

SUZLON ENERGY LTD.

Analyst Recommendation: Buy

Buy

Accrue

Hold

Ease

Sell

BSE Code: 532667 **NSE Code:** SUZLON **Reuters:** SUZL.BO **Bloomberg Code:** SUEL:IN

CMP: ₹53
6 month Target: ₹63
SL: ₹47

 EPS (₹) (7.5)
 P/E (X) (7.1)
 Revenue (₹mn) 180,902.3
 EBITDA (₹mn) 8,187.9
 EBITDA Margin (%) 4.5
 EV/EBITDA (X) 20.3

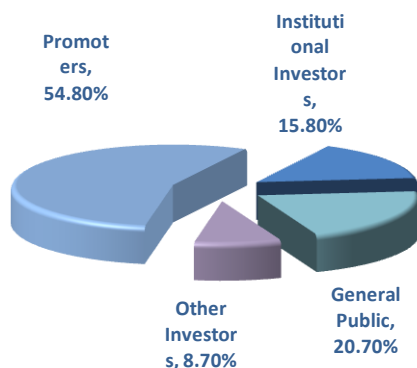
 Market Cap (₹mn) 94,021.2
 Free Float Mar Cap (₹mn) 37,225.3
 52 week high/low 66.3/42.8
 Total Debt (₹mn) 107,677.5
 Enterprise Value (₹mn) 166,009.0
 Book Value per Share 34.8
 P/BV 1.5

Suzlon Energy Ltd (SEL) has reported their highest ever fresh order intake of over ₹40,000 million during FY11 despite being distressed about fierce competition from Chinese players. The company has posted 20% sales growth and has reported net profit of ₹4,315.9 million during Q4FY'11 on the back of strong execution, clearly overcoming the earlier concerns regarding their execution. "All this coupled with overwhelming scenario for renewable source of energy is indicating that ~ good day are back again for SEL".

Major Catalyst

- SEL has robust order of over 4,600GW of power capacity as on 13th May'11 comprising of 13,53MW from domestic market and 877MW from overseas, thereby providing stable earning visibility to the company in FY'12E & FY'13E.
- SEL has shown consistent improvement in maintaining low operating cost, rationalizing inventories, and increased operational efficiency resulted in stronger Q4FY'11 profit of ₹4,315.90 million against ₹1,886.60 million losses in the same period last year.
- Its net debt equity ratio has also reduced to 1.36 times from 1.5 times along with low cost and tight cash flow. The management is very keen to bring the leverage in its comfort zone and this can be highlighted from the Hansen stake sale.
- SEL will supply more than 100 megawatts (MW) units of wind power projects to Orient Green Power for an order value of ₹6500 million that comprises 48 turbines.
- The company has made a shift from developed markets towards the emerging markets like, India, China and Brazil which offers enough escalation prospective to the company as compared to stagnant growth expected from the US and entire European region.
- The company is keen to acquire the complete control of Repower by acquiring the minority interest; this move will further cement the SEL position in offshore product development.

Shareholding pattern as on June 30, 2011



₹Million	FY10A	FY11A	FY12E	FY13E
Operating Income	207,792.1	180,902.3	240,600.1	276,690.1
EBITDA	10,125.1	8,187.9	20,562.9	25,019.6
Net Profit	(11,732.6)	(11,658.2)	5,049.4	9,890.2
Share Capital	3,113.5	3,113.5	3,113.5	3,113.5
EPS (₹)	(7.5)	(7.5)	3.2	6.4
PE (x)	(7.0)	(7.1)	16.3	8.3
P/BV (x)	1.2	1.5	1.4	1.2
EV/EBITDA (x)	18.1	20.3	7.4	5.6
ROE (%)	(17.8)	(21.5)	8.4	14.1
ROA %	(5.9)	(7.0)	3.2	6.4

Highest ever order book of 4.6GW would steer the revenue escalation process

The Suzlon has shown buoyant growth in its order book. Its robust order book is extensively grown by 60% YoY that covered 4,639 megawatts (MW) of power capacity in the year end FY'11 in comparison to its last year order book at 2,882 MW. Its order book shows a strong growth in India and offshore market. The order book reported at 4,639 MW (\$6.7 billion). The cumulative of Suzlon wind order book stood at 2,230 MW (₹127,580 million) comprising of domestic and overseas order for 1,353 MW and 877 MW respectively and its subsidiary company RE Power's order stood at 2,409 MW (\$3.9 billion) as on May, 2011. In comparison with FY'09 and FY'10, SEL has recorded the largest yearly order intake of 4,026 MW with Suzlon wind accounting for 2,626 MW and REpower accounting for 1,400 MW. SEL is starting its FY'12 with strong order visibility and growth momentum in order intake in India and offshore market. SEL's turbine availability rates has improved its quarterly performance showing global availability consistently above 97%. this increased availability maximized value for money for its clients and their confidence on Suzlon group.

Major Key orders will further push SEL sales

India: Suzlon has secured some of the biggest order for 1,000 MW from Caparo Energy and 202MW order from Techno Electric Group. It has also signed an order for 150MW Hindustan Zinc, a Vedanta Group Company. SEL will execute wind power project for Navratna PSU National Aluminum Company Ltd to set up a 50.4MW wind power project at a cost of ₹2,740 million in Andhra Pradesh.

Brazil: SEL received 218 MW wind energy order from Brazilian energy giant, Martifer Group that is reinforcing Suzlon's presence in the growing market. The recent order book momentum signals a rebound in the coming fiscal. The strong order book gives strong visibility for its future growth.

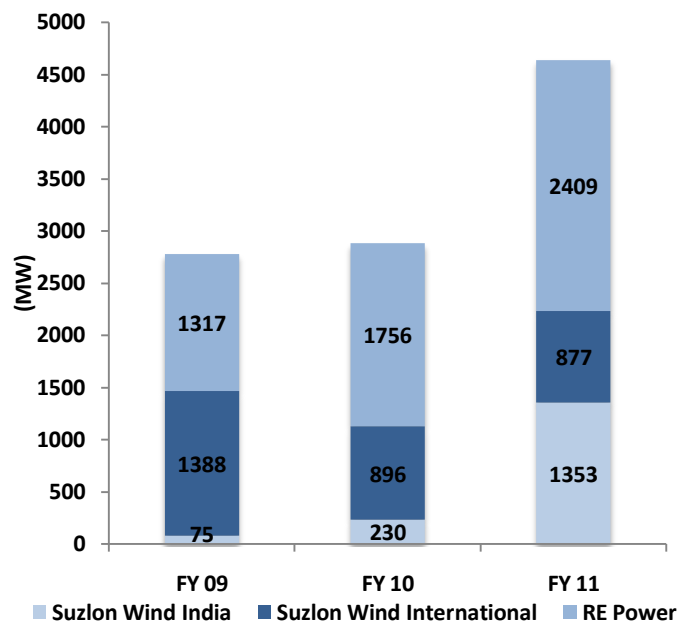
Canada: REpower, subsidiary of SEL, received a contract for delivering 300MW wind power capacity for the Canadian wind farm project, one of the largest onshore turbines project.

Belgium: REpower entered into agreement with C-power for offshore wind farm project in Belgium. Initially the total install capacity will be 295MW.

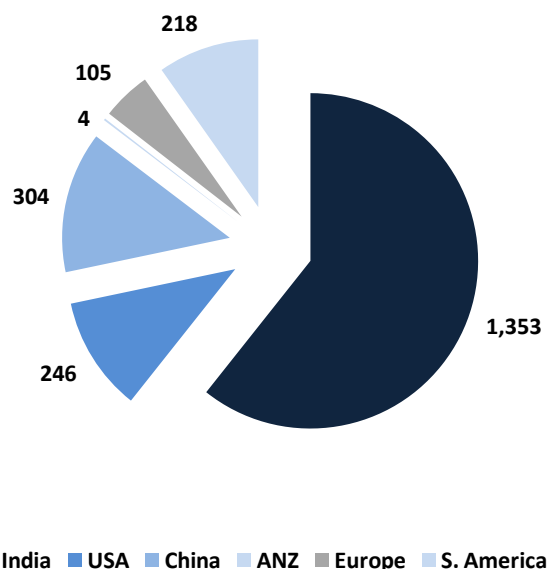
South Africa: SEL has signed a contract with African clean energy development (ACED) for its first South African deal for supplying and constructing 76 wind turbines of 2MW series and an option for ACED to acquire an additional 124 wind turbines for the cookhouse wind energy facility.

U.S: REpower has concluded a contract for a delivery of 51MW for EverPower Wind Holdings, Inc. for development projects located at New York, Ohio, Pennsylvania and Washington.

Suzlon Group Year End order book



Order backlog as on 13th May 2011 (in MW)



Debt position likely to ease from FY12E

Suzlon currently has an outstanding debt of \$2.6 billion (including FCCBs of \$654 million), with debt repayment schedules of \$150 million and \$283 million for FY13E and FY14E, respectively. Of the total FCCBs issued, \$389 million is due for conversion in FY13E, \$90 million in FY15E, while the balance \$175 million in FY16E. The company intends to utilize proceeds of \$200-250 million from the Hansen stake sale (current holding 26%) and receivable of ~\$200 million from Edison, to fund the above debt repayments. Additionally, Suzlon has cash of \$300 million in RE Power's books. With less debt burden in future, will decrease the financial costs and further leverage the company to opt towards the debt market to boost capex and acquisitions.

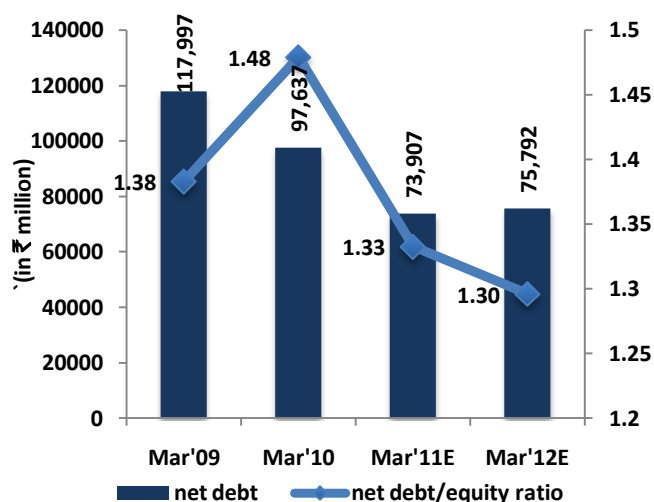
Suzlon Energy launches new S9x suite - Identifying new ways to develop

Suzlon launches new S9X suite of wind turbine designed for moderate to low wind regime. The production of S95 suite at 2.1 MW with 95 meter rotor diameter is scheduled to begin in Q2FY12. The company is also planning to launch its S97 suite at 2.1 MW with 97 meter rotor diameter in Q4FY12, backed by its robust order book. REpower, an European company acquired by Suzlon in May'07 also launched new variants in its 3XM series to follow cold climate version –the 3.2M with 114 meter rotor diameter for class-III wind sites with a hub height of 143m and 3.4M with a 104 rotor diameter for class-II wind sites designed to exploit the potential in low-wind locations. Going forward, in order to meet market specific requirement and to build technology leadership position in the wind industry by extending its technology advancement will be the key turn for Suzlon and help them to deliver higher yield at low cost. Through technological advancement, SEL has gained competitive edge over its competitor.

Strategic initiatives for FY12 to drive its planned growth

- ✓ Suzlon is well placed to reap benefits through its presence in the emerging markets. Also, once Suzlon takes its ownership in Repower from 95.2% to 100% in the next few quarters, its operating performance could improve, owing to further integration of RE power's business with Suzlon's existing wind power business.
- ✓ Strengthening position in emerging markets like company has installed base of 6,200+ MW in India and more than 50 project sites across 8 states.
- ✓ **Focus on executing offshore projects**
Globally the offshore market is expanding at the rate of 14% and projected to reach 43 MG installed capacity by 2020. Europeans are leading the way with a global share of 3.5% in total installations in CY'10 and is further planning to increase it to 8-9% in CY'15

Net debt to Equity



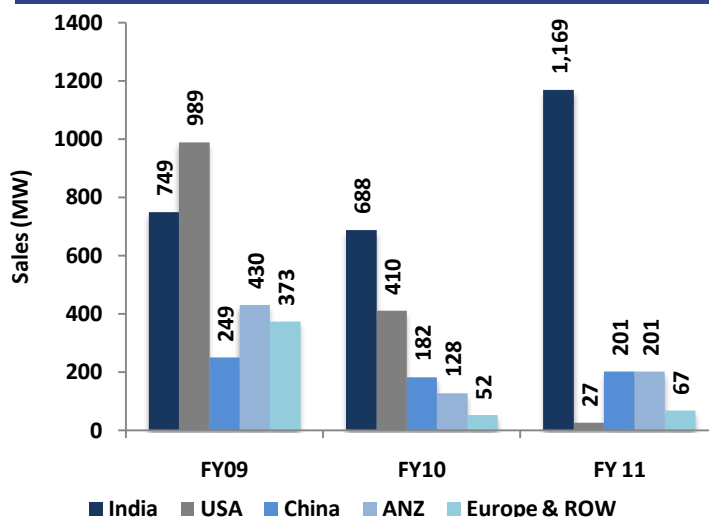
High penetration of new products in various markets

Products like Suzlon S9X launched for low windy sites; REpower MM100 and REpower 3.XM have been launched for all relevant geographies. The products are made according to the wind presence in the region as cold version of REpower MM100/3XM is to be launched in near future. Due to high penetration of new products Suzlon wind and REpower, if taken together stand as the world's third leading wind turbine supplier group in terms of market share. SEL's total market share is 9.8%. Suzlon wind with 6.4% of global market share and REpower 3.4% of global market share. Suzlon has competitive edge over its competitors as its new product launched with enhanced, innovative and comprehensive design, driven through the entire technology platform for better reliability and higher power yield in low windy. Better production of products helps SEL to meet customers' needs catering to market specific requirement and which further help in delivering higher yield at lower cost.

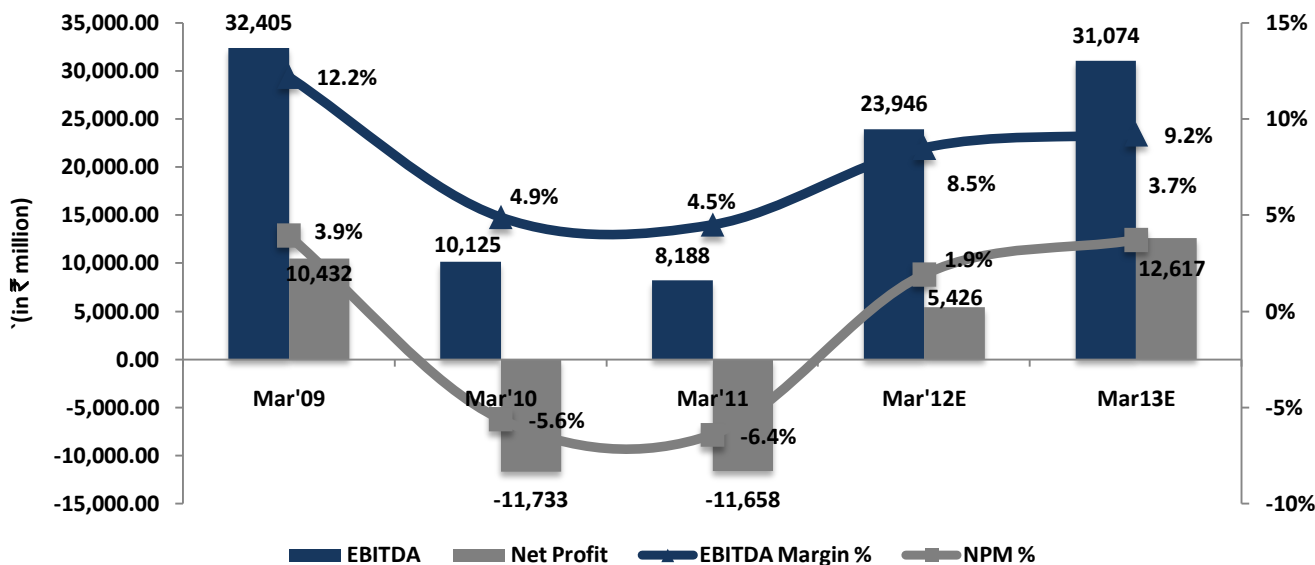
Emerging markets the next growth driver for Suzlon

With stagnant growth expected in both the US and European markets, Suzlon is clearly making a shift towards high-growth markets like India, China and Brazil. While the US market is dubious to grow beyond 5-6 GW per annum, Europe is expected to remain plane at 10 GW per annum over the next few years. Suzlon sees Chinese market as an opportunity to have its slice of cake from the annual addition of 18-19GW over the next five years. On domestic front the capacity addition is likely to grow to 6GW from 3GW currently, there by enough escalation prospective are there in emerging markets for the company to catch on.

Suzlon Wind: Volumes by geography



Margins, Revenue & Bottom-line to experience moderate growth



Business Overview

Suzlon Energy Ltd is primarily a wind turbine manufacturer as well as turnkey solutions provider in the wind energy space. In term of market share SEL is the world's third largest manufacturer of wind turbine generators (WTG). It provides comprehensive wind power solutions from assembling and installation to commissioning. SEL major products are rotor blades, generators, control panels, towers and gearboxes. SEL has operations in more than 25 countries spread across 5 continents. In India, SEL is the market leader with over e50% of market share in total installed capacity. Its customers include governments and corporations such as utility companies. The company produces turbines and generators at its facilities in India, China, Belgium, and the United States and offers comprehensive wind power packages, including servicing for all its products.

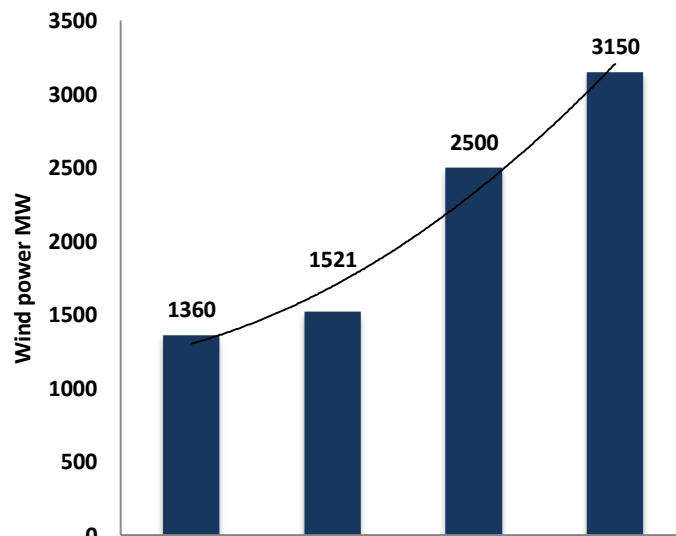
Synergy effect post 100% acquisition of REpower

Suzlon currently hold 95% in REpower and is initiated the process to take full control by acquiring the minority interest in REpower at €147/share. Post complete acquisition of REpower the company will have access to cash of RE Power to repay debt of parent company. This will also make Suzlon a key player in offshore projects providers as REpower poses strong capabilities in offshore technology.

Post complete acquisition of REpower, the management expects to further optimize its global operations, integrating REpower's European operations with Suzlon's other entities in India and China, which are low cost manufacturing hubs, this will make both the companies cost effective in this highly competitive sector. The post acquisition production capacity stood at 5900MW.

Execution to pick up

The company has executed over 1500MW of wind power during FY11 as against 1360MW of wind power last year, execution is expected to ramp up to 2500MW given the strong order booking activity in domestic front coupled with easing of concerns regarding the product quality. All this will provide stable earning visibility for the company during FY12E & FY13E.



Key milestones achieved in FY11

Operational	Strategic	Financial
<p>Suzlon Group: Largest yearly order intake booked in last three years: 4,026 MW, with Suzlon wind accounting for 2,626 MW (largest in last three years).</p> <p>New products (3XM, S9X) launched and order inflows growing</p> <p>Turbine availability rates above 97% consistently</p> <p>Consistently improving quarterly performance Financial</p>	<p>"Squeeze-out" threshold of 95% achieved in REpower and "squeeze-out" process initiated</p>	<p>Successful FCCBs issuance of \$175 million for strategic initiatives.</p> <p>Successful Rights Issue of ₹11,880 million.</p> <p>Rupee Loan refinancing of ₹106,940 million completed</p> <ul style="list-style-type: none"> ➤ 2 year covenant holiday and principal moratorium achieved FCCBs restructuring Completed ➤ All covenants removed

Wind Industry Overview

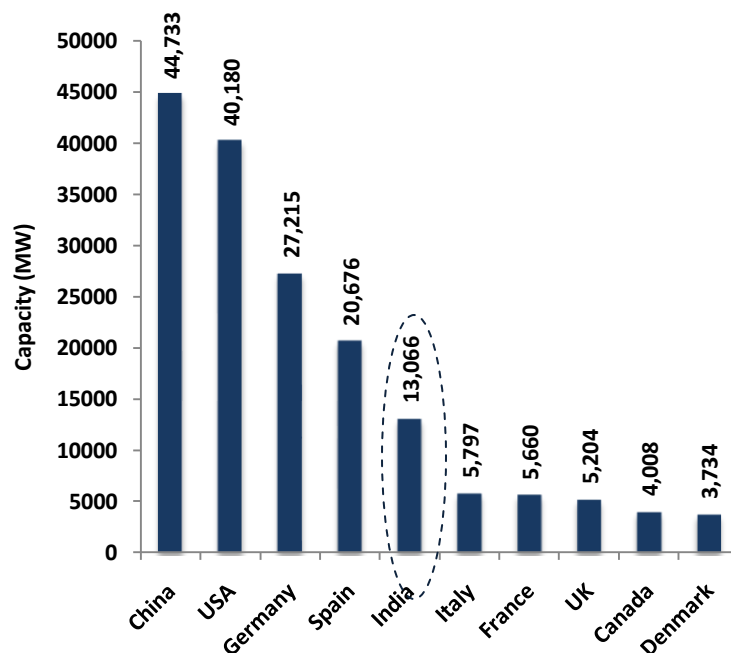
Wind Energy

- In current scenario of need of energy and increasing dependency over crude oil for energy, alternative energy source like wind energy has opted an important place in global energy market. In India, the growing need of energy for robust growth and concerns over climate change, the wind energy sector has become one of the fast growing sectors. The sector has an installed capacity of around 13,000MW. India is the 5th largest country in the world in terms of wind power capacity installation and emerging as one the fastest growing market for wind energy. India has an installed capacity of 3.23 kW per million US\$ of its GDP.
- In many countries wind energy is the major contributor to the electricity. All wind turbines installed globally by the end of the year 2010 contribute potentially 430 Terawatt hours to the worldwide electricity supply which represents 2.5 % of the global electricity demand.

In growing phase:

In the year 2010, the total Installed capacity of global wind energy stood at 196.630 Megawatt, after 158.7MW in 2009, 120.903MW in 2008, and 93.930 MW in 2007, a 22.5% increase on the 158.7GW installed at end of 2009 which is the result of \$65 billion investments in this industry in year 2010. After a dip in 2009, wind power industry see a high growth as it is now rapidly growing beyond the regular markets due to increased demands. In 2009 industry saw a growth of just 7% due to economic slowdown. But the growing demand of wind energy and the steady recovery in major global market for wind energy will boost this industry further. The market for wind turbines will continue to grow and the industry is estimated to grow at a CAGR of 22% through 2015 to reach 500GW driven by new generation additions and enhancement in technology.

Production Capacity



More from Asian region:

The world second largest economy China has surpassed the US in terms of total Installed capacity and now covers 46% GW of the global installed capacity of wind energy. China is targeting 200 GW of installed wind power by 2020, which indicates that demand will surge in coming years. And other developing countries also expanding their wind power installed capacity including India, which added 2.1 GW in 2010, Brazil (326 MW), Mexico (316 MW), and 213 MW were installed in North Africa (Egypt, Morocco and Tunisia).

Balance Sheet (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	3,113.5	3,113.5	3,113.5	3,113.5
Employee Stock options outstanding	156.7	100.0	100.0	100.0
Reserve and surplus	62,742.1	50,959.4	57,239.0	67,004.7
Net Worth	66,012.7	54,172.9	60,452.5	70,202.5
Preference Share	25.0	0.0	0.0	0.0
Minority Interest	3,284.8	3,492.3	3,722.3	3,982.3
Loan funds	126,679.4	107,677.5	91,525.9	77,797.0
Deferred Tax Liability	1,828.0	1,943.5	2,071.5	2,216.2
Capital Employed	197,829.9	167,286.1	157,772.1	154,197.9
Gross fixed assets	115,382.9	97,568.5	92,019.5	89,934.9
Less: accumulated depreciation	13,772.0	20,346.0	26,131.1	31,713.8
Net Fixed assets	101,610.9	77,222.5	65,888.4	58,221.1
Capital Work in Progress	4,130.4	3,492.7	3,294.1	3,219.4
Total Fixed Assets	105,741.3	80,715.2	69,182.4	61,440.5
Investment	10,922.9	9,236.5	8,711.2	8,513.8
Deferred Tax Assets	863.3	293.5	99.8	33.9
Foreign currency monetary translation diff.	2,536.8	1,623.6	1,039.1	665.0
Net Current Assets	77,765.6	75,417.4	78,739.6	83,544.6
Capital Deployed	197,829.9	167,286.1	157,772.1	154,197.9

Profit & Loss Account (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Operating Income	207,792.1	180,902.3	240,600.1	276,690.1
Growth in %	(20.3)	(12.9)	33.0	15.0
Other Income	694.6	106.6	111.9	117.5
Total Income	208,486.7	181,008.9	240,712.0	276,807.6
Expenses	198,361.6	172,821.0	220,149.1	251,788.0
% of Sales	95.5	95.5	91.5	91.0
EBITDA	10,125.1	8,187.9	20,562.9	25,019.6
% Growth	(68.8)	(19.1)	151.1	21.7
EBITDA Margin %	4.9	4.5	8.5	9.0
Depreciation/Amortisation	6,629.7	6,574.0	5,785.1	5,582.6
EBIT	3,495.4	1,613.9	14,777.8	19,437.0
% Growth	(86.9)	(53.8)	815.7	31.5
EBIT Margin %	1.7	0.9	6.1	7.0
Interest	11,950.3	11,356.7	7,949.7	7,472.7
Extra – ordinary items	(211.9)	37.3	150.0	150.0
Profit before Tax	(8,243.0)	(9,780.1)	6,978.1	12,114.3
Tax	3,561.3	1,807.3	2,168.8	2,494.1
Minority Interest	(89.5)	207.5	230.0	260.0
Share in earnings of associates	161.2	(278.3)	10.0	10.0
Net Profit	(11,732.6)	(11,658.2)	5,049.4	9,890.2
% Growth	(212.5)	(0.6)	143.3	95.9
NPM %	-5.6%	-6.4%	2.1%	3.6%

Key Ratios & Valuations (Consolidated)

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	4.9	4.5	8.5	9.0
EBIT Margin (%)	1.7	0.9	6.1	7.0
NPM (%)	(5.6)	(6.4)	2.1	3.6
ROCE (%)	1.8	1.0	9.4	12.6
ROE (%)	(17.8)	(21.5)	8.4	14.1
ROA (%)	(5.9)	(7.0)	3.2	6.4
Interest Coverage (x)	0.3	0.1	1.9	2.6
EPS (₹)	(7.5)	(7.5)	3.2	6.4
Cash EPS (₹)	4.2	4.1	11.8	14.5
P/E (x)	(7.0)	(7.1)	16.3	8.3
BVPS	42.4	34.8	38.8	45.1
P/BVPS (x)	1.2	1.5	1.4	1.2
EV/Operating Income (x)	0.9	0.9	0.6	0.5
EV/EBITDA (x)	18.1	20.3	7.4	5.6
EV/EBIT (x)	52.5	102.9	10.3	7.2

Valuations

Suzlon has reported a growth of 20% quarter over quarter in Q4FY2011 in terms of sales, with an objective to strengthen its position both in emerging and offshore market. Being a market leader in wind energy, its positioning provides better leverage to benefit from the fact that India is an energy thrust country. In recent fiscal Suzlon has bagged various orders and the current order book valued at \$6.7 billion. Further, the company is looking to offload their debt from balance sheet that gives clear indication of future growth. This, along with its strong technological capabilities overseas and low-cost vertically integrated manufacturing base in India, gives it an edge over competitors. Through REpower, the company has been able to tap the offshore wind energy market globally. Considering, the above aspects, we rate the company as "BUY" at the current market price of ₹53.



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