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News Roundup

Corporate

- Indian Hotel Company (IHCL) has acquired a 10 per cent stake in the NYSE-listed Orient Express Hotels for nearly Rs8.5 bn through open market operations.(BS)
- Optical disc manufacturer Moser Baer will invest Rs20 bn in the first phase for a solar photo voltaic manufacturing plant near Chennai. (BL)
- Bharat Heavy Electricals Ltd (BHEL) is targeting a turnover of Rs450 bn by 2012. The engineering major is scouting for mergers and acquisitions in the domestic and overseas market and is looking at a six-fold increase in physical exports over the next five years.(BL)

Economic and political

- The first stream of advance tax figures has signaled improved earnings by several corporates during the quarter. SBI continues to remain the top taxpayer.(ET)
- The finance ministry has approved a list of services, including port-based and transport services, for which exporters will be refunded service tax.(ET)
- The much-awaited coal sale policy has been finalised by the Union coal ministry and will be announced within the next seven days, Coal India (CIL) chairman P Bhattacharya said.(ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	Change, %			
	17-Sep	1-day	1-mo	3-mo
Sensex	15,504	(0.6)	9.6	9.5
Nifty	4,495	(0.5)	9.4	7.7
Global/Regional indices				
Dow Jones	13,443	0.1	2.8	(1.4)
Nasdaq Composite	2,602	0.0	3.9	(0.9)
FTSE	6,192	(1.5)	2.1	(8.0)
Nikkei	16,127	1.9	5.6	(10.3)
Hang Seng	24,599	(1.2)	20.7	17.0
KOSPI	1,872	0.1	14.3	5.6
Value traded - India				
		Moving avg, Rs bn		
	17-Sep	1-mo	3-mo	
Cash (NSE+BSE)	156.0	154.7	160.0	
Derivatives (NSE)	471.8	284.9	287.6	
Deri. open interest	844.5	862.0	674.4	

Forex/money market

	Change, basis points			
	17-Sep	1-day	1-mo	3-mo
Rs/US\$	40.6	11	(79)	(12)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	-	(11)	(37)

Net investment (US\$m)

	13-Sep	MTD	CYTD
FIs	(11)	834	9,208
MFs	20	37	787

Top movers -3mo basis

Best performers	Change, %			
	17-Sep	1-day	1-mo	3-mo
Reliance Energy	908	2.8	26.2	70.8
Neyveli Lignite	100	4.6	31.2	62.5
Chambal Fert	50	(0.4)	32.8	44.8
Thermax	680	0.3	9.8	37.0
BHEL	1,897	(0.0)	21.7	36.6
Worst performers				
Polaris	116	(0.4)	(1.2)	(27.2)
i-Flex	1,909	(0.1)	(0.8)	(22.0)
Cipla	172	(0.1)	(6.2)	(17.9)
HCL Tech	278	(0.5)	(7.5)	(17.9)
Punjab Tractors	239	0.6	(3.0)	(17.9)

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Industrials**SUZL.BO, Rs1395**

Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	1,450
52W High -Low (Rs)	1569 - 932
Market Cap (Rs bn)	401.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	79.9	131.1	179.2
Net Profit (Rs bn)	8.7	13.6	18.9
EPS (Rs)	30.1	46.2	64.1
EPS gth	14.4	53.4	38.7
P/E (x)	46.3	30.2	21.8
EV/EBITDA (x)	31.4	20.7	14.7
Div yield (%)	0.5	0.6	0.6

Suzlon Energy: Positive developments for Hansen and Repower, expanded capex program highlights strength of global demand environment

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- **Areva acquires 51% stake in Multibrid, a German offshore wind-turbine company; this could potentially facilitate its exit from Repower and help Suzlon consolidate**
- **Repower reports strong growth in order book as well as builds traction in offshore market**
- **Market capitalization of China High Speed, a wind turbine gear-box company, highlights the potential for Hansen Transmission**
- **Suzlon increases the size of its Vertically integrated, SEZ based capex program, highlighting strength in global demand environment, relief from component constraints, and lowering tax burden**
- **Maintain Target Price of Rs1,450 and In-line rating**

Areva has acquired a 51% stake in Multibrid, a German offshore wind-turbine company. This acquisition could potentially facilitate its exit from minority stake in Repower and help Suzlon consolidate its holding. Repower has reported strong growth in its order book and has also built traction in the offshore market. We also highlight that China High Speed, listed on the Hong Kong Stock Exchange, has a market capitalization of about US\$2.1 bn. If Suzlon were to unlock value in its gear-box subsidiary Hansen Transmission, it could (a) potentially pay down debt taken at the time of Hansen's acquisition, (b) fund its capital expenditure program (c) provide comfort to Hansen's customers about its independence. Suzlon has enhanced its capital expansion plans and intends to have a capacity of 5,700 MW (by 1QFY10) versus 4,200 MW (by 1QFY09) earlier. The additional capacities are expected to be vertically integrated and also provide tax incentives through location at SEZs. We believe that several execution problems faced by Suzlon in 1QFY07 in USA and India have been partially overcome. The possible large order from DLF highlights the growth potential for Suzlon in India and several Indian utilities have also started to join Suzlon's customer group. We maintain our Target Price of Rs1,450 and our In-line rating.

Areva has acquired a 51% stake in Multibrid, a German offshore wind-turbine company; this could potentially facilitate its exit from Repower and help Suzlon consolidate

Areva has acquired a 51% stake in Multibrid, a German offshore wind-turbine company, for US\$106 mn (valuing the company at approximately US\$200 mn). This acquisition could potentially lower Areva's interest in keeping a non-controlling stake in Repower, making it potentially easier for Suzlon to acquire Areva's stake in Repower.

Areva has further stated that it would continue to look for further acquisition opportunities. This acquisition reinforces the potential that leading players globally envisage in the wind-power industry, especially the nascent offshore market. We believe Areva was keen on gaining a strong foot-hold in the technologically intensive offshore market and its non-controlling 30% stake in Repower did not serve its strategic interests. While this development is a pointer towards the increasing competition in the consolidating wind-power equipment industry and hence a potential negative for Suzlon in the long-term, it is potentially a positive in the short-term as Areva might like to divest its stake in Repower and look for other opportunities where it could acquire controlling stakes.

Repower reports strong growth in order book as well as builds traction in offshore market

Repower has reported a strong order book of 1,436 MW (including orders booked after reporting date of 2Q results) after 2QCY07, as compared to an order book of about 820 MW after 2QCY06. Repower is also moving closer to its goal of serial production of 5 MW offshore wind turbine with total orders for about 75 MW of offshore wind turbines.

Market capitalization of China High Speed, a wind turbine gear box company highlights potential for Hansen Transmission

We highlight that China High Speed, listed on the Hong Kong Stock Exchange, has a market capitalization of about US\$2.1 bn. China High Speed had CY2006 revenues of only about US\$155 mn (PAT of US\$11 mn), while Hansen Transmission had revenues of about US\$450 mn in FY2007 (estimated PAT of US\$40 mn). We believe that China High Speed's high market capitalization highlights the potential value locked in Hansen Transmission for Suzlon.

China High Speed has an EV/EBITDA of about 24 based on consensus CY08 estimates. If Suzlon were to unlock value in this subsidiary, it could potentially pay down debt taken over at the time of Hansen's acquisition. Suzlon had acquired Hansen Transmission in July 2006 for a valuation of about Euro 450 mn and this acquisition was completely debt funded. Outstanding debt on this account is now Euro 375 mn on the consolidated balance sheet of Suzlon.

Debt repayment would help Suzlon manage its debt-equity ratio, particularly when Suzlon is embarking on a capital expenditure program of US \$1.4 bn in addition to the likely payments for acquisition of balance stake of Martifer and Areva in Repower. An added benefit will be the boost to Hansen's market perception, as it supplies to Suzlon's competitors too. A public listing would bring transparency to its financial and operating performance, and thus enhance customer confidence.

Increases the size of capital expenditure program, potentially highlighting strong global demand environment

Suzlon has increased the size of its capital expenditure program to US\$1.4 bn from US\$800 mn. Suzlon now intends to have a capacity of 5,700 MW by the end of FY2009E versus an earlier program of 4,200 MW by the beginning of FY2009E. Suzlon currently has a capacity of 2,700 MW, split across 1,500 MW in India and 600 MW each in US and China. We believe that enlarged capital expenditure program follows strong global demand environment and provides Suzlon with an opportunity to rapidly increase its global market share.

Vertically integrated capital expenditure program located in SEZs relieves component constraints and lowers the tax burden

New capacity is completely vertically integrated with foundry and forging units for basic sub-assemblies, as well as other wind turbine components such as blades, tower, nacelle, generator, control panels etc. Vertically integrated capacity would relieve constraints on component availability, a key issue confronting the wind power equipment industry given the strong global demand.

Additional manufacturing capacity is spread across four different places and Suzlon has received formal approvals for locating those facilities in SEZs. We believe that tax benefits available to Suzlon in SEZs would keep the tax rates low for Suzlon in future also.

We believe that several execution problems faced by Suzlon in 1QFY07 have been overcome to some extent

We believe that Suzlon has been able to partially overcome execution problems faced by it (1) tower supply issues in USA, which held up execution in 1Q has been restored with exports of towers from India, (2) there has been progress on addressing concerns of local population at sites such as Dhule and Sangli in Maharashtra and © Other sites are being developed to overcome the near-term problems faced at Dhule and Sangli. We believe Suzlon's 2QFY07 numbers should reflect these improvements in terms of execution as well as margins over 1QFY07.

Possible large order from DLF highlights growth potential, utilities also join Suzlon's customer group

Bloomberg reported that Suzlon has won an order of wind turbines from DLF for 500 MW. While the confirmed order at this point of time is much smaller (confirmed order for 30 MW, likely to be increased to 150 MW), we believe this highlights growth potential for Suzlon. Several utilities have also started investing in wind power - Reliance Energy and Tata Power have both placed orders on Suzlon recently. We believe that global energy giants (such as BP and Shell) and global wind power developers may also invest in wind power generation in India.

Maintain Target Price of Rs1,450 and In-line rating

We maintain our Target Price of Rs1,450 and our in-line rating. We maintain Inline rating because of concerns such as (a) rupee appreciation, (b) constraints on component availability affecting execution, (c) slower domestic business growth. Key upside originates from global momentum in wind power equipment demand which creates opportunities for Suzlon to grow rapidly while gaining market share and leverage the benefits of vertically integrated manufacturing as well as broad geographical presence.

Utilities

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		17-Sep	Target
Rel Energy	L	908	810
Tata Power	L	735	670
NTPC	L	183	170
Lanco	OP	316	252
CESC	L	474	425

Coal blocks to energize growth plans of private sector

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- **15 coal blocks being allotted to 31 companies for captive mining for power projects**
- **Allocated reserves enough to power more than 18,000 MW of generation capacity**
- **Growth plans of utilities like CESC, Lanco Infratech to get a big boost**

The screening committee has made the recommendation to the Ministry of Coal for allocation of the 15 coal blocks reserved for the private sector to about 31 companies. Media reports suggest that eight out of the 15 blocks have been allotted on a sharing basis, while the remaining have been given on a standalone basis. The screening committee meeting for the remaining 23 blocks to be given to non-power sectors will be held later. The 15 coal blocks allotted have reserves of around 3.6 bn tonnes, capable of generating about 18,000 MW of power. While we await the official communication for allotment of the coal blocks, we believe the private sector investment in generation will receive a major boost as getting the fuel linkage was a major bottleneck in the growth plans of most private power utilities. With low cost of coal from captive mines as compared to coal from Coal India, several of these utilities will be looking at implementing part of their capacity as merchant power plants as well.

15 coal blocks being allotted to 31 companies for captive mining for power projects. While we await any official communication on mine allocation, media reports suggest 31 companies have been chosen for allocation of the 15 coal blocks reserved for the power sector. Media reports suggest the 31 companies include—CESC, Essar Power, AES Chhattisgarh Energy Pvt. Ltd, Reliance Energy (Rosa Power), Adani Power, Tata Power, GMR Energy, Navabharat Power Pvt. Ltd of the Malaxmi Group, Lanco Infratech, Mittal Steel India Ltd, DB Power Ltd, Prakash Industries, Green Infrastructure Pvt. Ltd, RKM Powergen Pvt. Ltd, Visa Power, Vandana Vidyut Energy Ltd and Jas Infrastructure Capital Pvt. Ltd. Eight out of 15 blocks have been allotted on a sharing basis, while the remaining blocks have been given on a stand-alone basis.

Allocated reserves enough to power more than 18,000 MW of generation capacity. We believe the private sector investment in generation will receive a major boost as getting the fuel linkage was a major bottleneck in the growth plans of most private power utilities. Exhibit 1 gives the details of the captive coal mining blocks given by Ministry of Coal till date. The private sector power projects accounted for only ~1 bn tonnes or 4% of the reserves allotted. The allocation of these 15 coal blocks with estimated reserves of around 3.6 bn tonnes (see Exhibits 2 and 3), are capable of firing about 18,000 MW of generation capacity.

Growth plans of utilities like CESC, Lanco Infratech to get a big boost. We believe that the allocation of coal mines will be positive for utilities as a captive coal mine will enable them to implement merchant power projects and derive a higher valuation compared to a CERC regulated project (see Exhibit 4). While the allocation of coal mines will have a marginal positive impact on large utilities like Tata Power and Reliance Energy, which already have big growth plans (including 4,000 MW Ultra Mega Power Projects each), companies like CESC, Lanco Infratech, Adani Power will see a good upside. We believe CESC and Lanco Infratech will likely announce plans for pit-head power project of ~1,000 MW capacity (dependent on final coal mine reserves) with part-merchant capacity in the states of Orissa and Jharkhand respectively. Both the companies have MoUs in place with the respective state governments for executing power projects.

Exhibit 1: Allocation of coal blocks to private sector for power generation has been only 4% of total allocation

Allocation of coal blocks till date

	No. of blocks	Geological reserves (mn tonnes)
PSUs	70	19,661
Power	46	13,459
Captive dispensation	30	3,530
Government dispensation	10	8,294
Ultra Mega Power Project	6	1,635
Commercial mining	22	4,818
Iron and Steel	2	1,384
Private companies	60	7,715
Power	11	1,095
Iron and steel	46	6,604
Small, isolated patches	2	9
Cement	1	7
Total	130	27,376

Source: Ministry of Coal.

Exhibit 2: Large capacity creation possible from 3.6 bn tonnes of coal reserves being allocated to private sector by the screening committee

41 coal blocks identified for allocation to power sector

	No. of blocks	Geological reserves (mn tonnes)
Power sector	41	15,710
Government company dispensation route	10	6,072
Screening committee route	15	3,622
Tariff based bidding as per MoP guidelines	16	6,015
Non-power sector	40	4,312
Government company dispensation route	17	1,848
Screening committee route	23	2,464
Total	81	20,022

Source: Ministry of Coal.

Exhibit 3: Details of coal blocks to be allotted to private sector for power projects

Block	State	Coalfield	Geological reserves (mn tonnes)
Seregarha	Jharkhand	North Karanpura	150
Ganeshpur	Jharkhand	North Karanpura	140
Amrakonda- Murgadangal	Jharkhand	Birbhum	411
Mandakini	Orissa	Talcher	453
Mahuagarhi	West Bengal	Rajmahal	199
Fatehpur East	Chhattisgarh	Mand Raigarh	450
Fatehpur	Chhattisgarh	Mand Raigarh	120
Rampia	Orissa	Ib River	285
Dipside of Rampia	Orissa	Ib River	360
Sayang	Chhattisgarh	Mand Raigarh	150
Lohara West and ext.	Maharashtra	Wardha Valley	160
Durgapur II (Sariya) / Taraimar	Chhattisgarh	Mand Raigarh	303
Gourangdih ABC	West Bengal	Raniganj	132
Ashok Karkata Central	Jharkhand	North Karanpura	110
Patal East	Jharkhand	South Karanpura	200
Total			3,622

Source: Ministry of Coal, Company data, Media reports.

Exhibit 4: Pit-head based power plants operating as merchant power plants command a higher value

Implied P/B valuation derived from our DCF-to-equity framework

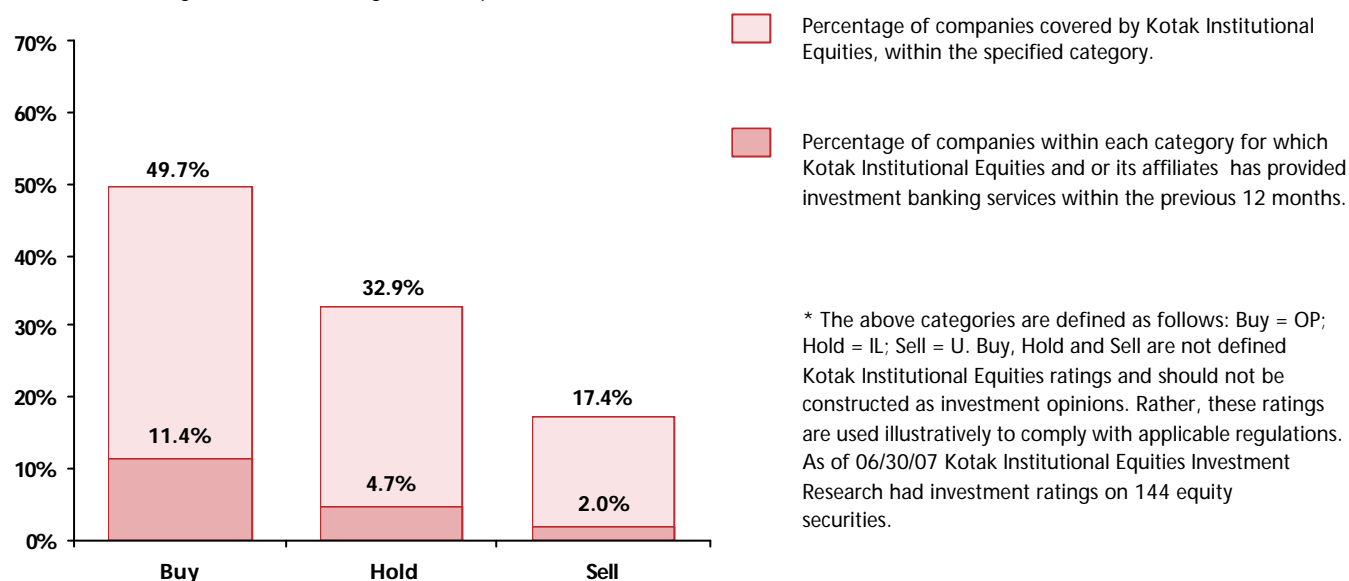
	P/B (X)
CERC guidelines-based tariffs	
Coal-based power plant	1.40
Gas-based power plant	1.60
Hydropower plant	1.28
Transmission projects	1.24
Merchant power projects	
Pithead-based thermal power plant	>2
Hydropower plant	>2

Source: Kotak Institutional Equities estimates.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Lokesh Garg, Aman Batra."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities.

As of June 30, 2007

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Current rating system

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IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.

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