

## IDFC – SSKI Infrastructure Conference

---

### Conference Meeting Notes

**Analyst:** Shirish Rane (91-22-6638 3313; shirish@idfcsski.com)  
Bhoomika Nair (91-22-6638 3337; bhoomika@idfcsski.com)  
Salil Desai (91-22-6638 3373; salil@idfcsski.com)  
Ashish Shah (91-22-6638 3371; ashishshah@idfcsski.com)  
Nikhil Salvi (91-22-6638 3239; nikhil.salvi@idfcsski.com)

IDFC – SSKI Securities hosted the 'IDFC – SSKI Infrastructure Conference 2008' on September 10, 2008 at the Taj President, Mumbai. The conference hosted 15 leading companies in the infrastructure space in India, representing a diverse range of activities including power generation, power equipment, construction services and equipment, port and airport development, mining etc. The conference also hosted approximately 95 investors, in an opportunity to interact with the top management from these companies in small group meetings. We summarize below the key takeaways from these meetings and the updates on existing businesses and progress on new projects discussed by the companies.

### ELECON ENGINEERING (OUTPERFORMER)

**Rs111**

**Mkt Cap: Rs10.4bn; US\$226m**

- Elecon has an order backlog of Rs17.7bn as at end of 31<sup>st</sup> August 2008, a 50% yoy growth. Of this order backlog, Rs15.3bn is from the MHE segment (+60% yoy), while Rs2.46bn is from the gears division (+9% yoy).
- Elecon has booked orders of Rs5.4bn over the past 2 months in the quarter, of which Elecon won a Rs4bn order from Bramhani Industries for supply of plant and equipment of raw material handling system. Another major order, which Elecon won during the quarter has been from BHEL of Rs724mn.
- 71% of the total order backlog is from the power sector, while metals account for another 17%, while the balance being from ports, cement, mining, etc.
- The management believes the strong order inflow momentum will be maintained by these sectors as the most companies in the sector are expanding capacities.
- After a lackluster execution in FY08 in the MHE division, the management expects the revenue growth in the MHE segment to pick up sharply led by a stronger order backlog. Accordingly, the management has guided revenue of Rs11bn in FY09 of which, Rs5.6bn will be from the MHE segment. However, the management mentioned that it may look to revise its guidance post the 3QFY09 results.
- The management re-iterated that operating margins are likely to be maintained led by price escalation clauses.
- On the other hand, the margins on the fixed price contracts will be maintained by providing for contingencies while bidding for contracts, back to back agreement with suppliers as well as carrying inventories of raw material on books.
- The management continued to maintain that the windmill facility will be operational in 3QFY09, while the technology tie up is likely to be finalized in another 1-2months. We have factored the facility to be operational only in 4QFY09 with marginal revenues of Rs150mn in FY09.

---

IDFC - SSKI Securities Ltd.

701-702 Tulsiani Chambers, 7th Floor (East Wing), Nariman Point, Mumbai 400 021. Tel: 9122-6638 3300 Fax: 9122-2204 0282

**“For Private Circulation only” and “Important disclosures appear at the back of this report”**

- Elecon has a wide product portfolio of material handling equipment (MHE) and industrial gears spanning the entire range, specifically catering to the power and metals sector, which will continue to drive order inflow. Consequently, we believe the strong order backlog of Rs17.7bn will drive accelerated revenue and earnings (32% CAGR) growth over FY08-10. We believe valuations of 11.7x FY09 are attractive considering the strong earnings growth trajectory and visibility of earnings. Reiterate Outperformer with a price target of Rs150/share.

**EMCO (OUTPERFORMER)****Rs106****Mkt Cap: Rs6.3bn; US\$146m**

- The company expects order booking to remain strong, driven by continued investments in the power sector.
- Emco is strategically shifting focus from distribution transformers to industrial transformers which offer better margins and cash flows.
- It has formed a JV in South Africa to cater to local market which offers significant potential in terms of volumes and margins
- The company's coal mine in Indonesia (37.35% stake) is expected to ship out the first consignment of coal to India in September 2008.
- Emco has already completed the land acquisition for its 270MW (2x135MW) power plant at Warora in Maharashtra and has also achieved other key milestones such as water allocation, environmental clearance and financial closure. The company expects to place orders for equipments over the next 1-2 months.
- Emco management believes that despite rising competition in the business, the company will retain its competitive edge due to prequalification norms for SEB orders and proven quality vis-à-vis newer entrants.
- Emco is scaling up its projects business in line with changing customer preferences of awarding contracts on a turnkey basis.
- Emco's order book stands at ~Rs13bn, lending significant visibility to revenues and is likely to drive a 32% CAGR in earnings over FY08-10E.
- The stock is currently trading at 7.5x FY09E earnings and 5.6x FY10E earnings, which we believe are attractive considering a strong order book earnings growth over the next two years. Moreover, the power plant currently not valued by us, provides value upsides over the medium to long term.

**ESSAR OIL (UNRATED)****Rs162****Mkt Cap: Rs217bn; US\$4.8bn**

- Essar Oil commenced commercial production at its 10.5mtpa refinery at Vadinar in Gujarat, from May 2008. The refinery has been designed with a complexity of 6.1.
- The Vadinar refinery is expected to have significant tax advantages, with benefits under section 80IB of the Income Tax Act and sales tax deferment of approximately US\$2bn.
- Essar Oil is expanding its refinery capacity to 34mtpa with a complexity of 12.8, at a total cost of US\$6bn. The company is planning to fund the project at a gearing of 1.3x and expects to achieve complete financial closure by end-September 2008.
- The refinery expansion is likely to be completed by Q4CY10 post which, the company is expected to be the largest producer of Euro V MS and HSD from a single refinery location in the world.
- The company has already placed order for all long lead equipments for the expansion project and has also awarded all key construction and EPC contracts. Construction work has already commenced at the site and the management is confident of achieving the targeted completion date.

- Essar Oil also operates in the oil and gas exploration business and currently has licenses for exploring 7 blocks – 4 in India and one each in Nigeria, Madagascar and Vietnam.
- The company has already started production from one field in its Mehsana block in Gujarat and has produced and sold 17,000 barrels of crude till date.
- Essar Oil has established an extensive all-India marketing and distribution business with 1,290 supply points in operation across the country.

## GAMMON INFRASTRUCTURE PROJECTS (OUTPERFORMER)

**Rs86**

**Mkt Cap: Rs12.5bn; US\$273m**

- GIPL currently has a portfolio of 14 projects – 4 operational and 10 in the development phase. Projects consist of a mix of Annuity and Toll based projects. In addition, GIPL has been declared the preferred bidder in Rs20bn worth of projects.
- Gammon India typically carries out the civil works for ~90% GIPL's projects. Gammon India has entered into an agreement with GIPL not to bid for any BOT projects in which GIPL wishes to bid.
- GIPL believes its financial acumen has enabled it to secure superior returns from projects. The company has managed to achieve financial closures with debt-equity ratio as high as 89:11 and debt tenure of up to 18 years for concession period of 20 years. The company has also established a track record of commissioning projects ahead of schedule.
- Mumbai-Nashik Expressway is expected to be completed by April 2009, while a part of the stretch is likely to be opened to traffic by December 2008. The construction contract for the project has been awarded on a fixed price basis and hence GIPL has not been impacted by cost escalations.
- GIPL is expected to commission the first of the biomass power plants under development in Punjab, by January 2009.
- GIPL has taken over operations at the Mumbai container terminal and is expected to commence construction of the offshore container terminal over the next few months.
- Gorakhpur By-pass and Kosi Bridge projects are likely to be completed by October 2009 and April 2010 respectively.
- GIPL has recently received the LOI for the 261MW Youngthang Khab Hydroelectric Project over the Spiti river in Himachal Pradesh. The total construction cost (excluding IDC and other costs) for the project is estimated at Rs15bn, with a concession period of 40 years.
- The company has recently been awarded a project by the Andhra Pradesh government for construction of a bridge across the Godavari river on a BOT basis. The total concession period is for 25 years, including 3 years for construction. The estimated project cost is Rs8bn, of which the government will provide Rs2.08bn as a grant.
- We have valued GIPL on a sum-of-parts basis, with each project valued on a DCF basis. We have used equity discount rates in the range of 10.5-20%, depending on the relative risks of each project. Based on the above we have valued GIPL at Rs23.7bn, or Rs164/share. Maintain Outperformer.

## GAMMON INDIA (OUTPERFORMER)

**Rs205**

**Mkt Cap: Rs17.9bn; US\$419m**

- Gammon India's total order book stands at ~Rs108bn, of which, Gammon India has Rs90bn of orders while ATSL's order backlog is Rs17.5bn.
- Gammon expects the entire process of merger with ATSL to be completed by Q4FY09

- The company expects margins in its EPC business to come under pressure, especially due to fixed price orders for BOT projects under execution by GIPL. The company expects FY09 EBITDA margins in the construction business to be in the range of 8.5-9% while margins of ATSL are expected to be around 13.5%.
- Gammon has recently acquired a 50% stake in Sofinter SP, Italy for €50mn, funded entirely from debt carrying interest at a rate of Libor + 275bps. Sofinter is company engaged mainly in the manufacturing of industrial and utility boilers.
- With its earlier acquisitions of power turbines manufacturer Franco Tosi Meccanica (FTM) and power plant EPC company Sadelmi, Gammon now has capabilities of providing complete solutions for power generation.
- The total outstanding order book of all three international power subsidiaries combined stands at €1.34bn excluding a Rs7bn order in India for which Sofinter has been declared as the L1 bidder.
- Gammon expects all three power companies to achieve breakeven in CY08. However, net of interest payments on acquisition debt, there might be a small loss for Gammon in FY09.
- Currently, on consolidated basis (including PAT and interest payment for FTM, Sadelmi and Sofinter), Gammon is currently trading at 19.1x FY09E earnings and 10.8x FY10E consolidated earnings (without adjusting for GIPL value). Considering the strong earnings growth of 42% CAGR over FY08-10E in its core business including ATSL and value accretive stake in GIPL (Rs209/share of Gammon), we believe the stock is attractively valued. We reiterate our Outperformer rating with a revised target price of Rs402/share.

## GMR INFRASTRUCTURE (OUTPERFORMER)

**Rs95**

**Mkt Cap: Rs173bn; US\$4bn**

- GMR has received the approval of the government for a revised deposit-rental structure for commercial land development by Delhi International Airport Ltd. (DIAL). Under the approved structure, DIAL will be allowed to accept 3 years of average lease rentals over the life of the concession as upfront refundable deposit, in addition to an upfront infrastructure development fee of Rs1,140/sq. ft. DIAL has already commenced the process of inviting bids for award of land development rights under the revised structure and is expected to complete the same by October 2008.
- GMR has commenced collection of User Development Fees (UDF) of Rs375 from departing domestic passengers at the Hyderabad airport with effect from August 22 2008. The company is hopeful of being allowed to charge a higher UDF in FY10 at the rate of Rs725 per passenger as agreed in the original concession agreement.
- GMR is focusing on ramping up non-aero revenues at the Hyderabad airport, and has taken initiatives such tying up with Malaysian Airlines for a MRO facility, an agreement with Deccan Express Logistics for developing cargo hubs etc. These initiatives will also lead to higher traffic at the Hyderabad airport, in leading to increased aero revenues also.
- GMR's gas-based Vemagiri plant is unlikely to operate in Q2FY09 as the Andhra Pradesh government has diverted the gas supply made available earlier from February 2008 to July 2008. Operations at the plant are likely to resume only once gas supplies commence from Reliance Industries' KG basin from Q3FY09.
- The process of relocation of the company's Tanir Bavi plant from Mangalore coast to Andhra to Kakinada coast is already underway and the relocated plant is likely to commence commercial operations from April 2009.
- GMR Energy Ltd. (GEL), the holding company of GMR's power assets is exploring options of raising funds in order to finance its capacity expansion plans of ~3,400MW.
- GMR is in advanced stages of completing all formalities related to the acquisition of InterGen. GMR has structured the acquisition of its 50% stake in InterGen in such a way that InterGen's financials would not be required to consolidated with GMR immediately. The structure has been developed specifically to keep InterGen independent from GMR in the short to medium term.

- We believe GMR with its strong management capabilities in terms of its project execution, financial acumen and focus on risk mitigation is well positioned to exploit the rising private sector investment in Indian infrastructure profitably, thus enhancing shareholder returns over the medium term.
- We have valued GMR on a sum-of-parts basis, valuing each separate asset using the DCF methodology. Accordingly, we have estimated GMR's fair value at Rs134/share. We maintain our Outperformer rating on the stock.

## HINDUSTAN CONSTRUCTION (OUTPERFORMER)

**Rs97**

**Mkt Cap: Rs27.7bn; US\$577m**

- HCC's order backlog has increased to Rs91bn (2.9x FY08 revenues). Of the total order book, the company has ~Rs60bn worth of projects under execution in J&K.
- Share of power sector in revenues (37% at present) set to increase as power sector orders continue to dominate the order backlog with a share of 47%.
- Currently leveraged at 1.86x-1.9x and the average rate of new borrowings for the company is 10.75% currently. No major cash outgo on account of debt repayment until 2010-11.
- HCC has constructed 4 out of 7 nuclear reactors in India. It would be constructing all the 4 new reactors being set up. In case of nuclear projects, business opportunity for HCC is ~30% of the total value of the project.
- The company attempts to restrict the extent of subcontracting and it currently stands at ~25% of the revenues.
- HCC estimates that rising raw material prices (especially that of steel) can shave off 1% of its EBIDTA margins due to its indices based and fixed price projects. It however aims to restrict the impact to 0.5% through negotiations with its clients.
- Looking at some changes in the capital structure in the near future. Announcements to this effect likely in the next 2 months
- IT park at Vikhroli (E) – work progressing as per schedule. Will be ready for fit outs by January-09, ready for handover by March-09. Has secured lease agreements with its anchor clients – Future Group and Vodafone at Rs90/sqft per month.
- Bandra-Worli sea-link – On track for completion of 1<sup>st</sup> 4-lane section (South bound) by January 31<sup>st</sup> 2009 and 2<sup>nd</sup> 4-lane section (North bound) by June 30<sup>th</sup> 2009. The company has already written off all the losses on the project and has also received Rs1.55bn from MSRDC for extra work and Rs0.4bn as cost adjustment.
- Lavasa – Raised Rs2.5bn recently from Axis Bank – Rs250m as convertible preference shares (0.001% dividend) and Rs2.25bn through convertible debentures (6% coupon). ITC's Fortune Hotel is expected to commence operations from October 2008. The company has recorded pre-sales of Rs5.5bn on sales of villas and apartments at Rs2,850/sq. ft. and 3,150/sq. ft. respectively.
- The company has set up a 100% subsidiary for undertaking BOT projects and has won its first project - Badarpur elevated highway from NHAI.
- We believe HCC's strong order backlog of Rs91bn (2.9x FY08 revenues) will drive a 57% CAGR earnings growth over FY08-10. HCC is presently trading at 19.3x FY09E earnings and at 8.8x FY09 EV/EBITDA without factoring in Rs94/share value from its real estate holdings. Considering the strong order backlog, the resultant strong earnings growth and improvement in return ratios along with gradual unlocking of value in its land bank, we maintain our Outperformer rating on the stock with a target price of Rs177/share.

**KEC INTERNATIONAL (OUTPERFORMER)****Rs402****Mkt Cap: Rs19.8bn; US\$434m**

- The management reiterated that order inflow is likely to continue across its key markets considering its wide exposure across markets. Moreover, KEC is also focusing on the railways and telecom sectors to maintain its order inflows.
- PGCIL's order inflow had been slow due to administrative issues and the management expects the orders to pick up over the next 6 months considering the huge generation capacities being set up.
- Similarly, the order inflows in international markets continue to remain robust led by both replacement demand as well as build up of fresh infrastructure. The total investments in T&D space internationally is expected to be around US\$400bn over the next 5 years.
- The African projects are being funded by multi lateral agencies, while orders from the Middle east are witnessing order inflows on the back of petro dollars
- The total order backlog as at end of August 31<sup>st</sup>, 2008 was Rs47bn. Of this, 80% of orders are towards transmission orders, while another 19% are towards distribution and substation orders. The balance orders are towards railways and telecom sector.
- On the other hand, 73% of the revenues were from international markets such as middle east, Africa, Europe, etc, while the balance 26% order backlog are from the South Asian markets.
- The management continued to maintain its margin guidance at 10-11% on back of rising input costs. However, the company is witnessing stability in raw material prices, which may drive margins towards the higher end of the margin band.
- The stock currently trades at 11x FY09E earnings. Given the strong pipeline of orders (in both domestic and international markets), earnings growth visibility over the next two years and strong return ratios, we believe valuations are attractive. We maintain Outperformer rating on the stock with a target price of Rs543/share.

**MUNDRA PORT & SEZ (OUTPERFORMER)****Rs563****Mkt Cap: Rs225bn; US\$5.3bn**

- MPSEZ has emerged as the 3<sup>rd</sup> largest container cargo port in India and plans to rapidly scale up handling of bulk cargo, especially through SPM and coal terminals.
- The company plans convert the existing Mundra airport located within the SEZ in to a Regional Airport under the New Aviation Policy. Not only does the airport have the potential to emerge as a hub for air-sea cargo but also provide greater visibility to SEZ development.
- The development of the new dedicated coal terminal is progressing on schedule, with the capital dredging and reclamation completed and the contract for construction of berth also awarded. The orders for critical equipment have also been placed. The dedicated coal terminal is expected to eventually handle ~31mn tons of coal annually, for Tata 4,000MW Mundra UMPP and Adani Power's 4,620MW power plants.
- MPSEZ has completed acquisition of 18,480 acres of land for the SEZ, of the total 32,353 acres planned. The company has already allocated ~2,000 acres of land to industrial units and co-developers and is currently looking for anchor industrial clients to set up base within the SEZ.
- In its Inland Container Depots (ICDs) business, MPSEZ has acquired a total of 600 acres of land at 14 locations. The company has received custom notification for the ICD at Patli, Haryana, while construction is in progress at ICD at Kishangarh in Rajasthan.



- Adani Logistics Ltd. (ALL), MPSEZ's container rail business subsidiary has deployed 5 rakes, which are in operation between Patli and Kishangarh. The company eventually plans to have a total of 20 rakes.
- The company has commenced the construction of the jetty at Dahej Port, being developed in a JV with Petronet LNG Ltd. Dahej is proposed to be a solid cargo port with an eventual handling capacity of 15-20mn tons per annum.
- We expect a 55% CAGR in MPSEZ's revenues and a 141% CAGR in earnings over FY08-10E, driven by continued growth in port volumes, pick up in sale/lease of land at the SEZ and commissioning of CT-2.
- We believe Mundra port's proximity and superior access to the hinterland, location advantage of the SEZ in form of a captive port and ability to offer end-to-end logistics solutions to customers by way of entry in to the rail container and ICD business are expected to drive significant shareholder value over the medium to long term. We maintain our Outperformer rating on MPSEZ with a fair value estimate of Rs675/share.

## NATIONAL HYDROPOWER CORPORATION

(UNLISTED)

- NHPC's current capacity is 5,170MW and plans to add 5,320MW in the 11<sup>th</sup> plan, of which 1,030MW has already been commissioned. NHPC plans to further add 13,360MW in the 12<sup>th</sup> plan.
- The company generated 14,813mn units in FY08 and recorded a turnover of Rs23bn and net profit of Rs10bn. Total assets as on March 31, 2008 were Rs285bn and net worth was Rs175bn.
- NHPC plans to raise Rs16.8bn through a proposed IPO (10% fresh equity issue, 5% stake sale by GOI) – to part finance its planned outlay of Rs146bn in the 11<sup>th</sup> plan.
- Vast untapped potential in the Hydro power generation space gives strong growth opportunities – installed capacity of only 35.9GW against an assessed potential of 148.7GW
- NHPC has prepared pre-feasibility reports (PFR) for 43 projects with an aggregate capacity of 19.3GW out of the 78 projects (with an aggregate capacity of 34GW) identified by the government for implementation on a priority basis – targeted to be completed by 2017.
- NHPC believes that the new National Resettlement and Rehabilitation Policy 2007 (NRRP 2007) will facilitate smooth execution of projects, leading to reduced project execution cycles.
- The company also believes that policy initiatives such as longer debt tenures, simplification of approval/clearances procedures and permitting 100% FDI will lead to greater investments in the hydropower sector.
- The Hydro Power Policy 2008 allows developers to recover additional cost of providing free power through merchant sale of up to 40% of the saleable energy. This is expected to attract larger private sector players in the sector and lead to higher returns for all developers, including NHPC.

## NAGARJUNA CONSTRUCTION (OUTPERFORMER)

Rs127

Mkt Cap: Rs29bn; US\$684m

- NCC has not seen any slowdown in order booking in general. However, they have witnessed some slowdown in the order flows in the road sector recently, mainly due to procedural issues within NHAI. However, the company expects order flows for state highway projects to gather steam going forward. The company believes that there could be a slowdown in order inflows from the real estate sector also.

- Out of the current order backlog of ~Rs125bn, 70% of the orders have some form of escalation clauses built in (star-rated contracts, contracts linked to commodity indices and WPI linked contracts). The balance 30% contracts are fixed rate contracts. Nearly 80% of the fixed price contracts are international contracts while the balance are orders from own SPVs developing BOT projects. In case of fixed price contracts, the company strives to build in for possible cost escalations at the time of bidding itself.
- The company's current order book indicates a shift towards new revenue streams like international projects, EPC projects in the metals sector and oil and gas EPC projects (refineries as well as pipelines).
- The company maintains its target of revenues of Rs45bn in FY09 (Rs35bn in FY08) with an EBITDA margin of 9.5% (10.4% in FY08).
- Working capital cycle has gone up to 115 days in FY08 from 105 days in FY07 due to delayed payments by government agencies resulting in higher debtors. The company, however, sees no risk to the recovery of these payments and targets to bring the WC cycle down to 90 days.
- Investment plans in FY09 include Rs1.5bn towards equipment capex while a total of Rs2bn is to be invested in current real estate projects going forward. In addition, the company may need additional WC to the tune of Rs2bn.
- Average cost of new borrowings for the company has increased to 11.5% currently. With the additional WC coupled with the higher borrowing costs, the company's total interest expenses for FY09 are likely to increase by 75-80% to Rs0.8-0.9bn.
- Blackstone has so far not subscribed to warrants issued to them pending receipt of FIPB approval. Consequently, the 10% upfront payment for the warrants has also not been received.
- NCC is currently trading at 8.6x FY09E earnings and 4.9x FY09E EV/EBITDA (net of BOT and real estate valuation of Rs60/share). We have valued the company's BOT and real estate projects on a DCF basis at Rs11/share and Rs49/share respectively. We have not valued the Machlipatnam port (26% NCC stake) and the two BOT airport projects (37% NCC stake), pending financial closure.
- We believe current valuations are attractive considering the company's strong order book, resultant earnings visibility (29% CAGR over FY08-10) and upsides from a diversified portfolio of attractive BOT and real estate projects. We maintain our Outperformer rating on the stock with a target price of Rs197/share.

## RELiance INFRASTRUCTURE (OUTPERFORMER)

**Rs930**

**Mkt Cap: Rs220bn; US\$5.1bn**

- Reliance Infrastructure's (Rel infra) Infra's EPC current order book stands at Rs218.5bn, including the EPC order for Reliance Power's 3,960 MW Sasan Ultra Mega Power Plant. The order book is expected to increase rapidly going forward as the company is likely to receive orders from other projects under development by reliance power.
- The company's road BOT projects are progressing as per schedule with two projects nearing completion and scheduled to be commissioned by December 2008.
- The Mumbai Metro rail project is also progressing as per schedule. Right of way has been granted along a significant length of the route and the company has also been allotted land for the car shed.
- Rel Infra has signed a Framework Agreement with Shanghai Electric Corporation Ltd. (SEC) to explore options of setting up a manufacturing facility in India for boilers, turbines and generators for power plants. Under the agreement, both the companies would also co-operate for power plants currently under development by Reliance Power, whereby SEC will give priority to Reliance Power for supply of BTG packages and Reliance Power would grant a preferred supplier status to SEC.



- Reliance Power has been granted approval by the Empowered Group of Ministers (EGoM) for use of surplus coal from the Sasan captive blocks in the company's 3,960MW Chitrangi power plant in Madhya Pradesh. Reliance Power is required to submit a mine development plan and establish the quantum of surplus coal before being allowed to use it for another power plant. The EGoM has also put a condition that power generated from the use of such surplus coal must be sold under a tariff based competitive bidding process. Reliance Power has already tied up sale of 1,320MW of power to the MP government under competitive bidding.
- With Reliance Power fully funded and Rs40bn (Rs173/share) of cash on its own books, Rel Infra is well placed to fund all current projects and to accelerate growth in the increasingly competitive infrastructure development space. We reiterate our Outperformer rating on the stock with a SOTP price target of Rs1,383/share.

## SUZLON ENERGY (UNRATED)

**Rs220**

**Mkt Cap: Rs329bn; US\$7.3bn**

- Suzlon has entered into an agreement with Martifer to acquire the latter's 22.48% stake in REPower by Dec 15, 2008. Post acquisition, Suzlon's stake in REPower will increase to 90%, allowing line by line consolidation of financials and that too without a quarterly lag as is being done currently. The total consideration for the acquisition of Martifer's stake is €270mn, for which Suzlon has already tied up the debt.
- Suzlon expects order booking to remain robust going forward, leading to healthy growth in revenues. The company expects that the recent announcement of setting up of a National Action Plan on Climatic Change with an objective to increase the share of renewable energy to 15% by 2020 will drive order flows in India over the long term.
- Suzlon's standalone order book stands at 3,040MW currently, representing ~US\$3.88bn in revenues.
- The Ministry of New and Renewable Energy, India has recently announced a generation based incentive of Re0.50/kwh for certain categories of wind power projects, which is expected to give a fillip to IPPs.
- The company's expansion plans for capacity addition and backward integration are on track – final capacity will be 5700 MW by end-FY09.
- Suzlon is also backward integrating into foundry and forging units for components, which is expected to help have better control on supply chain and delivery. Supply of key components like bearings (for both gearbox and rotor hub) is currently a critical bottleneck facing the industry.
- The company has made provisions for all liabilities on account of the cracks in blades found in turbines supplied to customers in the US. The company is also taking active steps in determining the root cause of the problems leading to the cracks.
- Key markets like the USA are shifting from Production Tax Credits (PTC) based incentives to Renewable Portfolio Standards (RPS) based capacity addition. The company believes that this change leads to better visibility on demand since it alleviates the uncertainty and dependency of demand on extension of PTC on periodical basis

# IDFC - SSKI INDIA

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research; Financials, Strategy	pathik@idfcsski.com	91-22-6638 3304
Shirish Rane	Construction, Power, Cement	shirish@idfcsski.com	91-22-6638 3313
Nikhil Vora	FMCG, Media, Retailing, Mid Caps	nikhilvora@idfcsski.com	91-22-6638 3308
Ramnath S	Automobiles, Auto ancillaries, Real Estate	ramnaths@idfcsski.com	91-22-6638 3380
Nitin Agarwal	Pharmaceuticals	nitinagarwal@idfcsski.com	91-22-6638 3395
Chirag Shah	Metals & Mining, Pipes, Textiles	chirag@idfcsski.com	91-22-6638 3306
Bhoomika Nair	Logistics, Engineering, Power,	bhoomika@idfcsski.com	91-22-6638 3337
Bhushan Gajaria	FMCG, Retailing, Media, Mid Caps	bhushangajaria@idfcsski.com	91-22-6638 3367
Ashish Shah	Construction, Power, Cement	ashishshah@idfcsski.com	91-22-6638 3371
Salil Desai	Construction, Power, Cement	salil@idfcsski.com	91-22-6638 3373
Rahul Narayan	FMCG, Media, Transportation	rahulnarayan@idfcsski.com	91-22-6638 3238
Ritesh Shah	Metals & Mining, Pipes, Textiles	riteshshah@idfcsski.com	91-22-6638 3376
Neha Agrawal	Financials	neha@idfcsski.com	91-22-6638 3237
Swati Nangalia	Mid Caps	swati@idfcsski.com	91-22-6638 3260
Sameer Bhise	Strategy	sameer@idfcsski.com	91-22-6638 3390
Shweta Dewan	Mid Caps	shweta.dewan@idfcsski.com	91-22-6638 3290
Nikhil Salvi	Cement, Construction	nikhil.salvi@idfcsski.com	91-22-6638 3239
Rajeev Desai	Real Estate	rajeev@idfcsski.com	91-22-6638 3231
Chinmaya Garg	Financials	chinmaya@idfcsski.com	91-22-6638 3325
Aniket Mhatre	Automobiles, Auto ancillaries	aniket@idfcsski.com	91-22-6638 3311
Rupesh Sonawale	Database Analyst	rupesh@idfcsski.com	91-22-6638 3382
Dharmesh Bhatt	Technical Analyst	dharmesh@idfcsski.com	91-22-6638 3392
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6638 3300
Naishadh Paleja	MD, CEO	naishadh@idfcsski.com	91-22-6638 3211
Paresh Shah	MD, Dealing	paresh@idfcsski.com	91-22-6638 3341
Vishal Purohit	MD, Sales	vishal@idfcsski.com	91-22-6638 3212
Nikhil Gholani	MD, Sales	nikhil@idfcsski.com	91-22-6638 3363
Sanjay Panicker	Director, Sales	sanjay@idfcsski.com	91-22-6638 3368
V Navin Roy	Director, Sales	navin@idfcsski.com	91-22-6638 3370
Suchit Sehgal	AVP, Sales	suchit@idfcsski.com	91-22-6638 3247
Pawan Sharma	MD, Derivatives	pawan.sharma@idfcsski.com	91-22-6638 3213
Dipesh Shah	Director, Derivatives	dipeshshah@idfcsski.com	91-22-6638 3245
Manohar Wadhwa	VP, Derivatives	manohar@idfcsski.com	91-22-6638 3232
Sunil Pandit	Director, Sales trading	sunil@idfcsski.com	91-22-6638 3299
Mukesh Chaturvedi	SVP, Sales trading	mukesh@idfcsski.com	91-22-6638 3298

## Disclaimer

This document has been prepared by IDFC-SSKI Securities Ltd (IDFC-SSKI). IDFC-SSKI and its subsidiaries and associated companies are full-service, integrated investment banking, investment management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities.

This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavor to update the information herein on reasonable basis, IDFC-SSKI, its subsidiaries and associated companies, their directors and employees ("IDFC-SSKI and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent IDFC-SSKI and affiliates from doing so.

We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved). The investment discussed or views expressed may not be suitable for all investors.

Affiliates of IDFC-SSKI may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDFC-SSKI and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

IDFC-SSKI & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. IDFC-SSKI and affiliates may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall IDFC-SSKI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of IDFC-SSKI and affiliates.

This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. IDFC-SSKI will not treat recipients as customers by virtue of their receiving this report.

### Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

### Disclosure of interest:

1. IDFC - SSKI and its affiliates may have received compensation from the company covered herein in the past twelve months for Issue Management, Capital Structure, Mergers & Acquisitions, Buyback of shares and Other corporate advisory services.
2. Affiliates of IDFC - SSKI may have mandate from the subject company.
3. IDFC - SSKI and its affiliates may hold paid up capital of the company.
4. IDFC - SSKI and its affiliates, their directors and employees may from time to time have positions in or options in the company and buy or sell the securities of the company(ies) mentioned herein.

Copyright in this document vests exclusively with IDFC-SSKI