"Suzlon Energy Limited Q1 FY18 Earnings Conference Call"

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MANAGEMENT: MR. TULSI TANTI – CHAIRMAN & MANAGING DIRECTOR, SUZLON ENERGY LIMITED
MR. J.P. CHALASANI – GROUP CHIEF EXECUTIVE OFFICER, SUZLON ENERGY LIMITED
MR. KIRTI VAGADIA – GROUP CHIEF FINANCIAL OFFICER, SUZLON ENERGY LIMITED
MR. SANJAY BAWEJA - CHIEF FINANCIAL OFFICER, SUZLON ENERGY LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Suzlon Energy Limited Q1 FY'18 Earning Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements do not guarantee the future performance of the company and involve risks and uncertainties that are difficult to predict. As a reminder, all participant 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 pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Tulsi Tanti - CMD, Suzlon Energy. Thank you and over to you, sir.

Tulsi Tanti: Thank you. Good Evening, everyone. Thank you for joining us.

Present with me on the call are JP Chalasani - Group CEO; Kirti Vagadia - Group CFO; Sanjay Baweja - CFO and our Investor Relations Team.

I hope you had a chance to go through our Investor Presentation and the Press Release. I will share with you overview of the industry and my team will take you through the quarterly financial performance. Post that, we are very happy to take your questions.

First and foremost, we are happy to share that Suzlon has established itself on a path of sustainable profitability and the growth. We have delivered net profit for the fourth consecutive quarter and we are confident of sustaining the momentum. India is a country with a huge power requirement and the future growth opportunity for the power sector. Due to the scalability, sustainability and now affordability, renewables will form a much larger share of the power mix going to the forward. Government is committed to the renewables and industries are also well-equipped.

The Prime Minister has set the target to achieve 175 GW of Renewables by 2022. Today, India has 58 GW Renewables Energy installed capacity. This clearly indicates there is a huge opportunity for Renewables in the next five years. Renewables today is not only the carbon-free, but also it becomes a subsidy-free affordable energy, and also competing the conventional energy source. The transition from FIT regime to competitive bidding create a huge opportunity for the wind sector specially. Earlier, the demand of the wind power was restricted to the eight windy states for their RPO requirement. But now today, the canvass extended for 29 states with ISTS waiver. With its reducing tariff, the demand is only going to go up and that will create an opportunity for the growth going forward.

With the onset of the auction regime, the competitiveness has only increased further. I wish to emphasize that the auction regime is positive for the sector in the long-term. Our confidence and optimism is based on our experience of the operating in both FIT and auction-based regime across the various geography globally. In over 20-years of our experience, the wind industry in India has witnessed several policy change, uncertainties and business cycles. The industry has only emerged stronger, resilient and matured with the renewed vigorous.

FY'18 is a transition year in the wind energy sector moving from FIT, GBI market to competitive bidding market. Because of this, some uncertainty will remain in this year. However, FY'19 onwards, the industry will deliver 6 GW plus the market size. In current year Q4, we will see the very clear visibility and clarity about the FY'19 onwards.

The product innovation, technology and local supply chain will continue to play the most critical role in the current competitive market. It is the only enabler to bring down the LCOE. The Suzlon focus on technology since inception has given us the competitive edge. This has resulted in some of the path-breaking technologies and the product such as S111-120m turbines which has delivered 42% PLF. Our latest offering of S111-140m turbine will further increase energy by 5-6% over the existing turbine of S111-120. At 140m, it is the tallest commercially available wind turbine in the country.

I also believe that the advent of the competitive bidding, Indian wind industry will witness a complete overhaul with the respect to the cost optimization across the value chain. We are well-equipped with the best-in-class technology and service capabilities turnkey offering, strong pan India project pipeline and very strong customer base to capitalize on the huge growth opportunities going forward.

So I now invite my team to take through our Q1 performance and give you some insight on the business for the FY'18. JPC.

JP Chalasani: Thank you, Tulsibhai. Good Afternoon to each one of you. It gives me immense pleasure to share with you that we have delivered yet another strong quarter; we achieved net profit for the fourth consecutive quarter and continue to witness traction in our market share in line with our guidance what we gave earlier. I am particularly pleased with our strong execution focus in Q1 and importantly we have delivered these results in a very highly dynamic environment. We delivered our Q1 volumes of 412 MWs which is seasonally a low volume quarter. Tulsibhai has already elaborated on the positive impact of the current market dynamics and the exponential opportunities for volume growth.

In the auction regime, we have a huge competitive edge in terms of very strong project pipeline, most competitive technology, strategic customer tie-ups and our best-in-class turnkey offerings.

Our India-based vertically integrated manufacturing is a huge competitive edge in the current scenario. Innovation in technology will be the catalyst in the current scenario. The focus remains on developing robust products which deliver a high yield and better ROI for customers. In the long term it is certainly positive, the current transition to auction regime does create a short-term volatility.

We at Suzlon are well placed to tackle this volatility due to our existing PPA backed wind and solar project backlogs. Also stable revenue base for more than 14 GW of fleet under maintenance and component sale revenue from SE Forge. We are also selectively looking at international markets such as USA.

With this now, let me hand over to Sanjay, who will take you through the quarterly numbers in detail.

Sanjay Baweja: Thank you, JPC and good evening to all of you. I am extremely delighted to share that our Q1 FY'18 Results continue to demonstrate growth and profitability on year-to-year basis, notwithstanding that this is a seasonally weak quarter. Q1 FY'18 on year-on-year basis saw 102% increase in volume to 412 MW including 86 MW of Solar, it showed 62% increase in revenues to Rs.2,665 crores and 168% increase in EBITDA to Rs.475 crores. Our pre-FX margins were healthy at 18% aided by operating leverage and strict control on cost. This enabled us to register a net profit of Rs.90 crores before adjusting the foreign exchange item. Our net working capital days improved by 7% on year-on-year basis to 59-days over the last 12-months trailing revenue. Our service revenue grew by 7.5% to Rs.438 crores, of which Rs.32 crores or about 7% is internal. The stable revenue base from fleet of more than 14 GW in the maintenance gives us the much needed cushion to tackle industry volatility.

Major portion of our FX loss is notional and due to the fact that SBLC-backed loan and a bond is sitting in our European subsidiary although the liability is in US dollars, and we also have some inter-company play.

Our revenues from Foundry and Forging segment come in a healthy Rs.126 crores. Our gross term debt other than the FCCB has continued to reduce this quarter sequentially by Rs.47 crores to Rs.7,345 crores. On the FCCB front also, we are seeing considerable traction in investors wanting to convert. US$ 179 million was remaining outstanding as on result date that is 11th August, 2017, in fact, we further converted about US$ 7 million on Saturday, that is 12th August, thus the revised outstanding as on date is only US$ 172 million. This takes our total FCCB converted till date in the current fiscal to US$ 75 million or 30% of the total outstanding at the beginning of the year. In fact, totally 69% of the FCCBs have been converted since inception.

Now, coming to the next quarter, our priorities are clear. Other than as mentioned by Tulsibhai and JPC on the product and market front, we are focused on fixed cost optimization including manpower rationalization, drive further the working capital efficiencies and finance cost reduction through interest rate optimization and debt reduction and also exiting on CDR.

With that, we will now open for Questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Deepak Agrawala from Elara Capital. Please go ahead.

Deepak Agrawala: My first question is earlier in March and also in few times during the media we have interacted that we would be exiting the CDR mostly by June and only we are awaiting the audited numbers of FY'17. So can you give us an update on that exercise?

Sanjay Baweja: We are in advanced stage of discussion with the banks and please remember that there are 19 banks in our consortium and there is a process by which this exit will happen. We believe that in the next 2-3-months, we will see that happen, but definitely it is one of our focus areas and we are very much working on that with the bank especially with SBI, the lead bank.

Deepak Agrawala: So it is only a procedural delay or are there any hurdles remaining to be cleared?

Sanjay Baweja: There are no specific hurdles that we can talk about, but yes, there is discussions regarding the exit negotiation.

Deepak Agrawala: Secondly, can you comment on the various uncertainties that have been created especially during Q1 in the industry regarding the competitive bidding like we already have 2500 MWs of bids in the market, so can you give us some update as to how do you see the Q2 and the balance year pan out for the sector and for Suzlon in particular?

JP Chalasani: As Tulsibhai said in his opening comments, let us bifurcate this into two parts of it -- One is what is likely to happen in the next few years and followed by what specifics will be there because I think this year is different from what is likely to happen for the next 2-to-5-years. What you are saying now is the competitive bidding coming up and the transition for that. You have already seen the first one GW bidding completed PPAs got signed and second one GW bids process has been started, reverse auction has to happen. You have seen couple of states started the bidding process. So therefore there is a huge amount of bidding likely to happen and you have also seen Government of India announcing that further 5-6 GW bidding they will do this year. With this process, in H2 you will see significant amount of bidding happening and booking the orders significantly let us say in Q4. So you are ready for next year onwards. We expect from FY'19 onwards starting with 6 GWs, it will go north of 6 GWs in the following years as far as the volumes are concerned. Reason is simple -- The tariffs have come down, part 1; The India as we have been saying earlier also, the demand is a function of a tariff elasticity; and #2, with the transmission charges and losses becoming zero, the market is entire country, in fact, the non-windy states, if you see the backlog of their RPO obligations today, that itself is a current demand is 30 GW which they may not fill up immediately but they will fill up over a period of time, there is a huge market has come up on this. Also going back to the tariff, with the current set of tariff is lower than APPC in a number of states, and this is lower than even the conventional coal-based project except for may be pure pit head based coal-based stations on this. Tariff coming down with the market enlarging on this, therefore the volumes will significantly grow in the subsequent years. There could be pressure on margins that we can discuss subsequently how do we work on the margins. So therefore, we clearly see good growth coming up in the next few years. Now coming to this year, I think every single country which has seen transition from FIT to the bidding has seen a year of transition where the volumes had gone down. So this year is going to be an year of transition. Therefore, as the bidding is going to happen and the PPAs are going to be signed in the H2, most of the orders would come for the next year. So this year we expect that anywhere between 2-3 GW could be the potential market for the country. However, having said that, I think this year is going to be more than the sectors as a whole, it is going to be industry-player specific year depending upon who has how much PPA backed orders and things related on this. Therefore, we see a clearly different year of this and different from FY'19 onwards.

Deepak Agrawala: So like in Q4, we are absolutely sure of any having no uncertainty in the execution of the current backlog over the remaining part of this year?

JP Chalasani: Absolutely not. In fact, we started executing even the orders which we received in the SECI bidding in the first one. In fact, that is only project which is under execution in that 1 GW of SECI bids.

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

Puneet Gulati: Some of your thoughts to start with on the industry side; do you see a risk of PPA revisions happening on some of the existing wind projects or prices going down further from here, that is #1?

JP Chalasani: I have been in the sector for 3.5 decades now. If anybody says that power sector is not exciting, that is a wrong statement to make. This is always exciting with various things. But having said that, we have not seen any state where PPAs are under risk on this. Every single state has been holding the PPAs that have not been signed till date on this. So therefore at least in our case we have not seen a single PPA which is under risk with our clients if we executed the projects, are under execution of the projects clearly. #2, whether the tariff will go down on this? I think the market will decide. First bid, nobody expected it will be Rs 3.46, it came Rs 3.46, so what will happen in the second bid let us wait and watch. Because it depends on the number of factors, it depends upon the sites and the generation capability and depends upon what is happening with technology and various aspects of it. At the end of the day, the tariffs will come to the extent what is acceptable to the investor and acceptable to the OEMs. Otherwise, the tariffs will not go down, they are not acceptable to both.

Puneet Gulati: Your thoughts on the must-run status, some of the states have been talking of getting rid of it, do you think that is a possibility or is there a legal option available here?

JP Chalasani: Logically, they cannot do it. Under the electricity act, even if you leave aside must run and if you go by the merit order dispatch basis, the zero variable cost is what has to run in the first on this. So there are some of the things what has been talked about. I feel these are all temporary volatility. I do not see any problem in wind not getting dispatched. In fact, the Minister of Energy of State of Andhra Pradesh has been on record with the media clearly saying that in the months of May and June, the wind has saved the state. This is because they had least amount of coal stock with them, and second thing is the cost of the coal was high whereas wind was coming to them at zero variable cost. So they said that wind is what saved them this year because huge amount of capacity was commissioned last year. They have been on record, Energy Secretary as well as Energy Minister. That is a change what you are seeing slowly.

Puneet Gulati: The second SECI auction has taken little longer. What in your view has been the reason or if you think there is a risk of further delay there as well?

JP Chalasani: Let us give them that this thing, the first bid happened only in February that is the first bid where they need to do a back-to-back PPA signing and obviously in the first bid you will get set of issues which need to be resolved. So they wanted to finish up all that before the second bid comes. So I think the experiences of first bid which always throws up new issues, those have been resolved now so therefore they have done this now, but henceforth what they have been saying on record is that they will continue to come regularly within a month or so and they are talking about beyond this 1 GW, there will be 5-6 GW of bidding on this, and there are possibilities that they might even come up with the variations to this saying that could be a state-specific bidding rather than entire country bidding and there could be even STU connected bidding with SECI. So there are various options they are considering. Because the project sites are more on the STU connected, so they could be quickly converted into the commissioning activity in this year itself. So there are a lot of change happening, in fact, they are even talking about hybrid policy. So I think there is lot of activity happening there.

Puneet Gulati: Secondly, now that you have the SECI auction orders in your bag, is it possible to get a sense of what kind of margins those will be generating, will you still continue to generate 17.5-18% kind of margins or is there a realistic risk of it going down and to what extent?

JP Chalasani: We never talk about any specific contract margins, but as I was talking sometime back on this, the volumes will significantly grow and we do realize that with the tariff coming down, there is going to be pressure in terms of margins. The only way we can maintain our margins is by taking steps within our hands -- #1 is technology as Tulsibhai explained in his opening comments that our S111 120 which we said earlier having a PLF of north of 42% and we went ahead and now commissioned the S111 140, the highest hub height ever done in this country which will significantly improve the generation again without not much of the cost increase. So constant innovation of technology is what is going to give us in meeting the pressure in margins. Second is with we being vertically integrated company, whenever the volumes go up, the significant amount of volumes come at marginal cost. So that will again save our margins. The third is there is no question of not doing cost optimization across the value chain which we have been doing earlier on a continuous basis. That is one strength of this company that you are seeing that we have been reducing our COGS cost even before the margins pressure was there. But now that we have broadened across the value chain, which is what you will see in terms of our cost reduction, fixed cost what Sanjay talked about including manpower cost optimization every single area. I think significantly with these three steps plus, most important to us, we do have a bank of project sites which have a very high generation capability which gives us advantage of maintaining our margins. The higher the generation capability in the site, you can demand higher the price. I think these steps it is not easy but we feel that we should be able to maintain our margins.

Puneet Gulati: Lastly, your employee cost and your depreciation expense have come down quite sharply. If you can comment on what the reason has been for both and is there room for it to decline further?

JP Chalasani: On employee cost, just let me explain to you that as we said, manpower cost optimization is part of the entire value cost optimization and also the manpower cost optimization takes time, initiate action at some point of time, the result you will see after a quarter or two, we do not see it immediately, and also some part of our manpower cost is also volume-related, plus being Q1, it depends upon what amount of incentives we booked and reversed and what is the increments and what is coming in, these are on this. Therefore, it is not right to compare one quarter manpower cost, but we can give guidance on an overall year basis, the ceiling would be the manpower cost what we incurred last year, it will be lower than that. On depreciation, Sanjay will take you through this.

Sanjay Baweja: Depreciation, I think the last quarter that we had, we had a few exceptional write-off including one of these products which was getting fully amortized which has got completed and also one of our protos which we wrote off. So last quarter is not representative, the current quarter is at the base level, I think we should consider going forward.

Moderator: Thank you. Next question is from the line of Prithvi Raj from Unifi Capital. Please go ahead.

Prithvi Raj: The first one is, current order book for wind is that on 1000 MW. So does it include auction projects that you have won from the February one?

JP Chalasani: Yes, that is 250 MW.

Prithvi Raj: Remaining 750 MW can be commissioned in this particular year?

JP Chalasani: Yes, that is a target. That is the current order book you are talking about. That is not end of the road.

Prithvi Raj: Second one is you had delivered around 300 MW of wind in this particular quarter. Can we have state wise number, just wanted to understand which SEBs are further doing this FIT projects?

JP Chalasani: We do not give the state wise breakup. I can only make a statement, the entire capacity what we supplied is PPA-backed.

Moderator: Thank you. Next question is from the line of Ruchir Khare from Kotak Securities. Please go ahead.

Ruchir Khare: Industry wide question, just to get a perspective, what has led to fall in prices so much for the wind manufacturers from technology point of view, what has caused to this fall in prices that what we are seeing currently?

JP Chalasani: If you see our IR Presentation, there is a slide on the different products, how the generation has gone up. So from each model to model, the generation has significantly gone up and we have seen that from 97 120 to 111 120, so there is almost the 20% increase in the energy levels on this, and then that has further gone up now with this 140 what we commissioned. So therefore, with each model coming up, is going to reduce the LCOE. That is going to be our significant strength in terms of the margins protection and followed by, as I said sometime back also is, our record of controlling cost not just under the present situations, as a company system wise, we have been always maintaining that. COGS cost reduction is a major thing which we are continuing and in fact, we are now further intensifying our efforts in terms of the cost reduction across the value chain whether it is COGS or it is projects or it is in terms of the fixed cost and everything on this. Third, as I said that, we are a vertically integrated company, the larger the volume, the cost of production is low for us. Fourth is our huge good project banking, bank of projects what we have on this. I think these things is what is going to help us in terms of meeting the lower tariff pressures and we believe that we are well prepared in the market towards the tariff pressures.

Kirti Vagadia: Just to add on what JPC said that the entire pressure of tariff reduction is not coming to OEM. There is a part of the pressure already being taken by the investor also.

JP Chalasani: Yes, and also the lower interest cost today in the market, the availability of huge amount of funds even coming from outside of India, plus the lowering of IRR expectations, as the tariffs are coming down and the SECI coming in, the risk being low, that also is actually reducing the returns expectation. So there are lots of things which are happening from the investor side as well in addition to OEM. So I think together is what we are going to meet. That is why I just said sometime back, tariff would be those which are acceptable to both investor and the OEM.

Ruchir Khare: Sir, more so on sustainable basis, like 2-3-years down the line, what sort of volumes per year can India witness in wind and would there be any logistic challenges to this like 6,000 or 7,000 MW per year in terms of a mature market?

JP Chalasani: We are expecting that in FY'19, it will be 6 GWs market and it will keep growing thereafter.

Moderator: Thank you. Next question is from the line of Dhavan Shah from KR Choksey. Please go ahead.

Dhavan Shah: A few questions; firstly, on the gross margins front, if I look at the last two years, on the quarterly basis for the first 9-months, we are maintaining gross margins of around 40-45% and I also understand that last quarter is more tilted towards the robust execution, so the lower gross margin for WTG led us to maintain around 35-37% gross margin. So on the yearly front, are we able to maintain this 40% or 41% gross margins in the years to come?

JP Chalasani: I think we spoke about the margin sometime back, which we said that the industry is changing and what we are trying to do for protection of our margins. Obviously, we cannot give the guidance at this stage about what will be the margins for the year, but what steps were initiated to protect the margins is what I explained in the previous two questions.

Dhavan Shah: Suppose if I would like to understand about the gross margin differentiation between this S111 120 and S111 90, so what used to be the gross margin differentiation between these two turbines and what is the gross margin differentiation between this S111 120 and S111 140?

JP Chalasani: It is simple, I cannot give you the gross margins model wise, but logically explaining, as we said that with each new product coming up on this, there is an increased energy production, and the benefit of increased energy production is higher than the increase in cost. So there is a net benefit which depending upon the market is shared between the investor and us. So therefore, obviously looking at it that with each new product coming in, your gross margin should improve from that angle on this or at least it will enable you to protect your margins in the reduced tariff regime.

Kirti Vagadia: Secondly, I would just encourage you to look our gross margin on annual basis rather than quarterly basis because quarterly basis what will happen that if OMS is higher proportion, then you may see higher gross profit.

Dhavan Shah: Third question is what was the commissioning for the first quarter in wind turbine?

JP Chalasani: 100 MW.

Dhavan Shah: If I look at the Solar revenue, we have executed around 86 MW, the per MW revenue is around Rs.3.8 crores to Rs.3.9 crores vis-à-vis around Rs.5.2 crores to Rs.5.3 crores in Q4 FY’17. So can you please explain the variance between these two?

JP Chalasani: It is only delivery, you do not get the entire price the moment you are delivering, 86.

Dhavan Shah: So the per MW revenue is how much -- approximately 5-6?

JP Chalasani: No-no, I am saying that there will be a stage payment. This 86 is delivered at this stage on this. So it is also an EPC, this is different scope for different projects. So therefore you cannot compare with other things on this. There is a scope difference also for different projects what we are executing.

Dhavan Shah: Sir, just one suggestion, can we announce our result ahead of your peer group.

JP Chalasani: That’s a good advice, but I think that advice should be given to other players saying that let the sector leader and who is doing well should announce their results first and set out a positive sentiment for others

Moderator: Thank you. Next question is from the line of Abhinav Bhandari from Reliance Mutual Fund. Please go ahead.

Abhinav Bhandari: Sir, a few pieces just wanted to understand from industry perspective; first is, how much would be according to you overall installation in Q1 across the industry and how much would have been our rough market share in that?

JP Chalasani: Whatever is we have seen in the MNRE things, publicly available data, so we do not know. As I said that ours is 99 MW or so. I think our market share is 42% in the Q1 on the commissioning side.

Abhinav Bhandari: Any sense sir on how much would be the stranded capacity coming from last year which could not find PPA to get tied up, and is this fair to understand that most of that capacity would this year look to absorb itself in the upcoming auctions which would happen both at the center and the state level?

JP Chalasani: I really cannot say about the peers because we do not have any such capacities which is there with us which has moved from last year to this year without the PPA. So obviously what strategy others have, where they put up the plant and there is no PPA, what will they do, in the auctions, would be their strategy. I would really be not able to comment on that, but we do not have any such scenario.

Abhinav Bhandari: So for our backlog of this 1169 MW, you mentioned that almost half is PPA-backed plus captive. We do not have PPA for the remaining part of the capacity or how should one look at it sir?

JP Chalasani: Many of these projects would get converted into a contract the moment the PPAs happen either in terms of the FIT or in terms of the bidding on this. In fact, in addition to that, we do have an arrangement with three large industry players for 1500 MW framework agreement which is beyond this 1169 MW where we identified everything and the moment the PPA comes either through FIT route or through a bid route, would get converted into individual contracts. So therefore, in addition to this 1169 MW we do have the 1500 MW of framework on this which has a potential of converting into individual contracts based on FIT or bidding.

Abhinav Bhandari: But just to get this thing right sir, that for the capacity for which you do not have a PPA today, so the idea would be to get this going in the upcoming auctions or this would separately go as separate PPAs with individual states as you have done in the Q1?

JP Chalasani: We leave it to the market whichever the opportunity, depending on which state the project is, whatever the opportunity is. If there is a bidding, we go for bidding, that is a preference. There is a site, there is an investor, both have an agreement, so we go and bid that and win that and convert into PPA. If there is an opportunity coming up in any state for the FIT based and there is a project site there, we can convert into that. What I am trying to say is that we have not been waiting for the market to develop, we have done our work and we are prepared in advance. The way the market develops, we can actually keep converting into contracts. So that is the advance work what we have done, we are not going to go and search for the customers at the point of time. So we have a specific project sites, we have a specific investors who are willing to invest on this and as the market keeps developing we will keep converting into contracts, we do not need to look around at the point of time. So that is the work what we have done in the last three-four months.

Abhinav Bhandari: Just one clarification; how much would be the Solar piece in this Q1 order intake and total backlog today?

JP Chalasani: If you see our Slide #5 of the IR Presentation, the balance is 145 MW at the end of Q1 in Solar, obviously Jharkhand we are not talking about. We are only talking about where the PPAs are signed. There is some movement in Jharkhand, let us see what happens that they are talking about converting that into PPA and moving ahead with the project. That would be add on to this 145 MW the balance.

Abhinav Bhandari: This 250 of SECI would have got booked in Q1?

JP Chalasani: Yes.

Moderator: Thank you. The next question is from the line of Atul Gharde from Cowell & Lee. Please go ahead.

Atul Gharde: Sir, just to understand regarding your comment on how to look at the non-PPA backed or non-captive order book. Is my understanding correct that that order can find its way into the state auction or the other way to look at it is have you seen any cancellations on that non-PPA backed or non-captive order book or do you expect any going forward?

JP Chalasani: No, at least we have not witnessed any significant cancellations, anything on this. As I said to the previous question, my answer was that these orders would get converted into a specific executionable contract the moment either through a state bidding get a PPA or if there are FIT opportunities to get into PPA, whichever route, it could be state or it could be SECI, it could be anything on this. What we have done as I said I will repeat again is that we are prepared for the way market unfolds, instead of looking around at that point of time, with a specific project site, specific investor with agreed commercial terms to convert into a specific contract. This is this 1169 MW plus as I said that we also have 1500 MW of framework which see large industry players.

Atul Gharde: So if I understand correctly this order will stay with you, whether it goes the state FIT or whether it goes the PPA, that is what I want to understand?

JP Chalasani: Yes, that is the right understanding.

Tulsi Tanti: Because each order is backed by our own site. So we do not have any cancellation and it will not cancel. So there is no uncertainty, only just waiting for the bidding or FIT whatever is available.

Atul Gharde: For the 250 MW SECI order that you won via the SECI auction, have you already signed the PPA for that?

JP Chalasani: Yes, not we, we do not sign the PPA, the investor has signed and the project is under execution today.

Atul Gharde: On the state-specific wind auctions, can you throw some light in the sense that when do you expect that to happen for different states and what is the potential timelines?

JP Chalasani: There are different states talking about different timelines -- we have seen Tamil Nadu has already gone ahead with the bidding for 500 MW, Gujarat has announced bidding on this, some states are saying that we are getting prepared for bidding, Rajasthan and MP. So it is a moving thing on this. So my expectation is that as I said sometime back, in Q3 and Q4 most of the bidding happening on this and we expect a huge amount of volumes to get booked in Q4 which would be available for execution for the next year. In fact, if we potentially see at end of the year with a large order book compared to any other year for the execution for the next year. Some part of the orders obviously depending upon the timeline, like for example, the SECI-I and maybe SECI-II and a few of the states bids, part of it would even get delivered this year.

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

Pranav Gokhale: So this order from SECI which are there, are there more for equipment or they are more end-to-end EPC order?

JP Chalasani: EPC orders.

Pranav Gokhale: So this is pertaining to you or for the industry as a whole, all the orders which they have got, are these EPC orders or…?

JP Chalasani: I cannot speak for the others what they are getting and what they got because I do not even know whether all the orders are finalized, to my knowledge, all the orders are not finalized yet, but order is EPC order.

Pranav Gokhale: My question is will this kind of competitive bidding with the change in regime will lead to higher competition as many players who are erstwhile out because they could not do a lot of EPC now scope, is that a possibility?

JP Chalasani: In a competitive market, really you cannot say what will happen on this. As I said sometime back, it depends upon good available sites, what is that OEM is willing to offer, what is that investor wants to return from that, is what will decide the tariff. So these options were available earlier also. Therefore, it depends on that. So at the end of the day even if there is a volume the good sites are not there and the sites with lower generation comes, the tariffs would be different. So there will be a number of variables for what would be the tariff.

Kirti Vagadia: How one can work on execution part also, that is also key in this business.

Pranav Gokhale: The second question is on those orders which do not have a PPA or a captive backing. Have you secured any kind of advances even on those orders from those clients?

J P Chalasani: All the orders what we announce are backed with advance, then only we announce

Kirti Vagadia: We do not take any order into our order backlog unless it is backed by advance.

Pranav Gokhale: So normally that client has paid you in advance, the site is ready now, based on its bidding, you will start executing the order, is that the right assumption?

JP Chalasani: Yes, either bidding or if there is an FIT based PPA in a specific state, whichever comes first.

Pranav Gokhale: The recent phenomenon of order wins which are there in the order backlog, these are typically old orders which are structured in such a way?

JP Chalasani: No, we announced significant amount of orders after the March also. After the March '17 we announced 680 MW of orders.

Pranav Gokhale: My question is these orders which are not backed by PPA or captive, are they newer orders in nature?

JP Chalasani: Yes.

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

Shrish Rane: Sir, one question on the debt refinancing; we have got this approval for refinancing by NCD. What amount can be refinanced by NCD and what kind of interest rate savings can be accrued because of that?

Kirti Vagadia: It is about Rs.900 crores approval we have sought and the delta could be in excess of (+2%).

Shrish Rane: Is it possible that we can do this for larger amount plus Rs.900 crores or is it contingent upon the CDR exit?

Kirti Vagadia: No, this is a starting point, it is not the end.

Shrish Rane: Will this happen in this quarter or maybe next quarter?

Kirti Vagadia: Within three months it should happen.

Moderator: Thank you. The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu: I have a couple of questions; my first question is on this S111 140 platform. So I understand that it has been commissioned recently. Any early thoughts on how has been the performance?

JP Chalasani: Till now it is quite satisfactory.

Tulsi Tanti: Also, the very good news last two days this product is running the 100% PLF and the turbine has produced in just two days 1 lakh unit.

Sudhakar Prabhu: What kind of PLF can we expect from this platform because the earlier one was giving 42% PLF?

JP Chalasani: We have given you there in the slide if you see, we said that about 5-6% higher yield compared to 111 120.

Sudhakar Prabhu: When can you commercialize this platform?

JP Chalasani: In this financial year.

Sudhakar Prabhu: My second question is on your earlier commentary that you expect volume this year to be between 2-3 GW for the sector and Suzlon will continue to have 40% market share or improve upon it?

JP Chalasani: I would not like to give that guidance. That 40% guidance remains valid. But beyond 40% let us leave it here. As I said, this year it is going to be more of player-specific volumes and the sector-specific. So let us wait for it. As of Q1 I said that our market share was 42%, let us wait and see.

Sudhakar Prabhu: Whatever inflow you have in Q4 would be executed only post FY'18, right?

JP Chalasani: If it is in Q4, obviously, yes. But we expect the orders to be booked even before that. So whatever is done, part of it will converted into sales this year itself. As I said that, in order to see that we convert quickly into orders and quickly into execution mode, is what we prepared ourselves in the last 3-4-months on this. We have specific project sites, we are prepared for starting execution from day one, the moment we get a quick order and we have also identified the investors as we said that with clear agreements. So everything is done. The moment you have a bidding and then convert it into a contract immediately, there is nothing to negotiate and then the project is ready and everything is ready there, then go and start execution. So we are prepared for a quick turnaround and set for that on this. So that even if there is a time pressure in terms of getting the bidding done on this, we will still be able to convert some part of it into this year itself.

Sudhakar Prabhu: My third question is how should we look at difference between your commissioning and sales because sales was around 326 MW of wind and commissioning was 100 MW?

JP Chalasani: Sales means like it is a delivery. The delivery happened in the Q1. So therefore, obviously you cannot expect the same quarter delivery as well as commissioning. So commissioning will normally happen is that whatever is delivered and done commissioned in the last quarter would significantly get commissioned this quarter on this. So therefore, there will always be a lag between the delivery and the commissioning.

Sudhakar Prabhu: My last question is on this FX thing to Sanjay. What is the nature of this FX losses or gains which we have every quarter – is it more of notional kind of thing?

Sanjay Baweja: Yes, most of the gains or losses are notional, these are translational losses. However, there is a little part which is on payables, which is in euro, other than that most of this is notional which will play itself out over time.

Sudhakar Prabhu: Notional on your ECB's outstanding, right?

Sanjay Baweja: Yes, ECB outstanding eventually we will get the benefit if the dollar remains the way it does. But also there are intercompany payables and receivables which have a play in terms of the notional translation.

Moderator: Thank you. The next question is from the line of Vinod Malviya from Florintree Advisors. Please go ahead

Vinod Malviya: My first question is regarding the revenue booking which you have done during the Q1. Is it like the entire 326 was for the captive and the SECI orders?

JP Chalasani: These are all PPA-backed orders and the captive, SECI is not there in this. We are significantly into captive market this year and which has been our strength area also, but we enhanced our efforts in the captive and that also has played.

Vinod Malviya: But your captive is around 14% in your presentation you have mentioned, so that is around 140 MW, but booking which you have done is for 326 GW?

JP Chalasani: Correct, these are all PPA-backed orders excluding SECI.

Vinod Malviya: So out of this 1000 MW which is still backlog as on June end, SECI will be 250, how much of that 750 is backed by PPA?

JP Chalasani: I think we wrote in our slide; around 50% is PPA-backed in the outstanding orders.

Vinod Malviya: My second question is regarding your cash thing. So if I look at your gross debt it has more or less remain at the flat level sequentially from March quarter to June quarter, even your net debt has remained more or less same, but your working capital debt has gone up and plus you said in one of your slides that you have collected Rs.3,000 crores during the quarter. So can you provide the cash has been deployed?

Sanjay Baweja: From a working capital perspective, there is some amount of receivable and some amount of inventory which is built up into the cycle because of our future of what we are expecting in terms of our orders, etc., in Q2 and Q3. So there is an inventory and there is a receivable build-up but we continue to collect as we go on, on an ongoing basis.

Vinod Malviya: But your net working capital has gone up from Rs.1600 crores to Rs.2200 crores, that is only Rs.600 crores additional net working capital and in your presentation you said Rs.3000 crores have been received. So where is the rest?

Sanjay Baweja: Like I said there is an element of inventory, there is also an element of advances that we are procuring from a site perspective that we are putting in the money, investing on the sites, etc., where we said that the projects in a pipeline to set up a huge project pipeline for the next two-three quarters. That is where the working capital has got utilized.

Moderator: Thank you. The next question is from the line of Devang Doshi from Asia Tigers. Please go ahead.

Devang Doshi: Just wanted to understand what would be the order book in value or the MWs?

JP Chalasani: It is there in the Slide investor presentation, 1169 MW or so is the pending order book, Rs 7,757 crores is the value.

Devang Doshi: How much we intend to do it in this quarter sir?

JP Chalasani: Let us wait for the next call. I promise I will let you know.

Devang Doshi: On the Solar status, we have performed quite good in Q1. How do we see the coming quarters further in case of Solar?

JP Chalasani: 145 MW is what is left out. So hopefully we target to complete in this financial year as quickly as possible.

Devang Doshi: Just going through the operating margin, September 2016 like the sale was almost the same compared to this quarter, but the operating margin was around 22.49% whereas in this quarter it is 16.17%.?

Sanjay Baweja: I think the margins you need to look at it from a perspective that there is a mix change which continues to happen, for example, there is an element of Solar which is there compared to WTG sale as compared to commissioning revenue, for example, our OMS revenue which is higher in this quarter, so therefore the profitability is higher. So it will change based on what is the weightage of each element of our revenue stream.

Moderator: Thank you. The next question is from the line of Moid Ansari from Hyderabad Investor Forum. Please go ahead.

Moid Ansari: My question is regarding the manufacturing capacity. We have S111 120 meters, 1800 MW manufacturing capacity. So if we are targeting 40% of the market share, that would require manufacturing capacity of 2400 or 3000 MW. So how are the CAPEX plans going on? My second question is regarding this new 140 height meters turbine. Blade size remain the same or totally new manufacturing capacity has to be set up for this?

Tulsi Tanti: 140 meters tower is just a change of the tower, the rotor will remain the same, so no extra capacity is required. 111 capacity we have existing based on the rotor blade products and capacity based on that. As you know we already commissioned the three projects – one is Madhya Pradesh, one is Andhra Pradesh, one is Rajasthan – so now that capacity is increasing and some of the capacity of S97 will be replaced by the S111. There is no new CAPEX is required, only the plant and machinery particular mold which is part of our consumables that is the extra required based on the increase of the volume.

JP Chalasani: That is a good problem to have at hand of we have larger volumes and matching the manufacturing capacity and we will be able to solve that.

Moid Ansari: Regarding the competition, would you say that your products are ahead by one year from the competition or is the competition lagging behind your products by one year or is it more than that?

JP Chalasani: We have a good product and we continue to offer a good product. So that is all I can say.

Tulsi Tanti: It is more competitive products.

Moderator: Thank you. The next question is from the line of Nalin Shah from NVS Brokerage. Please go ahead.

Nalin Shah: I have some couple of questions; I think last year we did 1779 MW. What is the internal target for the current year?

JP Chalasani: We always give a guidance with respect to the market share, we have always been giving the guidance of 40%, I am only adding additional parameter here. Also saying that this year is each player has specific program on this. So therefore, let us wait and see what will happen on this. As the Q1 is 42% as I said. If you look at last year record from the Q1 to the year the total capacity went up by 16x, we went up from Q1 to total by 25x. So let us wait and watch how the game unfolds as we move ahead.

Nalin Shah: Second question was that tax liability I am seeing that this will continue like this, more or less we have no tax liability or very minimal maybe based on this thing?

Sanjay Baweja: We do not foresee any tax liability in the next two to three years.

Nalin Shah: What is the shareholding of the Tulsibhai family and group, Shanghvi group and others now?

Kirti Vagadia: If you take both together it is roughly about 37-38%, balance is the others.

Moderator: Thank you. Ladies and gentlemen due to time constraints, this was the last question. I would now like to hand over the floor back to Mr. Tanti for his closing comments. Over to you, sir.

Tulsi Tanti: As we conclude this as I and my colleagues told many times previously that our growth strategy is focused on sustainability and profitability. Technology and innovation will be the driving force which will continue to strengthen our position as a market leader. Our R&D efforts are channelized over the breaking down the levelized cost of energy and to maintain the margin positions. Geared with the diverse experience of operating 17 countries over 22-years of leadership track record, our technology edge, manufacturing footprint, best-in-class service and end-to-end solution, we are further ready to address the demanding industry's environment and leveraging the potential opportunity. In the new changed environment, Suzlon is extremely well positioned with the strong project pipeline in all the windy states, the manufacturing presence across all windy states help us to optimize our logistic cost, the best-in-class technology and focus on continuously developing the newer and more efficient turbine latest product as S111 140 has been recently commissioned with the focus to further reduction for the LCOE. The fully vertically integrated with the local supply chain is the competitive edge for us. The strong revenue base from our 14,000 MW of the wind turbine under our maintenance fold thus providing us the steady annuity cash flows. I really appreciate your time and presence with us. Thank you everyone once again for joining us. We hope all our queries are addressed. In case if you have any further questions, please get in touch with our IR team. We will be happy to address your all the queries. I also take this opportunity to wish you all a Happy Independence Day and once again thanks a lot and I appreciate your time and support to our organization. Thank you very much.

Moderator: Thank you very much, sir. 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.