

## Equities

14 February 2012 | 20 pages

# Suzlon Energy (SUZL.BO)

## Downgrade to Neutral – On Sidelines Pending FCCB Repayment

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

- **Downgrade to Neutral** — We cut our target price to Rs29 (Rs47 earlier) to factor in (1) roll forward of EV/EBITDA multiple to Jun13E (Mar13E), (2) cut in target EV/EBITDA multiple to 5.5x (7x) to factor in a de-rating in global WTGs and (3) cons EPS cuts.
- **Repaired and healed from Jan10 onwards** — Suzlon's revival story has become increasingly credible, with a significant rebound in both Suzlon and REpower inflows. The company has contained Suzlon WTG opex in an inflationary environment and FCCB/ debt have been restructured many times to provide breathing space.
- **But FY13E has two major pressure points** — US\$360m of FCCBs are due in Jun12 and US\$209m of FCCBs in Oct12. A successful repayment of the first tranche could lead to stock price upside, and a failure to do so could lead to downside. We believe a recovery of Edison Mission receivables is important for the repayment, but we are unsure 1) if this will happen, and 2) even if it does, will it be timely?
- **How does Suzlon plan to repay FCCBs?** — The plan is to use a combination of BS cash (US\$100m), sales of non-core assets (US\$100m), Edison Mission receivables (US\$200m) and OCF (US\$200-250m). Interestingly, what is classified as a receivable from Edison Mission in Suzlon's accounts has been classified as long-term debt in Edison Mission's financials. Recovery has been delayed multiple times from Sep11 to now FY13. We believe Suzlon could generate additional cash through (1) REpower dividends, (2) advances from REpower, (3) selling a stake in REpower or (4) listing REpower.
- **3Q12 consolidated recurring losses of Rs2.9bn** — Losses are on account of (1) lower-than-expected sales in Suzlon WTG/ SE Forge and the impact on EBITDA as operating leverage hit negatively (expanded capacity and lower sales volumes) and (2) bloated capital costs (interest and depreciation). Overall Suzlon has reduced cons recurring losses from Rs15.4bn in 9M11 to Rs4.1bn in 9MY12.

<b>Neutral</b>	<b>2</b>
<i>from Buy</i>	
Price (14 Feb 12)	Rs27.35
Target price	Rs29.00
<i>from Rs47.00</i>	
Expected share price return	6.0%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>6.0%</b>
Market Cap	Rs48,611M US\$989M

### Price Performance (RIC: SUZL.BO, BB: SUEL IN)



### Statistical Abstract

Year to	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
31 Mar							
2010A	-13,540	-8.70	na	-3.1	0.6	-17.8	0.0
2011A	-10,662	-6.00	31.0	-4.6	0.7	-16.0	0.0
2012E	-1,787	-1.01	83.2	nm	0.7	-2.6	0.0
2013E	5,390	3.03	401.7	9.0	0.7	7.6	0.0
2014E	9,826	5.53	82.3	4.9	0.6	12.6	0.0

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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**Suzlon Energy (SUZL.BO)**

14 February 2012

SUZL.BO: Fiscal year end 31-Mar						Price: Rs27.35; TP: Rs29.00; Market Cap: Rs48,611m; Recomm: Neutral					
Profit & Loss (Rsm)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	206,197	178,791	211,530	247,030	280,805	PE (x)	-3.1	-4.6	-27.2	9.0	4.9
Cost of sales	-136,282	-124,540	-139,985	-167,876	-191,070	PB (x)	0.6	0.7	0.7	0.7	0.6
Gross profit	69,915	54,251	71,546	79,153	89,735	EV/EBITDA (x)	20.7	16.6	6.8	5.7	4.6
Gross Margin (%)	33.9	30.3	33.8	32.0	32.0	FCF yield (%)	42.7	-20.1	-23.1	-8.6	4.5
<b>EBITDA</b>	<b>7,835</b>	<b>8,081</b>	<b>19,994</b>	<b>25,535</b>	<b>31,457</b>	Dividend yield (%)	0	0	0	0	0
EBITDA Margin (%)	3.8	4.5	9.5	10.3	11.2	Payout ratio (%)	0	0	0	0	0
Depreciation	-6,630	-6,574	-6,724	-6,969	-7,251	ROE (%)	-15.0	-19.8	0.7	7.6	12.6
Amortisation	0	0	0	0	0	<b>Cashflow (Rsm)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
<b>EBIT</b>	<b>1,205</b>	<b>1,507</b>	<b>13,271</b>	<b>18,566</b>	<b>24,206</b>	EBITDA	7,835	8,081	19,994	25,535	31,457
EBIT Margin (%)	0.6	0.8	6.3	7.5	8.6	Working capital	23,884	10,833	-15,321	-14,331	-12,605
Net interest	-11,950	-11,357	-13,791	-11,841	-11,906	Other	-13,530	-14,526	-12,708	-13,180	-14,380
Associates	161	-278	-65	0	0	<b>Operating cashflow</b>	<b>18,190</b>	<b>4,388</b>	<b>-8,034</b>	<b>-1,976</b>	<b>4,472</b>
Non-op/Except	2,814	-1,467	3,412	1,243	1,243	Capex	0	-14,143	-3,204	-2,227	-2,261
<b>Pre-tax profit</b>	<b>-7,770</b>	<b>-11,595</b>	<b>2,827</b>	<b>7,968</b>	<b>13,543</b>	Net acq/disposals	0	0	0	0	0
Tax	-3,561	-1,807	-2,571	-2,579	-3,718	Other	-10,872	-907	11,400	0	0
Extraord./Min.Int./Pref.div.	-90	208	230	0	1	<b>Investing cashflow</b>	<b>-10,872</b>	<b>-15,050</b>	<b>8,196</b>	<b>-2,227</b>	<b>-2,261</b>
<b>Reported net profit</b>	<b>-11,421</b>	<b>-13,194</b>	<b>486</b>	<b>5,390</b>	<b>9,826</b>	Dividends paid	0	0	0	0	0
Net Margin (%)	-5.5	-7.4	0.2	2.2	3.5	<b>Financing cashflow</b>	<b>-38,533</b>	<b>12,836</b>	<b>8,820</b>	<b>-49</b>	<b>630</b>
Core NPAT	-13,540	-10,662	-1,787	5,390	9,826	<b>Net change in cash</b>	<b>-31,215</b>	<b>2,174</b>	<b>8,981</b>	<b>-4,252</b>	<b>2,841</b>
<b>Per share data</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>Free cashflow to s/holders</b>	<b>18,189</b>	<b>-9,755</b>	<b>-11,239</b>	<b>-4,203</b>	<b>2,211</b>
Reported EPS (Rs)	-7.34	-7.42	0.27	3.03	5.53						
Core EPS (Rs)	-8.70	-6.00	-1.01	3.03	5.53						
DPS (Rs)	0	0	0	0	0						
CFPS (Rs)	11.68	2.47	-4.52	-1.11	2.52						
FCFPS (Rs)	11.68	-5.49	-6.32	-2.36	1.24						
BVPS (Rs)	42.40	37.90	38.17	41.21	46.74						
Wtd avg ord shares (m)	1,557	1,777	1,777	1,777	1,777						
Wtd avg diluted shares (m)	1,557	1,777	1,777	1,777	1,777						
<b>Growth rates</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>						
Sales revenue (%)	-20.9	-13.3	18.3	16.8	13.7						
EBIT (%)	-91.7	25.1	780.4	39.9	30.4						
Core NPAT (%)	-592.4	21.3	83.2	401.7	82.3						
Core EPS (%)	-573.9	31.0	83.2	401.7	82.3						
<b>Balance Sheet (Rsm)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>						
Cash & cash equiv.	29,043	31,217	40,198	35,947	38,788						
Accounts receivables	31,740	42,040	56,308	69,867	81,449						
Inventory	59,943	53,520	65,726	77,168	87,847						
Net fixed & other tangibles	44,695	52,264	48,744	44,002	39,012						
Goodwill & intangibles	63,583	61,047	63,157	63,157	63,157						
Financial & other assets	63,042	54,000	43,557	44,103	44,672						
<b>Total assets</b>	<b>292,046</b>	<b>294,087</b>	<b>317,689</b>	<b>334,244</b>	<b>354,924</b>						
Accounts payable	84,267	84,880	95,222	105,118	113,987						
Short-term debt	0	0	0	0	0						
Long-term debt	126,679	122,640	133,800	133,751	134,381						
Provisions & other liab	11,777	16,100	17,944	19,261	20,617						
<b>Total liabilities</b>	<b>222,724</b>	<b>223,620</b>	<b>246,966</b>	<b>258,131</b>	<b>268,986</b>						
Shareholders' equity	66,038	67,390	67,876	73,265	83,092						
Minority interests	3,285	3,077	2,847	2,847	2,846						
<b>Total equity</b>	<b>69,323</b>	<b>70,467</b>	<b>70,723</b>	<b>76,113</b>	<b>85,938</b>						
<b>Net debt</b>	<b>97,637</b>	<b>91,423</b>	<b>93,602</b>	<b>97,805</b>	<b>95,594</b>						
Net debt to equity (%)	140.8	129.7	132.3	128.5	111.2						

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## Downgrade to Neutral – Target Price Rs29

- Since Jan10 Suzlon has repaired and healed at a slow pace and the business revival story has become increasingly credible, with a significant rebound in both Suzlon and REpower inflows. The company has contained Suzlon WTG opex in an inflationary environment and FCCB/ debt have been restructured multiple times to provide breathing space.
- However, FY13 happens to be a major pressure point for Suzlon, with US\$360mn of FCCBs due in Jun12 and US\$209mn of FCCBs due in Oct12. A successful repayment of the first tranche in Jun12 could lead to significant stock price upside and a failure to do so could lead to significant downside. We believe a recovery of Edison Mission receivables is important for the repayment and we are unsure if the same will happen, and even if it does, whether it will be timely. In other words, we lack the information required to rate the stock based on fundamental analysis.
- As a consequence, we downgrade Suzlon to Neutral (Buy earlier). We cut our target price to Rs29 (from Rs47 earlier) to factor in (1) roll forward of EV/EBITDA multiple to Jun13E from Mar13E, (2) cut in our target EV/EBITDA multiple to 5.5x (from 7x earlier) to factor in a de-rating in global WTGs and (3) cons EPS cuts.

Figure 1. Global WTG Comparables

Name	Price	RIC - Rating	MCap (USD bn)	P/E			P/B			RoE			EV/E		
				FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Suzlon	27.5 INR	SUZL.BO - 2	0.9	-27.2	9.0	4.9	0.7	0.7	0.6	-3%	8%	13%	7.1	5.7	4.6
Vestas	55.45 DKK	VWS.CO-2	2.0	-9.2	26.9	12.5	0.6	0.6	0.6	-6%	2%	5%	6.9	3.4	3.0
Gamesa	3.047 EUR	GAM.MC-1	1.0	11.8	12.5	10.2	0.4	0.4	0.4	4%	4%	4%	3.0	4.0	4.0
Dongfang	21.7 HKD	1072.HK-1	1.0	11.8	10.6	9.0	2.6	2.1	1.7	24%	22%	21%	13.9	13.4	12.1
Harbin Power	8.19 HKD	1133.HK-1	1.5	7.6	7.3	7.0	0.9	0.8	0.7	12%	11%	11%	8.9	7.3	7.1
Shanghai Electric	3.85 HKD	2727.HK-1	1.5	12.6	11.4	10.3	1.4	1.3	1.2	11%	12%	12%	5.5	5.3	5.0
Xinjiang Goldwind	5.13 HKD	2208.HK-3	0.3	14.7	18.8	14.7	0.9	0.8	0.8	6%	4%	6%	6.5	10.1	8.7
Sinovel	16.29 CNY	601558.SS-NR	5.2	10.3	8.1	na	1.8	1.5	na	na	na	na	na	na	na

Source: DataCentral and Citi Investment Research and Analysis estimates # Priced As of Feb 14, 2012

### EPS revised downwards

- Revise down our cons EPS estimates for 12-14E as shown below, from Rs0.19 to a loss of Rs1.01 in 12E, and down 25% and 4% for 13-14E to factor in (1) 100-200MW lower sales in Suzlon WTG, (2) 6–85 bps higher EBITDA margins in Suzlon WTG, (3) 113–119bps EBITDA margin cut in Repower, (4) We discontinue the use of fully-diluted shares as all of Suzlon's FCCBs are out of the money.

Figure 2. Suzlon Consolidated EPS Estimates – CIRA vs Consensus

Year End Mar31	FY12E	FY13E	FY14E
<b>PAT (Rsmn)</b>			
CIRA	(1,787)	5,390	9,826
Consensus	2,691	7,201	11,079
Difference	-166.4%	-25.2%	-11.3%
<b>EPS (Rs)</b>			
CIRA	-1.01	3.03	5.53
Consensus	1.49	3.84	5.87
Difference	-167.5%	-21.0%	-5.8%

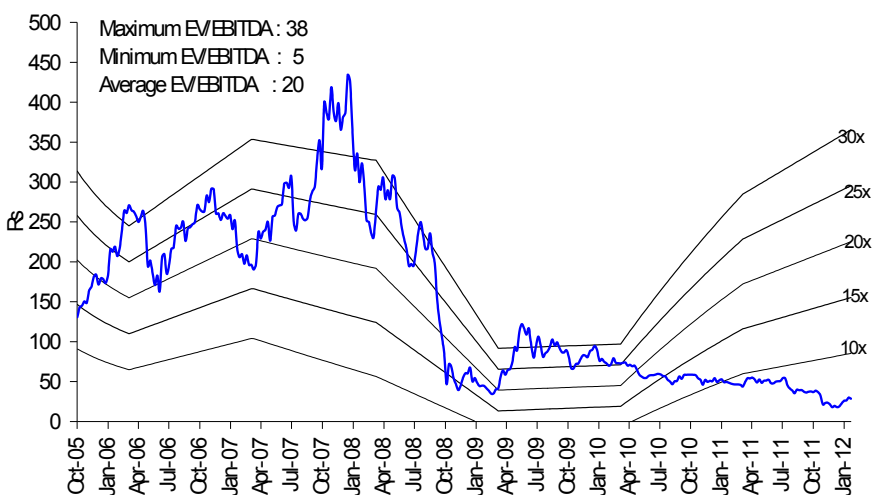
Source: Bloomberg and Citi Investment Research and Analysis estimates

Figure 3. Suzlon Consolidated EPS Revision Table

Year End Mar31 (Rsmn)	FY12E	FY13E	FY14E
<b>Suzlon MW</b>			
Old	2,000	2,300	2,500
New	1,665	2,000	2,250
MW	(335)	(300)	(250)
<b>Consolidated Sales</b>			
Old	222,519	256,360	285,956
New	211,530	247,030	280,805
% Chg	-4.9%	-3.6%	-1.8%
<b>Suzlon Margins %</b>			
Old	9.5%	11.1%	11.3%
New	7.6%	10.8%	11.8%
bps	(193)	(30)	50
<b>RE Power Margins %</b>			
Old	8.1%	8.9%	9.6%
New	9.9%	8.9%	9.6%
bps	184	(2)	3
<b>EBITDA</b>			
Old	22,153	28,508	33,006
New	19,994	25,535	31,457
% Chg	-9.7%	-10.4%	-4.7%
<b>Interest Cost</b>			
Old	13,767	12,284	12,334
New	13,791	11,841	11,906
% Chg	0.2%	-3.6%	-3.5%
<b>Cons EBIT Margins</b>			
Old	6.5%	7.9%	8.5%
New	6.3%	7.5%	8.6%
bps	(19)	(42)	11
<b>Recurring PAT</b>			
Old	332	7,168	10,239
New	(1,787)	5,390	9,826
% Chg	nm	-24.8%	-4.0%
<b>EPS Estimates</b>			
Old	0.19	4.03	5.76
New	-1.01	3.03	5.53
% Chg	nm	-24.8%	-4.0%

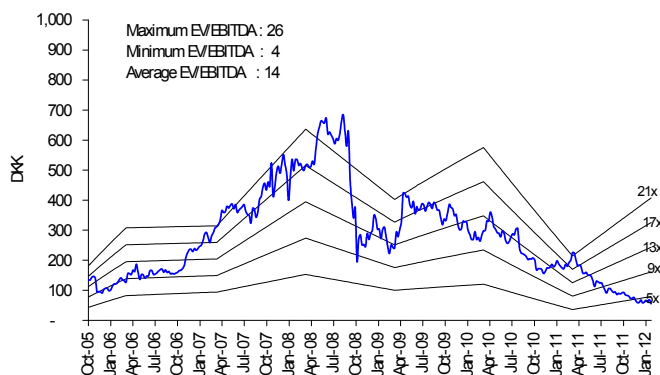
Source: Citi Investment Research and Analysis estimates

Figure 4. Suzlon Consolidated – 1 Year Forward Rolling EV/EBITDA Band Charts



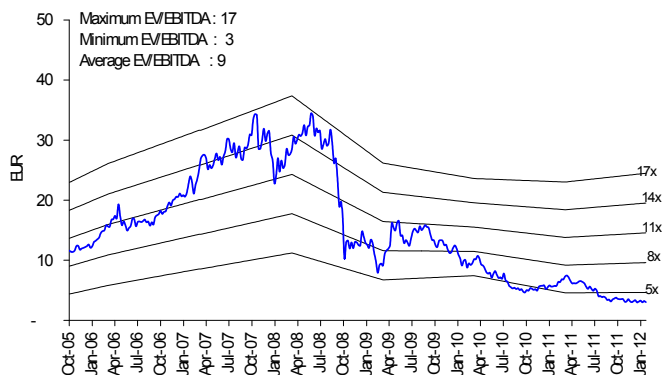
Source: DataCentral and Citi Investment Research and Analysis estimates

Figure 5. Vestas – 1 Year Forward Rolling EV/EBITDA Band Charts



Source: DataCentral and Citi Investment Research and Analysis estimates

Figure 6. Gamesa – 1 Year Forward Rolling EV/EBITDA Band Charts



Source: DataCentral and Citi Investment Research and Analysis estimates

## Debt and Funding Status

### FCCB repayment of US\$569m in FY13 is a key pressure point

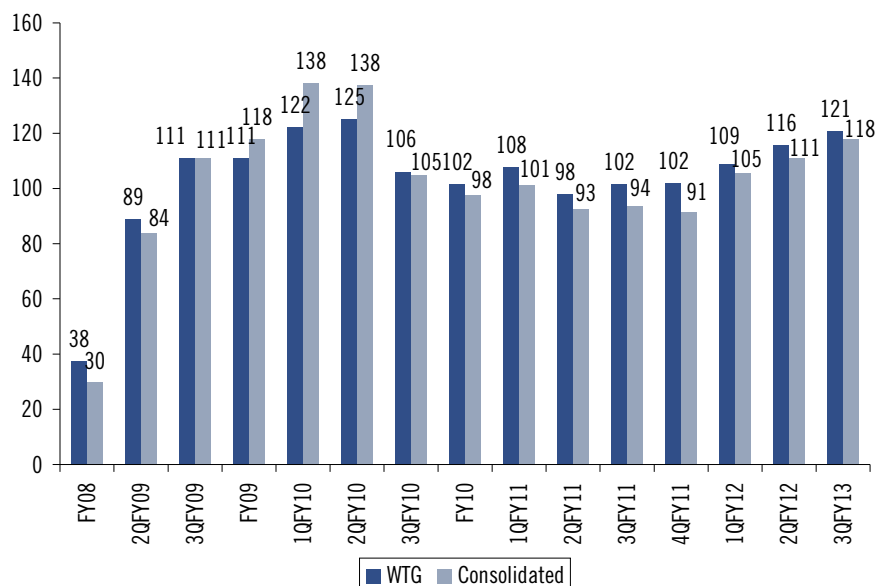
- Suzlon has to redeem US\$360m on FCCBs in Jun12 and US\$209m of FCCBs in Oct12. The auditors have also given a matter of emphasis on the use of a going concern assumption for preparing the results.
- Management believe it will arrange US\$569m from a combination of balance sheet (BS) cash (US\$100m), sale of wind-farms (US\$60m), sale of other non-core assets (US\$40m), Edison Mission receivables recovery (US\$200m) and operating cash flow generation (OCF) (US\$200-250m). Interestingly what is classified as a receivable from Edison Mission in Suzlon's accounts has been classified as long-term debt in Edison Mission's financials. The recovery has been delayed multiple times from Sep11 to Dec11 to Mar12 and now to FY13E.
- We believe that there is uncertainty around the sources of funding outlined above (especially in terms of timing) and this will remain an overhang on the stock until management demonstrates a tangible plan for debt repayment. Suzlon can generate additional cash through (1) REpower dividends, (2) advances from REpower, (3) selling a stake in REpower or (4) listing REpower.

Figure 7. Suzlon WTG - FCCB Outstanding

	Amount (US\$m)	Redemption Amount	Redemption Date	Conversion Price	Dilution	Coupon
FCCB - I (New)	36	53	June-12	76.68	23.1	7.50%
FCCB - I (Old)	211	307	June-12	97.26	96.9	0.00%
FCCB - II (New)	21	33	October-12	76.68	13.5	7.50%
FCCB - II (Old)	121	176	October-12	97.26	55.7	0.00%
FCCB - III	90	121	July-14	90.38	48.0	0.00%
FCCB - IV	175	190	April-16	54.01	144.3	5.00%
<b>Total</b>	<b>654</b>	<b>880</b>			<b>381.6</b>	

Source: Company and Citi Investment Research and Analysis

Figure 8. Suzlon WTG and Consolidated Net Debt Levels



Source: Company and Citi Investment Research and Analysis estimates

### Will Indian banks provide a helping hand?

- Indian banks have an exposure of ~ US\$2bn to Suzlon. Given the large quantum of exposure and the rebound in order inflows they might be inclined to give a helping hand to Suzlon in terms of restructuring loans. The fact that Indian banks have sanctioned incremental working capital facilities of Rs11bn could be indicative of the same.

### What efforts has Suzlon made on debt reduction/ refinancing?

- **Suzlon 26.06% stake sale in Hansen:** Suzlon received US\$87m (~Rs8.7bn) in Oct11 and the funds have been used for deleveraging
- **Repayment of acquisition loans:** The company monetized its 35.22% stake in Hansen Transmissions, and realized €224m (Rs17.2bn) in 3QFY10 through placement of 236m depository interests at a price of 95 pence and used the proceeds to repay part of the acquisition loans. The company has also repaid acquisition loans of ~ US\$780m and the balance has been repaid through new US\$-denominated facility from SBI.
- **Rupee loan refinancing of Rs106.9bn:** The company also managed to refinance rupee facilities of ~ Rs65.9bn and trade credit facilities (non-fund based) of Rs40.4bn and has got a holiday of two years in principal repayments and effective removal /relaxation of covenants across facilities.
- **FCCB restructuring:** Suzlon has restructured FCCBs and has got all the covenants removed and also reduced the conversion price of FCCBs. Recently the company raised an additional US\$175m through FCCBs. The total amount of FCCBs outstanding post the latest round of restructuring is US\$654m, on which the company will have to pay US\$880m on redemption. If all these FCCBs are converted, then it will lead to dilution of 382m shares (22%).
- **Rights issue completed:** Suzlon has issued 189m shares at Rs63 to raise Rs11.9bn. Given the response was not very strong from non promoters, the majority of this amount was subscribed by the promoters. The promoter's contribution got adjusted against promoter loans of Rs11.75bn.
- **Suzlon gives IDFC PE stake in company:** Suzlon issued 31.9m shares of Suzlon to IDFC PE, against acquisition of 41.3m shares of SE Forge (82.9% subsidiary of Suzlon) from IDFC PE. SE Forge has become a 100% subsidiary of Suzlon post this transaction. Suzlon had divested a 17.1% stake in SE Forge to IDFC Private Equity to raise Rs4bn in September 2008 and has effectively bought back this stake at Rs1.9bn.

## 3Q12 Financials Update

### 3Q12 consolidated recurring losses of Rs2.9bn

- Suzlon had a 3Q12 cons recurring loss of Rs2.9bn, primarily on account of (1) lower-than-expected sales in Suzlon WTG and SE Forge which had a negative impact on EBITDA on account of operating leverage cutting the wrong way (expanded capacity and lower sales volumes) and (2) bloated capital costs (interest and depreciation). Overall Suzlon has reduced cons recurring losses from Rs15.4bn in 9M11 to Rs4.1bn in 9MY12.

### Suzlon WTG volumes disappoint

- The biggest disappointment was Suzlon WTG sales of 307MW -33% YoY and -27% QoQ. Volumes were impacted on extended monsoons in India, procedural issues, slow grid infrastructure ramp-up in China and procedural delays in getting working capital facilities enhanced.
- Management expects Suzlon WTG to do 4Q12 volumes of 700MW (550MW domestic and 150MW exports) vs CIRA at 500MW (400MW domestic and 100MW international). Out of the 1000MW Caparo Energy order, Suzlon was scheduled to deliver 500MW in FY12 and 500MW in FY13. The company has delivered 240MW so far in 9M12.

### REpower does exceedingly well

- REpower delivered sales of €446m +72% YoY, EBIT of €33mn at 7.4% EBIT margins and PAT of €20m. In 9M12 the company has achieved sales of €1072m, EBIT of €61m and PAT of €34m.

### Sales and EBIT margin guidance revised downwards

- Management revised down FY12E consolidated sales guidance to Rs210-220bn (from Rs240-260bn) and EBIT margin guidance to 5-6% (from 7-8%). Further, management expects sales growth of 40% YoY in FY13E.

Figure 9. REpower 3Q12 Results Review

Euro mn	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Sales	213	286	259	458	263	364	446
YoY Growth	-29%	-7%	-17%	20%	23%	27%	72%
EBIT	1	33	10	42	10	18	33
EBIT margin %	0.7%	11.5%	3.9%	9.1%	3.8%	4.9%	7.4%
YoY	-86%	59%	-60%	-1%	565%	-46%	228%
PAT	2	21	4	31	6	8	20
YoY Growth	-28%	32%	-70%	22%	233%	-63%	357%

Source: Company and Citi Investment Research and Analysis estimates



Figure 10. Suzlon Consolidated 3Q12 Results Review

Year End Mar31 (Rsmn)	Q111	Q112	% Chg	Q211	Q212	Chg	Q311	Q312	Chg
<b>Income from operations</b>	<b>23,987</b>	<b>43,260</b>	<b>0%</b>	<b>37,716</b>	<b>50,711</b>	<b>34%</b>	<b>44,329</b>	<b>49,858</b>	<b>12%</b>
(Inc)/ Dec in stock in trade	(551)	(2,425)		3,776	(851)		175	(780)	
Consumption of raw material as a % of sales	(17,218) 74.1%	(25,705) 65.0%		(29,146) 67.3%	(32,188) 65.2%		(30,481) 68.4%	(32,567) 66.9%	
Staff Cost as a % of sales	(3,976) 16.6%	(4,663) 10.8%		(4,080) 10.8%	(4,845) 9.6%		(4,146) 9.4%	(5,277) 10.6%	
Other expenditure as a % of sales	(6,297) 26.3%	(6,636) 15.3%		(7,383) 19.6%	(8,669) 17.1%		(8,037) 18.1%	(8,032) 16.1%	
Forex Loss	(1,463)	535		122	(884)		(635)	(454)	
<b>EBITDA</b>	<b>(5,518)</b>	<b>4,366</b>	<b>nm</b>	<b>1,004</b>	<b>3,273</b>	<b>226%</b>	<b>1,205</b>	<b>2,748</b>	<b>128%</b>
<b>EBITDA margin %</b>	<b>-23.0%</b>	<b>10.1%</b>		<b>2.7%</b>	<b>6.5%</b>		<b>2.7%</b>	<b>5.5%</b>	
Depreciation	(1,265)	(1,411)		(1,373)	(1,479)		(1,425)	(1,704)	
<b>EBIT</b>	<b>(6,783)</b>	<b>2,955</b>	<b>nm</b>	<b>(368)</b>	<b>1,794</b>	<b>nm</b>	<b>(219)</b>	<b>1,044</b>	<b>nm</b>
Interest Charges	(2,611)	(2,979)		(2,671)	(3,576)		(2,949)	(3,576)	
Other Income	235	322		197	236		339	300	
Other Operating Income	58	537		478	598		615	477	
FCCB Restructuring Gain	(373)	0		0	0		0	0	
<b>PBT</b>	<b>(9,473)</b>	<b>835</b>	<b>nm</b>	<b>(2,365)</b>	<b>(948)</b>	<b>nm</b>	<b>(2,215)</b>	<b>(1,755)</b>	<b>nm</b>
Tax	237	(140)	nm	(1,323)	(658)	nm	(308)	(1,342)	nm
Effective Tax Rate	2.5%	16.8%		-56.0%	-69.4%		-14%	-76%	
Minority Interest	183	30		90	103		17	153	
Share of Profit of Associate	(69)	(124)		(94)	(209)		(29)	0	
<b>Recurring PAT</b>	<b>(9,122)</b>	<b>601</b>	<b>nm</b>	<b>(3,692)</b>	<b>(1,712)</b>	<b>nm</b>	<b>(2,536)</b>	<b>(2,945)</b>	<b>nm</b>
Profit on Hansen stake sale					2,192			80	
<b>Reported PAT</b>	<b>(9,122)</b>	<b>601</b>	<b>-1310%</b>	<b>(3,692)</b>	<b>480</b>	<b>nm</b>	<b>(2,536)</b>	<b>(2,865)</b>	<b>nm</b>

Source: Company and Citi Investment Research and Analysis

**Figure 11. Suzlon Consolidated Guidance Revision**

<b>Old Guidance</b>			
	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
<b>Sales</b>			
Guidance Upper End	178,791	260,000	na
Growth		45%	nm
Guidance Lower End	178,791	240,000	na
Growth		34%	nm
CIRA	178,791	211,530	247,030
Growth		18%	17%
<b>EBIT Margins</b>			
Guidance Upper End	0.8%	8.0%	na
Guidance Lower End	0.8%	7.0%	na
CIRA	0.8%	6.3%	7.5%
<b>New Guidance</b>			
	<b>FY11</b>	<b>FY12E</b>	<b>FY13E</b>
<b>Sales</b>			
Guidance Upper End	178,791	220,000	308,000
Growth		23%	40%
Guidance Lower End	178,791	210,000	294,000
Growth		17%	40%
CIRA	178,791	211,530	247,030
Growth		18%	17%
<b>EBIT Margins</b>			
Guidance Upper End	0.8%	5.0%	na
Guidance Lower End	0.8%	6.0%	na
CIRA	0.8%	6.3%	7.5%

Source: Company and Citi Investment Research and Analysis estimates

## 3Q12 Order Backlog Update

- Suzlon WTG won 703MW of orders in 3Q12. This takes the tally for 9MFY12 to 1342MW. Importantly Suzlon wind has won 187MW of orders in the US in 3Q12, which implies that blade cracks are a thing of the past and US customers are once again reposing their faith in Suzlon's products. Order backlog is robust at 2407MW, implying sales visibility of US\$2.8bn.
- REpower won 818MW of orders in 3Q12. This takes the tally for 9MFY12 to 1649MW which is much higher than the 1252MW won in the whole of FY11. Order backlog is robust at 3348MW implying sales visibility of US\$4.7bn.

Figure 12. Suzlon WTG Order Backlog Statistics

Year End Mar31 (MW)	Q111	Q211	Q311	Q411	FY11	Q112	Q212	Q312
- Domestic	139	290	325	415	1,169	304	396	275
- International	68	71	136	77	352	133	25	32
<b>Total Sales</b>	<b>207</b>	<b>361</b>	<b>461</b>	<b>492</b>	<b>1,460</b>	<b>437</b>	<b>437</b>	<b>307</b>
- Domestic	580	693	1,624	1,353	1,353	1,255	1,291	1,355
- Export	878	857	954	877	877	775	751	1,052
<b>Backlog</b>	<b>1,458</b>	<b>1,550</b>	<b>2,578</b>	<b>2,230</b>	<b>2,230</b>	<b>2,030</b>	<b>2,042</b>	<b>2,407</b>
- Domestic	489	403	1,256	144	2,292	206	432	339
- Export	50	50	233	-	333	31	1	333
<b>Inflow</b>	<b>539</b>	<b>453</b>	<b>1,489</b>	<b>144</b>	<b>2,625</b>	<b>237</b>	<b>433</b>	<b>672</b>

Source: Company and Citi Investment Research and Analysis

Figure 13. Suzlon Orders Announced 9M12

1QFY12	Client	MW
14-Jun-11	Sprott Power Corp Canada	31.5
16-Jun-11	NALCO	50.4
15-Jul-11	Orient Green Power	100.8
<b>Total Announced</b>		<b>182.7</b>
2QFY12	Client	MW
10-Aug-11	GAIL	14.7
10-Aug-11	Khatau Narbheram , Oswal Group, KRBL and Varun Industries	70.3
11-Aug-11	Malpani Group	29.7
17-Aug-11	India Oil Company	48.3
5-Oct-11	GAIL	25.5
11-Oct-11	Senok Group	21.0
<b>Total Announced</b>		<b>209.5</b>
3QFY12	Client	MW
21-Nov-11	GAIL	23.1
3-Jan-12	Large wind energy project in USA	119.7
23-Dec-11	PSUs, SMEs and Large Corporates	166.3
11-Jan-12	Servtec Group	24.0
30-Jan-12	India and Brazil and US	269.0
31-Jan-12	CLP	100.8
<b>Total Announced</b>		<b>702.9</b>

Source: Company and Citi Investment Research and Analysis

Figure 14. REpower Order Backlog Statistics

Euro mn	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
OB (MW)	2,095	2,254	2,458	2,259	2,328	2,640	3,348
OB (Euro mn)	2,420	2,580	2,900	2,550	2,610	2,910	3,572

Source: Company and Citi Investment Research and Analysis

Figure 15. REpower Orders Announced In 9M12E

Date	Client	MW	Units
<b>FY12 so far</b>		<b>1009.2</b>	
<b>3QFY12</b>		<b>629.4</b>	
25-Jan-12	enXco – an EDF Energies Nouvelles Company	51.3	25X2.05
13-Jan-12	RWE npower renewables	20.5	10X2.05
12-Jan-12	East Coast U.S.	149.7	73X2.05
6-Jan-12	Portugese Wind Far	22.6	11X2.05
20-Dec-11	Your energy (AES Subsidiary)	20.5	10X2.05
12-Dec-11	Renenco, UK	34.9	17X2.05
23-Nov-11	EverPower	139.4	68X2.05
22-Nov-11	Epuron	12.3	6X2.05
8-Nov-11	EDF Energies Nouvelles Canada	153.8	75X2.05
24-Oct-11	Golden Valley Energy	24.6	12X2.05
<b>2QFY12</b>		<b>335.6</b>	
Oct-11	Compagnie du Vent, GDF SUEZ Group	47.2	23X2.05
Oct-11	Zuidlob Wind B.V. part of Swedish Vattenfall	122.4	36X3.4
Sep-12	Civic wind farms under WEB Andresen GmbH	114.8	33x2.05+14X3.4
Aug-11	WindWorks Power Corp	51.3	25X2.05
<b>1QFY12</b>		<b>44.2</b>	
23-Jun-11	Alerion CleanPower SpA	44.2	13X3.4
<b>FY11</b>		<b>900.3</b>	
<b>4QFY11</b>		<b>112.8</b>	
3-May-11	EDF Energies Nouvelles Canada	82.0	40
3-May-11	WindWorks Power Corp	30.8	15
<b>3QFY11</b>		<b>703.2</b>	
4-Feb-11	Saint-Laurent Énergies EDF EN	153.8	75x2.05
4-Feb-11	Saint-Laurent Énergies EDF EN	153.8	75x2.05
14-Dec-10	EverPower	51.3	25X2.05
30-Nov-10	Energiekontor UK Construction	18.5	9X2.05
30-Nov-10	Energiekontor UK Construction	24.6	12X2.05
25-Nov-10	C-Power	147.6	24X6.15
25-Nov-10	C-Power	147.6	24X6.15
25-Nov-10	Akka Vind AB, Olsen Renewables AB	6.15	3X2.05
<b>2QFY11</b>		<b>84.4</b>	
10-Nov-10	HAMBURG ENERGIE	3.4	1X3.4
27-Sep-10	Denker & Wulf	74.8	22X3.4
14-Sep-10	Klågerup Kraft AB	6.15	3X2.05
<b>1QFY11</b>		<b>0.0</b>	

Source: Company and Citi Investment Research and Analysis

# Quants View – Unattractive

**Paul Chanin**  
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paul.chanin@citi.com

Data as of: 03-Feb-12

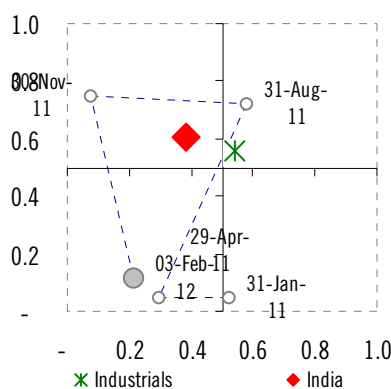
Suzlon Energy currently lies in the Extreme corner of the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores. The stock has moved from the Glamour quadrant to the Unattractive quadrant in the past two months, indicating a fall in momentum along with valuations remaining weak. Compared to its peers in the Industrials sector, Suzlon Energy fares worse on the valuation metric and on the momentum metric. Similarly, compared to its peers in its home market of India, Suzlon Energy fares worse on the valuation metric and on the momentum metric.

From a macro perspective, Suzlon Energy is likely to benefit from Small cap outperformance, tightening US credit spreads, tightening Asian interest rates, falling EM yields, and a weaker US dollar.

## Radar Screen Quadrant Definitions

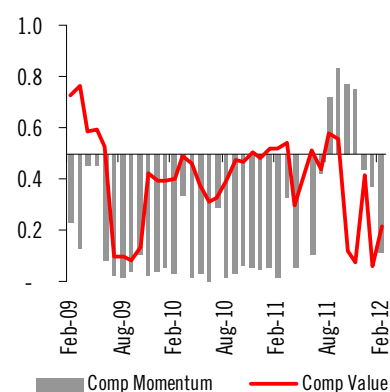
<b>Glamor</b> Poor relative value but superior relative momentum	<b>Attractive</b> Superior relative value and superior relative momentum
<b>Unattractive</b> Poor relative value and poor relative momentum	<b>Contrarian</b> Superior relative value but poor relative momentum

Figure 16. Radar Quadrant Chart History



Source: CIRA

Figure 17. Radar Valuation and Momentum Scores



Source: CIRA

Figure 18. Radar Model Inputs

### IBES EPS (Actual and Estimates)

FY(-2)	1.58	Implied Trend Growth (%)	34.85
FY(-1)	(6.39)	Trailing PE (x)	20.45
FY0	(6.25)	Implied Cost of Debt (%)	8.82
FY1	1.74	Standardised MCap	(0.16)
FY2	3.35		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 19. Stock Performance Sensitivity to Key Macro Factors

Region	1.12	Commodity ex Oil	(0.08)
Local Market	1.51	Rising Oil Prices	(0.12)
Sector	1.90	Rising Asian IR's	(0.39)
Growth Outperforms Value	(0.31)	Rising EM Yields	(0.88)
Small Caps Outperform Large Caps	3.05	Weaker US\$ (vs Asia)	3.47
Widening US Credit Spreads	(0.27)	Weaker ¥ (vs US\$)	0.10

Source: Citi Investment Research and Analysis

## Suzlon Energy

### Company description

Suzlon Energy is the world's fifth-largest wind turbine generator (WTG) company, and the largest WTG manufacturer in Asia. It is a fully integrated wind power company that provides customers with consultancy, design, manufacturing, operations, and maintenance services. It 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 is implementing a capacity expansion program to set up an integrated manufacturing facility in China, a rotor blade manufacturing facility in the US and a forging and foundry plant in India, which should increase its capacity from the current 1500MW to 4700MW by FY09E. Suzlon's product range includes turbines of 350kW, 600kW, 950kW, 1000kW, 1250kW, 1500kW, 2000kW, and 2100kW capacity.

### Investment strategy

We rate Suzlon shares Neutral.

- Since Jan10, Suzlon has repaired and healed at a slow pace and the business revival story has become increasingly credible, with a significant rebound in both Suzlon and REpower inflows. The company has contained Suzlon WTG opex in an inflationary environment and FCCB/ debt have been restructured multiple times to provide breathing space.
- However, FY13 happens to be a major pressure point for Suzlon with US\$360m of FCCBs due in Jun12 and US\$209m of FCCBs due in Oct12. A successful repayment of the first tranche in Jun12 could lead to significant upside, and a failure to do so could lead to significant downside. We believe a recovery of Edison Mission receivables is important for the repayment but we are unsure if this will happen and, even if it does, whether it will be timely.

### Valuation

Our target of Rs29 is based on an EV/EBITDA of 5.5x Jun13E. From a global WTG perspective, Vestas and Gamesa are considered comparable peers by foreign institutional investors. Other listed players in the WTG supply chain space also include Sinovel and Goldwind. Our target EV/EBITDA multiple is set at a premium to global peers such as Gamesa/ Vestas and at a discount to Asian peers such as Goldwind/Sinovel. Suzlon's EBITDA CAGR 57% over FY11E-14E supports our EV/EBITDA multiple.

### Risks

Key downside risks include higher oil prices, which would lower the attraction of renewable energy sources; withdrawal of policy support; foreign currency risk; employee retention; supply chain risks as it expands internationally; technology obsolescence; interest rate risk; outstanding litigation; and competition. These risks could cause the stock to deviate from our target price. Key upside risks to our target price include better-than-expected MW sales in the international and domestic markets; better-than-expected realizations; and Suzlon significantly improving its international sales operating margins.

## Appendix A-1

### Analyst Certification

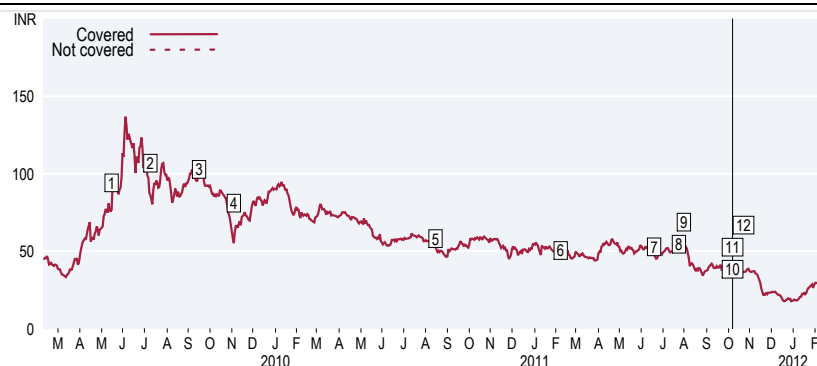
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### IMPORTANT DISCLOSURES

#### Suzlon Energy (SUZL.BO)

##### Ratings and Target Price History Fundamental Research

Analyst: Venkatesh Balasubramaniam



	Date	Rating	Target Price	Closing Price
1	15-May-09	*2H	*89.00	76.70
2	9-Jul-09	2H	*105.00	86.40
3	16-Sep-09	2H	*113.00	98.60
4	4-Nov-09	2H	*64.00	55.15

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	16-Aug-10	*2M	*58.00	52.35
6	8-Feb-11	2M	*55.00	48.85
7	20-Jun-11	2M	*56.00	48.00
8	25-Jul-11	2M	*58.00	54.50

	Date	Rating	Target Price	Closing Price
9	31-Jul-11	*1M	*64.00	52.40
10	7-Oct-11	Stock rating system changed		
11	7-Oct-11	*1	64.00	36.00
12	24-Oct-11	1	*47.00	36.65

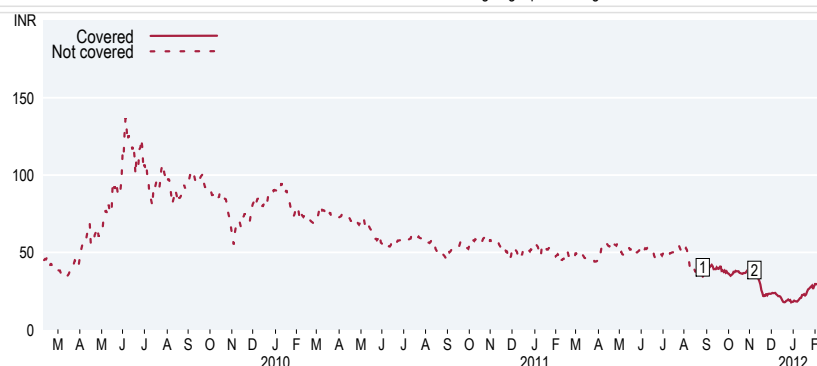
Rating/target price changes above reflect Eastern Standard Time

#### Suzlon Energy (SUZL.BO)

##### Ratings and Target Price History Best Ideas Research

##### Relative Call (3 Month)

Analyst: Venkatesh Balasubramaniam



	Date	Rating	Target Price	Closing Price
1	26-Aug-11	*ADD MP	-	34.25

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	8-Nov-11	*REM MP	-	37.10

Rating/target price changes above reflect Eastern Standard Time

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Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Xinjiang Goldwind Science & Technology, Gamesa.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Dongfang Electric Corporation.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Suzlon Energy, Dongfang Electric Corporation, Xinjiang Goldwind Science & Technology, Shanghai Electric Group, Gamesa, Vestas Wind System (Den) in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Dongfang Electric Corporation, Xinjiang Goldwind Science & Technology, Gamesa.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Suzlon Energy, Dongfang Electric Corporation, Xinjiang Goldwind Science & Technology, Shanghai Electric Group, Gamesa.

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### Citi Investment Research & Analysis Ratings Distribution

<i>Data current as of 31 Dec 2011</i>	<b>12 Month Rating</b>			<b>Relative Rating</b>		
	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>
Citi Investment Research & Analysis Global Fundamental Coverage	57%	34%	9%	10%	79%	10%
<i>% of companies in each rating category that are investment banking clients</i>	45%	41%	40%	49%	43%	41%
Citi Investment Research & Analysis Quantitative World Radar Screen Model Coverage	30%	40%	30%			
<i>% of companies in each rating category that are investment banking clients</i>	22%	24%	21%			
Citi Investment Research & Analysis Quantitative Decision Tree Model Coverage	52%	0%	48%			
<i>% of companies in each rating category that are investment banking clients</i>	54%	0%	44%			
Citi Investment Research & Analysis Asia Quantitative Radar Screen Model Coverage	20%	60%	20%			
<i>% of companies in each rating category that are investment banking clients</i>	21%	22%	20%			
Citi Investment Research & Analysis Australia Radar Model Coverage	41%	0%	59%			
<i>% of companies in each rating category that are investment banking clients</i>	22%	0%	17%			

### Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:

CIRA's stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.

**Risk rating** takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

**Investment Ratings:** CIRA's investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of CIRA management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

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Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks,



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