

**SUZLON ENERGY LIMITED.**

**CMP** - Rs.1209.70  
**NSE SYMBOL** - SUZLON

**DATE** - 24<sup>th</sup> August, 2006  
**SECTOR** - Power

**COMPANY PROFILE**

Suzlon Energy, incorporated in 1995, is a leading Wind Turbine Generators (WTG) manufacturer in India. It is Asia's strongest growing fully integrated wind power company and ranks amongst the top ten in the world. Suzlon has a subsidiary in Germany for technology development, an R&D facility in the Netherlands for rotor blade molding and tooling, and Wind Turbine and rotor blade manufacturing facilities in India.

The company develops and manufactures technologically advanced WTGs with an emphasis on high performance and cost efficiency. Besides manufacturing WTGs, the company is also involved in wind resource mapping, identification of suitable sites and technical planning of wind power projects.

**INCOME STATEMENT****(Rs.crores)**

	<b>FY 06</b>	<b>1 FY 05</b>	<b>VAR [%]</b>	<b>Q1 FY 07</b>	<b>Q1 FY 06</b>	<b>VAR [%]</b>
Net Sales	3788.46	1917.5	97.6	933.77	307.59	203.6
Other Income	69.28	23.26	197.9	12.93	8.03	61
Total Income	3857.74	1940.76	98.8	946.7	315.62	199.9
Total Expenditure	2866.69	1477.42	94	694.48	233.07	198
PBIDT	991.05	463.34	113.9	252.22	82.55	205.5
Interest	42.52	31.93	33.2	16.31	9.58	70.3
PBDT	948.53	431.41	119.9	235.91	72.97	223.3
Depreciation	45.87	38.97	17.7	14.93	8.52	75.2
Tax	79.07	30.98	155.2	27.38	4.31	535.3
RPAT	821.19	361.46	127.2	193.6	60.14	221.9

## INVESTMENT POSITIVES

### ✓ Q1 FY07 results ahead of expectations

Suzlon has shown significantly good Q1FY07 results due to higher than expected volumes in domestic (173MW) as well as export markets (139MW). Suzlon reported revenues of Rs.9.3bn (up 204%), EBIDTA of Rs.2.3bn (up 221%YoY) and net profit of Rs.1.9bn (up 222%).

### ✓ Strong numbers forFY 06

Suzlon Energy reported strong numbers for FY 06. Topline during the year grew at 98% y-o-y at 37.88 crores. OPM declined by 140 bps to 23% due to increase in prices of outsourced components.

### ✓ Unique business model

Suzlon Energy is an integrated developer of WTGs. The company integrates consultancy, design, manufacturing, operation and maintenance services to provide customers with total wind power solutions. It introduced the concept of **total solutions** wherein, in addition to the supplies of equipments, the client is offered project execution work comprising land acquisition, site development, erection and commissioning, foundation and other civil work and O&M services.

### ✓ Strong order book as on 30<sup>th</sup> June, 2006

Order backlog stands at Rs.33bn (up 12% q-o-q) comprising of domestic at Rs.7bn (205MW) and exports at Rs.25.8bn (620MW). Beginning Q1FY07, Suzlon has increased prices by 3-4%. During this quarter, Suzlon's fresh export order bookings reached 145 MW.

## ✓ Capacity expansion by June' 07

Suzlon is augmenting its capacity from 1,500MW to 4,200MW by June 07. This would include 1,500MW of integrated facility exclusively for exports in Karnataka (capex of USD160mn), 600MW integrated capacity in China (USD60mn) and a 600MW rotor blade and tower capacity in US (USD20). Of this, US and China facilities are expected to be commissioned by September 06. In addition to this, Suzlon is investing USD165mn for a 70,000 MTPA machining and forging unit and a 120,000MTPA foundry expected to be commissioned in H2FY07.

## ✓ Fruitful acquisitions and JVs

Suzlon claims to be a fully integrated WTG manufacturer post acquisition of the world's 2nd largest windmill gearbox manufacturer, Hansen Transmission, for EV of US\$538mn. This acquisition has resulted in improvement in the margins of the company. Hansen, with world market share of 33%, posted a 34% y-o-y growth in the revenues for FY06. EBIDTA margins for this company stood at 16.6%. current capacity utilisation stands at 75% which is expected to touch the 100% levels in the future as a result of a rapid growth in the wind industry worldwide.

## INVESTMENT CONCERNS

The demand for wind power plants is dependent on the cost of wind-generated electricity compared to electricity generated from other sources of energy. The cost of electricity produced by wind power plants is dependent on the cost of establishment of the wind power plants themselves, financing costs, maintenance costs and wind conditions at the designated site. The **cost and limited supplies** of oil, coal and other fossil fuels are key factors in determining the effectiveness of wind power, as from an economic perspective, cheaper and large supplies of fossil fuels favour non-wind power generation, while more expensive and limited supplies of fossil fuels favour wind generation.

Also, a wind farm project requires higher upfront capital investment per KWh of energy produced as compared to fossil fuel-based power plants.

## PEER COMPARISON

Though Suzlon has a unique business model, it can be compared to some of the other machinery manufacturers like BHEL and Thermax.

Company	CMP	TTM P/E	P/B	TTM EV/EBIDTA	TTM Mcap/Sales	PEG
Suzlon Energy	1209.7	36.02	12.25	25.98	6.78	0.29
BHEL	2249.25	30.63	7.5	14.83	3.11	0.44
Thermax	294.75	29.66	7.7	14.76	2.15	0.32

Suzlon is trading at a high P/E of 36.02 trailing twelve months, at the same time it has prosperous future prospects with a good order book.

## VIEW

The company has a unique business model with a global presence in Australia, Belgium, China, Denmark, Germany, India, Netherlands and USA. The use of wind energy provides a clean source of electricity generation. Also, it results in a long-term solution to the problems of rising crude prices, coal supply constraints and meeting excess electricity demand situation. Wind generation has already seen capacity grow almost 3 times in the last five years and is expected to double the capacity over the next 5 years. Indian markets provide a huge potential for wind energy, as the country is making steady progress in the development of wind power. SEL is expected to be the biggest beneficiary of the expected capacity additions in the wind energy segment in India.

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