"Suzlon Energy Limited Q1FY16 Earnings Conference Call"

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MANAGEMENT: **MR. TULSI TANTI – CHAIRMAN & MANAGING DIRECTOR, SUZLON ENERGY LIMITED.**
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MR. AMIT AGARWAL – CFO, SUZLON ENERGY LIMITED.

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Suzlon Energy Limited Q1 FY'16 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tulsi Tanti — Chairman and Managing Director of Suzlon Energy Limited. Thank you and over to you, sir.

Tulsi Tanti: Thank you very much. A very good morning, good afternoon, and good evening. Thank you for making the time to join with us. I am joined today by Kirti Vagadia — our Group CFO; Amit Agarwal — CFO and our Investor Relations Team. I hope you had a chance to go through our 'Investor Presentation' on our website.

First, I would like to share some details on our overall performance and then Amit will walk through our financial performance in the great detail, then we will be happy to take any of your questions. Q1 performance marks a good start to the FY'16, our turnaround year. Our strategic steps aimed at deleveraging, controlling the fixed cost and improving the profitability have started to give the results. Indian Government's thrust on the Clean Energy and Energy Security is clearly driving the demand. The various supportive initiatives taken by the government to meet the targets of the Renewable of 175 GW; Reinstatement of the key initiatives like the Accelerated Depreciation and GBI; the Green Corridor Initiatives, Stricter RPO Compliance, Introducing RGO, Classifying Clean Energy as the priority sector lending etc are the key initiatives by the central government, but the same time state government is also taking good initiatives to drive the renewable asset development and project execution on the ground.

Suzlon is uniquely positioned to benefit from the unique opportunity in India in the Renewable Energy space. Our competitive advantage are:

- As you know, we are working in a country more than 20-years and our pan India presence and ability to cater IPP customer, the government PSU companies and non-IPP segments and the retail, manufacturing, SME companies; this also hedge us against any state-specific risk in the country because policy environment is quite volatile in state wise, so our presence in more than eight states, so we are very comfortable. Sometimes some states are not right policy framework, so our risk is very low overall in the India business.
- The proven execution track record in the 20-years of operation history and the product reliability and performance on the field.
- Our best-in-class service reflected by the fact that every turbine sold by us in India is 100% service by us. Not only that we have completed 20-years the our first turbine has also completed 20-years and still it is running very well with the uptime up to 97%. So it is a huge proven track record across India to manage the complex service

organization in the country. We are a custodian of close to the nearly 9000 MW assets of wind projects in India and globally 15,000 MW we are operating and managing.

Our in-house technology, R&D and innovation centers efforts brought down the cost of energy down which is now competitive with the conventional source, and we are continuously investing innovation and technology to utilize the low wind sites in our country and also to bring down cost of energy continuously down by using the local supply chain management also.

As you know, our new product we have introduced in the market S111 90-meter, compared to the S97 120-meter enable us to give the 20% the higher energy production in the marketplace because this product is giving good energy and particularly this product is developed for the low wind site and specifically this design for the Indian geography keeping in mind of the grid infrastructure and the availability of the resource and manpower resource and the vendors availability in the country. These products are gaining the traction in having a sales of 55% in our new order intake for the Q1 and 31% in our holding order book.

We also launch S111 120-meter tower in next year which will generate additional 10% to 15% of the energy compared to even our recently launched product. FY-'16 is a growth journey of the Suzlon having a strong order book, decent development pipelines and adequate liquidity, our focus now is completely on execution with almost speed ramp up in volume and regain market share in Indian market, at the same time we are preparing ourselves for the other emerging economy markets in the world so that we remain very competitive in the marketplace continuously going forward.

Now I would like to invite Amit to address the detailed aspect of our financial performance.

Amit Agarwal: Thank you, Tulsi Bhai. Good Evening Everyone. First quarter of Fiscal '16 as mentioned by Tulsi Bhai truly marks the onset of turnaround for the company. The current quarter saw Suzlon Wind reporting highest quarterly domestic volumes of 205 MW in last 3-years. Highest normalized EBITDA of Rs.237 crores and margin of 15.3% as well in the past 3-years. Also, reported positive EBIT at Rs.175 crores after 3-years. Higher operating profitability in the current quarter can be attributed to improved gross margins due to execution of non-legacy orders as well as favorable mix of products and contract scope. Lower freight and other variable expenses due to domestic volume; substantially reduced one-off items such as LD due to business normalization as well as control over the fixed cost. With the completion of strategic initiatives, the quarter saw substantial reduction in our debt levels and we have our consolidated net debt excluding FCCB as on 30th of June close to Rs.7,000 crores compared to Rs.14,800 crores as at March '15. Our first quarter '16 fiscal interest expense declined by 36% quarter-over-quarter at Rs.293 crores. This quarter also saw a one-time exceptional gain of Rs.1289 crores being the foreign exchange-related impact due to Senvion transaction. Adjusting for the above and other special items, Suzlon reported a normalized net loss of Rs. -

119 crores. On the liquidity front, the company is well capitalized to cater to the growth opportunities. Our closing cash and cash equivalents is over Rs.3,000 crores in addition to the availability of the sufficient working capital lines to support growth volumes. Our 1.1 GW of order book, developmental pipeline, strong liquidity position, focus on execution and volume ramp up gives us a lot of confidence to continue to better our performance in fiscal '16 and beyond.

Lastly, for clarification sake to all our investors and analysts, the consolidated financials of first quarter fiscal '16 includes 1-month of Senvion's performance as a result of transaction being completed in the middle of the quarter. Accordingly, Suzlon Wind numbers are only discussed in the Investor Presentation as well as on the call.

Tulsi Tanti: Thank you, Amit. We will now take any questions you may have.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Bhalchandra Shinde from Batliwala & Karani Securities. Please go ahead.

Bhalchandra Shinde: Sir, first would like to clarify that in the 'Presentation' on the Slide #27, the numbers which has been given in P&L are purely Suzlon Wind or they include the Senvion numbers also?

Kirti Vagadia: It does not include Senvion number, it is purely Suzlon Wind, it does not include even SE Forge also.

Bhalchandra Shinde: Regarding the land bank, as we have previous interactions with, we have a land bank in the range of around 3,500-odd MW, so would like to know in which regions exactly our land bank is phased out, if you can give me a few states where a particular land bank is available with us?

Tulsi Tanti: So I understand normally we are not giving the detailed information on land banking, but as you know we are in the industry last 20-years and we have a quite sufficient land bank for the next 5-years project because that is our normal cycle time more than 700 Met Mast we have installed in our country and it is not just one state, it is eight states — Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Andhra Pradesh, Tamil Nadu, Karnataka and Kerala. So these are the all 8 states we have the good pipeline. And as you know the last 3-years we are passing through the quite difficult financial situations, but we will maintain the certain momentum in building the pipelines so we have a quite sufficient and healthy pipelines are available and that we are now utilizing and executing projects for that. So whatever our plan for the next 5-years we have a sufficient pipeline.

Bhalchandra Shinde: Would like to know on the land bank purpose only, do we have any skewed land bank concentration on any state or it is a pretty well-spaced out across most of the states?

Tulsi Tanti: Because it is 8 states, Kerala is little bit lower but most of the 7 states more or the equal the volumes we can say (+/-10%).

Bhalchandra Shinde: Because what I wanted to exactly understand is like as per the industry interaction that Andhra Pradesh and M.P. is going to add up around 1,000 MW probably in this year of the business installation, so will Suzlon will be able to aptly provide that kind of a land bank for that kind of installation?

Tulsi Tanti: We have more volume in Andhra Pradesh. A little bit less in Madhya Pradesh but overall it is quite good volume current year also and for the next 3-years also.

Bhalchandra Shinde: About debt structure which you have specified in the ‘Presentation’, exactly the credit announcement bonds have been specified, and the maturity have been given that March ’18 bullet maturity will happen for $647 million. So would like to know a scenario where is there any possibility that the bondholders may show quite strict stance and may not restructure or you think that it will get easily restructured to a different maturity?

Kirti Vagadia: Bhalchandra, this is Kirti Vagadia. First of all it is a market product, so bond holders naturally on a maturity need to be paid and probably the credit extension is provided by the banks. So credit enhancement providers have agreed for a suitable extension up to 5-years.

Bhalchandra Shinde: They have already agreed for the…?

Kirti Vagadia: Correct, they have already agreed even it is approved in CDR as well that extension up to 2023 can be provided. So now it is an administrative mechanism that at a right time we will replace from old bond to new bond till 2018 we have a time window.

Bhalchandra Shinde: Sir, within that space in that slide only, rupee term debt you have said that maturity back-ended next 3-years nil. So, in that we do not have to pay anything in this rupee term debt for next 3-years or I am interpreting it wrong?

Kirti Vagadia: No, I think you are interpreting right. The way we have structured our repayment that whatever term loan we are paying right now or we have paid right now out of Senvion sales proceed, the amount is getting credited to the immediately due installments rather than prepayments. So it is credited against the installment becoming due in next 3-years. So in a way we are ensuring that business do not have pressure for repayment.

Bhalchandra Shinde: So, what will be the average interest cost per quarter from next quarter we will get a full quarter where our net debt will be lower than earlier?

Kirti Vagadia: The band you can estimate depending on various situation is quarterly somewhere between Rs.225 crores to Rs.250 crores.

Moderator: Thank you. The next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: My first question is Suzlon has traditionally been a strong player in the AD market in the past. How have this market picked up so far and since it was re-allowed and do you see any downside or upside risk to the market size of 3.5 to 4 GW a year?

Tulsi Tanti: The market is quite positive and customer segment is quite distributed, lots of PSU investment is flowing — State PSU and Central PSU — IPP investor anyway a big part is there and the 3rd is the captive and group captive and retail, SME company for AD benefit and other thing. So it is a quite versatile customer profile. So demand side is not an issue. Now, the supply side is turbine capacity in India is not a constraint but the executions of the projects how much is feasible and also the policy regulatory framework implementation in timely, so that will drive the market. We are quite, feeling is there, that current year may be almost 3 GW can be possible and next year it will go 4 GW.

Sumit Kishore: My second question is how many GW of Solar or Wind capacity addition, can the grid in India actually accommodate in the next 3-years the way it is because even the green corridors will take some time to ramp-up, and so where are the challenges higher in Wind or Solar?

Tulsi Tanti: I do not see that is the bottleneck is there because whatever the demand energy is increasing and plus the certain deficit in the system is there, it will continue for the next 5-years I do not see the technical constraint on that part area, but the unique opportunity is there to bring the Wind and Solar Hybrid, it can be penetrated much more than only Wind or only Solar.

Sumit Kishore: Suzlon has bid for 260 MW Solar Projects in Telangana as per newspaper reports with tariff ranging from 5.4 to 5.6. Now, what would be your cost of debt for the Solar projects the estimated capital cost and what is the IRR you expect to make on such tariffs?

Tulsi Tanti: It is very early to comment on that, but currently the way the wind business we are doing we have identified some of the good substation location where we can able to build the Wind and Solar project, part of that we are doing this project. It is not our investment, it is purely to build the project and sell the project…

Kirti Vagadia: Churn the portfolio basically.

Sumit Kishore: So you will not be operating the project, you will just build it and sell it?

Tulsi Tanti: Yes. The way we are doing Wind, Wind FIT is available, so if I want to Wind or Wind and Solar Hybrid I need a tariff from the state government and that is the only options to bid and process we have to take, but we have identified some locations where we want substation wise. That is the area we have bid. So it is not we are getting something awarded will be 110 MW.

Sumit Kishore: What sort of equity IRR will the buyer be able to make at this tariff?

Tulsi Tanti: It is too early to say in that. In the next call may be all detail will be available.

Moderator: Thank you. The next question is from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar: Two questions: one is on your operational numbers on the gross margins. If you can simplify that 45% margin that looks a little bit or significantly higher than what most people make in the market on the Wind Turbine market. Has there been due to increase in deliveries or more higher quantum of products only and less EPC, if you can clarify that? Second is if you can give us a geographical break-up of your installations of 205 MW this quarter?

Amit Agarwal: In terms of the gross margin, as we talked about that we have in this quarter particularly some the product mix and the BoP as you rightly pointed out that is one factor which creates almost 6% to 7%, then there is an foreign exchange currency movement that also plays the role of close to 1.5% to 2% and we have been able to cut down some of the cost in the OMS global business that is another 1%. So that put together we are in a position to achieve the 45% gross margin.

Ashutosh Narkar: So, what would be the fair normalized gross margin at around 35-36%, would that be a fair assumption?

Amit Agarwal: Yeah, around that number, and all the volume which we have is primarily in India the full 205 MW has been done in India.

Ashutosh Narkar: On the second question, if you can give us some idea about your 205 MW installation in a geography…?

Tulsi Tanti: May be Sameer we will give you the details.

Ashutosh Narkar: On the Solar order which you guys have received, if you can quantify what would be the margins you would make or what is the addressable market within per MW cost that Suzlon will be able to capture out of that Rs.6 or Rs.7 crores per MW cost?

Tulsi Tanti: I think it is very difficult just to define. It is each location wise, the cost structure is quite different depend on the land and infrastructure cost panel and everything is common, but the ranging of the cost is based on 20% loading, it will be somewhere Rs.5.5 crores per MW.

Ashutosh Narkar: What I mean to say is excluding the panel, we would be focusing on probably around 60-70% of the project cost where we will earn margins?

Tulsi Tanti: It is based on tariff and now based on our engineering expertise and project execution expertise. So we are somewhere targeting is 10% margin because it is a 100% bought out item, we are not manufacturing anything.

Kirti Vagadia: And just to add that on a project, maintenance as well as on a power evacuationand all those areas we can use our common resources.

Tulsi Tanti: For Wind and Solar.

Moderator: Thank you. The next question is from the line of Amar Kedia from Nomura. Please go ahead.

Amar Kedia: I have two questions: One is on your SG&A expenses. I see there is a sharp reduction both sequentially as well as on a YoY basis in this line item. What I wanted to understand is how much of this is sustainable and have you changed any of your accounting practices in terms of providing for warranty and it will also be helpful if you can just highlight what is the provision for warranty that you used to provide and what it is now?

Kirti Vagadia: First of all there is no change in any accounting policies per se, we continue to maintain the same accounting policies, I would say our numbers are reviewed by our auditors on a quarterly basis so far as every item are concerned and similarly provisions as we mentioned that we have about 3.9% of revenue as a provision in current year, the number differs from 2% to 4% from quarter-to-quarter depending on what we are executing, but current quarter that number is about 3.9% so far as guarantee and warranty is concerned. So far as cost is concerned, yes, there is a less amount of a surprise or unpredictable items because now we are going on a steady state execution basis, so we do not have any legacy order as Amit mentioned in initial speech. So what we have done is a quality execution. And our fixed cost during last three years is brought down to a manageable level right now. So we are managing at a lower cost and we will continue to manage in a similar cost, barring what manpower we need to add for new manufacturing facilities and services business.

Amar Kedia: Would it be possible to highlight what would be the sustainable run rate of SG&A expenses or maybe what is the fixed cost and variable component within this overall SG&A cost that we have seen in this quarter?

Kirti Vagadia: Manpower and OPEX, which is a fixed cost in nature one can assume fairly somewhere between Rs.1450 crores to Rs.1500 crores on a full year basis.

Amar Kedia: My second question is about working capital. So we have seen working capital moving up a little which was expected. So on a full year basis I remember you have been earlier guiding about 12-13% of sales as your sustainable networking capital. Is that right?

Kirti Vagadia: Net working capital current quarter we have achieved and kept at about 2.3%, naturally in last quarter we told that we will be around 10%, but internally our target is to manage between 5% to 7.5%.

Amar Kedia: I was looking at this industry in general, for example, your competitors they are actually guiding for working capital levels which are much higher, almost 40% of sales. So how come you will be able to manage at less than 10%?

Kirti Vagadia: You have seen our number for last many quarters we have been managing, and it is a function of many things — terms with supplier as well as customer, the cycle time within which we are managing our business and the efficiency which we have developed hard way during these last 3 difficult years.

Moderator: Thank you. The next question is from the line of Deepak Narnolia from Antique Stock Broking. Please go ahead.

Deepak Narnolia: I had a question on gross margin which we have answered. #2, what is the amount of debt which you have repaid from the Senvion proceed in this quarter, you were mentioning somewhere around Rs.5,000 crores prior to the deal?

Kirti Vagadia: Yeah, it is the same amount we have paid.

Deepak Narnolia: About the working capital, earlier, you were saying 10-12%, now the actual scenario looks like somewhere around 6-7%?

Kirti Vagadia: Yeah, 5-7.5% definitely we internally work hard and tried to see that how best way we can utilize our cash.

Deepak Narnolia: Also, sir, this quarter on a rough basis if I calculate your realization of this 205 MW of delivery, it looks lower in comparison to the past trend?

Kirti Vagadia: I think you are right that if you are just dividing the MW you will get those kind of a number but in fact it is not reduced, it is primarily due to whatever is the scope difference, in current quarter we have more supplies and less BoP work. That is the key reason. As far as sales is concerned we are maintaining our sales price per megawatt.

Amit Agarwal: And also the proportion between the OMS revenues as well as the turbine revenues that also… because this is a normal quarter now, in the past we used to have a significantly lower volume of MW delivered and that is also the reason.

Deepak Narnolia: It is mainly because of the mix that is giving? If we divide purely with the turbine delivered figure, it has not reduced actually, but it is showing a reduction mainly because of the mix?

Kirti Vagadia: Yes, that is correct mix between OMS and turbine business and within turbine business supply and project.

Moderator: Thank you. The next question is from the line of Akshay Soni from Morgan Stanley. Please go ahead.

Akshay Soni: My first question is to do with the order backlog that you have of 1.1 GW. From my understanding in India business, you would execute that within the current year, right?

Tulsi Tanti: Yes, absolutely.

Akshay Soni: So assuming no further order inflow for this year, you would still be able to execute 1.3 GW for this year giving you about 40-45% market share, right?

Tulsi Tanti: This order book will be executed in next 12 months, so all will be not in current year, it will go in the next year partly.

Akshay Soni: If you get an order now, would that still be able to be executed in this year itself or would that flow into next year now?

Tulsi Tanti: Now whatever the new order is coming it will go for the next financial year mainly, but very some small order of the one, two, three, turbine retail some can go for the current year, but the main large order will be mostly on the next year.

Akshay Soni: Second question is while you said that 7% is the new net operating capital to look at for us. Does that include the Solar side where you are setting up of 110 MW, will that stay on your balance sheet for a while or do you have a customer right in front standing on it who will be paying you in advance on that?

Tulsi Tanti: No, the way we are developing the Wind project and we are building the project and then we are selling the project. So part of the working capital it will remain. So that project next year will add in a top line like the same way the Wind project is there.

Akshay Soni: So the 7% guidance includes the Solar side also?

Tulsi Tanti: No, the outcome of the 7% is the current year is there, based on the next year whatever the volume if you are ramping the volume then some percentage will improve but not much more.

Moderator: Thank you. The next question is from the line of Deepak Agarwal from Elara Securities. Please go ahead.

Deepak Agarwal: My first question is on this order inflow and the order backlog that you have of 1.1. Does this include 110 MW of Solar?

Tulsi Tanti: No, it does not.

Deepak Agarwal: What is the plan if you can just slightly elaborate to how far you want to go into Solar maybe because the bids will keep on coming during the course of the year, so what is the game plan of the company?

Tulsi Tanti: I think Solar is an extremely complementary strength for the Suzlon because our presence across the pan India is there. Second thing there is not a single OEM is available in Solar to provide the complete solution including the long-term service supports and everything. So we are positioning ourselves on Solar, but solar has lots of segments are there, our major focus is the complementary strength is so many sites and so many substations mainly for the grid infrastructure where we are looking to bid the Wind and Solar project together, so that execution part and long-term service and support part will become easier for us. As you know, the Wind is available by the FIT mode, but if I want to do the same area some Solar project I have to go through the bidding process so we have identified across the India some of the locations and substations either we have an existing Wind farm or we have a plan for the next 3-years some execution of the projects. So those substation areas we are doing a certain size of the bidding and we can take the PPA, we build the project Wind and Solar and common infrastructure we can use, and then we can use the 20-year service support or 25-years for both the project and the same set of customers is buying. So for us is not extra any cost to the company because same infrastructure or same organizations whether it is a development team, whether it is a project team, whether it is a service team, a common complementary strength and we want to leverage to enhance the top line through both the source of energy, but in Solar we are not going in the manufacturing activities because quite established supply chains are available domestic and globally so we want to leverage that, but what we are doing is more on value-added projects on our engineering front which we see currently it is not happening, at the same time we are doing a front ending the energy solution provider to the utility company on a utility scale project which is giving more plant load factor in the grid. Because if somebody goes in Solar, it is just 20% plant load factor in the grid and very few of synergies are available which is not long-term sustainable only on Solar, whereas Wind is 24-hours energy availability and 30% plant load factor, but when I go in some of the locations where both the resources are available common, which we are leveraging, which can load the grid it is up to the 40% to 45% which has become a very good for the utility company, and by that way we can load the grid very efficiently and we can reduce the losses and other things which is very value creations and same time I do not have a much cost on that part, only just I need additional working capital, and the cycle time in Solar is 6-month where Wind is 12-month. So it is a huge complementary strength why not we leverage in Suzlon without any additional financial requirement.

Deepak Agarwal: So the strategy more or less is to look for Solar sites, adjacent to your existing Wind parks which you have developed over so many years so that you can increase the average PLF level of the given area?

Tulsi Tanti: Yeah that and whatever the next 5-years project is under pipeline development, same, both area because 100 MW Wind projects suppose is running in our new construction the 50 MW additional Solar does not require any grid infrastructure, same 100 MW grid we can penetrate 50 MW Solar, the grid cost and infrastructure cost is out plus service, it is a common main power setups can do for both the projects.

Deepak Agarwal: How do you see the customers' response to this kind of hybrid model because they would be seeing this for the first time possibly, so …?

Tulsi Tanti: No, there is a two way; either one customer can buy both the project or two different customer buy the project, grid is anyway a common resource for every customer, it is not owned by any customer.

Deepak Agarwal: So a clear challenge for you then is how competitive you keep your bids so that the incoming investor make a reasonable IRR on that because the cost of Solar keeps coming down, so you might win a bid and build and set up this plant but since a lot of bids are expected in next 2-3-years you might actually lose out possibly, you win another bid maybe 6 or 12-months down the line?

Tulsi Tanti: I do not see because if somebody is doing standalone Solar for them is a more cost than me. When I am doing Solar based on my existing set ups and complementary strength so cost to the company is less, second I have engineering and technology expertise to optimize the project cost and everything and we can do more efficient way because the capability of executions and engineering solutions and the grid infrastructure capability. So compared to anybody else the standalone Solar compared to us we will be most competitive, no doubt about it.

Moderator: Thank you. The next question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: I think there has been enough discussion on Solar and Wind. Just to understand from you a little bit more on whether the investors that you are pitching to, are they finding Solar as a better option or Wind as a better option or both are complementary, the investors are agnostic and which has better returns from an IRR perspective?

Tulsi Tanti: Investors understand only IRR, they do not understand Wind or Solar much more, and they understand what IRR is better they will invest because product and technology wise quite maturity in both the fields is there. So ultimate it is a game of the business for investors and they all are the financial investors so where the IRR is better, as per me the current market and environment Solar IRR is lower and Wind IRR is better today.

Abhishek Puri: So Wind definitely has the advantage of preferential tariffs, whereas Solar has to be bid on a competitive bidding?

Tulsi Tanti: No, both have different set of situations is there but Wind is because of the cost structure and other things and energy production and everything and because of that the IRR because the way we are introducing the new generation of the turbine, its reducing cost of energy substantially down and continuously reducing. So that is the advantage is there. The tariff perspective, it is more or whether Wind or Solar more, the identical tariff is there, but the biggest benefit in Wind is there, the CAPEX invest more or same, tariff is more or same, the financial cost is more or same, the biggest advantage is Solar is giving 20% PLF where Wind is giving 30% PLF. So that is the advantage compared to the Solar. So Wind will remain competitive not now but in future also.

Abhishek Puri: Secondly, for the Wind sector, have we heard about any competitive options because I understand there were some draft policy papers put up by Maharashtra and Rajasthan?

Tulsi Tanti: I think the current MNRE or regulatory environment point of view that is not practically possible for Gujarat, Rajasthan, Maharashtra or for any state, it is not their part of the regulatory framework, so they will continue the FIT part, but if suppose they will come with the competitive bidding and other thing environment it is not so easy like solar, it is more complex because here a specific identified site is becoming very important, as a company, we are fully equipped for that and it should be not any negative impact on the industries, it may be positive also.

Abhishek Puri: What is your expectation for the market size for this year or next couple of years?

Tulsi Tanti: I think market will continue to grow when we are talking about specifically Wind. So this year almost the 3 GW and then next year will be 4 GW and certain momentum and initiatives will continue from the state level, so then it may go up to 4.5 GW in the 3^{rd} year.

Moderator: Thank you. The next question is from the line of Pranav Gokhale from Religare Invesco. Please go ahead.

Pranav Gokhale: Sir, can I just have a data point in terms of what is the net worth we start in FY15, what is the kind of tax shield is available for us?

Kirti Vagadia: Yeah, net worth on a consolidated basis definitely it is a negative; however, at a standalone company basis the parent company wise it is positive.

Pranav Gokhale: Can you disclose the number or it is not disclosed?

Kirti Vagadia: I think balance sheet numbers are not disclosed, so naturally I will not be able to give you selective numbers on a net worth, but as you know that on a half yearly basis we need to disclose the balance sheet number, at that time we will publish it.

Pranav Gokhale: Second question is on the Solar, the strategy will be to be an EPC player or will you go and actually put in solar power plants as well?

Tulsi Tanti: Whatever the Wind business model what we have it is the same identical business model for the Solar but not in manufacturing, rest of it remain common, build the project and sell the project and do the service for 25-years.

Pranav Gokhale: So the bidding which happened for Telangana, where you had submitted bid for 260 MW, that is for building up Solar plants or that was selling Solar Power at a particular unit?

Tulsi Tanti: No, we build the project and we will sell the project. We are not going for investment in the Solar segment or the Wind segment, only we have done the joint venture with one company where the 500 MW capacity we are going to build and that also going forward it is a build-and-sell model.

Pranav Gokhale: The third question is if you see the competitive scenario evolving considering other guys are also vying for that market share, do you see any pressure on working capital or margins going ahead, I am talking about normalized level of working capital not what you are currently?

Tulsi Tanti: So, why working capital will increase, what reason?

Pranav Gokhale: If you have seen the scenario in the past, when competitive scenario increased, the competitors tend to be lenient on credit terms as such which tends to increase the working capital scenario for the industry as a whole.

Tulsi Tanti: No-no, in Indian market, I do not see that is the case and where market is growing, why somebody can give a more credit and other thing. Competitive environment is not that much growing in India. It is not an equipment sale market in India, it is quite project sale in Indian market. So, we do not see the pressure on working capital will increase because of the competitive environment but yes, if the project cycle increase, then working capital will increase, if the project cycle will decrease, working capital requirement decrease. That is why we are going on a 12-month project cycle which is a very good cycle, we can control our working capital within 10%.

Pranav Gokhale: Because competitor is closer to 150-170-days in some ways, but you are confident that you will be around 10% on a fund base level, right, sir?

Tulsi Tanti: No, 10% what we are talking is net working. On the credit side, it is not required because as per the terms and conditions, once we complete the project within 30-days each and every customer is paying. If the payment cycle is longer, that means project has stuck up somewhere.

Kirti Vagadia: Secondly, I just wanted to highlight that we have a Make-to-Order model, so we do not build inventory in anticipation of order. After receipt of order, we start our process on manufacturing and other things. And that is why our working capital levels are strictly under control. Definitely, we do have a sufficient liquidity but we will be using it very-very carefully.

Moderator: Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: What do you mean by normalized EBITDA which is Slide #9? Which are the expenditures which you have excluded from it?

Kirti Vagadia: Basically, in a normalized EBITDA, we have taken out only two line items – one is FOREX mainly because it is not coming from any operational activity but it is coming from my balance sheet-related SBLC backed bonds and FCCBs and same way there was a one-off kind of a small amount of LD which is Rs.24 crores and on Slide #10 we have already given both special items which are taken out while calculating normalized EBITDA.

Mohit Kumar: How has been the enquiry of order in last 4-months compared to last year for the entire industry and how has been the AD market for this particular since the AD has come back, so have you seen any improvement in the enquiry?

Tulsi Tanti: AD market is nearly 25% of the total market and enquiry is coming and people are again starting reinvesting in captive energy requirement mainly so that they can hedge their power cost at the same time they can take the tax benefits. So that market is moving slowly but good. Overall order momentum and everything, whatever the normal growth of 20-25% what we are looking, I think that is the level of the inflow is moving reasonably good.

Mohit Kumar: Have the states been signing PPA, how much of order book already has signed PPA with the states, is there any way to give a color?

Tulsi Tanti: All the states are signing the PPA. Only challenge is that based on that PPA, if you can make a project viable, then there is sales possible, so that is the challenge for the industries are there, like Rajasthan is signing the PPA, Gujarat is signing, but low PPAs there, but still we are doing project in Gujarat also, Maharashtra currently has announced the policy for the past project but now for the new PPA they have not yet announced, we are looking at but 3,500 MW, they have allocated for the Wind whether it is captive or group captive, that is possible, it is called industrial PPA and Andhra Pradesh has recently announced, so PPA just beginning, Madhya Pradesh PPA mechanism are there already, Tamil Nadu is there, but it is quite low and Karnataka is also signing the PPA. All the states is signing PPA. There is no constraint on the PPA front. The challenge I told you, with that PPA pricing, how to make project viable, I think that is the competitive edge in Indian market where Suzlon is extremely well-positioned.

Mohit Kumar: Have you heard anything on Offshore Wind Power policy and do you think this will take up in the near-term?

Tulsi Tanti: The group of the departments in the Government is working and framing out through MNRE to establish the policy framework for the offshore but still yet not the work is completed, we see it may take this financial year.

Moderator: Thank you. The next question is from the line of Ankur Dewani from ABP Investments. Please go ahead.

Ankur Dewani: My question is regarding the overall debt profile. I think in the last quarter in the FY15 presentation that we saw, rupee debt was standing at Rs.10,100 crores. Assuming that most of the sale or the entire sale proceeds on Senvion Rs.5,000 crores goes towards that, could I please understand how exactly the debt profile is today because if we have seen Rs.7,000 crores which means that about Rs.3,000 crores have been saved, what is the utilization of fund from the Senvion side?

Kirti Vagadia: Last year rupee debt was roughly about Rs.10,100 crores and if you go to a current year number it is roughly about Rs.5,600 crores, Rs.3,300 crores which is on Slide #8 plus Rs.2,300 crores on a working capital. So basically as on 30th June it is Rs.5,600 crores. Post June we repaid about Rs.600 crores to some of the lenders and that is why in a previous question I mentioned that we have paid a roughly about Rs.5,000 crores out of Senvion proceeds.

Ankur Dewani: And the balance we assume is being used towards working capital?

Kirti Vagadia: Yeah, basically, right now it is not lying idle, naturally it is used for reducing our working capital. You know that we need to invest Rs.405 crores in joint venture for Wind Power Project Development plus we need to build our development pipeline which is land and power evacuation, for that also we will be investing heavily in this sector. So naturally, the cash which we have right now is parked in a cash credit account. So we are cautious about our interest cost but in future these are the major deployments.

Ankur Dewani: Could you give me indications that from all of these cash that we have currently parked, what is being utilized towards long-term development and what is being utilized towards project or project for specific funding?

Kirti Vagadia: Project specific funding you mean current assets or a net working capital?

Ankur Dewani: Net capital, yeah.

Kirti Vagadia: Basically, roughly you can assume that on a long-term basis Rs.400 crores for joint venture plus Rs.300 crores for CAPEX related thing. So, about Rs.700 crores will be deployed in a long-term and rest is available for business as working capital.

Ankur Dewani: Secondly, the question is with the current Suzlon standalone, assuming that our numbers are still not PAT-positive, can we assume that with the debt reduction in the next quarter on the finance side, we could be potentially PAT-positive?

Kirti Vagadia: I would not guide on profitability, but so far as interest is concerned, you know that the Senvion money came in April and as well as equity money came in middle of May. So, full quarter benefit was not available of entire funds in interest saving. So, you can say that full year basis our sustainable interest cost will be about Rs.900-1,000 crores and on a full year basis, on volume which you can take, you can work out but our intent is on a full year basis to be break-even.

Ankur Dewani: The first quarter numbers where the debt is included, not only debt but any financing cost related to Senvion included for those 30-days where it was taken into consideration?

Kirti Vagadia: In a consolidated number which are Clause-41 number, the answer is yes. This presentation does not include any Senvion-related cost.

Moderator: Thank you. The next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Utkarsh Maheshwari: Actually, I just wanted to get an idea, what should be the sustainable EBITDA margin levels for us in the times considering the capacity utilization what we have at this juncture with the order book which we have in hand?

Kirti Vagadia: Naturally, we do not give guidance and you know that EBITDA will always be a function of what kind of volume we are executing in a particular quarter but on a long-term sustainable basis in a current cost structure one can fairly assume that something between 13% to 15% is a sustainable EBITDA margin.

Utkarsh Maheshwari: What can be the sustainable rate for the service income what we generate on a quarterly basis?

Kirti Vagadia: It is constantly going to increase. As you know that on a quarterly basis we are currently at Rs.361 crores but with the installation growing plus some of the installations which will go out of a warranty period or free OMS period, so naturally…

Utkarsh Maheshwari: So, what can be the rate from Rs.361 crores can we expect a sustainable number like Rs.370, 380 odd crores a quarter which will progress…?

Kirti Vagadia: That would be a fair assumption looking at what we have installed in the last couple of years.

Utkarsh Maheshwari: As for understanding, basically what you have explained is that the Solar will be most likely kind of an EPC business wherein you will be only doing that installation part, right, you will not be taking any portion of the raw material risk, right?

Kirti Vagadia: Yeah, we will not be in the manufacturing side, that is correct.

Utkarsh Maheshwari: Any idea of what can be the FY17 projected debt position for you guys on this Rs.7,000 odd crores of net debt?

Kirti Vagadia: We do not have any plan to add any new debt. That is what I can say.

Utkarsh Maheshwari: Any kind of reduction plan viable or feasible sort of a thing?

Kirti Vagadia: FCCB I need to pay 28 million in April 2016.

Utkarsh Maheshwari: Apart from that there is no other reduction, because …?

Kirti Vagadia: Right now we are not looking at any long-term reduction, we believe that this is a manageable debt level, another reduction which will happen always is due to conversion of convertible bonds.

Utkarsh Maheshwari: That will happen only in July ’19, right, that FCCB which is $299 million?

Kirti Vagadia: People can convert from convertible bond to equity.

Utkarsh Maheshwari: But that is what FCCB portion, right?

Kirti Vagadia: Yeah, I am talking FCCB only.

Utkarsh Maheshwari: But that is open till July ’19, right?

Kirti Vagadia: Yeah, till July ’19, but there is a mandatory conversion feature at certain conditions. In ’16-17 if there are certain conditions met, then we can force mandatory conversion roughly about 180 million.

Utkarsh Maheshwari: What can be the price for this conversion, any range is given?

Kirti Vagadia: Yeah, I think it is already there in our public document. If I remember correctly it is 175% of the conversion price for the FCCB. So, 15.45 plus 75%.

Utkarsh Maheshwari: That is like something available as a window for the bond holder in FY16-17?

Kirti Vagadia: It is available to company, bond holder do can anytime.

Utkarsh Maheshwari: It is in your hand. This is execution, right, can we exercise in this duration for these guys?

Kirti Vagadia: Correct, for 180 million we can exercise this right if price is performing.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was the last question and this question queue will now be closed. I would like to hand the floor back to the management for closing comments. Please go ahead.

Tulsi Tanti: Thank you very much. I would like to conclude by saying that the road ahead is very clear and have a good tailwind. The various effort put in by us have started to bear the fruits. With the resurging of the Indian Wind story given the government thrust on the clean energy and energy securities and favorable condition in place, we are confident that we will play a significant role in India's mission of the Clean and Affordable Energy to all. Our strong order book and pipeline in FY16, positive business outlook, and conducive policy framework give us the immense confidence to deliver on our goals. Thank you very much for joining with us.

Moderator: Thank you, Gentlemen. Ladies and Gentlemen, on behalf of Suzlon Energy Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.