

SUZLON ENERGY
Analyst/Investor Conference Call
July 26, 2007

Moderator

Good afternoon ladies and gentlemen. I am Monali, the moderator for this conference. Welcome to the Suzlon Energy conference call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to the International bridge. After that the question and answer session will be conducted for participants in India. I would now like to hand over to Mr. Tulsi Tanti of Suzlon Energy. Thank you and over to you sir.

Tulsi Tanti

Good Afternoon everybody. It is my pleasure to be with you all. Let me introduce my team. I have here - Mr. Andre Horbach, Group CEO, Mr. Patrick Krahenbuhl, Group CFO and Mr. Kirti Vagadia and Mr. Toine van Megen, both are CEC members. I am pleased to report that we have recorded significant revenue growth and achieved \$ 0.5 billion in revenues in Q1.

Suzlon clocked consolidated sales of 317 MW for Q1 FY08 as against 196 MW in Q1 FY07, a growth of 62%. The turnover was Rs. 1,945 Crores for Q1 FY08 as against Rs. 1,069 Crores for Q1 FY07, including Hansen, registering a growth of 82%. The share of international business has increased significantly from 13% in Q1 FY07 to 60% in Q1 FY08 in MW terms. Consolidated EBIDTA for Q1 FY08 stood at Rs. 140 Crores, compared to Rs.187 Crores of Q1 FY07. Consolidated PAT was at Rs. 20 Crores for Q1 FY08 as compared to Rs. 96 Crores for Q1 FY07. Coming to Hansen, the company achieved sales of Rs. 443 Crores, and EBIDTA of Rs. 33 Crores for Q1 FY08.

I would like to emphasise on the fact that Suzlon's annual revenues and margins are on track. Historically the Q1 revenue is about 10-13% of the annual revenues. In FY07 it was about 13%. We have achieved gross margin of 37.38% in Q1 FY08 as against 39.75% of the full year FY07.

Fixed operating expenses including the manpower costs are about 10% of the revenues on an annual basis. These become higher in Q1 with historical lower volumes and get offset in the quarter with higher volumes.

Based on lower volumes, the EBIDTA in Q1 is normally expected at 10-12%. The drop in EBIDTA by 3-4% for the quarter was due to some external factors, which are

1. Major foreign exchange movement in the last 4 months, which is the cycle period for converting inventory to sales in our business
2. The recruitment for manpower for the on going capacity addition in Hansen and Suzlon. The recruitment cycle is around 6 months in advance, in order to train them to accelerate the learning curve. Number of employees increased from 10,400 to 11,500 in this quarter

The drop in profitability is also due to the fact that interest and depreciation do not go with volumes and look higher in percentage terms in quarters with low volumes. The acquisition interest was Rs. 41 Cr for Q1 FY08, of which Rs. 28 Cr was for Hansen acquisition and Rs. 13 Cr was for REpower acquisition.

We could have done an additional 100 MW in Q1. However we lost 50 MW in the domestic market due to local site problems and heavy rains and 50 MW internationally due to delay in tower deliveries.

Now let us look at events that have happened in the past quarter in Suzlon.

Suzlon is firmly on the path of its strategic growth initiatives, including capacity expansion, vertical integration and driving R&D to develop the next generation technology.

During the quarter, we successfully completed the bid for REpower, a promising wind turbine manufacturer based in Germany. We now have 86.5% of total voting rights through binding agreements with Martifer and Areva, two large shareholders of REpower as well as our own direct holding. Our bid has valued REpower at Euro 1.34 billion.

This acquisition will help us to accelerate our growth in the European markets in the on shore and off shore space. With Suzlon's vertically integrated supply chain strength, we will be able to increase volumes at REpower and achieve reduction in raw material costs to improve margins. After the acquisition, we now have a very strong product portfolio across all sizes and market segments allowing us to address any project globally. The deal is financed through a mix of debt and internal accruals. We recently raised USD 300 million through zero coupon FCCB issue which has been utilized for part financing the acquisition.

The Net Debt/ Equity increased to 1.72 as at 30th June 2007 due to the loan for acquisition for REpower.

Our quest towards higher levels of corporate social responsibility continues. The main thrust in the previous quarter was to provide much needed health care, educational facilities and create alternate employment in various rural sections in India. We organized free medical camps attended by expert doctors from various fields wherein more than 1,400 locals were benefited. We are also providing essential school supplies to around 8,700 children through 48 schools in these areas.

Coming to Order Book, we have a strong domestic and international order book position totaling to Rs. 13,500 Crores or 2,880 MW. This translates to an order book of over USD 3.4 billion.

I am very pleased to share with you that in the previous quarter we won new orders of significant sizes, both in US and China. In the US, we won an order of 630 MW from the Edison Mission Group and an extension of a 300 MW order from PPM. The total order from PPM now stands at 700 MW which is the largest contracts ever signed in the history of US wind energy market. In China we won orders for 90 MW from the Shandong Luneng Group for our 1.5 MW turbine. These orders are important milestones in our growth in the international markets. They reinforce

Suzlon's capability as a global player with global delivery capability on the renewable energy stage.

Coming to our capex plans, we have already announced our plans to set up an integrated turbine manufacturing facility in India. This will be a 1,500 MW capacity plant which will increase Suzlon's production capacity to 4,200 MW by end of FY08. The current integrated production capacity is 2,700 MW.

We have advanced a step further in our vertical integration strategy, to remove the supply chain bottleneck of sub components, with plans to set up a forging and foundry plants in India. These plants will use the latest technology available today keeping with our philosophy of continuous innovation.

We have also announced Hansen's capacity addition plans. Hansen Transmissions plans to expand its Belgian facilities to 5,800 MW and build its manufacturing facilities in India with a capacity of 3,500 MW. This capacity increase is being done in phases with adding to Hansen's total capacity at 9,300 MW by 4th quarter of FY09.

The capex plan for the wind business stands around Rs. 1,530 crores for the next two years, and the gear business is at Rs. 1,780 crores, translating to a total capex of Rs. 3,310 crores, or USD 820 million. Of this total capex spread over 3 years, we have already incurred around Rs. 400 crores in FY07, while around Rs. 2,000 Cr is planned for FY08, of which Rs. 372 Cr have been already invested in Q1, and the remaining Rs. 910 Cr is planned for FY09.

At Suzlon we are committed to achieving sustainable and long-term growth and at becoming the most successful, integrated solutions provider in wind energy. We will make the utmost effort to transform our Vision to reality in the shortest time possible. We believe that Suzlon will make a major contribution to a sustainable, economical, social and ecologically balanced development. A better life for our children.

Thank you very much. We would now be happy to take any questions that you may have.

Moderator

Thank you very much sir. At this moment I would like to hand over the proceedings to the International moderator to conduct the Q&A session for participants connected to the SingTel. After this we will have a Q&A session for participants at India bridge. Thank you and over to Zarina.

International Moderator

Thank you Monali. We will now begin the question and answer session for participants connected to the international bridge. Please press 01 to ask the question. We will have first question coming from Mr. Karthik at Lehman Brothers, Hong Kong.

Karthik

Good afternoon gentlemen. My question is essentially three fold. First of all I would like to understand the EBITDA margin guidance for the wind business, whether you

are still maintaining it at 19 to 20% for the full year and how you proposed to reach to that level given the level of rupee appreciation and component short supply. And my second question is mainly with regards to the standalone volumes which are actually down 12.6% YOY. So, I just wanted to understand the reason for that and there were some talks of potential Europe listing in future if you could provide some background to that news also. Thank you very much.

Tulsi Tanti

Yeah, thanks a lot, and first of all I will give you the answer for the standalone. The standalone numbers in revenue front, there is a two major increases, one is the 67% the international business is there in the current year Q1 compared to the last year. The last year was the lower component was there, and second is the full value is not booked in the standalone, because it is the transfer price which is there. So, that absolute amount will be the lower in this front, but no doubt absolute MW is also lower. I have explained that we have lost the slippage of 100 MW, the 50 MW for the international requirement and the 50 MW is the domestic requirement, and it is delayed. So, this can be supplied in the second quarter that way. So, because of that is the standalone number is the lower.

The second area is your question is regarding the guidance the thing, we feel there is some confusion, last year we have given a very clear guidance in before the Q4, so this year's what we are not suggesting any guidance for the whole year basis, but we can share with you certain things, historically the Q1 is always 10 to 13% volume is there and based on that other quarters volume is different and last quarter is always 35 to 40% is there. So keeping in mind we have targeted in Q1, our margin of 10 to 12% on EBITDA level, but we have achieved the 7%, so that is the gap is there. In this scenario we will share with you that the 2% is mainly because of the rupee appreciation is a 7% last three to four months appreciation is there and most of our international revenue is currently in the US. So, we have lost because of that and that has affected 2% margin. The second area here we want to highlight to you, earlier our business model was equipment supply and this financial year our business model is equipment supply plus EPC is there. If you see the last year is Rs. 4.21 crore is our revenue per MW there and Q1 the revenue is Rs. 4.73 crore is there. So we have increased the more value addition to the customer, but at the same point the value addition part will not give the higher margin. So that 2% margin will be lower on that front.

And the third area is that, we are ramping up all our the capacity whether it is a production, project, and service. So, we are recruiting a lot of people well in advance and we are giving a lot of comprehensive training in the existing workshop, existing site, and existing service area. So, they will be available as early as possible so that we can ramp up the capacity and the learning curve we can accelerate that. So, that is the 1% impact has come in the margin is there.

Regarding the third question about the international listing, we have to see the opportunity and appropriate time we will announce as and when required but we will explore that possibility, but at this moment we do not have such plan.

Karthik

Okay. Thank you very much Sir. Just to reconfirm, for FY08 for the full year you are actually not guiding any EBITDA margin level. Can I take it that way?

Tulsi Tanti

Yes. But only I am giving indirect message, on two things. One is the change on the business model compared to last year. So, that naturally compared to the last year also the business model is changing. The margin will be lower by 2%. We are not giving guidance but we are giving this correction.

Karthik

Thank you very much.

International moderator

Thank you Sir. Participants with questions to pose please press 01. At this time there are no further questions from participants at international. I would like to hand over the proceedings back to India moderator, Monali.

Moderator

Thank you Zarina. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking questions. To ask a question, please press *1 now. First in line we have Mr. Mukul from Prabhudas Lilladher.

Mukul

Good afternoon sir. Sir, I had a couple of questions. First would be you said your order book is Rs. 13,500 crores. So, if you could just tell us what would be the order intake during this quarter?

Tulsi Tanti

So, we will give you just within one or two minutes. No problem.

Mukul

Sir, I will proceed to the second question that pertains to your realizations, I would like to understand how have been the realizations in the international as well as the domestic market during Q1 and how have they moved vis-à-vis in Q4.

Tulsi Tanti

The total realization average is 4.73 in a total basis, that break up I will give, domestic and international. Anand.

Anand

Yes Sir.

Tulsi Tanti

Do you have this number about the realization of the revenue in domestic and international per MW.

Anand

Yes Sir. I would take a minute.

Mukul

No problem Sir.

Tulsi Tanti

Regarding first question 924 MW net addition during the Q1.

Mukul

Okay and Sir in value terms this would be how much.

Anand

In India it is Rs. 5.14 Cr. per MW.

Mukul

Okay.

Anand

In international it is Rs. 4.47 Cr. per MW, which includes China as well.

Mukul

So, Sir how have the realizations moved during the quarter.

Tulsi Tanti

Sorry?

Mukul

How have the realizations moved during the quarter as compared to Q4 FY07?

Tulsi Tanti

The previous full annual year it was 4.21. Now it is 4.73, is a total basis. So, it is a increase of Rs. 52 lakhs, because the scope has increased in the business model. Earlier International was only equipment supply sales. Now we are doing EPC also, means project execution and commissioning including that. It is the increase.

Mukul

And you mentioned that the employee cost going up. One of the reasons was that we have recruited new employees to train for the new capacities coming up. So, Sir how many employees would have we added at Hansen as well as at Suzlon in India?

Tulsi Tanti

150 employees we have added in Q1 in Hansen and that is the maximum value wise costs have gone high, and second is 1000 employees in Suzlon.

Mukul

Sir, these Hansen employees 150 you have added but the capacity comes up only in Q4, so Hansen margins will be under depression for another three quarters, is that right?

Tulsi Tanti

No, no, capacity is increasing every quarter. If you see the sales number once is coming compared to the Q4 to Q1 and every quarter it is increasing, continuously it is going on, but what is there is some two types of capacity, one is in existing works of some expansion is going on, one is a completely new production facility which we are doubling in the Hansen in Belgium, and to train these types of the precision and accuracy work, it takes minimum three to four months to educate the people on hands on training on the workshops. So, that some of the employees are straight away for the current capacity expansion and some of the employees for the after six month capacity expansion.

Mukul

Okay, and Sir lastly are there any turbines in transit during the quarter?

Tulsi Tanti

Yes.

Mukul

What would that value be?

Tulsi Tanti

178 MW is in transit.

Mukul

As compared to 224 at the start of the quarter, right.

Tulsi Tanti

221.

Mukul

221, so Sir in effect we would have gained from those things at the end of the quarter Q4, the turbines in transit were much higher. So, we might have gained some kind of a margin during the quarter from that also, right.

Tulsi Tanti

Yes, marginally.

Mukul

So, what would that value be in percentage or in absolute terms if you could highlight that?

Tulsi Tanti

Very difficult to calculate it at this moment, may be we can give you later on.

Mukul

No problem Sir. Sir, I think that should be all from my side. I will come back for further questions.

Moderator

Thank you very much Sir. Participants are requested to use only handsets while asking questions. Next in line we have Mr. Rajesh Panjwani from CLSA.

Rajesh

Hello Sir. This is Rajesh here.

Tulsi Tanti

Yeah. Hello Rajesh.

Rajesh

Sir, can you give us like to like realizations for the Indian and domestic sales because this quarter also includes the EPC portion. Would it be possible to give the like to like realization?

Tulsi Tanti

Means only equipment?

Rajesh

Yeah, only wind turbine.

Tulsi Tanti

Yeah. Anand you have particular this number.

Anand

Sir, there would be some kind of overlapping.

Tulsi Tanti

Are you able to give now? What is your status, Anand?

Anand

I need to give it later on because the number of machines sold and number of machine commissioned would not match invariably.

Rajesh

Okay, is it possible to get separately the EPC portion revenue?

Tulsi Tanti

Anand, estimated you can give?

Anand

Yeah, I would give in next one minute time. Till then we can probably take another question.

Rajesh

Okay. Sir, now you mentioned that two factors have impacted the margins during the current quarter. Rupee appreciation was one, but apart from that the domestic sales are down almost 25% YOY and international sales also were impacted by the component shortages. Now, when do you see these constraints easing out, both in the domestic side as well as in the international side?

Tulsi Tanti

Rajesh, first of all overall scenario, as a historical and Q1 will be always 10 to 12%. So, that is the one basic effect is there. We are trying to achieve rather than 10%, we want to go towards the 15%. So, our internal target was to achieve that level and because of that we have lost some of the things. So, this is the basic. And the fixed cost level is the 10% is there in our business model, right, and if it is volume is not 25%....

Rajesh

Correct Sir, yeah, your point is taken about the fixed cost being spread over a lower volume.

Tulsi Tanti

....actually very high. If it is 12%, it goes up to 20% also. So, that is the basic phenomenon is there. Additionally top of that what we want to communicate that, the rupee appreciation was last four months is 6 to 7%, which is affected because our maximum export is today is in the dollar but going forward it will be distributed in four currencies, Euro and also in RMB much more and rupees and dollar. So, then it will be more comfort on the overall currency impact is there. One point we are highlighting that the manpower cost, because we are appointing more people well in advance for one quarter at least, so that we can train and grow and perfectly and so we accelerate our growth hand-to-mouth on the capacity area, in gear box and some of the key component, so we are expanding that capacity as fast as possible so that we can ramp up our businesses is much possible. The two areas is the production of 50 megawatt for the international. We are not able to get the tower in time from our vendors from the USA, we have a nacelle and rotor available there, but tower is not there as the practice of accounting when three components is there then and then we are recognizing revenue, so because of that 50 megawatts we are not able to convert into revenue. The same point in domestic market 50 megawatt we have lost, we have a supply, we have a component, but we are not able to dispatch because of some site concern and site problems in particular in Maharashtra, which is resolving very fast, and second is the suddenly very high rain of some of the parts where logistics was not possible. It is the question of one or two weeks timing issues, but the quarter cut off dates is over then we cannot able to do, so that is why we have lost those two areas, if we can achieve that we can be very strong position, so going forward it is not a difficult situation on these front.

Rajesh

So you expect let say in the second quarter both these constraints would ease to some extent?

Tulsi Tanti

The tower problems, yes, because supplier has already committed and standby planning last six months we have already started the actions in India and now we are already production has started in India for the US tower also, we are supplying from here, which is the standby arrangement we have built. Whatever the supply will come from the USA additionally we are providing from India and that delivery is starting from within the next week, so that we are very comfortable on the tower fronts for the quarter. We do not see any difficulty on that one. As far as the India, the domestic site constraints, so we have so many sites in the Maharashtra and so many sites in other state, some of the business we are now shifting to the other sites and other states, so that we are also comfortable on that joint.

Rajesh

Okay, can we expect that at the end of the second quarter the towers you have transit would be much lower because you would have got the tower and you would have shift the turbines?

Tulsi Tanti

Yeah, because we have two resources, one is the already placed order from the USA because Q4 are also they were failures on some of the towers, so that is why we have built the additional capacity from India and that production is going on, so in Q2 we do not see any tower program. Right Andre?

Andre

Yes correct.

Rajesh

So, Q2 there should be a substantial increase in the international sales?

Tulsi Tanti

Yes.

Rajesh

Sir in domestic market in the first quarter can you give us the state wise breakup of your installations? Even if you can give a rough number, that is fine.

Tulsi Tanti

Anand you have this state wise?

Anand

Yes sir, I would provide information for that in the meantime I will answer the first question. For FY 06-07, the revenue per MW is Rs. 4.33 Cr for Indian Business for FY 06-07, and for International business including China Per MW sale Is Rs. 3.99 Cr and excluding china it is Rs. 4.23 Cr. For June 07, International business including China Per MW sale Is Rs. 4.47 Cr and excluding china it is Rs. 4.58 Cr.

Rajesh

Okay.

Anand

For international it was Rs. 3.99 Cr. , now it is Rs. 4.47 Cr. including China.

Rajesh

This is including China?

Tulsi Tanti

Rajesh you should be very careful when we are talking including China means indication is that in China we are not giving the tower.

Rajesh

Tower, yeah I am aware.

Tulsi Tanti

So that is why in some quarter if China volume is higher and other volume is lower suppose, than per megawatt price further will go down also because tower is not in the scope in China. All other markets the tower is included.

Rajesh

Sir if I heard the numbers right it was 4.33 last year versus 4.54 this year.

Tulsi Tanti

4.21 last year.

Rajesh

This is for domestic?

Tulsi Tanti

No whole.

Rajesh

Okay.

Tulsi Tanti

Anand has given the breakup is there, I am talking about the consolidated whole year is 4.21 and current quarter is 4.73.

Rajesh

Yeah, those numbers we have got, what Anand was saying I think 4.33 last year versus 4.54 this year for domestic, and 3.99 versus 4.47 in the international, correct. Okay, sir which are the states where there would have been a maximum impact of whether it is land availability or whether it is evacuation constraints?

Tulsi Tanti

The major is the execution part constraining of the local problems and that is mainly in the Dhulia and Sangli sides in Maharashtra. There are no other sites or any other problems except two sites in that. We have a total 30 sites in all India basis, out of that two sites is the biggest constraint is there, but that is now slowly resolved and currently it is coming in control.

Rajesh

Okay sir, you are saying that both domestic as well as international sales should pick up in the coming quarter?

Tulsi Tanti

Yes absolutely because we are also seriously worried and we have to take lot of aggressive actions to deliver the quantity, because already inventory, orders and everything is available just we have to execute.

Rajesh

Okay, and sir in terms of for the full year how much would be EPC as a percentage of your domestic sales and percentage of your international sales?

Tulsi Tanti

The EPC will be 100% in India, that is nearly total revenue of 40% will come from India, so that 100% will be the EPC.

Rajesh

No, I am saying there is a turbine part and there is the rest of the parts, so how much would be in the total revenue what would be the percentage of EPC work?

Tulsi Tanti

Yeah, okay, so it is approximately 15 to 20% depending on different sites.

Rajesh

And for export markets?

Tulsi Tanti

Export market these percentage is because some market there is a different scope, sometime we are giving only installation and erection, we are not doing sometime foundation. Sometime is a foundation, grid connection, and everything, so it is very difficult to say, but it ranges between to 10% to 25%.

Rajesh

And sometimes it may be pure equipments, so actually it will be lower.

Tulsi Tanti

Yeah only equipment then it is lower, and if we are not supplying tower, all international we are supplying tower except China, then further 12% to 15% will reduce the scope.

Rajesh

Okay, sir at the end of the last quarter you had given an indication of 19-20% EBITDA margin for the WTG business excluding the EPC part, so are you in a way withdrawing that guidance altogether?

Tulsi Tanti

See actually there is a confusion, I feel, what we are explaining at that time very clearly is 17% EBITDA margin we have achieved in the last financial year, going forward we are changing our business model and 2% impact will come on the EBITDA margin level. In absolute profit level and absolute revenue level improvement will come, so that example and that correction will come like this that is directions we have given. We have not given exact absolute EBITDA numbers.

Rajesh

Yes sir, you have not give EBITDA numbers, but on EBITDA margins also you have clearly said in the last quarter call that there would be a definite improvement as far as like-to-like basis EBITDA is concerned. We agree that there will be a EPC contract, which will obviously has lower margins, but on the like-to-like basis you clearly indicated that there will be an improvement in EBITDA margin, so you stand by that statement?

Tulsi Tanti

One correction is coming on the percentage from because of the EPC scope, 2% to 2.5% reduction in EBITDA is there, but same point of price and other benefits are coming, plus more vertical integration is coming, so we are trying to achieve the whatever the last year is there, it is not a guidance, so there is no confusion, so may be communications gaps, so we are trying to achieve whatever the last year EBITDA margin we want to achieve that.

Rajesh

Okay sir, you are saying that basically despite the addition of the EPC business, you still would have a target of achieving roughly last year's EBITDA margin which is around 17%.

Tulsi Tanti

Yeah.

Rajesh

Okay. Just one last question on Hansen.

Tulsi Tanti

Are you ready with that answer Anand, state wise sales.

Anand

I will take another one minute more please.

Tulsi Tanti

Fine, okay, Rajesh go ahead.

Rajesh

Yeah, on Hansen do you expect to maintain the last year margins in Hansen also for the full year?

Tulsi Tanti

Yes it is achievable and there are possibilities of marginal improvement of 1 or 2%, but the current Q1 I want to share with you the things are that we are trying to increase some volume, but unfortunately some of the bearing availability was not there, and so that we have lost the some of the volume in Hansen also in Q1, it is not affected much more but it is affected the bottom line no doubt, so if the current year impact is there because there is a two suppliers in the world is there, SKF and FAG, they are producing the particular size of the bearings for the wind industries, and both are fully sold out and they have a limitations also, so we are trying to resolve that and expanding those capacity we are expanding for us also. So, going forward it will minimize but that is the currently bottleneck is there.

Rajesh

There are also you see some easing of bottleneck in the second quarter?

Tulsi Tanti

Currently, the commitment of the suppliers are very good and they have given assurance, so whatever our requirement of the Q2 that will be delivered, but this is a very highly technology driven product sometime there is a quality problem or some failure of some things, so there is no additional stand by suppliers are available immediately, but we are developing the third suppliers, so that will be useful in the Q3 and Q4, and as a long term planning point of view now the leading suppliers are establishing large production capacity, in India with fully support of the Suzlon we will supply the lot of raw material to them and they will supply the bearing to us and Hansen, so that is a long term that will be available after the 12 to 15 months, so after that we will be very, very comfortable.

Rajesh

After 12-15 months.

Tulsi Tanti

But that is a long term point I am talking, current supply they have assured after Q1 problem they have assured, but now there will be no impact will come to Hansen.

Rajesh

Sir the way I see the whole thing that you know you are hopeful about the remaining of the year, but it is also contingent upon certain factors like you know domestic demand itself, some of the constraints in the domestic market easing out, tower supply improving, bearing supply for Hansen improving, so if there is any failure on any of those fronts then possibly the volumes as well as a EBITDA margins could be impacted.

Tulsi Tanti

I agree with you, but at the same point of time our plan is also higher side, our growth plan is really on a very high side, so that is supporting us. Regarding the domestic market, we do not have the order problems. The demand is very good in the domestic market. The domestic market turbine is not a problem. The problem side is only the site and executions issues, so that is the bottleneck is there. We have a lot of number of sites, but sometime we have planned some of the sites and some constraints come immediately we cannot able to switch over, it takes two to three months. So we have a standby and plan B is also ready, it is not that is the only we are going with that and we have a constraint, so we have mitigation plan A, B plan is also ready, but all the changes is required three to four months, so we can slip some of the times, but within three months we will recover further, and then another new bottleneck will emerge, because whole industries is currently over stretched, it is in every segment it is very, very tight situation, so that is always some of the some areas, although last first Q1, 82% revenue growth we have achieved, so this is the best part we can put on table, because that is the strength of the Suzlon is there.

Rajesh

Okay fine sir, thanks sir.

Anand

Yeah, sales Maharashtra 63 megawatt, Gujarat 32, Tamil Nadu 23, and Karnataka 18.

Moderator

Thank you very much sir. Next in line, we have Mr. Dipen Mehta from Dipen Mehta shares.

Dipen

There is a note in the result about consolidation of REpower, so if could you just explain to us how that will account going forward and what percentage of REpower will you be consolidating what you are actually owning directly or will it be what you will eventually end up owning in RE power?

Tulsi Tanti

Yes, Kirti will answer.

Kirti Vagadia

Yeah Dipen, there are two situations, one is REpower is a listed company independently in Germany, so they have plan to declare their quarterly results for June quarter during mid august. If I am including their result indirectly it is made public earlier than what it was planned. That is the reason we are not in a position to include REpower result in our quarterly results, because our quarterly result announcement is happening early. Now, the April to June quarter of REpower will get consolidated in July to September quarter of Suzlon.

Dipen

Means you will include the sales and the profit numbers of April to June in July to September or will you restate April to June.

Kirti Vagadia

Yes in July to September of Suzlon, yes.

Dipen

We will be seen additional.

Kirti Vagadia

Yes, always three months lag.

Dipen

With a three month lag.

Kirti Vagadia

Correct.

Dipen

Okay and what percentage of that will be the amalgamated?

Kirti Vagadia

Typically, I will be getting benefit of whatever economic interest we are holding, so right now our economic interest is at about 34%.

Dipen

Okay, so it will be just basically like an additional line item, you will not be consolidating top line, bottom line, or line by line, right. It will just be an additional after net profit and the minority interest or addition

Kirti Vagadia

Additional profit, item for 34% share.

Dipen

Okay, also I just wanted to know if the management could give some sort of an overview that we have got huge order book coming in and I am sure that the situation with other industry player as well, and there is lot of confusion on the EBITDA margin and all that, so part A of the question is that are the realization per se coming down for the industry as a whole, especially Suzlon, or are they going up, I mean normally common sense suggests that when there is such a huge demand for the companies product and there is certain element of pricing power, so does Suzlon Energy and industry as a whole has some pricing power or not? And secondly, we have been booking multimillion dollar orders, we are sure you have done some calculation as regards to what are EBITDA margins could be, so in a steady state apart from you know all these issues of capacity constraints or component disruption or delays what is the steady state operating profit margin in a budget, you know when you bid for say \$100 million, what is you budgeted EBITDA margin?

Kirti Vagadia

See our operating margin are budgeted at almost as explained by Tulsi by in question asked by Rajesh that it is safe to hedging at about 17% on total revenue for wind segment and at about 15% in case of Hansen, there may be plus or minus 50 basis to 200 basis point, but this is what we are budgeting when we are making estimation for each large orders. On your question about realization, I would say that definitely realization is progressively improving in each market form quarter to quarter except for the fact that in India the realization is flattening during current year.

Dipen

So that means you are saying that there is certain element of pricing power with the equipment supplier such as Suzlon and that we are able to get a price and are able to protect the margin and you see that situation at least remaining for the next two or three quarters or so?

Kirti Vagadia

Definitely, it needs to remain, because two to three quarters we are already booked.

Dipen

Okay, in terms of bidding whatever you may be bidding for new orders, it is a ongoing process, so whatever new orders which you may be expected to get in Q3, Q4, and so on and so forth you do feel that there is an element of pricing power with the company and that is not a highly comparative business where now its situation where you have under cut and compromise on margin just to get the volume going, because you would be looking at deploying a larger capacity in the year FY08 when you are bidding for orders in the month of September, October and early 2008 you will be keeping that in mind, so I just want to understand that on a longer frame of

things, where is it, I mean is it going to reach a situation where now because you have the capacity we need to under cut a little bit just to get the capacities going or is it that sufficient demand that even all our additional capacities at 4200 megawatt and beyond will all go at these kind of operating profit margins?

Tulsi Tanti

Yeah first of all I will share with you the market scenario, so you can understand what is the global scenario going. So, before 2007, 2008, and 2009 the demand of the market is higher than the supply of the global capacities. Up to 2009 December we do not see any constraint of demand, because more and more countries are investing in wind energy and the number of countries are increasing. Earlier was 20 countries, today there are 70 countries, and we are getting now enquiries from 100 countries. We are not able to reach today, we are just 14 countries our presence is there. So the geographical spread is increasing, it is not only one or two markets are growing, so geographical spread is expanding in the business is there. So the market front of you 2009 there is no constraint is there and we have very clear visibility up to that, and whatever our orders we are taking we are taking orders for 2007, 2008, and 2009. Each order is based on the particular year and based on our costing and analysis based on our price is there. It is not 2007, 2008, and 2009, all the price is equal. So each year wise a different price is there, #1. And 07-08 is nearly 2-3% is higher and 08-09 is another 2-3% higher, so that is a price increase is there. So, there is a very clear comfort is there, so we are not going on any type of the risk on the price impact is there, but although whatever our prediction and whatever our planning is there, if there is unforeseen or beyond that it will go then there is some impact will come, but that is a business part is there, and top of that we are increasing the volumes, so we have economy of the scale benefit also going forward, so we see up to 2009 is very comfortable is there.

Kirti Vagadia

Yeah may be just to add to that the fact is that in 2005, 2006, and 2007 we have been able to increase our prices every year, first of all to offset you know some improved cost which have gone up, but also above that, in other words there is a net price increase of about 2 to 2.5% after you take into account the increase in input costs. So the situation today in a market is that any type of cost increase it would come on the input site we can pass it up to the customers because of this huge demand to supply gap, so that is also a fact. There is no danger of the margins coming under pressure because of pricing. Pricing can be we increased to offset any cost increases on the input site.

Dipen

Sir one quick last question, are there anymore companies you know like which you were perhaps thinking of acquiring which are \$2-3 billion or euro or whatever, I mean are we now comfortable that we have got all the parts in place and that the management time will be spend just on consolidating and keeping our margins intact integrating because those are phenomenal challenges you will agree.

Tulsi Tanti

Yeah, we agree with you.

Dipen

So I mean as M&A activity do we expect that now Suzlon Group will you know be more focused inward rather than every opportunity which comes up in the M&A sphere would we like again still going for such large acquisition or have we covered all the various points in the business of REpower had a reason, Hansen had a particular reason.

Tulsi Tanti

Yeah we understand, the point is here what is our long-term strategy and what we are looking as our vision? Our investment is always in the two front, one is the technology and another is people. So whatever our requirement and missing block was in our value chain, one was the gear box and gear box technology which we have acquired through Hansen which is best in the world today, and we will expand that so we can continue that supply to the other customer also, and to Suzlon also. The REpower was also a strategic move mainly for the technology and the offshore technology, which is the future growth of the industries. So, currently our plan is clear, now we hope to focus on more on organic growth and to integrate and make the more and more fast synergy from all three organizations, so we can create a great value for our shareholders.

Dipen

Right sir, thank you and all the best.

Moderator

Thank you very much sir. Next in line, we have Shilpa from JP Morgan.

Shilpa

Hi, this is Shilpa from JP Morgan. I have a couple of questions. My first question is pertaining to the operating margin, I am sorry to persist on this issue, but you know you can see from the stock price and is causing a fair amount of concern amongst investors, and so I just thought I should clarify to avoid miscommunications like in the past. Mr. Tanti you have mentioned that last time your WTG business has turned in and a EBITDA margin of 17% and although you would attempt to match that you know you do see around 200 basis points hit due to the rupee appreciation which you had not factored before, so you know probably does that mean that probably we should be looking at WTG margin of around 15% to be on the conservative side?

Tulsi Tanti

Yeah first of all I agree with you, there is no denying there, 17% EBITDA margin on turbine business we are targeting and we expecting on annual basis, so that is point #1 is very clear, but you should treat as a guidance that is our target on our business models, #1. #2 is that based on these business scope we have expanded and that EPC business is there, so there is the impact of the 2% in the percentage terms, but in absolute revenue of top line and bottom line both will increase, so per megawatt profit will increase and per megawatt revenue will also increase. So we are very clear and we are standing by that. #2 point is here when we are looking

but Q1 is always is 10-12% in the whole year business, so Q1 is the volume wise always is a lower, historically also and this Q1 is also lower. And what is happening, we have a 10% fixed cost on annual basis volume, now Q1 volume is lower, it is not a 25% of the volume, it is 12% volume is there, so it is almost the half. The straightaway my fixed cost goes the double. So this is the impact is coming. We are very clear on annual basis we will achieve our targets. So there is no concern is there. But that same target cannot be achievable in Q1. So that is the things are there.

Shilpa

Got it.

Tulsi Tanti

More volume, then there is no efficiency problem. We are trying to improve that percentage from 10-12% to 15% and that was the our Q1 target to achieve the 15% we want to go but some how 15 megawatt we are not able to recognize in the US because the supplier of the tower has not delivered the tower in time, which is a Q4 also was the problem, now we have developed the standby arrangement also and we are expediting the tower problems, so that should not continue in Q2 also. At the same point in India 50 megawatt, the dispatch we are not able to do because site constraint and limitation and plus some of site was the very heavy rains and logistic was not possible in June last week. So because of that it was slippage was there. So this is the volume situation, if we can achieve that then there is lot of improvement we can show in Q1 results, and this type of infrastructure business is highly seasonality situation always is there. So the fixed cost is higher and volume and lower, margin will grow lower, and if volume is higher more than 25% in particular quarter then margin will go higher. So that fix cost is giving the leverage in both side.

Shilpa

Okay, so by implication when you are saying that the first quarter this time accounted for lower percentage of revenues than what you had initially anticipated, I am just drawing that calculation forward, probably on the basis of the fact that first quarter might have accounted for around 12-13% of your full year revenues, we are talking about a full revenue of around Rs. 150 million, and in first quarter for the WTG business given that you have achieved an EBITDA margin of 6.5% and assuming this was full year you will make your best efforts to achieve the EBITDA margin of 17%, by implication it means for the remaining 9 months EBIT margin you have to run at a run rate of around 17.5 to 18%, so clearly a huge improvement form the first quarter. Do you see this improvement coming entirely from operating leverage, which is fixed cost you know at the wider base or are you also assuming weaker rupee or bit further improvement in WTG prices?

Tulsi Tanti

First of all I will explain very clearly, so it is very difficulty to sometime predict going forward, but Q2 is normally 25% and Q3 is 25% and Q4 is nearly 40%. So when more than 25% quarter is there, so automatically margin will be on the positive sides, more than 17% it will go, so that is very clear. It is not that every quarter we have to focus in that, it is highly related to the volume. On annual basis we are very

clear and comfortable that is not a difficult on that front. So that is the clarity is there.

Shilpa

Okay fine. Sir just one more small question.

Tulsi Tanti

Regarding you mentioned the EBITDA of the current quarter is only in wind business is 7.1%.

Shilpa

Okay, right sir. Sir one more small question. There seems to be some problems in Maharashtra state regarding the operation of your turbines which in notes to accounts you have said that you consider them to be force majeure, now in the event it is not deemed to be force majeure would you need to make substantial provision for performance guarantees or other substantial payments on accounts of performance guarantee etc.?

Tulsi Tanti

No its not required because the turbine whatever we have installed in those areas, surrounding the population in sometime is disturbing mainly the evacuation facilities substation and other things. So it is not possible to evacuate the power and other things. So our guarantee is the turbine performance only. There is no guarantee for the grid and other things. So there is our commitment which is always there. So we are just clarifying this is the force majeure so that there should be no confusion for the market that we have provide some provision or anything, it is not required.

Shilpa

Okay, thank you so much sir.

Moderator

Thank you very much mam. Next we have Mr. Sachin Trivedi from UTI Mutual Funds.

Sachin Trivedi

Hello sir. Sir my first question is regarding this quarter, was there any bad debts provision in this quarter?

Anand

There are nominal amount towards provision for doubtful debts. I would let you know the actual amount.

Sachin Trivedi

Sir, my second question is regarding REpower. Since we have decided to consolidate REpower numbers, so is it possible for you to give us any guidance on REpower on the margin and top line figure also?

Kirti Vagadia

See REpower has already given guidance independently to its shareholders that during current calendar year they will be doing 650 million Euro turnover and EBIT for about 33 Euro million. That guidance has already been given by REpower management independently.

Tulsi Tanti

And that is from January to December.

Kirti Vagadia

Yes, calendar year.

Sachin Trivedi

Okay and sir my final question is regarding the net liability. What is the net liability that we have on our balance sheet in Euro or dollar term?

Anand

That I need to compute. On earlier question provision on doubtful debt made in this quarter is Rs. 2.97 crores and we have reversed Rs. 1.4 crores on account on recoveries from those debtors. Net provision Rs. 1.57 crores.

Sachin Trivedi

So, nothing substantial.

Anand

Answer to this question from you, I will take a little longer to work out the figures.

Sachin Trivedi

No issues. Fine, thanks.

Moderator

Thank you very much sir. Next in line we have Lokesh from Kotak Securities.

Lokesh

Hi good afternoon sir. Sir just wanted to ask you we completely understand the seasonality in your business which was there earlier which is essentially related to the domestic business and Indian business would strictly follow a cycle which would kind of peek out in the January to March quarter. We believe that actually in the international business it would not have the same cycle and the cycle would be different there. So on a sort of combined basis your quarterly executions skew would come down as the international business ramps up. Now that has not clearly happened. Any reasons for that sir?

Tulsi Tanti

Not mainly, only this domestic market. It depends on the total our business planning and other procurement planning and other supply planning. So that is always there because normally Q4 in our business model is the over straight and over volume is always there. So that is giving some of the effect in Q1 is always there. That is the historical pattern cycle is there. It is not linked with the market and other things. If you can able to supply more, Q1 market will absorb more also, because demand is the higher side is there. So that is the sequence is there because the same way our suppliers and vendors has also grown like this. So that is the pattern is maintaining this process, because most of the capacity increase and other things also going with that line on mainly the planning front. So that is why this pattern is there.

Lokesh

So basically you are saying it is function of both what market takes and also your internal planning as well as several other stakeholders related to it?

Tulsi Tanti

Including vendor, ours, and market, and the certain logistics. All is developed and grown like this. If you see this is not just one year, it is last 10 years, this is the phenomenon.

Lokesh

My question only was that last 10 years was essentially domestic business while this time business consists of 2 components. So it should have evened out a little bit.

Tulsi Tanti

No that is only you are taking consideration of the one component of the market, but we have to see our manufacturing facilities, plus our vendors capacities.

Lokesh

Yeah, thanks a lot sir.

Moderator

Thank you very much sir. Next in line we have Mr. Venkatesh from Citi Group.

Venkatesh

Sir I had a few questions, once again on the operating margin front. Last year your wind turbine margins were 16.7% or so. This year you are saying because of the change in the scope of the business margin should be lesser by around 2%. So are we saying that for the full year you would possibly be able to on a conservative basis be likely to achieve around 15%? The second question is on the tower side. You said in the tower problems which were there in fourth quarter continue in the current quarter and there is definite chance that the problems will continue in the coming quarter again and you have also thought about transporting these towers from India all the way till US as a back up plan. Now if at all you do transfer towers from India, is it not that going to take another have a severe hit on your freight cost, because towers are really heavy and will it not increase your freight cost and again have a negative effect on margins? And the last question is it almost seems contra sir that there is a massive demand out there and as Mr. Horbach was telling that pricing can be increased to make sure that any component prices increases can be increased, but since the time the company has listed for every quarter there seems to be a margin contraction.

Tulsi Tanti

Further I want to clarify with regarding the margin, what is happening, there is a 3 level of margin in our books; one is the gross margin, we always focus on the gross margin much more, any quarter we want to assess and measure we grow like that. If you see annual margin of the last whole year, irrespective of the component price and market and everything, what we have achieved 39.5% gross margin we have achieved, whole year basis. This quarter also we have achieved 37.5%. As per our assessment we are on the track and perfect, why, there is a 2% drop that is because of the key reason is the supply chain and business model has changed because of that. So we have achieved that thing. On top of that additional impact has come for the currency, because all the inventory was the higher the dollar price and my sales in the Q1 is the lower dollar price, so that has affected another 2% is there. So if we see differently, I think we have seen a very, very good position on the margin front on a gross margin level. Now we go to the EBITDA level, it is very clear that annual basis it last year was 17% and this year also we are targeting to achieve the 70% but this is not my guidance so there should be no confusion. So this is there. On top of that in the Q1 is the volume is 10-15% is normally in the historical is there, 10-13%, and what is happening in my fixed cost is a 10%. So if you are not achieving 25% volume in one specific quarter then fixed cost will be proportionately will go high, if it is 12% that it means 20% fixed cost. So this is the phenomenon is coming on EBITDA level, and these quarter is particularly the one is the currency impact of the 2% and top of that we are ramping our production, projects and service capacity big way, because if you see the Q1 also we have achieved 82% growth. We want to achieve more higher and higher growth in coming quarter also, so that we have to ramp all our production capacity, project strength and service, that is why we are appointing manpower well in advance, so that we can take care. So that is the cost has increased in the Q1 and that has affected 1% also there. At the same point, we want to increase our volume in Q1 rather than 10-12% we want

to go more higher side, so that we can utilize Q1 also more better way, but unfortunately we have lost 50% because of the tower in US constraint and 50% in the site and rain constraint in India, 50 megawatt in US and 50 megawatt in India. So that was the overall scenario is there. All if you see, its one time of impact is there. It is not continued in the Q2 and Q3, we don't see this type. Tower we have stand by arrangement is there, whatever price we are purchasing of the tower from the US, whatever the tower from India plus logistic and supplying to the US we are very comfortable, it is not increasing our price, because US tower demand is very high and supply is shortage, that is why tower price in the US is very high. So we are comfortable, not only that we can make little bit profit on that also if we supply from India, but it is a plan B arrangement is there, so nothing should go wrong in Q2 and that is very, very we are comfortable on Q2 for the tower will not affect our US any business impact will be there.

Venkatesh

Sir just as a followup, last year we had 17% margins, in a such strong demand scenario shouldn't you be targeting something like 18-19% in your bids and then bidding at a higher price, so that you obviously know there are going to lots of supply constraints, there are going to be tower problem constraints, there are going to be sub component constraints, so should not we be pricing it even higher so that all these problems can be factored it in our bid so that despite the problems we achieve something like 16-17% margins?

Tulsi Tanti

You have to understand when I am saying 17%, we are targeting for the current financial year, the 2% already we are doing more value addition part also. So effectively it is going 2% higher compared to the last year, because whatever the EPC other works we are doing in this business model in this financial year, so that is the impact of 2. If you compare that 17 to minus 2, it goes 15, but instead if 15 we are targeting 17.

Venkatesh

Okay sir, thanks a lot, all the best for the full year.

Moderator

Thank you very much sir. Next in line we have Mr. Akshay from Morgan Stanley.

Akshay

Yeah sir my questions have been answered.

Moderator

Thank you very much sir. Next in line we have Mr. Henrik from SEB.

Henrik

Thank you very much. Just a quick may be you can clarify a little what is going on in the Hansen part of the business, because I guess that is not as volatile in terms of seasonality. First question have you started to supply your old turbines with Hansen gear boxes, and second what exactly is happening in the margins in Hansen, you have had close to 40% top line growth, so you cannot really be the volumes that is explaining why the margins are so low in that part of the business, and third question regarding REpower you now control more than 86% of the company, is it your intention to de-list the REpower altogether and if so what is the timeframe for that, and the last question if you can may be clarify a little more, this change in business model, is that because you are now taking more turnkey projects or what exactly is behind that?

Tulsi Tanti

Yes regarding the EPC, earlier India the business model was the equipment supply and EPC work was done by the associate company group. So that is why it is not in value chain of the Suzlon main company in the last year, but from 1st of April we have integrated that is the part of the main business our main company. So that is why that model is added and because of that business model has changed from 1st of April in India only. International business some of the contracts we are taking including the EPC and some of the contract is equipment supply and some of the contracts are including the some of the foundation and other work also. So there is a different type is there, are in China we are taking just equipment supply, not tower supply also. So that is the business model currently we are operating.

Henrik

And just to followup, are you doing revenue recognition the same way on all these different types of contracts or are you are using the same principle?

Tulsi Tanti

It is very clear, the nacelle, rotor, and tower, once it is delivered, after that we are doing revenue recognition, but if tower is not in the scope of the contract then nacelle and rotor. And regarding the projects parts, it is based on the project progress we are considering the revenue recognition. So supply side is when 3 components have delivered, we are doing revenue recognition not before that.

Henrik

Okay, and how large part of your orders are EPC and how much are just delivery of actual turbines?

Tulsi Tanti

It is based on the market to market is there, like China is just nacelle and rotor is there, wherein the US is the nacelle, rotor, and the tower is there, and there is no installation the scope is our part. In the European market is the completely installation and erection and commissioning is our part is there. Australia is the complete EPC is there, so Brazil is complete EPC is there. So that is the difference is there. India is the 100% EPC is there. So if we break down the revenue is the total

financial year of the current is the 40% will be the India, so 40% will be the 100% revenue, and out of 60% may be an additional 20% will go on under the EPC.

Henrik

Okay, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Karthik from Sunidhi Consultancy.

Karthik

Can you just give us the consolidated debt on your books and what will be interest burden on a consolidated basis for the current year?

Tulsi Tanti

Just hold on.

Kirti Vagadia

Net debt as on June was almost Rs. 6300 crores.

Karthik

And what is the rate of interest on, the weight average rate of interest?

Kirti Vagadia

Weight average rate of interest, the major is denominated in Euro, so weight average rate would be something close to 5.5 and 6.

Karthik

Okay and what will be consolidated interest for the current year, if you can give.

Kirti Vagadia

Rs. 108 crores.

Karthik

For the full year, I am asking. Will it be close to around Rs. 400-450 crores for the full year?

Kirti Vagadia

Close to about Rs. 450 crores one can estimate.

Karthik

Okay, thank you sir.

Moderator

Thank you very much sir. Next in line we have Mr. Viraj from ASK securities.

Viraj

Yeah, hi this is Viraj from ASK. I have couple of queries. First if you can just give us the break in terms of megawatt sales in different geographies.

Tulsi Tanti

In Q1?

Anand

India it is 125 megawatt, China 11, USA 103, and rest 78 megawatt rest of the world.

Viraj

Can you give us the sense in terms of how the US and China facilities have done during the quarter in terms of sales you have given us, in terms of profitability also and how do you see it panning out throughout the year?

Tulsi Tanti

You mean the US production facility and China facility.

Viraj

Yeah.

Tulsi Tanti

Anand you have this number now, you can be able to give later on.

Anand

I need to see sir, I am not having readily available with me.

Tulsi Tanti

Later on you can supply.

Viraj

Okay. My other query was on REpower since the industry is plagued with component shortages, how does it affect REpower and have we factored in the component shortage for REpower in our full year estimates?

Tulsi Tanti

First of all for Suzlon I don't think we have any component shortage issue much more, first of all, and we are ramping up all the component facilities in a large way. Also REpower has a different turbine. So going forward, we will be developing some of the key components what they need immediately, the gear box and rotor blades, because the need is there. That we develop and that will be delivered after say 9 to 12 months, and after 9-12 months our capacity is large enough to take care of Suzlon and REpower, so there is no problem.

Viraj

So as of now REpower is not affected by any of the component shortages globally.

Tulsi Tanti

There is no effect because what is happening everybody has a good demand, percentage growth people has to do. So that is the only affect is there, but currently whatever they have planned 650 million Euros plan, that component and other things they have planned and secured.

Viraj

Okay. Also since 80-85% of our revenues will be coming from International market in the next year, what kind of forex management have we planned and what steps have we taken in that direction?

Patrick

Sorry, could you just repeat the question once more?

Viraj

My question relates to forex management, because around 80-85% of your revenues next year will come from international markets, how do you plan to get through this rupee appreciation impact?

Patrick

We are looking at the net flow on a group levels, import versus exports, we are importing mainly in Euros, we are selling mainly out of India in US dollars, we are looking at the net flows and are taking an active hedging approach on hedging the net exports.

Viraj

But considering 80% of the revenues come in international markets, what kind of net exposure would you then have open exposure?

Patrick

I don't have that number ready on hand.

Kirti Vagadia

The revenues is not going to be 80% international, it is going to be 60%. Current year 60%, next year it may be about 70%. That is one, and secondly so far as each currency is concerned on net-to-net basis, we are having natural hedge of about 65%. The balance 35%, we do have very active treasury, which keeps on booking various forward contracts as well as options from time to time, and we are measuring our expense on marked-to-market basis and have target costing rate, so far as even currency is concerned, we are actively monitoring our exposure, for a minor movement we are normally not affected.

Viraj

So what was the average rupee-dollar realization during this quarter, during first quarter what was the average rupee-dollar in terms of realization?

Kirti Vagadia

It should be close to at about 40.80 or so, because we had booked ourselves on PCFC, because we borrowed in packing credit in foreign currency when before shipment. So whatever we realized that money has already been borrowed.

Viraj

For the next 9 months have we built in any rupee-dollar in our internal estimates?

Kirti Vagadia

See we are right now considering in our estimates at close to about 40, plus we are getting benefit of forward premium, which we are considering at about 2% per annum.

Viraj

All right sir thanks.

Moderator

Thank you very much sir. Next in line we have Shreya from Enam Securities.

Shreya

Hello sir, sir Shreya here. Sir from the order back log, if you look at the implied realizations they are working out around 46.8. So this is coming down from the previous quarter, which was around 47 plus something. So what is the reason for that?

Tulsi Tanti

What realization?

Shreya

The average realization implied from the order backlog in terms of..

Tulsi Tanti

You are saying per megawatt.

Kirti Vagadia

Yeah basically it is mix of various country and product, basically. Recently we received order from China wherein we are not supplying tower and certain electrical, that is the reason for reduction.

Shreya

Okay, and sir would this backlog have an escalation clause?

Kirti Vagadia

Yes, in all almost all countries we do have escalation clause.

Shreya

And that is linked to the material price?

Kirti Vagadia

Mainly to the metal index.

Shreya

To the metal index, but that would not be protecting us from rupee-dollar?

Kirti Vagadia

No, definitely, currency protection in international market, I don't think any company is getting.

Shreya

Okay, and sir going forward what would be our tax rate?

Kirti Vagadia

Tax rate, I think we have discussed that in past that we would be close to at about 10%.

Shreya

That would be on a consolidated basis?

Kirti Vagadia

Correct.

Shreya

Inclusive of REpower also?

Kirti Vagadia

No, this is excluding REpower, I think that we discussed perviously.

Shreya

Okay but REpower would have a higher tax rate, is that?

Kirti Vagadia

Exactly.

Shreya

About?

Kirti Vagadia

I think from their financial I could guess that I was close about 30%.

Shreya

Okay that would continue.

Kirti Vagadia

Right.

Shreya

Okay sir, all right. Thank you sir.

Moderator

Thank you very much mam. Next in line we have Mr. Suhas from UBS.

Suhas

Yeah hi. My questions have been answered. Thank you very much.

Moderator

Thank you very much sir. Next in line we have Mr. S. Dave from Sandstone Capital.

S. Dave

Hello, sir I have 3-4 questions. One is that when I look at your standalone numbers, although as you said, the base of the fixed cost has increased because of lower volumes this quarter, which is a very seasonal thing. But I still see an absolute increase in other costs. Sir can you actually describe the fixed components and variable components in other costs?

Kirti Vagadia

See basically we have given break up that fixed cost is a combination of manpower cost and other cost.

S. Dave

Okay. So sir even in that other cost will 100% of the other cost is our fixed cost, the entire Rs. 210 crores.

Kirti Vagadia

Other cost is fixed cost.

S. Dave

Sir what exactly do you mean by these other costs, what is the nature of these costs. I know these are fixed but these go in what?

Kirti Vagadia

Let me tell you, other cost is all administrative cost plus freight forwarding cost, plus any provisions for guarantee and warranty.

S. Dave

Okay. Sir last quarter i.e. Q4 of last year, we had witnessed some delays in your US projects because of non-availability of towers, and again we are seeing the same thing. Are there any penalty clauses in your contracts, because I believe all of these are contracted project that you undertake, every one of them have towers and you have delayed by like approximately 6 months in some cases, will there be a

penalty clause involved, and if there is a penalty clause involved in the entire contract, have you made any provisions for that?

Tulsi Tanti

Yes there is a penalty clause, if it is delayed beyond certain situations and time line

S. Dave

At the time you entered these contracts what was the contracted period during which you were suppose to complete these projects and what was the period beyond which the project were to actually get delayed, what kind of penalty will you be liable to?

Tulsi Tanti

That we don't have, it is in the Denmark office, but we will collect this information and we will give you. Each contract wise has a separate, it is not a standard formula. It depends on customer and depends on customer site situation. Sometime customer site is also delayed. We are getting some comfort on that zone also, there is a penalty clause, but suppose their side is also some delay, our tower is also delay, for us revenue reorganization is delay but penalty will not come, but their site is ready and their commitments and obligation utility is there, we are facing some penalty on that front, that condition we have consider the penalty. It is always customer to customer and it is negotiable.

S. Dave

Sir as of now what is the quantum in terms of megawatts and dollar terms in terms of value of the project which have got delayed, because of the towers.

Tulsi Tanti

Q1 is delayed is only 40-50 megawatt.

S. Dave

Okay, and so in terms of dollar value of these contracts.

Tulsi Tanti

You can roughly calculate, it is somewhere 1 million.

S. Dave

Okay, sir you mentioned that REpower you have 34% shares as of now, and they will reporting their Q1 numbers in August and then you said you will be taking those numbers as minority interest and you will be reporting them in the subsequent quarter, and you will have a one quarter lag, is that policy right, because the revenue that they had in a previous 3 month period you will be recognizing it 3 months after they have actually reported it?

Tulsi Tanti

The pattern is like is India we have a 30 days time, they have a 45 days time line.

S. Dave

No, agreed sir, but if their revenue is coming in this quarter Q1 or for them it may be Q2, I don't know whether they follow calendar year or financial year, but if that happened between April and June, then can you recognize that in July to September.

Tulsi Tanti

Every time we have to consider one quarter will be delay.

S. Dave

But is it possible because.

Kirti Vagadia

Anand you can respond on listing guidelines.

Anand

Accounting standards permits, accounting standard 23 on investment in associates

S. Dave

Okay, so that is not a problem. Sir you mentioned that your debt is Rs. 6300 crores and bulk of it is euro denominated, can I have the euro figure?

Kirti Vagadia

Yeah hold on, that is close to about \$900 million.

S. Dave

Okay, sir did you have any notional gain on this because rupee has appreciated against the euro as well and in that way your liability will go down, so is there any gain in that way?

Kirti Vagadia

No, basically those liabilities are sitting in balance sheet of my European companies, so that liability I am not reevaluating on marked-to-mark basis, the liability which we are evaluating on mark-to-market basis by FCCB loan, and our inter-company loan which we might have given.

S. Dave

Okay, sir then you mentioned that the first quarter is generally more or less 10% of your annual turnover in terms of turnover, right sir?

Kirti Vagadia

Revenues, yeah.

S. Dave

Revenue wise, so 10% first quarter and 25% second quarter, 25% third, and 40% last quarter.

Tulsi Tanti

More of the pattern is there plus minus 2 to 3%.

S. Dave

Okay sir last year if I see your standalone numbers you did Rs. 933 crores while your annual revenue was Rs. 5380 crores that is roughly 20% in Q1, so is there a change that has happened this year which is like....?

Tulsi Tanti

Last year Q1 is 13%.

Kirti Vagadia

No, the comparison what we gave is on consolidated basis.

S. Dave

Okay, sir finally one last question that I had this was on some observations made by ROC Bombay on your 2006 annual report, sir can you present your view on whatever things or issues that they have raised?

Tulsi Tanti

First of all I want to clarify there is a lot of miscommunication in the media is there. There is nothing basis that what government has asked the certain information, there is no investigation, there is nothing issue, we have to submit the some information because the last 3 years whatever the IPO has done in India, government is doing the inspection and doing the studies, all the money will be utilized properly or not, these are the information and we have submitted and as far as the concerned of Suzlon all the IPO money is properly utilized and very clear information and details we have submitted.

S. Dave

Okay, sir by what time do you believe that this entire thing will be sorted out, you have obviously send your response to the inquiries, do you have any idea on the time line by which this entire issue will be resolved?

Tulsi Tanti

I think the government is collecting that information; there is no enquiry or no investigations, so we have to understand that is collection of the information. We are limit to them to the government after that we have submitted so long, till now there is no such other communications.

S. Dave

Okay.

Kirti Vagadia

As far as IPO money is concerned, basically as you are aware that any issue exceeding Rs. 500 crores we need to appoint monitoring agency, and in our case IDFC is the monitoring agency.

S. Dave

So whatever will come out will come out from IDFC side?

Kirti Vagadia

No, no we are quarterly submitting our utilization status plus we have seen my annual report for 2007 we have given head wise utilization pattern, till date we have already spent a majority of money for the purpose for which it was generated, Rs. 171 crores is left for pending utilization.

S. Dave

Okay, thank you very much, and just one last figure that I wanted to get I kind of missed it, your gross margins for FY07 and Q1 2008?

Tulsi Tanti

Yeah FY2007 the gross margin is 39.5% and Q1 is 37.5% is there.

S. Dave

Okay, thank you very much sir. Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Mohanish from Wealth Manager.

Mohanish

Hello.

Tulsi Tanti

Yes.

Mohanish

Sir, when do you plan to supply the towers for our China requirement?

Tulsi Tanti

The China order whatever we are getting it is without tower is there, because the China customers are preferred to purchase the tower directly or they are managing, so that is the normal business model in the complete china market.

Mohanish

So we will not be planning to provide towers for the China market even in future?

Tulsi Tanti

No, if customer demands from us. We are offering the tower also, there is no issue, but if customer wants tower we will supply them, but normal business model in china is that the customer is the mostly state owned companies and they have their associates over there connected companies those are manufacturing the towers, so they are directly placing order with them and they are managing the tower and project executions and everything, but in future if any customers approach us that okay you can supply the tower, we can supply.

Mohanish

Okay sir, I just wanted to have more information about the provision for warranty we have made during the quarter and even in the previous year, extend up to this quarter we can give the as a percentage of sale at least?

Tulsi Tanti

Sorry?

Mohanish

The provisions for warranty?

Tulsi Tanti

Anand you have readily available with you. Anand.

Anand

Sir I need to calculate, I may have figures readily available for this quarter.

Mohanish

Vis-à-vis the previous quarter also.

Anand

Give me 2 minutes please.

Mohanish

Yes and sir related to that do we have any claims regarding such warranties what we are providing in our balance sheet, till now have you come across any warranty claims?

Kirti Vagadia

Warranty claim is a continuous process.

Tulsi Tanti

It is a one side is always is a provision and every year since every quarter is net of position is there.

Mohanish

Okay, so there is no any significant problem which have acquired for the warranty, right?

Tulsi Tanti

At this moment no.

Mohanish

Okay, and I just wanted to have the breakup of our order book according to the region if you can provide?

Tulsi Tanti

Yeah may be you note down, India 315.

Mohanish

315.

Tulsi Tanti

China 212, US 1986.

Mohanish

1986.

Tulsi Tanti

Europe 187, and the rest of the world 181, and total is 2882.

Mohanish

Okay.

Tulsi Tanti

Megawatts.

Mohanish

Yeah, that is megawatt, and sir one question regarding your capacity, if I am not wrong we will be having 4200 megawatt capacity by end of FY08, right?

Tulsi Tanti

Yeah, the current capacity of the beginning of the year we have a 2700 megawatt which is in India, China, and USA, and the expansion is currently going on, full integrated production facility of 1500 megawatt, which will be ready by FY08.

Mohanish

So the progress of this 1500 capacity is on the track, I mean it is in the time line what we had discussed.

Tulsi Tanti

Yeah it is in a time line, we do not see any constraint on that.

Mohanish

Sir can we see that by FY09 you would be booking the orders of Rs. 4200 crores, I mean executing rather, executing orders of Rs. 4200 crores by FY09?

Tulsi Tanti

Yeah our capacity is there, and if you see the last year our capacity was 1500 megawatt and we have delivered 1450 megawatts, so we prefer to utilize the full capacity as fast.

Mohanish

Okay, thank you sir, I am looking forward that provision percentage if you can provide?

Tulsi Tanti

Anand, if it is ready you can submit.

Anand

It is Rs. 44 crore in this quarter, and Rs. 36 crores in corresponding quarter.

Mohanish

Okay, thank you sir, thank you very much.

Moderator

Thank you very much sir. At this moment I would like to hand over the floor back to Mr. Tulsi Tanti for final remarks.

Tulsi Tanti

Yes, thank you very much to all the participants and we appreciate your support and your investment, and we see the good opportunity and growth in the wind business going forward because the demand is in a higher side and supply is the current the bottleneck situation, and we see the good growth and good margin support will be going forward. We have to face some of the challenge and we are taking care of that. Okay, thank you very much. Thanks a lot.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for you participation. You may now disconnect your lines.
