

Market Movement

	Close	Diff	% Chg
BSE 100	7,373.7	68.1	0.9
CNX Nifty Jr	7,973.9	35.9	0.5
Dow Jones	13,507.3	66.2	0.5
Nasdaq	2,557.2	19.3	0.8

Turnover

	Rs mn		% Chg
BSE	50,450	↑	13.2
NSE	98,350	↑	2.9

Advances/Declines (%)

	Advances	Declines
BSE	53.0	44.1
NSE	54.5	42.3

Nifty Delivered Statistics

	Delivered Quantity	% Daily Quantity*
Most Delivered		
Tata Chemical	281,099	79.0
Glaxo	40,461	74.1
Auro Pharma	80,549	73.6
J&K Bank	7,482	71.9
Least Delivered		
Centuty Textile	244,700	18.1
Reliance Capital	575,790	15.5
ABB	13,309	15.0
Divis Lab	82,689	9.5

* to trade quantity.

Institutional Activity

24 May 2007	Cash (Rs mn)	F&O (Rs mn)
FIIs		
Buy	22,691	19,679
Sell	19,496	33,155
Net	3,195	-13,476
Mutual Funds		
Buy	5,195	-
Sell	9,297	-
Net	-4,102	-

Key Statistics

	Close	Change
Rs/US\$	40.54	-0.04
Rs/Euro	54.57	0.02
10 yr G-Sec (%)	8.17	-0.02
Call rate (%)	7.50	-
Brent-spot (US\$/bbl)	71.21	-0.18
WTI-spot (US\$/bbl)	64.75	1.17
Aluminium (LME, US\$/t)	2,752	-33.00
Copper (LME, US\$/t)	7,141	-234.00
Zinc (LME, US\$/t)	3,605	-50.00
Steel (US\$/t)	565	0.00

Inside

□ Suzlon Energy: 'Art of War' evolves

Suzlon has finally secured REpower, winning the bid war as rival Areva opted out of the race. In our view, Suzlon has pulled off an intelligent move, given that it has acquired the voting rights for 61% stake (23% of Martifer + 30% Areva + 8% acquired by Suzlon), while the payment to Areva and Martifer will be done after 1-2 years, when the actual synergies from REpower start flowing in. The long stretched battle for REpower weighed on Suzlon's stock performance, as markets feared the company getting over ambitious in its offer for acquiring the company.

We re-iterate our positive bias for the stock and believe the acquisition will reap rewards for Suzlon in terms of penetration into new markets, greater technical capabilities and improving supply chain logistics. While we estimate a 5% decline in FY08E earnings and 3% decline in our FY09E earnings post acquisition, we believe the stock will attract a higher multiple due to the apparent comparisons with global majors Vestas and Gamesa. We maintain our Buy rating with a revised target price of Rs1,470 (21x FY09E, @10% discount to global peers), from earlier Rs1,380.

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Suzlon Energy

Rs1,300; Buy

Event Update

Sector: Capital Goods

Target Price	Rs1,470
Market cap (bn)	Rs373.6/US\$9.2
52-week range	Rs1,510/769
Shares in issue (mn)	287.5
6-mon avg daily vol (no of shares)	842,812
6-mon avg daily vol (mn)	Rs1,095.2/US\$27.0
Bloomberg	SUEL IN
Reuters	SUZL.BO
BSE Sensex	14,480
Website	www.suzlon.com

Shareholding Pattern (%)

Promoters	69.8
FIIs	21.3
MFs/FIs/Banks	0.6
Public	7.8
Others	0.6

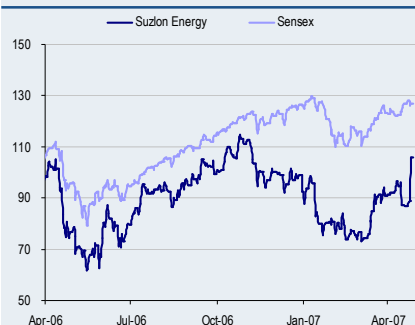
(As of 31 March 2007)

Price Performance (%)

	1M	3M	12M
Absolute	9.7	25.3	30.3
Relative*	5.6	13.4	(3.6)

** To the BSE Sensex*

Relative Performance


(As of 25 May 2007)

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'Art of War' evolves

Opportunities multiply as they are seized.

- Sun Tzu

Suzlon has finally secured REpower, winning the bid war as rival Areva opted out of the race. In our view, Suzlon has pulled off an intelligent move, given that it has acquired the voting rights for 61% stake (23% of Martifer + 30% Areva + 8% acquired by Suzlon), while the payment to Areva and Martifer will be done after 1-2 years, when the actual synergies from REpower start flowing in. The long stretched battle for REpower weighed on Suzlon's stock performance, as markets feared the company getting over ambitious in its offer for acquiring the company.

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Highlights

- **Suzlon acquires REpower:** Areva (Suzlon's rival bidder) has chosen not to revise its bid for REpower and has entered into an option to tender shares exclusively to Suzlon anytime after one year at a fair market value. Thus, Suzlon now has confirmed access to 61% stake in REpower (23% Martifer + 30% Areva + 8% acquired by Suzlon). The remaining shareholders may tender their shares at Euro 150 per share, at which REpower will be valued at Euro 1.3 bn (Rs71.5 bn).

Exhibit 1: Financial summary (Post REpower acquisition) (Rs mn)

Y/E March	FY05	FY06	FY07	FY08E	FY09E
Net sales	19,424	38,412	79,857	173,642	224,324
EBITDA	4,586	8,844	12,958	24,021	32,677
EBITDA (%)	23.6	23.0	16.2	13.8	14.6
Net Profit (Adj)	3,652	7,609	8,648	14,469	20,131
EPS (Rs)	12.7	26.4	30.0	50.2	69.9
EPS Growth (%)		107.9	13.7	67.3	39.1
ROE (%)	63.8	43.4	28.5	36.5	36.8
PE (x)	102.3	49.2	43.3	25.9	18.6
Price/Book Value (x)	14.3	13.7	11.2	8.2	5.9
EV/EBITDA (x)	82.0	42.1	29.2	15.8	11.7

Source: Company data, ASK Securities. Note: Valuations as of 25 May 2007.

Those skilled in warfare establish positions that make them invincible. A victorious army first obtains conditions for victory, and then seeks to do battle.

- Sun Tzu

Exhibit 2: Key markets

Suzlon	REpower
India	France
USA	Germany
China	UK
Australia	Austria
Brazil	Portugal

Source: Company data, ASK Securities.

- **REpower, tactically a good fit for Suzlon:** Operationally Suzlon and REpower will generate abundant synergies in terms of market spread, supply chain efficiencies and product portfolio.
 - Suzlon and REpower have strengths in different geographies. Suzlon has established its presence in India, USA, Australia and China while REpower is a leading player in the European markets. The combined entity will encompass most markets across the world.
 - REpower is focused towards assembly of wind turbines, wherein most of the components are externally sourced. On the other hand, Suzlon is an integrated player with manufacturing in low cost destinations. The combination will encourage supply of components from Suzlon's facilities in India, and bring in cost synergies for the merged entity.
 - As regards products, REpower's portfolio comprises turbines upto 5 mw, while Suzlon manufactures turbines ranging upto 2.1 mw. The 5 mw turbine is specifically suitable for offshore use. The combined entity, again, will benefit from a wider portfolio of products.
- **Financially, a prudent move:** At this point in time, Suzlon will raise debt only for the shares that are tendered in the open offer. The payment for Areva's stake (30%) will be due anytime after one year and that for Martifer's stake (23%) will be due only after two years. We believe it will take Suzlon at least 12 to 18 months to fully drive in the synergistic benefits with REpower. Thus the timing of payments and the interest burden so generated will match with the benefits that will flow in from the synergies with REpower.
- **Re-iterate Buy with target price of Rs1,470:** With REpower in its fold, and given its capacity expansion plans in India and Belgium as well as the manufacturing presence in USA and China, we believe Suzlon has strategically created right conditions for victory (refer our initial report on Suzlon: Suzlon's Art of War -) Further we feel the company is also ready for a quantum leap in its market share in the global wind energy circuit. Global wind sector provides growth visibility of 15%+ over next five years. Suzlon in its new avatar, we believe, would outperform this growth rate.

We re-iterate our positive bias for the stock and believe the acquisition will reap rewards for Suzlon in terms of penetration into new markets, greater technical capabilities and improving supply chain logistics. While we estimate a 5% decline in FY08E earnings and 3% decline in our FY09E earnings post acquisition, we believe the stock will attract a higher multiple due to the apparent comparisons with global majors Vestas and Gamesa. We maintain our Buy rating on the stock with a revised target price of Rs1,470 (21x FY09E, @10% discount to global peers), from earlier Rs1,380.

Exhibit 3: Attractive amongst its peers

Company	Mkt Price Euro	Mkt Cap Euro (mn)	Sales (Euro mn)			EBITDA (%)			PE (x)			EV/EBITDA (x)		
			2006E FY07E	2007E FY08E	2008E FY09E	2006E FY07E	2007E FY08E	2008E FY09E	2006E FY07E	2007E FY08E	2008E FY09E	2006E FY07E	2007E FY08E	2008E FY09E
Vestas	51	5,587	3,785	4,527	5,283	8.4	11.2	13.8	93.0	40.9	25.7	29.2	18.3	12.7
Gamesa	27	4,684	2,314	2,942	3,452	17.3	17.1	17.3	29.4	25.4	21.2	17.8	14.1	11.9
Nordex	26	800	509	758	1,052	5.7	7.9	9.9	185.1	51.9	26.2	53.5	26.1	15.0
Suzlon*	1,300	6,796	1,452	3,157	4,079	16.2	13.8	14.6	43.3	25.9	18.6	29.2	15.8	11.7

Source: ASK Securities, Consensus. Note: * Numbers in Rs/Rs mn.

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