"Suzlon Energy Limited Q3 FY17 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Suzlon Energy Limited Q3 FY17 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 for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. J. P. Chalasani – Group-CEO. Thank you and over to you, sir.

JP Chalasani: Good evening to each one of you. Thank you very much for attending the call. I have with me Mr. Tulsi Tanti – Our CMD; Kirti Vagadia – Group-CFO and our Investor Relations team. Sanjay Baweja our CFO could not join the call because of marriage in the family.

I hope you had a chance to go through our investor presentation. However I will walk you through our Q3 results and then Kirti will take you through the financial performance in greater detail. Post that we are happy to take your questions.

First and foremost, we are happy to share that Suzlon is on the path of sustainable profits which will help us to achieve our targets. It is the second consecutive quarter where we have given robust results. Our Q3 FY17 demonstrates strong performance and a sign of sustainable growth. It gives me immense pleasure to share with you that we at Suzlon achieved a milestone of 10,000 MW of installed capacity making us the largest renewable energy company in India. Today we have a market share of 35%, we are not just number one but also market share of 35% in terms of wind capacity.

We are the only company with a presence in all nine windy states and we have over 14 manufacturing facilities in India, living up to the idea of truly Make in India. It is not just 10,000 MW of installed capacity we are also the fourth largest operating and maintenance company in the entire power sector. We are only after NTPC, Tata Power and Adani but in fact if we add the capacity what we operate outside India we are actually number two Indian O&M company.

Two new rotor blade factories were successfully commissioned in Andhra Pradesh and Rajasthan. On the technology side, which have been sharing from time-to-time, that our S111-120 prototype is now nearing completion because its testing started sometime in April and as we gave the guidance we are sure to cross the PLF north of 40%.

Wind energy in India delivered highest installation of over 3,400 MW in FY16 and as we guided right in the beginning as our Chairman Mr. Tulsi Tanti has been saying we are sure that we will achieve over 4 GW in FY17. On the solar side 49% of divestment in 210 MW solar project in Telangana is completed and we are in advance stage of negotiations for another 130 MW.

With this now I will ask Kirti to take you through the detailed aspects of our financial performance.

Kirti Vagadia: Thank you JPC. Good afternoon to all of you. I am happy to share that Q3 and 9M FY17 financial results demonstrate our sustainable and profitable growth. In Q3 our consolidated revenue is Rs.

3,307 crores which is 20% up on quarter-on-quarter basis and 76% up on year-on-year basis. Consolidated EBITDA is at Rs. 745 crores which is up by 27% on quarter-on-quarter basis and 124% on Y-o-Y basis. We reported a net profit of Rs. 304 crores.

If we see nine months our revenue is Rs. 7,703 crores which is 24% up on Y-o-Y basis and EBITDA is Rs. 1,502 crores which is 70% up on Y-o-Y basis. We reported a net profit of Rs. 296 crores in nine months. The EBITDA and PAT number which I have given are pre-Forex impact basis, as forex loss in our case is purely non-operational. We are happy to note that our focus on business efficiency have yielded positive results. Our strict control on costs coupled with volume expansion and right product mix is reflected in our strong financial performance. Our net working capital improved to 79 days in this quarter despite inventory build-up for strong Q4 and increase in debtors as a result of 20% quarter-on-quarter increase in revenue.

We expect working capital cycle to further normalize over next two quarters. Our order intake for this quarter is 557 MW taking our nine months' order intake over 1 GW. Our order book as on date stands at 1,231 MW which is valued at Rs. 7,523 crores. Consolidated net term date excluding FCCB now stands at Rs. 6,538 crores. Our net finance cost increased in this quarter by Rs. 33 crores primarily due to temporary increase in working capital usage for volume ramp up. We are happy to note the improvements in credit rating for the Group. You are aware that Suzlon and its domestic subsidiaries as well as SE Forge credit rating have been upgraded from BBB- to BBB by CARE Rating.

Further to that our service division which is operation and maintenance business under Suzlon Global Services Ltd has been issued a provisional rating of A- by CARE. The improvement in credit rating will enable us to optimize our interest cost.

JP Chalasani: Thank you, Kirti. We are now open for questions, please.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar: Congratulations on superb set of results. A couple of questions. One on the market outlook. If you could give us an idea now sitting down three quarters into this year, are we on track as an industry and us for roughly around say 1,500 to 1,600 for Suzlon and close to around 4,000 MW for the industry. That is one. The second question was on your prototypes. If you could tell us the prototype which you have put in now, the 120 meters what would that wind speed be at? And if you were to like-to-like if it were to go from Gujarat to some of the less windy states, how would that 40% expectation be and what has been the current, so we are already almost ten months into this prototype, what has been the result?

Tulsi Tanti: So first of all let us give an update about the Indian market. I think last two years Indian market growth in renewable wind and solar combined almost a year-on-year 100% growth. $2.5 billion investment moved to the $5 billion and this year it is moving to the $10 billion. So 4.2 GW capacity will come in the wind in this year, which is good visibility. It will be executed because mainly it is on a commissioning basis. So the last moment will be 50 MW plus or minus. So the market is robust.

Second thing the domestic market now the last bidding in a 1 GW also the demand has come from the different-different investor is 2.6-2.7 GW. So demand market it is a good and momentum is good. So if I see the next three to five years the market momentum will continue but the competitive landscape will change and that is good. So currently market is moving from one phase to another phase in transformation phases. I can say because now no more accelerated depreciation or 80IA benefit or GBI. Still Government has not concluded for the GBI because we have wait for up to the 1st of April. But assuming it is not continue, till the next year market we believe it will continue to grow by 15% minimum. So that size will continue to grow, because there is a good number of states are giving supports on FIT market and additional 1 GW bidding which is 23rd of February will be decision may be the finalized. So that 1 GW will be added. Another pipeline of some bidding is there almost 1-2 GW is there so that will be also available. So based on that its momentum is positive and it will remain in the market at least by 15% growth so somewhere a 5 GW size of the market will be for the next year. So that is for the market.

Ashutosh Narkar: Sir, if I understood it correctly you are saying that the current 1 GW bidding which you expect to get concluded over the next few months' time or so, you are witnessing another 1-2 GW of bidding pipeline, is that correct?

Tulsi Tanti: Yes.

Ashutosh Narkar: And this is again the same government auction you are anticipating or something else?

Tulsi Tanti: No, the Central Government auctions because they are preparing another 1-2 GW bidding will come in the next phase. So once it will be February over after that immediately they will take. So this gigawatt anyway will be delivered in the next financial year plus whatever the normal market is available it will be continued because bidding is not replacing the existing market. The bidding is giving additional market so there should be a clarity we should all bring. So that market doubt we should remove in the mind because market is there. So there is no concern on that.

Secondly, your question of the product S111-120 in the ten month performance point of view it has already delivered a 69 lakhs unit actual performance which is 37-38% PLF is already delivered. But still two months has to be complete so it will achieve the 40% PLF. Now coming to whether that 40% can be possible in a different-different state, if I take this product into the Tamil Nadu it will exceed 40%. If I go to Karnataka it will remain same the 40% is there. But if I go to the MP it will be 35%; if I go to Rajasthan it is 35%; if I go to Maharashtra it is somewhere like 38-39%. So it will be 35% to 42% range, it will remain on the PLF.

Ashutosh Narkar: So at what point in time do you start marketing this particular product?

Tulsi Tanti: Already we started marketing this product and we also received almost more than 100 megawatts order. And more of 200 megawatts order is in pipeline which very soon by this year we are closing.

JP Chalasani: This product will be one of the maximum product sale for next year.

Moderator: Thank you. The next question is from the line of Shirish Rane from IDFC Securities.

Shirish Rane: Sir, a couple of questions. One on this bidding. We have said in our presentation that there are 1.7 GW of our customers have bid for this auction. Does it mean that we have some kind of pre-bid tie up on equipment supply or is it just an information?

JP Chalasani: No, this is we had discussions with them and we have a different type of pre-bid relationship with each one of those customers.

Shirish Rane: So in a way you can say if any of these 1.7 GW of bids were to be declared winners, we can be assured of some kind of an order?

JP Chalasani: Yes.

Shirish Rane: Second is how does the pricing work because unlike so far where the feed in tariffs were decided so your project or your equipment cost could be within a certain band. Now there is going to be a reverse auction on tariffs. So will the equipment cost change materially depending upon what the final bid tariff is?

JP Chalasani: See there will be multiple factors here. Obviously the equipment pricing is only one factor which is going to decide your tariff. So second thing it will also depend upon is who are those bidders, what sort of a hurdle rate they have and what sort of interest rates they have, what is their cost of equity, various other factors is what it is going to change. It is a combination of factors. So many of them are in their own hands and some of them such as our equipment prices with us. So therefore combining all these factors what will decide the tariff.

What you are seeing today in solar is the same way. So they have a different parties having different return expectations and different access to the different funding. Some of them if you see are deep pockets, they have a cheaper funding. So all that will decide who will be of what aggressive based on this.

Shirish Rane: Sir, just to clarify. What I was looking for is will our let us say I win a bid so my pricing let us say I would have agreed at let us say 100 initially. Will that undergo material change based on the tariff which the counterparty wins at?

JP Chalasani: No.

Shirish Rane: Only our price remains broadly within a pre-agreed range?

JP Chalasani: Yes, we have a range with each of these bidders. So obviously that is what we can offer them and beyond that is what they will offer their own. As I said that you know hurdle rate, cost of capital various efficiencies what they bring in into the bidding.

Shirish Rane: A related question, sir. What I understand is government wants to encourage this bidding route more and more as we go forward relative to the feed in tariff regime. So do you see any pressure on our sort of realization and hence in turn on our equipment margins? Because as more and more bidding happens probably there is more competition to reduce the project costs?

JP Chalasani: No, I think let us have some fundamentals clear here. The current bidding whatever is happening and which is what Mr. Tanti was talking about follow up bidding of 1-2 GW is basically not meant for those states which are wind states. You are not supposed to sell this capacity to them, so that market remains intact today. What this bidding is doing is increasing and enlarging the market canvas. Because we have an interstate transmission the transmission charges are becoming zero, it is now taking the power from this windy states to the non-windy states which was not a market today. They are zero market today. So therefore the whole bidding is doing is that it is enlarging the canvas for the market and that is the reason we expect the volumes to grow significantly.

Moderator: Thank you. Next question is from the line of Shabad Thadani from Arkkan Capital.

Shabad Thadani: Just a quick question on the working capital situation. Can you just give me a sense of what the normalized working capital would be specifically for the inventory and the receivables as well as the trade creditors? It seems like it is quite elevated now. But are you expecting that to drop down as you deliver more volumes in the fourth quarter and what kind of quantum of working capital liquidation should we see?

Kirti Vagadia: See on working capital the inventory built up is primarily due to the fact that we have higher volume in Q4. So naturally it is going to go down once we go on a normal volumes on a quarterly basis. Similarly receivable as you are aware that invoicing or receivable has built up in December itself so that happens always on a quarter end date. But if you take on a normal basis, probably we have a situation that debtors also remain in control. Our ideal working capital which you can expect net working capital is currently we have reduced it from 86 days to 79 days, ideally we would have preferred to be around 60 days.

Shabad Thadani: And so what kind of volume guidance or what kind of volumes that you are expecting in the fourth quarter just so we can gauge how much of that working capital might unwind?

Kirti Vagadia: We would not give a guidance on a volume per se but definitely it is higher than what we have done in Q3.

Moderator: Thank you. Next question is from the line of Deepak Agarwal from Elara Capital.

Deepak Agarwal: My first question is in your existing order book, can you help us understand how much of this order book would be carried forward for FY18 at least approximately?

JP Chalasani: Obviously this is the previous question that Kirti has answered, we cannot give a guidance on how much we are going to deliver in Q4. So definitely we cannot really say that how much will be the carry forward but there will be significant quantity will be carry forward to the next year as well from some part of this order book. Plus we will be booking many more orders in Q4 which are now in the final stages of concluding the bid. So we can say that we expect that we will open up order book in the same level as what we had last year.

Deepak Agarwal: Okay and my second question is do you see any impact of this 1 GW bidding like it is likely to spill over from FY18 to FY19 in terms of commissioning because what we have understood is that it is a very comfortable execution timeline and it is not like 12 months it is usually in 18 months you can deliver. So instead of FY18 we can see this kind of commissioning pushed to FY19, is that a likely scenario?

JP Chalasani: See the conditions talk about 18 months from LOA but it does not prevent you from doing it in nine to ten months and you know that every investor, every developer wants to develop the projects much quicker because he wants to convert the capital into revenue account much faster on this. So therefore if the cycle required is let us say nine months it will be done in nine months. So therefore our expectation is most part of these orders at least what we get will get delivered in FY18 itself. That is the comfort that we have 18 months period it does not mean that we will drag it to 18 months to execute.

Deepak Agarwal: Okay and my last question if I can squeeze in. Can you help us understand this new rotor blade capacity that you have commissioned in Rajasthan and AP, so how much capacity it takes to and what is the CAPEX that we have done in nine months?

Kirti Vagadia: Yes, so far as our CAPEX is concerned, it is in the range of Rs. 250 crores to Rs. 260 crore in nine months, that include R&D capitalization as well.

JP Chalasani: And as far as these two are concerned, it is more significant from the point of view of looking at having the rotor blade capacity in all the windy states. I think we look at more from that point of view that is significant advantage to us. And it is about 400 megawatts capacity.

Moderator: Thank you. Next question is from Gautam Prasad from Deutsche Bank.

Gautam Prasad: Actually two quick questions. First one I want to understand the impact of the import duty cut on certain wind and solar equipments. So how does that affect Suzlon? And my second question is basically from the looks of the presentation the cash for the company it seems has gone down, whereas we see improvements in the working capital and in the bottomline numbers. So just trying to understand did the company make any specific investment in Q3 that has led to the reduction in cash?

Kirti Vagadia: First about the duty it is definitely a welcome move but the quantitative impact of that is not very significant I would say. And on cash you are comparing which period to which period?

Gautam Prasad: I am just comparing it to the last quarter if I am not mistaken based on the debt number we account the cash should be around Rs. 106 crores and this is I think it was Rs. 150 crores in the last quarter. I am just trying to understand the working capital situation has improved and the bottom line also improved and I think it has also picked up some, the company also picked up I think around if I am not mistaken $35 million of debt. So I am just trying to understand if there is any exceptional item that the company invested in for Q3?

Kirti Vagadia: There is nothing exceptional and so far as cash is concerned, the cash here is lying in a cash as well as mutual fund, if you take sum total of both then I would say that as compared to Q2, our cash balance has increased not decreased.

Moderator: Thank you. Next question is from Pavan Parekh from HDFC Securities.

Pavan Parekh: Sir, my first question is on the margin. So this quarter we have done again 20% plus margins and so in the previous call you guided about 15%, 16% to be the sustainable margins. So what is the outlook here?

Kirti Vagadia: In current year we should be somewhere between 17% to 18%.

Pavan Parekh: Okay and should this be sustainable going ahead?

Kirti Vagadia: Next year it is safe to assume that we will be somewhere between 15% to 16%.

Pavan Parekh: Okay and sir secondly on the solar you must be aware recent solar bids has fallen below Rs. 3 per unit. And sooner than later other renewable sources also including wind also have to be competitive below 3. So I mean does that really concern you in terms of your margins over next two or three years?

JP Chalasani: No, first of all let’s have clarity on solar bids. It is not what we look at as. The bids which you are talking about minus Rs 3 is excluding the Rs. 0.05 escalation.

Pavan Parekh: So I think that Rs. 2.97 is the levelized tariff so I think Rs. 2.69 and then there is a Rs. 0.05 escalation. Rs. 2.97 is the levelized tariff?

JP Chalasani: Yes, on top of it they have a grid curtailment as a deem generation which was not available for anybody till date on this. And they have a guarantee for payments and then they have 25% to DMRC. There are some intangible things which has come on this. But it is a good tariff, the tariff has come down but it is not same as what we are looking at. But you know the other side of it is that the wind it takes efficiency levels of what we are talking about 35%, 40% what Mr. Tanti just explained in terms of S111-120. It has a much higher efficiency level compared to the solar. So therefore, wind can always withstand much better tariffs than solar.

Pavan Parekh: Okay, so what do you mean by efficiencies I mean essentially it is the per unit cost which we look at, right?

Tulsi Tanti: No, the plant load factor of the solar is 18% to 20%. That is the maximum is achievable is there, maximum 20% where the wind is giving 35% PLF. There is a competitiveness between wind and solar. Also we have to understand the solar bidding is under two, three parameters. The product is coming from China and they have a surplus capacity in this segment and pricing is at some pressure plus the solar equity investor expectation of IRR is lower. So that is why it is one scenario is there. In a wind bidding area, it is so many other parameter is there so it is not comparable. It is possible only on those windy site it is not possible everywhere and if the higher PLF anyway is available with the wind, so it will remain very competitive on that environment. With cost is going down and everything and IRR expectation of customer is going down so the scenario will be the wind also will be the tariff will be very competitive in the market place. And bidding is generating additional market and additional volume.

Pavan Parekh: Okay so sir, are you visualizing I mean so in next two three years or so in the wind bidding also we can see tariffs between Rs. 3 to Rs. 3.5 a unit?

Tulsi Tanti: It is not possible.

Moderator: Thank you. Next question is from Sudhakar Prabhu from Span Capital.

Sudhakar Prabhu: I have couple of questions. So my first question is on your order book. Does your order book include anything from your international market?

JP Chalasani: Right now, no.

Sudhakar Prabhu: No meaningful inflow from international markets in the order book?

JP Chalasani: Yes, we expect not meaningful is very big word so therefore I do not want to use the meaningful word, but we expect that order inflows will start to come in FY18 from international markets.

Sudhakar Prabhu: So inflow will start only in 2018 and execution would be post that?

JP Chalasani: Partly in FY18, partly thereafter.

Kirti Vagadia: In international execution means supply.

Sudhakar Prabhu: Yes only supply. And my second question is on you know you had this MoU with Andhra Pradesh government for 4,000 MW, so what is the update on that?

JP Chalasani: Under that agreement today we have now sold the projects, we are executing the projects and we are selling more and more projects. So in fact today we are the market leaders in Andhra Pradesh.

Sudhakar Prabhu: So out of that how much would have supplied or you know included in the order book?

JP Chalasani: I think by the end of March when we give you our yearly account we will fully tell you how much we have done in AP.

Sudhakar Prabhu: Okay and third question is you mentioned that you know by the end of this year you should end with the order book similar to FY16. So FY16 was around 1,250 odd megawatts. So do you think you would have end with similar numbers or more than that?

JP Chalasani: I said similar numbers. I stick with that numbers.

Sudhakar Prabhu: Sure. And my last question is again on this margin thing. So you said your consolidated margin for FY17 would be 17% and FY18 you said it would be 16%?

JP Chalasani: 15% to 16%.

Sudhakar Prabhu: So what would lead to this fall in margins in FY18 assuming that you will execute more than what you did in FY17?

JP Chalasani: See even this year if you remember we always give a guidance of 15% as this thing. So there have been efficiencies but we will go back unless we are really sure about sustainability of these margins we do not want to give a guidance. We feel that 15% to 16% is sustainable margins that is the reason we give the guidance for that level.

Moderator: Next question is from the line of HR Gala from Panav Advisors. Please proceed.

HR Gala: I just wanted to know what is the overall position with regard to that by 2030, 4000 GW to be added? Are we still on the course to that?

JP Chalasani: 2030?

HR Gala: 132 gigawatts?

JP Chalasani: Country as a whole?

HR Gala: Yes.

JP Chalasani: That target of 132 renewables that is the total?

HR Gala: Yes, exactly.

JP Chalasani: Yes, I think the growth what you are looking at from last year to this year if you see, yes, we are on the right track. But of course it is too early to say that but trend is the right trend what we are looking today.

HR Gala: But I think in your slide 26 you have shown that in FY17 we are expecting 4,300 MW?

JP Chalasani: In wind?

HR Gala: In wind, Yes. So if you take even wind alone separately I think there will be a substantial gap as we move ahead unless we move to 5,000 MW to 6,000 MW?

JP Chalasani: Yes, but you need to look at the growth rate.

HR Gala: Not the growth rate I am saying in absolute term if you have to reach say 60,000 MW?

Tulsi Tanti: Just to clarify you today India has already installed capacity is 28 GW. Now balance we have to deliver 32 GW by 2022. If we take a simple average it is 6 GW which is 100% achievable and we are very confident India will deliver 60 GW by 2022.

HR Gala: Okay and at that time sir what will be our share?

Tulsi Tanti: That time means, sorry?

HR Gala: By 2022 say currently we are at around say?

Tulsi Tanti: We have already communicated earlier the next five years we are going to deliver 15 GW in India. So out of 32 GW almost 14 GW to 15 GW will come from Suzlon.

Moderator: Thank you. Next question is from the line of Mohit Kumar from IDFC Securities.

Mohit Kumar: A couple of question regarding solar, sir. So far we just spoke about 210 MW which you already divested, we are talking of another 130 MW. But as far as I can see I think we have 70 MW in Maharashtra and the balance with Jharkhand and there is no PPA as of now for Jharkhand, am I right?

JP Chalasani: This 130 MW has nothing to do with Jharkhand. This is 70 megawatts in Maharashtra and 60 megawatts in Rajasthan.

Mohit Kumar: So is there any update on Jharkhand PPA, are they getting signed or has it been postponed?

JP Chalasani: They are saying now they will sign this month, let us see.

Mohit Kumar: And sir, my second question is regarding Solar EPC because you will be doing this so this 210 MW plus 130 MW today is to be executed over next maybe one year. So what kind of top line you will be booking in this particular financial year is there a guidance that you can share?

Kirti Vagadia: If you can take roughly about Rs 7 crores per MW.

Mohit Kumar: No, if we got how much megawatts which can be effectively get added to our top line for FY17 and FY18?

Kirti Vagadia: Yes, in FY17 it is fair to assume that we should be doing something between 75-100 MW in current year and the balance will go to next year.

Moderator: Thank you. Next question is from the line of Balchandra Shinde from Anand Rathi.

Balchandra Shinde: Sir, regarding overseas sales I wanted to ask you. In US how you expect your penetration to come out means like in FY18 will it add up substantial amount in your order book or what is your initial target to get into the US market again?

JP Chalasani: As I said sometime back we will be restarting the order booking as well as delivering next year FY18. So initially the next year will be modest it could be anywhere between 100-200 MW and then gradually it will pick up from here on thereafter.

Balchandra Shinde: And on the profitability front, how it will be, will it be margin dilutive or margin accretive to the current order book?

JP Chalasani: In India?

Balchandra Shinde: Yes?

JP Chalasani: As we said at some time back we said that this is a pure supply contract. So you would not be able to compare with Indian market where we have the EPC mostly prominent on this. So therefore they are not comparable.

Balchandra Shinde: Okay, so you will be acting just as a product supplier.

JP Chalasani: Yes.

Kirti Vagadia: And our new product which is S128 which is developed for international market so once that product is coming into market in calendar year 2018 at that time you can see big traction in the international market.

Tulsi Tanti: And also we have to understand that international market business model is separate here it is a total turnkey EPC, international is just equipment supply. So we have a more production capacity to deliver. So it is a standalone if you see the margin of international market maybe 1% or 2% lower but in a consolidated basis it will remain same because it is giving the leverage to lots of fixed cost area.

Balchandra Shinde: But will it be product manufacturing at a US base only or from India because I think to supply from India it would not be that much feasible?

Kirti Vagadia: No, it is feasible. First of all so far as international is concerned we are developing a lean organization everywhere so we are not adding any fixed cost. We will deliver all the components only from India and looking at the currency as well as the shipping market it is quite competitive.

Balchandra Shinde: Okay means on the freight cost how much it will be as a percentage of the total sales if we really consider manufacturing it in India and supplying it to US markets?

Kirti Vagadia: You mean the shipping cost?

Balchandra Shinde: Yes, the shipping cost.

Kirti Vagadia: Yes, one can fairly assume that it will be somewhere between 8% to 10%.

Moderator: Thank you. The next question is from the line of Shrinidhi Karlekar from HSBC.

Shrinidhi Karlekar: Sir, I have a couple of questions. If you see revenue in O&M business is largely stable on a quarter-on-quarter basis yet our margins are pretty volatile. Can you just help me in understanding that?

JP Chalasani: Now margins in?

Shrinidhi Karlekar: This O&M business.

Kirti Vagadia: On a quarterly basis OMS margin, may not be comparable for you primarily due to the fact that India is having a high wind season and low wind season and some of the part consumptions just before high wind season is high. So I would always advise that if you are comparing OMS margin please try to measure only on annual basis rather than quarterly.

Shrinidhi Karlekar: But sir, we do not see like that seasonality in revenues but it is there in the margins so I am still?

Kirti Vagadia: Yes, seasonality is there because before high wind season you need to be ready with all the turbines so component consumption just before high wind season is a little higher.

JP Chalasani: You have to compare on annual basis, you really cannot compare on quarterly basis.

Shrinidhi Karlekar: Okay and sir have you booked any divestment gains till 9M FY17 on the solar project?

Kirti Vagadia: No.

Shrinidhi Karlekar: No and will it happen in Q4 or it will happen only after 100% divestments?

Kirti Vagadia: It will happen only after projects are completed.

Shrinidhi Karlekar: Project complete okay, I am particularly asking divestment?

Kirti Vagadia: Once the respective projects are completed those kinds of gains will be booked. So part of the gain will go into my EPC margin and minor portion will go into equity profit.

Shrinidhi Karlekar: Right and sir just one last. Can you give me like annual capital expenditure guidance?

Kirti Vagadia: The guidance remains same that we will be in the range of about Rs. 300 crores to Rs. 400 crores annually and that include the R&D capitalization as well.

Moderator: Thank you. Next question is from the line of Sharad Sharma an individual investor. Please proceed.

Sharad Sharma: Sir, in the Senvion sales there was a clause which said Euro 50 million payout will be dependent on few conditions. Can you elaborate if and when we see the probability of that coming through? And what is the 35 million additional FX debt that we have taken between Q2 to Q3 and the impact of Senvion entering India market, sir?

Kirti Vagadia: Okay the first question is Senvion related 50 million earn out, that is purely linked with their exit, the exit of the buyer, from Senvion. So I do not see that it is going to come so quickly. That is number one. Number two, your question on forex debt. We have some $35-$40 million debt raised in foreign currency during this quarter. So that is something which is added and that is partially trying to optimize our interest cost. And thirdly, your question was on a market, Senvion entering into market.

Tulsi Tanti: The Indian market is big enough there is a space for so many suppliers not just Senvion but Vestas has also started again business and GE is doing. But we have to understand that the Indian market the per MW installed cost basis is the lowest in the world is there. So it is not the easy market to get the business and there is a unique strength and competency is required for the business model perspectives. So there is a space for everybody because the cake is growing bigger and bigger so everybody will get some business.

Moderator: Thank you. Next question is from Sanjay Parekh from Reliance Mutual Fund.

Sanjay Parekh: Sir, one is where do we see the net debt reduction in the next two years? And also related question is since the interest rates are on softer side, when do we see our average interest cost going down? And do we plan to shift from overseas debt to domestic debt at a point because we do carry a currency risk on overseas debt? So this is my first question. And I have another two questions please?

Kirti Vagadia: Net debt is a function of three things basically. One is whatever we generate from operations as a profit, that will help us in reducing the debt so profitability estimate definitely I am not going to give you, that you need to make your own calculation. The second thing is which will impact debt reduction is potential conversion of our FCCB. And the third area which we have already guided to market way back in July that we will be monetizing couple of our subsidiaries in next 12 to 18 months that will also lead to a debt reduction.

Your second question was interest reduction. Definitely the country rate of interest reduction as well as our credit rating upgrade both are positively going to help us in interest cost reduction per se and we are working on that direction to optimize our cost. Lastly, on a currency side I would say that it does not make sense to replace 3.3% annual cost debt from foreign currency to rupee at this juncture.

Sanjay Parekh: And a follow up is do we see our O&M revenues because the new installations also we do regularly which is 1,500-2,000 MW. So can we say over next few years this revenue would grow at more like 15% to 20% what would be the range that we should see for O&M revenues, please?

Kirti Vagadia: I think initially 20% is a fair estimate to make.

Sanjay Parekh: And the third one is the renewable norms by SEBs or even any new generation while we have norms but we are not seeing adherence to it. Where do you see where it is made very strictly mandatory and implemented which really helps on the renewable obligations in our country please?

JP Chalasani: No, see what is happening if you see especially the wind till now the pressure of RPO is for it was only coming in those states where the wind available and wind capacity was being set up. Now, with what we spoke some time back, with all India becoming a canvas for supply of wind power. So now those states will start fulfilling that RPO obligations on this. So resistance towards the not meeting RPO obligations to maximum will come down because earlier these states were feeling that why only we should meet the RPO obligations.

So that is one which we will see a positive trend towards the RPO obligations going to be met more on this. Second, I completely agree with you is in terms of making it more mandatory whether by a stick or the carrot is an important thing. I think some of these things like there are some linkage in the Uday Scheme and two other things which is what this Government is trying to see that the RPO obligation becomes more and more sort of a mandatory thing on this. So it is a slow process but it started. First thing is the bidding itself will significantly increase the RPO market.

Moderator: Thank you. Next question is from Manish Kanakia who is an individual investor.

Manish Kanakia: I want to know what is the order intake or future order probability of the solar business?

JP Chalasani: Solar as we guided earlier we will implement what is on hand and beyond that we will be doing only solar in hybrid mode not pure solar.

Moderator: Thank you. Next question is from Yogansh Geswani from Mittal and Company.

Yogansh Geswani: I wanted to get a better understanding in terms of the process of FCCB conversion? Can you throw some light on the process of this FCCB conversion as in is there any announcement made as to the number of tranches which will be going into the market or any such thing?

Kirti Vagadia: No, first of all so far as process is concerned, it is optionally convertible at the option of investor or bondholders. So they can convert at any time and generally we are meeting even whatever we have guided to them as a standard conversion time during that conversion time we are converting their bond into shares. So far as another feature is concerned, we do have mandatory conversion feature in our convertible bonds. But the price is currently is far away from those mandatory conversion threshold.

Yogansh Geswani: Is it the 54, 55 odd level price that you are talking on the mandatory side?

Kirti Vagadia: No, it is not like that it is roughly about 75% premium to the price for a shortened period and then that threshold is coming down after the passage of sometime.

Yogansh Geswani: Okay. And sir, since you said that the option of the bond holder so will there be any announcements as in like how has it happened in the past, like was there any announcement like this number of shares are coming on line or coming on floor?

Kirti Vagadia: That definitely we are mandatorily required to do it from time to time. Once we receive any request or once we convert from bond to shares.

Yogansh Geswani: Okay and sir my second question is related to one of the previous questions from an analyst and you mentioned that before we will be monetizing our subsidiary in coming year for debt reductions. So can you give any guidance on that front?

Kirti Vagadia: Guidance we have already given that there are two subsidiaries one is the service business second is our SE Forge. These are the two companies which we will be targeting to monetize, number one. Number two, so far as time table is concerned, we already guided that it will happen within 12 to 18 months. So far as value is concerned, probably it is too premature for us to comment.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities.

Jayesh Gandhi: Sir, since the accelerated depreciation in wind after April 2017 will be 40% max resulting into fall in IRR for corporates. Do you see still the order intake to be robust?

JP Chalasani: See right now that segment of customers for us who are of the depreciation benefit is very-very small on this. But I think at the same time having said that fine it has relatively come down but still they need depreciation in terms of that. So they will still go ahead on this. First of all the segment is small for us in our whole sales portfolio and second is that we believe that still even with the low level they would continue to do the business.

Kirti Vagadia: Please remember the fact that majority of investors who are investing for AD they do not have much CAPEX in their ongoing business. So naturally this depreciation shelter even at a 40% make lot of sense for many of the customers.

Jayesh Gandhi: And so my next question is can you just help us in knowing what can be the tariff in your assessment below which an industry will not take it? I mean will it be Rs. 4 per unit or I mean any number, any guess?

JP Chalasani: This is our individual guesses, I do not think as a company we can really guess.

Tulsi Tanti: But we have to understand we are not investing in any wind projects. It is a customer's decision if they are comfortable to go with 10% equity IRR they can bring down. We will protect our interest and our margin.

Kirti Vagadia: And technology is something which is helping us to maintain our competitiveness.

Moderator: Thank you. The next question is from Bharat Jain from Manthan Research.

Bharat Jain: I have three questions. One was on CDR, you said we are targeting around March. So what is the status on that? Second, on the there was a news recently from Gamesa bidding for at 4.3 which was one of the lowest bid that we have seen in the wind industry. And what is your view on that? Yes, these are the two questions from my side.

Kirti Vagadia: Yes, so far as CDR exit is concerned definitely we have already initiated the process. But I must say that this is something which is ongoing and likely to happen after our annual results are out.

Bharat Jain: Okay just one follow up on that. What sort of interest reduction do you see once the CDR is through?

Kirti Vagadia: Yes, it will be maintained currently but going forward once the country interest rates starts falling on one hand and on other hand our credit rating getting improved both will have positive impact on getting interest rate reduced for the company. Currently it is fair to assume that we will maintain our 11% may be 50 points here and there.

Bharat Jain: And the Gamesa one, the news where Gamesa bid at 4.3? I think this is with regard to that 1 GW bidding which is supposed to open up in February that you were talking about?

JP Chalasani: See initial bidding is only to qualify. So the reverse auction is yet to happen. So therefore you will know exactly what tariffs will come out only after the reverse auction. Which is what we heard that is likely to happen in the last week of February.

Moderator: Thank you. Ladies and gentlemen, that was the last question due to time constraints. I now hand the conference over to Mr. Tulsi Tanti – Chairman & Managing Director for closing comments. Over to you, sir.

Tulsi Tanti: Thank you all for your continuous support and faith in our company. I assure that we will achieve our targets higher than the industry's growth rate which is expected to grow by close to 30% in the current financial year. Also the next financial year Indian market will continue to grow by nearly 15%. Today India's the total installed base is 28 GW by that way India is the fourth largest country in the global market and India has to deliver 32 GW to achieve by 2022 of the 60 GW that we target.

Whatever 175 GW of the target of renewable is there out of the 60 GW target is for the wind and we are very confident by 2022 India will exceed the 60 GW of the target by 2022. We see the demand for the clean sustainable and affordable power continues especially in the emerging market. If I see the 2015 and 2016 in the global market nearly 62% of the new installation in the power sector has happened from the renewable only. So the renewable is now no more is alternate energy it is the main stream energy in the world market and also now in the case in India market.

The technology and innovation will continue to be the catalyst for the growth for the wind industries and Suzlon is working towards achieving it. Our R&D efforts are focused on bringing down the levelized cost of energy by 25% in the next five years. We plan to use integrated technology and offer a wind-solar hybrid solution which will lead to the more efficient utilization of the grid and other resource.

We envisage to be the best renewable energy company in the world with our motto to Powering a Greener Tomorrow, Today. Thank you very much. Thanks for your participation and support and cooperation.

Moderator: Thank you very much, members of the management. Ladies and gentlemen, on behalf of Suzlon Energy Limited, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.