

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

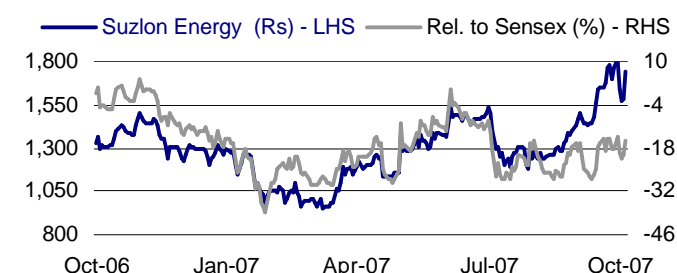
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VIATION (%)
FY08	43.8	44.5	-1.5
FY09	65.0	61.9	4.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,741	1,560	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Net Sales	19,425	38,410	79,857	133,622	189,539
Change (%)	26.5	97.7	107.9	67.3	418
Cost of Goods Sold	11,377	23,279	48,114	83,325	121,148
Staff Cost	618	1216	6,496	11,685	17,403
Other Mfg. Expenses	2,737	5,121	12,032	17,329	20,600
EBITDA	4,693	8,794	13,216	21,284	30,388
% of Net Sales	24.2	22.9	16.5	15.9	16.0
Depreciation	493	716	1,718	2,567	4,545
Preliminary Exps written-off	2	2	17	0	0
Interest	458	648	2,763	5,743	7,048
Other Income	234	745	965	1,251	1,203
Extra-ord. Itm (as reported)	0	0	0	0	0
PBT	3,974	8,173	9,683	14,225	19,998
Tax	322	568	1,035	1,568	2,086
Rate (%)	8.1	7.0	10.7	11.0	10.4
Reported Con. PAT	3,652	7,605	8,648	12,657	17,911
Minority Interest	0	10	8	0	0
Adjusted Cons. PAT	3,652	7,595	8,641	12,657	17,911
Change (%)	208.9	108.0	13.8	46.5	415

Note: Consolidated financials

BALANCE SHEET					
Y/E MARCH	2005	2006	2007	2008E	2009E
Equity Share Capital	869	3,025	2,878	2,990	2,990
Preference Share Capital	1,150	0	0	0	0
Share Application Money	0	106	1,007	0	0
Reserves	7,024	24,217	31,226	62,168	77,389
Less : Misc Exps	4	9	0	0	0
Net Worth	9,039	27,339	35,111	65,158	80,378
Loans	3,958	4,507	51,620	82,901	118,925
Capital Employed	12,997	31,846	86,731	148,059	199,303
Gross Fixed Assets	3,597	6,289	43,211	79,883	101,223
Less: Depreciation	808	1,532	7,016	9,583	14,128
Net Fixed Assets	2,789	4,757	36,195	70,300	87,095
Capital WIP	289	1,668	4,537	4,000	500
Investments	78	76	156	24,867	47,617
Deferred Tax Asset	241	818	-177	300	300
Curr. Assets	17,477	41,705	84,526	102,887	140,943
Inventory	5,756	13,310	31,363	46,069	65,462
Debtors	6,929	16,473	25,704	33,564	46,759
Cash & Bank Balance	1,545	5,515	15,383	5,156	3,005
Loans & Advances	3,247	6,407	12,076	18,098	25,717
Current Liab. & Prov.	7,809	17,078	38,339	54,295	77,152
Net Current Assets	9,600	24,528	46,021	48,592	63,791
Application of Funds	12,997	31,846	86,731	148,059	199,303

E: MOST Estimates, Consolidated financials

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
Consolidated EPS	14.4	25.1	30.0	43.8	65.0
Growth (%)	83.8	74.7	19.6	46.1	48.4
Cash EPS	47.7	27.5	36.1	50.9	75.1
Book Value	90.8	90.4	118.9	217.9	268.9
DPS	6.0	5.0	5.0	6.0	8.0
Equity Div.Payout (incl. Div.)	11.0	21.7	19.2	15.9	15.0
Valuation					
P/E (consolidated)		69.4	58.0	39.7	26.8
Cash P/E		63.4	48.3	34.2	23.2
EV/EBITDA		59.8	40.7	28.1	20.9
EV/Sales		13.7	6.7	4.5	3.4
Price/Book Value		19.3	14.6	8.0	6.5
Dividend Yield (%)		0.3	0.3	0.3	0.5
Profitability Ratios (%)					
RoE	63.5	43.1	27.6	26.1	26.7
RoCE	46.5	39.3	21.0	17.0	15.6
Turnover Ratios					
Debtors (Days)	130	157	119	102	100
Asset Turnover (x)	9.0	10.2	3.9	2.5	2.4
Leverage Ratio					
Debt/Equity (x)	0.4	0.2	1.5	1.3	1.5

CASH FLOW STATEMENT					
Y/E MARCH	2005	2006	2007	2008E	2009E
PBT before EO Items	3,974	8,173	9,683	14,225	19,998
Add : Depreciation	495	718	1,735	2,567	4,545
Interest	458	648	2,763	5,743	7,048
Less : Direct Taxes Paid	322	568	1,035	1,568	2,086
(Inc)/Dec in WC	-4,625	-10,957	-11,625	-12,799	-17,350
CF from Operations	-20	-1,987	1,522	8,168	12,155
CF from Oper. incl. EO	-20	-1,987	1,522	8,168	12,155
(Inc)/Dec in FA	-1,922	-4,064	-36,042	-36,135	-17,840
(Pur)/Sale of Investments	65	2	-80	-24,711	-22,750
CF from Investments	-1,857	-4,063	-36,121	-60,847	-40,590
(Inc)/Dec in Net Worth	2,042	11,782	1,791	18,931	0
(Inc)/Dec in Debt	1,574	549	47,113	31,281	36,023
Less : Interest Paid	458	648	2,763	5,743	7,048
Dividend Paid	419	1,664	1,674	2,018	2,691
CF from Fin. Activity	2,740	10,020	44,468	42,451	26,284
Inc/Dec of Cash	863	3,971	9,868	-10,227	-2,151
Add: Beginning Balance	681	1,545	5,515	15,383	5,156
Closing Balance	1,544	5,515	15,383	5,156	3,005

E: MOST Estimates

N O T E S



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Suzlon Energy

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

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