

Tanti Chases GE With Wind Turning on Cracked Blades

By Abhay Singh

The lights snap off in the five-story, gray-concrete building in Pune, India, where Suzlon Energy Ltd., the fastest growing of the world's top five wind turbine makers, has its headquarters. After 30 seconds of darkness, the fluorescent bulbs flicker on as backup generators kick in. "For us, it's routine," says Tuli Tanti, Suzlon's billionaire founder. "You have to understand the country's limitation and, within that, develop your business."

Tanti, 50, made his fortune in a decade by supplying wind power to Indian companies struggling with blackouts and soaring energy costs. The entrepreneur got his start in 1993, when he bought two turbines to reduce the electricity bills at his textile company in the western state of Gujarat.

Tanti's employees dug the foundations, installed the towers and connected the turbines to India's overburdened power grid - taking advantage of government incentives that let the firm swap the wind power it generated for the electricity it used. "Within two years, we understood the economics and dynamics of the industry and realized wind is a good source," Tanti says. "Why not focus on that industry?"

Suzlon Energy started in 1995 and now ranks as the No. 5 turbine maker worldwide. With oil soaring above \$147 a barrel in July and concern mounting about global warming, governments are enacting mandates to promote the use of alternatives like solar and wind.

Last year, utilities and other companies installed a record 20,000 megawatts of wind power, and the renewable energy source will make up 3 percent of the world's electricity production in 2012, up from 1 percent in 2007, according to the Brussels-based industry group Global Wind Energy Council.

Suzlon Stumbles

Suzlon began stumbling over its own rapid expansion last year. The company has been hit by management upheaval and the sale of faulty equipment, driving its shares down to 216 rupees yesterday from 387 rupees on Dec. 31, 2007.

The company's rotor blades shipped to customers in the U.S., Europe and Brazil developed cracks, prompting Edison International, California's largest utility owner, to cancel a large order. "Suzlon came out of nowhere," says Daniel McClure, who manages \$3.5 billion at I.G. Investment Management Ltd. in Toronto. "They've executed very well under Tanti. The concerns I have for the company are management of their growth."

The company's rapid ascent and recent setbacks present a cautionary tale for investors eager to clamber aboard the alternative energy bandwagon.

Bidding War

Kirti Vagadia, Suzlon's acting CFO, says the faulty blades have affected Suzlon's reputation and

the company is working with customers to limit the damage. Suzlon has set aside \$139 million to compensate customers for the cracked blades and now ships a stiffer product called V3, made of fiber-reinforced plastic, that hasn't broken.

"We have taken our customers into confidence," Vagadia says. "We are giving the right information to whoever is asking - - the media, analysts or investors."

Suzlon's investment in Hamburg-based Repower Systems AG is also a concern for investors. In May 2007, Suzlon won a bidding war with French nuclear power giant Areva SA with a \$1.6 billion offer for Repower, a turbine maker that also produces supersized offshore rigs.

Since then, Suzlon has raised its stake in Repower to 66 percent by buying out Areva's interest in the company even as the offshore wind farm business has been in the doldrums.

Offshore Wind Farms

Projects worth \$120 billion are stalled partly because of a shortage of construction ships and the soaring cost of steel used in the turbines. Repower's 5-megawatt turbine stands on a tower about 90 meters tall, holds blades that are 61.5 meters long and can only be serviced using a helicopter. Material costs have driven up turbine prices about 20 percent since about July 2007.

In the U.S., public opposition to offshore wind farms that may obstruct panoramic views is such a big obstacle that none have been built.

The Cape Wind project in Nantucket Sound off the coast of Massachusetts has been stymied by lawsuits. Democratic Senator Edward Kennedy, whose family owns property within sight of the proposed turbines, has objected to the potential impact on tourism and the fishing industry.

"Two years ago, I wouldn't have expected an offshore system in the U.S. until 2020 or so," says Randall Swisher, executive director of the American Wind Energy Association, a Washington-based industry group.

"But with surging fuel costs and the cancellation of so many coal plants on carbon concerns, especially in the Northeast we could see developments move forward much quicker than that."

China Acquisition

Suzlon is also confronting strife within its ranks. In April, CFO Krahenbuhl quit because of disputes with CEO Horbach, says Vagadia, who's a former director. A month later, the company's leader left after 16 months on the job to spend more time with his family, Vagadia says. Suzlon responded by naming an insider, international corporate development vice president Toine van Megen, as CEO to try to restore order.

"All is not hunky-dory at Suzlon," says Ambareesh Baliga, a vice president at Mumbai-based Karvy Stock Broking Ltd. "The departures are a cause for concern." Krahenbuhl and Horbach couldn't be reached for comment.

Tanti's trip-ups haven't made him more cautious as he pushes further into China, the world's second-biggest energy consumer, after the U.S. China's wind power capacity will exceed 30 gigawatts by 2020 compared with 2.6 gigawatts in 2006, according to the government-run Chinese Wind Energy Association.

Not A Family Business

As Tanti builds his clean energy empire, he stands out from Indian entrepreneurs in another way. When he retires, he's not going to hand Suzlon to either his son, Pranav, 23, or daughter, Nidhi, 22. Pranav works at Merrill Lynch & Co., and Nidhi works at Credit Suisse Group, both in Hong Kong. "I have not followed my father and run that business," Tanti says. "They will not follow me. Suzlon is completely run by a professional team. On the board, there is one family member. It's run like American or European companies."

Share Price

Those executives must find a way to lift a stock that had fallen 44 percent since the start of the year. That compared with an 8.7 percent rise for Vestas and a 1 percent fall for the ISE Global Wind Energy Index. "The most concerning issue for me is how quickly they put this blade issue behind them," I.G. Investment's McClure says.

Even with high oil prices, a company that draws on a resource as abundant and ubiquitous as air still has to make a product that customers want to buy at a price they're willing to pay.