FairWealth Equity Research
10th September'2010

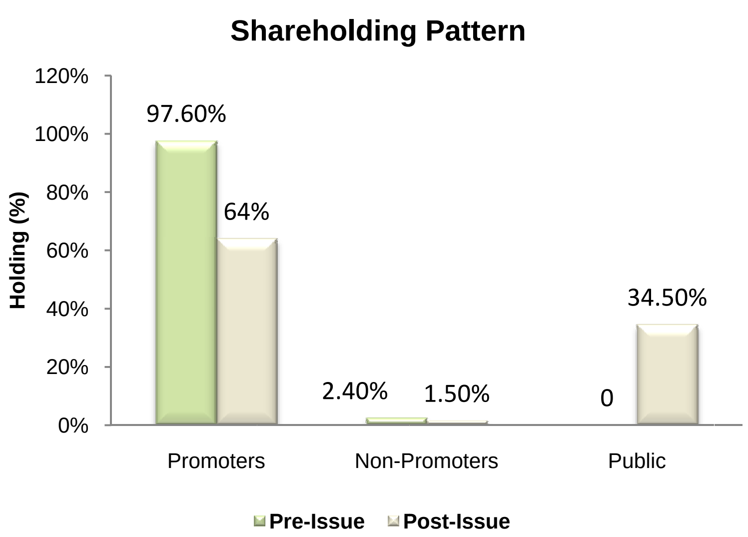
IPO ANALYSIS | INDOSOLAR LTD:- NEUTRAL

IPO Rating: Neutral

Fairwealth Research Desk rates the initial public issue (IPO) of **Indosolar neutral. The issue opened on** Sep. 13, 2010 and is closing on Sep. 15 2010. The face value is Rs. 10 per share and the price band for the issue is 29-32. It is a 100% book building process aggregating upto Rs 357cr.

IPO Details

Shares offered to public	34.5%
Object of the issue	Equity funding for Line 3 (adding 100MW) and general corporate purpose
Amount proposed to be raised	Rs 357cr
Price band	29-32
Lead managers	ENAM Securities Private Ltd



COMPANY PROFILE

Indosolar Ltd. is a leading Indian manufacturer engaged in the manufacturing of solar photo-voltaic (SPV) cells from crystalline silicon wafers for converting sunlight directly into electricity.

Currently, it has a capacity of 160 MWp with an average efficiency rating of 16+% which is expected to go up to 17.2%. Production capacity would be expanded to 260 MWp by the end of FY2011. Line C will have the capability to produce both multi and mono crystalline cells. The machinery and the technology have been supplied by SCHMID GMBH on a turnkey basis.

Financial Highlights

For the Financial Year 2010, the company has reported a total income of Rs 112.80cr, the company derives over 80% of its revenue from the sales of SPV cells.

However, the manufacturing expenses for the year stand at Rs 151.70 resulting in an operating loss of Rs 39.20cr.

The Interest and Depreciation cost stand at Rs 27.2cr and Rs 18.70cr respectively, resulting in a net Loss of Rs 66.20Cr for FY2009-10.

Investment Rationale:

Leading Edge Manufacturing: The SPV cells are produced by the company through crystalline silicon technology that has a higher conversion efficiency and throughput than other technologies. The poly-silicon wafers used for the manufacture of SPV cells are sensitive to atmospheric contaminants, thus the manufacturing lines of the company are completely automated and in-line horizontally operated, with least human interference

It also uses the `edge isolation` and the light induced silver-plating (`Ag-LIP`) technologies which offer higher average efficiency levels of up to 16.15%. The company has agreements with Schmid, one of the world leaders in PV technology for procuring and commissioning of the manufacturing lines. The agreement also entitles the company for free of cost transfer of any improvement in technology within five years of installation.

Strategically Located Plants: The Company's plants are located in Greater Noida, Uttar Pradesh, India. The facility is 55km from Delhi airport. Indosolar is a unique facility in a developing economy, spread over an area of 300,000sqft intended to accommodate a maximum of 4 productions lines. The company also possesses integrated Management Systems (Quality, Environment, Health & Safety) along with in-house reliability testing capability to ensure high quality product.

Execution Capabilities of Management: The management of Indo Solar is highly efficient. The plant and the office were commissioned in a record breaking time of 11 months, from ground zero to present day activity. Currently Indosolar has two fully operational lines, each producing 80 MWp per annum. The promoters have demonstrated their strong business capabilities in their previous venture, Halonix.

Capital Subsidy: Under the `Special Incentive Package Scheme` of 2007 notified by GoI, the company is entitled to receive 25% capital subsidy. It has been granted an in-principal approval in June 2009 by the Indian Ministry of Communication and Information technology and has applied for subsidy in March 2010.

Besides this, its manufacturing facility at Greater Noida has been granted a status of an `Export Oriented Unit` (`EOU`) which makes it eligible to enjoy certain benefits, including free importability and certain direct and indirect tax exemptions.

Expansion Plan: Due to the government's increased focus on renewable energy, the company is planning to increase its Photovoltaic capacity to 260MWp by 2011 from the current 160MWp. This will drive volume for the company. The company has incurred a capital expenditure of Rs 6,67 cr for Line

1 and Line 2, funded through a mix of debt (of Rs 4,60cr) and equity contribution from the promoters.

Key Concerns:

Heavily dependent on government subsidies: The high cost of solar PV installations makes it heavily dependent on government subsidies. The cost of solar power generation is as high as 13-18 per unit as compared to power generation through other sources.

Increase in Raw Material Prices (especially polysilicon wafers): Its basic raw material silicon wafers along with other raw materials such as chemicals, silver and aluminum pastes, constitute 89% of its manufacturing cost. The price of poly-silicon is volatile in nature. The company purchases wafers from third-party suppliers including manufacturers and trading companies, most of which are located in China, Taiwan, Japan and Germany. Any significant short supply of poly-silicon wafers and delays in its availability due to lack of long term contracts with supplier could adversely impact the company's business operations.

The company has no prior experience in the solar PV cells business and is expected to face competition from large and established players.

Rating:

Despite the improved scenario for renewable energy and increased global and domestic focus to search and promote alternative sources of energy we remain neutral on the IPO since solar power energy is still in its early phase, resulting in very high cost of generation per unit.

The Long term Investor can apply in the IPO with an expected return of 50-60%, while short term investor can expect listing gains of 8-10%.

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