

March 17, 2006

Stock Rating
Equal-weight-V

Industry View
In-Line

Suzlon Energy

Acquisition of Hansen - Step in the Right Direction

Acquisition would help Suzlon achieve complete vertical integration: Suzlon Energy, through its 100%-owned subsidiary AE-Rotor Holding BV, Netherlands, has acquired a Belgian gearbox manufacturer, Hansen Transmissions for US\$565 mn in an all-cash transaction. This acquisition should give Suzlon the following benefits:

1) It should give Suzlon the highest level of vertical integration in the wind turbine industry. Suzlon will now be making all the major components in-house – these being rotor blades, gear boxes, generators and towers.

2) It will help Suzlon pursue its growth objectives without being exposed to the shortage of components, especially gearboxes, where demand outstrips supply.

3) It should help Suzlon design and manufacture better products: Hitherto the turbine and gearbox manufacturers have not had full access to each other's designs and the final product has fallen short of being optimal. Now, Suzlon should be in a position to design more optimum products as it will have complete access to all component technologies.

4) Suzlon could leverage the Hansen technology and set up capacities for manufacturing additional gear boxes in markets such as China and India. This will not only help expansion in margins for Hansen, but also help it capitalize on the growth opportunities in the gearbox industry.

Key Ratios and Statistics

Reuters: SUZL.BO Bloomberg: SUEL IN

India Multi-Industry

Price target	Rs865.00
Shr price, close (Mar 17, 2006)	Rs1,298.00
Mkt cap, curr (mn)	Rs372,317
52-Week Range	Rs1,342.00-565.00

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Hansen is a technology leader: Hansen Transmissions has a 33% market share in wind turbine gearboxes, just short of the 36% share of the market leader Winergy, the current supplier of gear boxes to Suzlon. The company's manufacturing facilities are located in Belgium and the company has a current capacity of nearly 3600MW of wind turbine generators and 3000 units of industrial gear boxes. Hansen's total sales for F2005 were Euro 213 mn. Hansen has a reputation of manufacturing high quality products and its product specifications range from outputs of 1.5-3MW, torques of 700-3500MW and weights of 14-22 tonnes.

Hansen acquisition should be value accretive: While little is known about the profitability of Hansen, we believe that given the technology edge of Hansen and the pricing power that the industry currently has due to a demand-supply mismatch, Hansen could easily earn net-profit margins of 10% and post revenue growth of 20% YoY over the next few years. Based on this, we believe that Suzlon has bought Hansen at a P/E multiple of 13x on F2008 estimates, which we believe is reasonable given the technological edge that Suzlon has now gained.

Vestas, Gamesa are key customers of Hansen: Vestas buys nearly 100% of its gear boxes from companies now owned by its competitors – Winergy (owned by Siemens and Hansen owned by Suzlon), which could make its supply chain vulnerable and also expose it to higher costs as the suppliers currently enjoy significant pricing power. Gamesa would be less vulnerable as it outsources just 40% of its gear box requirements.

Maintain Equal-weight rating: At Rs1296, Suzlon currently trades at 18.9x our F2008 estimates. We estimate that this acquisition should help increase Suzlon's EPS by 2-3% after adjusting the opportunity cost of capital for Suzlon. We maintain our Equal-weight rating on Suzlon as we believe that most positives are already captured in the current price, leaving limited upside potential in the near-term.

Company Description

Suzlon Energy Ltd designs, manufactures, maintain and operate wind turbine generators.

Industry View: In-Line

A focus on infrastructure and government spending is the key positive, but we think this is largely priced in at current levels.

MSCI Country: India

Asia Strategist's Recommended Weight: 1.8%
MSCI Asia/Pac All Country Ex Jp Weight: 6.4%



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(as of February 28, 2006)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	744	36%	276	40%	37%
Equal-weight/Hold	937	45%	323	47%	34%
Underweight/Sell	400	19%	95	14%	24%
Total	2,081		694		

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More volatile (V) - We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Unless otherwise specified, the time frame for price targets included in this report is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

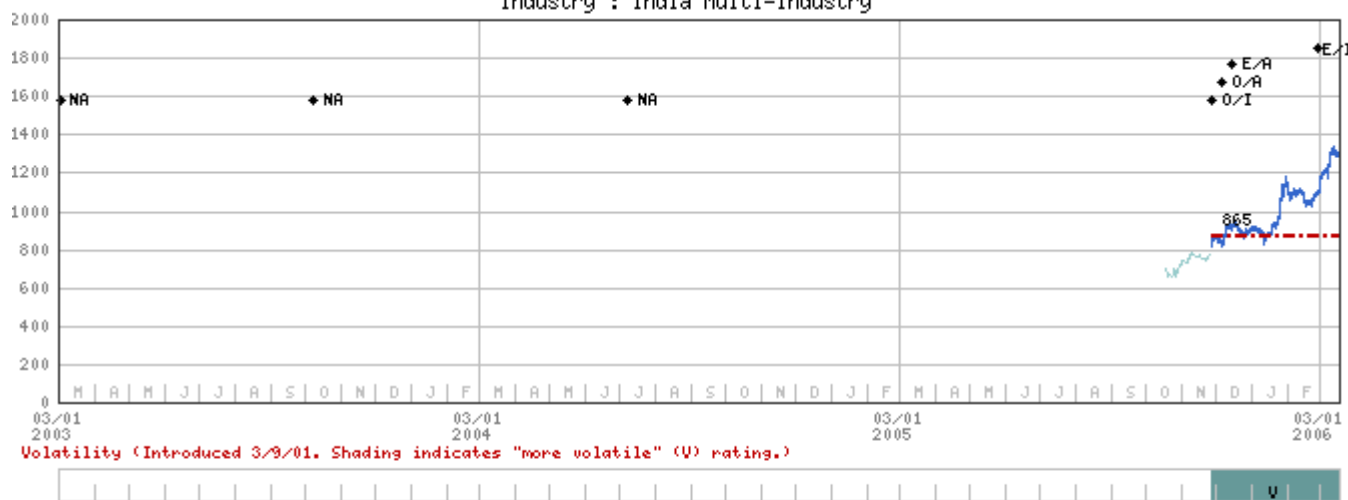
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Stock Price, Price Target and Rating History (See Rating Definitions)

Suzlon Energy (SUZL.BO) - As of 3/17/06 in INR
Industry : India Multi-Industry



Volatility (Introduced 3/9/01. Shading indicates "more volatile" (V) rating.)

Stock Rating History: 3/2/03 : NA; 10/8/03 : NA; 7/7/04 : NA; 11/28/05 : O/I; 12/6/05 : O/A; 12/15/05 : E/A;
2/28/06 : E/I
Price Target History: 11/28/05 : 865

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦
Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAU) ♦
Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Industry Coverage: India Multi-Industry

Company (Ticker)	Rating (as of)	Price (03/17/2006)
Satish Jain		
Bharat Heavy Electricals (BHEL.BO)	E (02/28/2006)	Rs2105.00
Larsen & Toubro (LART.BO)	E (02/28/2006)	Rs2465.20
Suzlon Energy (SUZL.BO)	Equal-weight--V (12/15/2005)	Rs1298.00

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