

Pain Of Globalization Continues

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Sales Slip & Globalization Hit FY07, Earnings Cut By 10-11%

A higher-than-expected spillover of sales (4Q to 1QFY08) resulting in transfer of Rs2.3bn (27% of PAT), rupee appreciation and start-up costs of new facilities combined to drive Suzlon's FY07 consolidated PAT to be lower than expected (Rs8.6bn vs MLe of Rs10.6bn). We are lowering our FY08E & FY09E earnings by 11% & 10% respectively and introducing FY10E. We maintain our Neutral rating on continued uncertainty relating to REpower bidding.

FY07: Revenue +108%; EBITDA +50%; Recurring PAT +14%

Suzlon reported EBITDA growth of 50% vs sales growth of 108%. Suzlon results were impacted by a) 222MW of sales-in-transit including 50MW in domestic market (5% of domestic sales, which is the most profitable market) vs likely 120MW; b) impact of rupee appreciation; c) start-up costs relating to the new international facilities – China & USA; and d) delay in stabilization of production & outsourcing of higher cost towers in USA.

We expect recovery in Suzlon's margins ahead led by: a) higher turbine prices b) volume leverage in global markets – 1170MW in FY08E vs 495MW in FY07 and c) better utilization of USA and China capacities.

Earnings lowered But Maintain Neutral

We have lowered our earnings based on FY07 results to factor in a) higher capex (Rs50bn over FY07-09E vs earlier Rs34bn b) increased cost of globalization c) launch of new products and d) entry into newer markets. We maintain our Neutral rating given the continued uncertainty on REpower bidding, especially in the light of the recent news reports of French government supporting the potential aggressive bid by Areva.

Estimates (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	7,599	8,630	14,388	19,149	25,306
EPS	26.88	29.91	49.87	66.37	87.71
EPS Change (YoY)	87.4%	11.3%	66.7%	33.1%	32.2%
Dividend / Share	5.01	5.00	6.99	9.99	13.99
Free Cash Flow / Share	(25.49)	(61.87)	(45.64)	12.78	39.82

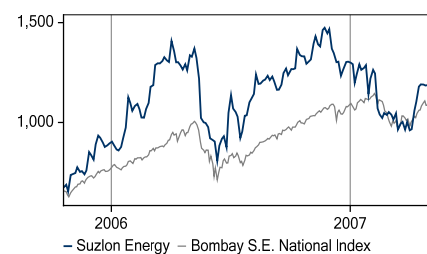
Valuation (Mar)

	2006A	2007A	2008E	2009E	2010E
P/E	42.35x	38.06x	22.83x	17.15x	12.98x
Dividend Yield	0.440%	0.439%	0.614%	0.878%	1.23%
EV / EBITDA*	40.43x	28.02x	15.59x	11.88x	9.14x
Free Cash Flow Yield*	-2.20%	-5.45%	-4.02%	1.13%	3.51%

* For full definitions of *iQmethod*SM measures, see page 8.

Stock Data

Price	Rs1,138
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs760.00-Rs1,510
Mrkt Val / Shares Out (mn)	US\$7,996 / 287.8
Average Daily Volume	188,125
ML Symbol / Exchange	SZEYF / BSE
Bloomberg / Reuters	SUEL IN / SUZL.BO
ROE (2008E)	35.8%
Net Dbt to Eqty (Mar-2007A)	103.4%
Est. 5-Yr EPS / DPS Growth	30.0% / 30.0%
Free Float	30.2%



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iQprofileSM Suzlon Energy Ltd.

Key Income Statement Data (Mar)	2006A	2007A	2008E	2009E	2010E
(Rs Millions)					
Sales	38,410	79,857	125,975	155,776	196,493
Gross Profit	15,320	31,743	49,382	61,532	76,632
Sell General & Admin Expense	(6,339)	(18,786)	(26,100)	(30,982)	(36,902)
Operating Profit	8,265	11,240	19,478	25,588	33,069
Net Interest & Other Income	(91)	(1,558)	(3,132)	(3,849)	(3,572)
Associates	NA	NA	NA	NA	NA
Pretax Income	8,173	9,682	16,346	21,739	29,497
Tax (expense) / Benefit	(566)	(1,034)	(1,940)	(2,573)	(4,173)
Net Income (Adjusted)	7,599	8,630	14,388	19,149	25,306
Average Fully Diluted Shares Outstanding	283	289	289	289	289

Key Cash Flow Statement Data

Net Income (Reported)	7,607	8,647	14,406	19,166	25,324
Depreciation & Amortization	716	1,718	3,804	4,962	6,661
Change in Working Capital	(11,006)	(7,918)	(16,940)	(4,224)	(13,415)
Deferred Taxation Charge	(568)	(225)	(358)	(477)	(640)
Other Adjustments, Net	92	0	0	0	0
Cash Flow from Operations	(3,159)	2,222	911	19,427	17,930
Capital Expenditure	(4,046)	(20,072)	(14,080)	(15,741)	(6,441)
(Acquisition) / Disposal of Investments	2	(17,037)	(5,408)	(10)	(10)
Other Cash Inflow / (Outflow)	9	0	0	0	0
Cash Flow from Investing	(4,036)	(37,109)	(19,488)	(15,751)	(6,451)
Shares Issue / (Repurchase)	12,280	(38)	0	0	0
Cost of Dividends Paid	(1,664)	(1,656)	(2,372)	(3,381)	(4,727)
Cash Flow from Financing	11,165	45,414	7,128	(3,381)	(6,727)
Free Cash Flow	(7,205)	(17,850)	(13,168)	3,686	11,489
Net Debt	(1,008)	35,573	56,522	56,227	49,474
Change in Net Debt	(3,422)	36,581	20,949	(295)	(6,752)

Key Balance Sheet Data

Property, Plant & Equipment	6,409	24,763	35,039	45,818	45,597
Other Non-Current Assets	894	18,155	23,921	24,408	25,059
Trade Receivables	16,473	21,699	43,142	48,397	62,986
Cash & Equivalents	5,515	16,042	4,594	4,888	9,641
Other Current Assets	19,734	42,602	47,011	56,619	70,886
Total Assets	49,024	123,262	153,707	180,131	214,168
Long-Term Debt	4,507	51,615	61,115	61,115	59,115
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	17,078	37,254	46,165	56,805	72,245
Total Liabilities	21,585	88,869	107,281	117,920	131,360
Total Equity	27,439	34,392	46,426	62,211	82,807
Total Equity & Liabilities	49,024	123,262	153,707	180,131	214,168

iQmethodSM - Bus Performance*

Return On Capital Employed	35.3%	18.5%	18.6%	19.9%	21.9%
Return On Equity	43.3%	28.1%	35.8%	35.4%	35.0%
Operating Margin	21.5%	14.1%	15.5%	16.4%	16.8%
EBITDA Margin	23.4%	16.2%	18.5%	19.6%	20.2%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	-0.4x	0.3x	0.1x	1.0x	0.7x
Asset Replacement Ratio	5.7x	11.7x	3.7x	3.2x	1.0x
Tax Rate (Reported)	6.9%	10.7%	11.9%	11.8%	14.1%
Net Debt-to-Equity Ratio	-3.7%	103.4%	121.7%	90.4%	59.7%
Interest Cover	12.8x	4.5x	4.8x	5.8x	7.7x

Key Metrics

* For full definitions of iQmethodSM measures, see page 8.

Company Description

Suzlon Energy is the fifth largest wind-turbine manufacturer in the world with 6% global & over 50% market share in India. Its global delivery model, market leadership in India and focused approach to globalization are some of the key competitive advantages. The company enhances its competitive advantage by focusing on R&D in Europe, production in low cost countries such as India/China and focusing on sales in countries with high growth potential

Stock Data

Price to Book Value 7.1x

Table 1: Suzlon - 4QFY07 & FY07 Consolidated Results Review

Rs mn	4QFY06	4QFY07	% YoY	FY06	FY07	% YoY
Income from Operations	15,263	29,159	91.0%	38,410	79,857	107.9%
Raw materials	(8,806)	(17,858)	102.8%	(23,279)	(48,114)	106.7%
<i>as % of sales</i>	57.7%	61.2%		60.6%	60.25%	
Staff Cost	(418)	(1,838)	340.0%	(1,216)	(6,496)	434.3%
<i>as % of sales</i>	2.7%	6.3%		3.2%	8.1%	
Other Expenditure	(2,073)	(4,510)	117.5%	(5,263)	(12,290)	133.5%
<i>as % of sales</i>	13.6%	15.5%		13.7%	15.39%	
Total Expenditure	(11,297)	(24,206)	114.3%	(29,758)	(66,899)	124.8%
<i>as % of sales</i>	74.0%	83.0%		77.5%	83.8%	
EBITDA	3,966	4,954	24.9%	8,652	12,958	49.8%
EBITDA Margin	26.0%	17.0%		22.5%	16.2%	
EBITDA / MW (Rs mn)	10.6	6.6		8.8	6.9	
Depreciation	(277)	(600)	116.3%	(716)	(1,718)	140.0%
<i>as % of sales</i>	1.8%	2.1%		1.9%	2.2%	
EBIT	3,689	4,354	18.0%	7,936	11,240	41.6%
EBIT Margin	24.2%	14.9%		20.7%	14.1%	
Interest expenses	(133)	(972)	631.1%	(508)	(2,523)	397.0%
<i>as % of sales</i>	0.9%	3.3%		1.3%	3.2%	
Other Income	338	463	37.0%	745	965	29.6%
PBT	3,894	3,846	-1.2%	8,173	9,683	18.5%
PBT Margin	25.5%	13.2%		21.3%	12.1%	
Provision for taxation	(141)	(256)	81.0%	(568)	(1,035)	82.1%
Tax rate	3.6%	6.6%		7.0%	10.7%	
PAT (pre-minorities)	3,753	3,590	-4.3%	7,605	8,648	13.7%
Minority Interest	(37)	0		(10)	(8)	
Preference Dividends	-	-		-	-	
PAT	3,715	3,590	-3.4%	7,595	8,640	13.8%
Exceptional Income/ (Expenses)	-	-		-	-	
Reported PAT	3,715	3,590	-3.4%	7,595	8,640	13.8%

Source: Company

Table 2: Suzlon - Estimates change summary

(Rs mn)	Old	New	% change
Sales			
FY08E	126444	125,975	-0.4%
FY09E	156247	155,776	-0.3%
FY10E	N.A.	196,493	N.A.
EBITDA			
FY08E	24525	23,282	-5.1%
FY09E	32234	30,550	-5.2%
FY10E	N.A.	39,730	N.A.
Recurring PAT			
FY08E	16089	14,378	-10.6%
FY09E	21306	19,136	-10.2%
FY10E	N.A.	25,291	N.A.

Source: Merrill Lynch Research

Table 3: Suzlon - Profit & Loss Statement

Year End Mar31 (Rs mn)	FY06	FY07	FY08E	FY09E	FY10E
Sales	38,410	79,857	125,975	155,776	196,493
<i>Growth</i>	<i>98%</i>	<i>108%</i>	<i>58%</i>	<i>24%</i>	<i>26%</i>
of which					
- Domestic operations	33,259	39,291	45,518	51,930	58,127
- International operations	3,672	19,753	53,954	71,091	99,015
- Hansen	-	18,563	23,554	28,961	34,741
- O&M services	466	905	1,402	1,968	2,602
- Turbine gen. parts and Land/lease rights & Others	1,013	1,345	1,547	1,826	2,008
COGS	23,091	48,114	76,593	94,244	119,861
as % of sales	60.1%	60.3%	60.8%	60.5%	61.0%
Contribution	15,320	31,743	49,382	61,532	76,632
Contribution %	39.9%	39.8%	39.2%	39.5%	39.0%
Operating & Other Expenses	5,121	12,290	17,007	20,251	24,562
as % of sales	13.3%	15.4%	13.5%	13.0%	12.5%
Staff Cost	1,216	6,496	9,094	10,731	12,340
as % of sales	3.2%	8.1%	7.2%	6.9%	6.3%
Expenditure Written Off	2	0	0	0	0
EBITDA	8,981	12,958	23,282	30,550	39,730
<i>Growth</i>	<i>91%</i>	<i>44%</i>	<i>80%</i>	<i>31%</i>	<i>30%</i>
EBITDA Margin %	23.4%	16.2%	18.5%	19.6%	20.2%
Depreciation	716	1,718	3,804	4,962	6,661
Depreciation as % of Avg Gross Block	14.5%	10.2%	11.0%	10.0%	11.0%
EBIT	8,265	11,240	19,478	25,588	33,069
EBIT Margins %	21.5%	14.1%	15.5%	16.4%	16.8%
Interest	648	2,523	4,054	4,381	4,281
Other Income	556	965	922	532	709
PBT	8,173	9,682	16,346	21,739	29,497
PBT Margins %	21.3%	12.1%	13.0%	14.0%	15.0%
Current Tax	1,135	1,259	2,298	3,050	4,813
Deferred Tax	(568)	(225)	(358)	(477)	(640)
Tax	566	1,034	1,940	2,573	4,173
Tax Rate	6.9%	10.7%	11.9%	11.8%	14.1%
Preference Dividends	17	18	18	18	18
Minority Interest		8	11	13	15
Recurring PAT	7,590	8,622	14,378	19,136	25,291
<i>Growth</i>	<i>109%</i>	<i>14%</i>	<i>67%</i>	<i>33%</i>	<i>32%</i>
PAT Margins %	19.8%	10.8%	11.4%	12.3%	12.9%
Exceptionals	9	0	0	0	0
Reported PAT	7,599	8,622	14,378	19,136	25,291
% growth	109%	13%	67%	33%	32%

Source: Company, Merrill Lynch Research

Table 4: Suzlon - Balance Sheet Statement

Year End Mar31 (Rs mn)	FY06	FY07	FY08E	FY09E	FY10E
Equity Capital	2875	2878	2878	2878	2878
Reserves & Surplus	24217	31258	43281	59053	79635
Misc Exp	(9)	(1)	(1)	(1)	(1)
Share Application Money	106	0	0	0	0
Total Network	27189	34135	46158	61930	82512
Preference Capital	175	175	175	175	175
Net Worth (incl preference capital)	27,364	34,310	46,333	62,105	82,687
Secured Loans - Rupee Loans	3,899	23,195	23,195	22,195	20,195
Secured Loans - Foreign Currency Loans		26,550	32,050	32,050	32,050
Unsecured Loans	608	1,870	5,870	6,870	6,870
Loans	4,507	51,615	61,115	61,115	59,115
Minority Interest	75	82	93	105	120
Total Network + Liabilities	31,946	86,008	107,541	123,326	141,923
Gross Block	6,293	27,267	41,896	57,337	63,778
Accumulated Depreciation	1,536	3,254	7,058	12,019	18,681
Net Block	4,757	24,013	34,839	45,318	45,097
CWIP	1,652	750	200	500	500
Net Fixed Assets	6,409	24,763	35,039	45,818	45,597
Investments	76	76	5,484	5,494	5,504
Goodwill		17,037	17,037	17,037	17,037
Inventories	13,310	31,362	35,673	43,378	54,184
Sundry Debtors	16,473	21,699	43,142	48,397	62,986
Cash and Bank Balances	5,515	16,042	4,594	4,888	9,641
Loans & Advances	6,424	11,240	11,338	13,241	16,702
Current Assets	41,722	80,344	94,747	109,905	143,512
Current Liabilities & Provisions	17,078	37,254	46,165	56,805	72,245
NCA	24,644	43,090	48,581	53,100	71,267
Deferred Tax Assets	818	1,043	1,400	1,877	2,518
Total Assets	31,946	86,008	107,541	123,326	141,923

Source: Company, Merrill Lynch Research

Table 5: Suzlon - Cash Flow Statement

Year End Mar31 (Rs mn)	FY06	FY07	FY08E	FY09E	FY10E
PBT	8173	9682	16346	21739	29497
Tax Paid	(566)	(1034)	(1940)	(2573)	(4173)
Change in DTL	(577)	(225)	(358)	(477)	(640)
Add: D&A	817	1718	3804	4962	6661
Chg in Inventories	(7555)	(18052)	(4311)	(7705)	(10805)
Chg in Debtors	(9544)	(5226)	(21443)	(5255)	(14588)
Chg in Loans & Advances	(3177)	(4816)	(97)	(1903)	(3461)
Chg in CL	9269	20176	8911	10640	15440
<i>Change in Working Capital</i>	(11006)	(7918)	(16940)	(4224)	(13415)
Cash Flow from Operations	(3159)	2222	911	19427	17930
Extraordinary Items + Tax Adjustments	9	0	0	0	0
Capex	(4046)	(20072)	(14080)	(15741)	(6441)
Change in Investments/Assets	2	(17037)	(5408)	(10)	(10)
Others					
Cash Flow from Investing Activities	(4036)	(37109)	(19488)	(15751)	(6451)
Change in Debt	549	47108	9500	0	(2000)
Change in Equity	2006	2	0	0	0
Change in Preference capital	(978)	0	0	0	0
Change in Reserves	11252	(40)	0	0	0
Dividend and Dividend Tax	(1664)	(1656)	(2372)	(3381)	(4727)
Cash Flow from Financing Activities	11165	45414	7128	(3381)	(6727)
Increase/(Decrease) in Cash	3970	10527	(11449)	295	4752
Opening Cash and Bank Balance	1545	5515	16042	4594	4888
Closing Cash and Bank Balance	5515	16042	4594	4888	9641

Source: Company, Merrill Lynch Research

Table 6: Suzlon - Key Ratios & Valuation

Year End Mar31	FY06	FY07	FY08E	FY09E	FY10E
Period Ending Shares (mn)	288	288	288	288	288
Weighted Average Number of Shares	283	289	289	289	289
Share Price (Rs)	1138	1138	1138	1138	1138
Mkt Cap (Rs mn)	321803	328429	328429	328429	328429
EPS (Rs)	26.8	29.9	49.8	66.3	87.7
CEPS (Rs)	29.4	35.8	63.0	83.5	110.7
DPS (Rs)	5.0	5.0	7.0	10.0	14.0
BV (Rs)	95	119	160	215	287
P/E (x)	42.40	38.09	22.8	17.2	13.0
P/CEPS (x)	38.7	31.8	18.1	13.6	10.3
Yield (%)	0.4%	0.4%	0.6%	0.9%	1.2%
P/BV (x)	12.0	9.6	7.1	5.3	4.0
EV/EBITDA (x)	35.7	28.1	16.3	12.4	9.4
RoCE (%)	34.3%	17.0%	17.8%	19.6%	21.4%
RoE (%)	43.3%	28.1%	35.8%	35.4%	35.0%
PAT/EBIT	92%	77%	74%	75%	76%
EBIT/Sales	22%	14%	15%	16%	17%
Sales/Assets	171%	135%	130%	135%	148%
Assets/Networth	128%	192%	241%	214%	184%
Net Debt (Rs mn)	(1084)	35497	51037	50732	43970
EV (Rs mn)	320719	363926	379466	379161	372399
D/E (x)	-0.04	1.04	1.11	0.82	0.53
Depreciation /Gross Block (%)	14.5%	10.2%	11.0%	10.0%	11.0%
Effective Interest Rate (%)	15.3%	9.0%	7.2%	7.2%	7.1%

Source: Company, Merrill Lynch Research

Analyst Certification

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iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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Important Disclosures

SZEYF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of April 30, 2007 or such later date as indicated.

Investment Rating Distribution: Electrical Equipment Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	28	54.90%	Buy	8	34.78%
Neutral	16	31.37%	Neutral	4	26.67%
Sell	7	13.73%	Sell	1	16.67%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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