

Suzlon Energy Ltd

Margin pressures in Wind business lead to disappointment - ALERT

- **Earnings disappoint:** Suzlon reported FY07 net earnings of Rs8.6B, up 17% Y/Y and 25% below our estimate of Rs11.3B. Lower-than-expected sales (Rs80B vs our estimate of Rs86B) and margin pressures in the wind business were the key reason for the variance from our estimate.
- **Margin drop in wind business:** Suzlon reported 16.7% EBITDA margin for its wind business vs our estimate of c20% and the company's earlier guidance of 20%-21%. Key items impacting the reported EBITDA margins were: 1) in-transit inventory of 222MW -100bp negative impact; 2) FX- 40bp; 3) increase in tower costs in the international business- 50bp; 4) component (bearings) supply issue in the domestic market- 50bp; and 5) set-up expenses for international business (organization set up for 2,500MW, and slower-than-expected pick-up in US production) 100bp.
- **Outlook on volume growth remains healthy on the back of a strong macro environment:** Suzlon's current orderbook of Rs94.8B is 1.2x FY07E sales. The company in the conference call indicated that it will look to operate near its full capacity of 2,700MW going ahead (vs FY07 sales volumes of 1,456MW). The macro environment for wind power projects remains positive. Global wind industry recorded a 31% Y/Y growth in installations driven by US, Europe, China, and India.
- **Capacity expansion remains on track:** Suzlon's capacity expansion program of achieving 4,200MW by 4Q FY08 remains on track. The company is also backward integrating into foundry, forging and machining business in order to secure component supplies for its domestic and international business. The facility is expected to come up by 4Q FY08. Hansen's capacity too is being expanded to 9,300MW with a 3,500MW proposed expansion in India (expected by 4Q FY09).
- **REpower bid resolution by May 24, 2007:** The final resolution of REpower's bid is only expected by May 24, 2007 when the extended grace period expires. There is already newsflow in *Financial Times* that Areva might be looking to increase its bid beyond Suzlon's offer of €150/share.

Underweight

Rs1,138.30

15 May 2007

India Engineering

Saurabh Kumar^{AC}

(91-22) 6639-3020

saurabh.s.kumar@jpmorgan.com

Rohit Tandon

(91-22) 6639-3011

rohit.k.tandon@jpmorgan.com

Head of Regional Utilities

Edmond Lee, CFA

(852) 2800-8575

edmond.ch.lee@jpmorgan.com

Table 1: P&L Consolidated

Rs in millions, year-end March

	4Q FY06	4Q FY07	% Y/Y	FY06	FY07	% Y/Y
Net Sales	15,263	29,159	91%	38,410	79,857	108%
Inc/dec in stock	265	3,890		2,200	11,028	
Consumption of RM	(9,071)	(21,749)	140%	(25,479)	(59,142)	132%
Total Raw Materials	(8,806)	(17,858)	103%	(23,279)	(48,114)	107%
Staff Cost	(418)	(1,838)	340%	(1,216)	(6,496)	434%
Other Cost	(2,073)	(4,510)	118%	(5,263)	(12,290)	133%
Total Expenditure	(11,297)	(24,206)	114%	(29,758)	(66,899)	125%
EBITDA	3,966	4,954	25%	8,652	12,958	50%
EBITDA Margin	26.0%	17.0%		22.5%	16.2%	
Other Income	338	463	37%	556	965	73%
Interest	(133)	(972)	631%	(508)	(2,523)	397%
Depreciation	(277)	(600)	116%	(716)	(1,718)	140%
PBT	3,894	3,846	-1%	7,985	9,683	21%
Tax	(141)	(256)	81%	(568)	(1,035)	82%
Tax Rate	4%	7%		7%	11%	
PAT	3,753	3,590	-4%	7,417	8,648	17%
Less Minority share	(37)	0		(10)	(8)	
Net Profit	3,715	3,590	-3%	7,407	8,640	17%
Net Margin	24.3%	12.3%		19.3%	10.8%	
As % of sales						
RM	57.7%	61.2%		60.6%	60.2%	
Staff Cost	2.7%	6.3%		3.2%	8.1%	
Other Costs	13.6%	15.5%		13.7%	15.4%	

Source: Company Reports

Table 2: Segment Results

Rs in millions, year-end March

	4Q FY06	4Q FY07	% Y/Y	FY06	FY07	% Y/Y
Revenues						
WTG	15,076	21,950	46%	37,917	59,986	58%
Gearbox	-	6,508		-	18,561	NA
Others	188	706	277%	499	1,321	165%
Total	15,264	29,164	91%	38,417	79,868	108%
EBIT						
WTG	3,887	3,806	-2%	8,631	10,192	18%
Gearbox	-	1,434		-	2,918	NA
Others	387	285	-26%	433	391	-10%
EBIT Margin						
WTG	25.8%	17.3%		23%	17.0%	
Gearbox	NA	22.0%		NA	15.7%	
Others	206.5%	40.3%		87%	29.6%	

Source: Company Reports

Table 3: Wind Business

Rs in millions, year-end March

	FY06	FY07	% Y/Y
Wind business			
Sales	38,410	61,300	60%
EBITDA	8,650	10,210	18%
EBITDA Margin	22.5%	16.7%	
PBT	7,980	8,780	10%
Tax	(570)	(530)	-7%
Tax Rate	7%	6%	
PAT	7,600	8,250	9%

Source: Company reports

Analyst Certification:

The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst’s compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures

Suzlon Energy Ltd (SUZL.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
11-Feb-07	UW	1080.10	1180.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
 Initiated coverage Feb 11, 2007. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Explanation of Equity Research Ratings and Analyst(s) Coverage Universe:

JPMorgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] The analyst or analyst’s team’s coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

Coverage Universe: **Saurabh Kumar:** Bharat Heavy Electricals (BHEL) (BHEL.BO), Gammon India Ltd (GAMM.BO), Hindustan Construction Company (HCNS.BO), IVRCL Infrastructure Ltd (IVRC.BO), Jaiprakash Associates Ltd (JAIA.BO), Larsen & Toubro (LART.BO), Punj Lloyd Ltd (PUJL.BO), Tata Power (TTPW.BO)

JPMorgan Equity Research Ratings Distribution, as of March 30, 2007

	Overweight (buy)	Neutral (hold)	Underweight (sell)
JPM Global Equity Research Coverage	42%	41%	17%
IB clients*	49%	51%	38%
JPMSI Equity Research Coverage	38%	48%	14%
IB clients*	68%	64%	53%

*Percentage of investment banking clients in each rating category.

For purposes only of NASD/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

Valuation and Risks: Please see the most recent JPMorgan research report for an analysis of valuation methodology and risks on any securities recommended herein. Research is available at <http://www.morganmarkets.com>, or you can contact the analyst named on the front of this note or your JPMorgan representative.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

Other Disclosures

Options related research: If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your JPMorgan Representative or visit the OCC's website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>.

Legal Entities Disclosures

U.S.: JPMSI is a member of NYSE, NASD and SIPC. J.P. Morgan Futures Inc. is a member of the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority. **South Africa:** J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234/AFS Licence No: 238066) is a Market Participant with the ASX and regulated by ASIC. **Taiwan:** J.P. Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Commission. **India:** J.P. Morgan India Private Limited is a member of the National Stock Exchange of India Limited and The Stock Exchange, Mumbai and is regulated by the Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Jakarta Stock Exchange and Surabaya Stock Exchange and is regulated by the BAPEPAM. **Philippines:** J.P. Morgan Securities Philippines Inc. is a member of the Philippine Stock Exchange and is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Japan:** This material is distributed in Japan by JPMorgan Securities Japan Co., Ltd., which is regulated by the Japan Financial Services Agency (FSA). **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMS) [mica (p) 069/09/2006 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-x) which is a Participating Organization of Bursa Malaysia Securities Bhd and is licensed as a dealer by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan.

Country and Region Specific Disclosures

U.K. and European Economic Area (EEA): Issued and approved for distribution in the U.K. and the EEA by JPMSL. Investment research issued by JPMSL has been prepared in accordance with JPMSL's Policies for Managing Conflicts of Interest in Connection with Investment Research which can be found at <http://www.jpmorgan.com/pdfdoc/research/ConflictManagementPolicy.pdf>. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Germany:** This material is distributed in Germany by J.P. Morgan Securities Ltd. Frankfurt Branch and JPMorgan Chase Bank, N.A., Frankfurt Branch who are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. JPMSAL does not issue or distribute this material to "retail clients." The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months' prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider for derivative warrants issued by J.P. Morgan International Derivatives Ltd and listed on The Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk/prod/dw/Lp.htm>. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. **Singapore:** JPMSI and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Legal Disclosures section above. **India:** For private circulation only not for sale. **Pakistan:** For private circulation only not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute

this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL.

General: Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively JPMorgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMSI distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a JPMorgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

Revised March 30, 2007.

Copyright 2007 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of JPMorgan.

Saurabh Kumar
(91-22) 6639-3020
saurabh.s.kumar@jpmorgan.com

Asia Pacific Equity Research
15 May 2007

JPMorgan 