



## “Suzlon Energy Limited Q2FY11 Earnings Conference Call”

**November 1, 2010**



**MODERATORS**    **MR. TULSI TANTI, CHAIRMAN & MANAGING DIRECTOR,  
SUZLON ENERGY LTD**  
**MR. ROBIN BANERJEE – CFO, SUZLON ENERGY LTD**  
**MR. KIRTI – HEAD, GROUP CORPORATE FINANCE**

**Moderator**

Ladies and gentlemen good day and welcome to the Q2 FY11 Earnings Call of Suzlon Energy Limited. As a reminder, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If should you need any assistance during this 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, Chairman and Managing Director of Suzlon Energy Ltd. Thank you and over to you sir.

**Tulsi Tanti**

Thank you very much. Good evening and good morning, ladies and gentlemen. We appreciate you joining with us today for the Suzlon Group quarter two investor analyst call. Joined today with me our CFO Robin Banerjee, our Group Head of Corporate Finance, Kirti, and our Investor Relations Team. As usual, we have posted a comprehensive presentation for investors on our website. I hope you have had an opportunity to look at that and review our results.

We have previously identified five key areas of focus, build the order book, improve our margins, enhance operating efficiency, reduce net debt, ensure Suzlon REpower more closely together to deliver the synergy for the benefit of both companies. We are happy to report back positive progress on all of these areas. I wanted to highlight few key points and then we will be happy to take your questions. Firstly, we have posted a positive EBITDA and EBIT. Compared to where the group was last quarter, we hope you will agree, this is the real progress. Secondly, the performance of our home market India has been very solid; we have an order inflow of ~400 megawatts in this quarter the current order backlog of 693 megawatts. Thirdly, in our group company, REpower, it has delivered a good quarter, the margins, and the profitabilities are up. The costs are down and we have 61% increase in our order book year-on-year. Fourthly, our emerging market and offshore strategy is looking sound. Our combined strength allows us to be competitive in all our key markets. Fifthly, our group order book stands at over \$5.4 billion remains very strong. The big improvement from our order book of \$4.9 billion at Q1 and \$4 billion one year ago, I have said that we believe the worst is over. I think these proof points are evidence for this. Besides we are navigating the highly complex and challenging market landscape. Looking at a mature market, the US needs a National Renewable Energy Standards Bill; this is now delayed because of tomorrow's mid-term elections. Similarly Australia, the leak of the strong renewable energy policy was a hurdle, however with the recently passed legislation; we hope to see a recovery in the next 12 months. In Europe, we continue to strengthen our positions through REpower in key markets; Germany, UK, France, Italy, and emerging markets like Turkey. The offshore sector where REpower is the technology leader is looking stronger than ever. Indeed, as you have seen from analyst presentation, it is forecasted to grow at 42% annually.

Our key priority remains to dry the shelf by being a highly competitive. We have a group product portfolio, which spans wind regime and customer needs around the world. Additionally, our low cost manufacturing and sourcing continue to enable us to achieve

attractive gross profit margins. We maintain a solid focus on continuous improvement in cost efficiency while investing in innovation and technology to bring the right product to what it is, as you know, in evolving the dynamic environment of the market. Now the team and I would be very happy to answer any of your questions. Thanks a lot.

**Moderator** Thank you very much sir. Our first question comes from the line of Venugopal Garre from Credit Suisse. Please go ahead.

**Venugopal Garre** Hi Good afternoon and thanks for taking my question. Sir, I just wanted to check your India order inflows have been quite good in the first half, I think it's about 890 megawatt that we have received. Now based on your understanding of the market at this point of time, do you see that momentum continuing into the second half?

**Robin Banerjee** Yes we believe that momentum will continue.

**Venugopal Garre** Sir, will it be right to say that you are gaining share in the Indian market or is it the market growth itself has been as strong?

**Robin Banerjee** As you know there is no official information gathered on this count. We believe we are doing at par, perhaps better with the market, but difficult to give a clear answer Venugopal on this question.

**Venugopal Garre** Sir, also on the international side, I think the commentary on US still remains weak, in presentation slides. I do see that you are still positive on the emerging markets. Any update on any order inflows from Brazil, something which we were expected to get in this financial year?

**Robin Banerjee** Venu, we are in the course of discussing several orders in Brazil also, so we are looking at options and discussing with various customers. So as it stands we are in the negotiation and the discussion stage, so as and when something happens, of course we will let you know as we let the market know any way.

**Venugopal Garre** Sir, my second question on the current order book that we have, I understand that the 693 megawatt worth of orders are deliverable, the India orders are all deliverable this year, right?

**Robin Banerjee** Barring perhaps about 100 megawatts balance is deliverable.

**Venugopal Garre** And similarly, could you just also share that for US, the 246 backlog that we have, China 397?

**Robin Banerjee** That from the order book which we have about 1500 or 1600, about 1000-1050 megawatts we believe are deliverable this year.

**Venugopal Garre** Okay. That sort of answers my questions, thanks a lot.

- Tulsi Tanti** And just to add for the Indian market, because of the regulatory regime has changed, and lot of demand has increased from the domestic companies and also from the good enquiry and good interest in IPP, large investments in Indian market. Same time it would be quite the constraint of the executions and other thing is there, but the Indian market will grow very rapidly and this year also, the good growth we are expecting. In the first half, the Indian market has done somewhere 1,000 megawatt and we are expecting in second half 1,400 megawatt India will deliver. So the market is quite good and we will maintain our market share positions in this market, so we are quite comfortable on that. Because we have a strong pipeline in our control so we are able to continue to grow faster and aligned with the market growth.
- Venugopal Garre** Thank you so much sir.
- Moderator** Thank you. Our next question comes from the line of Inderjeet Bhatiya from Macquarie. Please go ahead.
- Inderjeet Bhatiya** Thanks for taking my question. Couple of questions from my side, first on domestic ordering though you did allude to that in answer, but typically we have seen a very strong seasonality where in quarter three and quarter four, we see much larger volumes, especially quarter four. Do you expect that kind of seasonality to be still there or we are getting into a zone where the orders and deliveries are going to be much more spread out?
- Robin Banerjee** The seasonality in India order situation continues, but you are right, that it is now looking at getting more spread out. So perhaps the customers are becoming more aware and planning their activities better, but yes we do believe we will continue see Q3-Q4 being the more traction oriented.
- Inderjeet Bhatiya** Okay, so if I understand it correctly, there would see seasonality there, but the extent of the degree or seasonality would come down?
- Robin Banerjee** That's correct, I think that's very well summarized.
- Inderjeet Bhatiya** Okay. Second, I wanted to get a sense in terms of the total fixed costs, are we going to see somewhere down the line in the near term any significant reduction in fixed cost or these are sustainable or continuous level of fixed cost that we have? Just trying to get a sense whether can we bring down the breakeven point which is around 1,900 odd megawatt to a much lower level from here on.
- Robin Banerjee** Yes our fixed costs are steadily reducing, which perhaps you would have noticed, fixed cost is a percentage of the sales, if I have to give you a macro figure, OPEX and manpower has come down to about 33% to 30%, so our fixed cost is slowly going down and the trend should continue because we are focusing on that and hopefully, we should be able to get it out of it.

- Inderjeet Bhatiya** Okay. Because if you look at this quarter again, I am just comparing year-on-year last year it was 35%, the personal and other expenses,. While in this quarter, they are put together, we see 33.5%, so it's a minor change. Do we expect the rate of change to accelerate going on from here on?
- Robin Banerjee** You would see over the next few quarters, fixed cost going down, it's difficult to give you a number whether it will be 2% per quarter or 3% per quarter, but our intention is to accelerate the savings for sure. We are working towards it.
- Inderjeet Bhatiya** Rather than looking at quarter-on-quarter because that's likely to happen anyways in quarter three and quarter four as volumes ramp up, but on a yearly basis, are we going to see any significant change for FY11 to FY10 or say FY12 to FY10?
- Robin Banerjee** Absolute numbers should also change, Inderjeet, and of course percentage it will also be beneficial.
- Inderjeet Bhatiya** Okay. Thanks a lot. I will come back if I have any more questions.
- Moderator** Thank you. Our next question comes from the line of Venkatesh B from Citigroup. Please go ahead.
- Venkatesh B** Yes, sir, I was just clarifying on something which Venu had asked earlier. You said that out of 1,550 megawatts of order backlog, around 1,050 is deliverable this year and you had also mentioned that 593 megawatts of domestic orders are deliverable, so am I right with my calculation that 457 megawatts of international orders out of 857 is deliverable this year?
- Robin Banerjee** Venkatesh, that correct.
- Venkatesh B** Okay. Now secondly, now obviously you are doing very, very well in the domestic market, but is there a cap beyond which you cannot execute given that you have only so many megawatts of wind sites ready, because I remember after the first quarter results, you said that you are ramping up execution at say 1,200 megawatts of wind sites. Now in the first half, you have already done 430 megawatts, 593 megawatts, it's already in the back from the current order backlog. Now if you have wind sites ready, maybe you could do 1,500 megawatts in the domestic market this year, but do you have sites for 1,500 megawatts or 1,200 megawatts is like a cap for the current year.
- Tulsi Tanti** Yes first of all, we have to understand the site is not a constraint currently, because we are rapidly increasing that. We have quite a good pipeline there. We have to execute the project also, so that is the physical limitation to ramp up certain capacity. But in the second half, we will do far better than what we have done in H1, so that will be possible in Indian market.

- Venkatesh B** Sir, we can do 1,200 megawatts in the domestic market in India, provided you have the orders which I assume will be there?
- Tulsi Tanti** Yes if you take, already you have mentioned the 700 megawatts roughly order book is there and 600 will be executed out of that and somewhere 440 is already delivered, so I don't see the difficulty to achieve 1,200 megawatts.
- Venkatesh B** I am asking what could be the maximum number on the upside, sir, is it possible to do 1,500 or 1,600 or you will have to wait for those numbers in the next year?
- Tulsi Tanti** I think it's a forecast and guidance point of view, we cannot share beyond this. We can be able to do, answer is like that.
- Venkatesh B** Okay. And next year how much of sites are you readying up execution next year in the domestic market?
- Tulsi Tanti** Domestic market, only I can say the next year point of view, based on the growth of the Indian market. First of all, we would like to maintain more than 50% of our market share, so we can maintain like that. And we are expecting the size of the market of the next year is between 3,000 megawatts to 3,600 megawatts.
- Venkatesh B** Okay sir, thanks a lot and all very best.
- Moderator** Thank you. Our next question comes from the line of Krishnakant Thakur from Quant Capital. Please go ahead.
- Krishnakant Thakur** Good evening sir. Sir my question was on the domestic market, considering the fact that GBI would be more or less in place, is there a possibility that the orders which were likely to come in quarter 4 are kind of getting pre-poned because the customers would like to have the machines installed and then likely to claim the benefit. So is there a possibility that we could see Q4 could be bit muted whereas Q3 could compensate for both Q3 and Q4, in terms of order inflows?
- Tulsi Tanti** The order inflow, there are three different segment of the customer market, one is captive customer there, that will be continued, we don't see any plus minus situation. The second is the customer is based on some small and medium IPP, it's they are looking for the depreciation benefit also in account. Third is the large IPP, which was not a segment, it was earlier in the last six months that segment has started, so more than 100 megawatts IPP, they are not looking that way and they are going also more advanced in the next year order book, planning and other things. So that order inflow point of view in the quarter four, we are getting the three segments of the order flow, so that will be the better opportunity. As far as the execution point of view based on our business plan and based on the products and planning and site and project execution planning point of view, we are not able to go beyond certain megawatts,

which we already discussed earlier. And for the next year point of view, the order book will start building, which is normally six months or nine months advance order book never was available in India, now we are getting that opportunity. So the second half whatever some of the orders, we will get, that's mainly for the next financial year and some of the order which is a measure of the captive or depreciation respective that will be executed in the current year.

**Krishnakant Thakur** Okay, got it sir. And if you can also share your thoughts on like to like comparison between margins as well as realizations in the domestic market and international market, so my question would be, are the realizations on margin improving or are they stable in the domestic market?

**Robin Banerjee** Yes Krishnakant, margin in the domestic market is better as opposed to the international markets and therefore with the intensity of sales of India sales vis-à-vis the total sales moving up, our corresponding margin of the group should be better.

**Krishnakant Thakur** Sir, would it be possible for you to quantify in terms of realization, like to like comparison in international and domestic?

**Robin Banerjee** We would not like to give that information, Krishnakant because as you can really imagine, these are very classified information.

**Krishnakant Thakur** No issues sir. My third question was regarding, what are the various cost-containment measures that we have done in first half and what we can perceive in the second half as well?

**Robin Banerjee** Yes Krishnakant, we have attacked almost all the areas of cost, which is operating expenses, manpower, interest and of course also working capital, because interest cost is also dependant upon working capital. You can see that our fixed cost as a percentage of sales is coming down in even at absolute terms, it is coming down whichever way you look at. We do hope that the efforts made so far are yielding results and we would continue to work on it very aggressively in the next few quarters. So over the few quarters, we expect the result to continue to be better.

**Krishnakant Thakur** Okay. And sir, would it be possible for you to quantify in other expenditures for specifics to this quarter, how much would be variable and how much would be fixed, very broadly even in percentage terms would do?

**Robin Banerjee** Yes I can give you that, I can tell you for this quarter, variable cost is about 30%.

**Samir Shah** 100 is about approximately variable cost and 400 is fixed cost, for the 501 number that you have.

**Krishnakant Thakur** Okay sir, got it. And sir, my final question is on REpower, if you can just share some light on your strategy for REpower in terms of increasing your stake or some media reports were there decreasing the stake, if you can just throw some more light on that?

- Tulsi Tanti** So, whatever the media communication is, I think it's more speculative information, we should not rely on that. As you know the REpower is our strategic investment and it will remain as a long term point of view and the short term planning point of view, its synergy benefit between both the companies, what maximum we are able to leverage, we are leveraging. The group level is lot of the supplier relationships and sourcing point of view; we are going together and optimizing our sourcing strategy. The second is REpower has given the agency agreement in the US market, in Australian market; the Suzlon team will be able to sell the REpower product in those markets. And top of that, technology RETC is a joint venture. So ultimately the focus currently is to utilize the maximum synergy benefit which can be useful for both companies, which is working very well and we are going ahead. As far as the domination and squeeze-out point of view, as you know as per the regulation and regulatory compliance point of view, we are not able to share when and how we will do the 100% of our acquisition.
- Krishnakant Thakur** Okay, no issues sir. And sir, finally again on the Indian market, there were some big ticket deals which are expected to get signed, so if you can just comment on that, not exactly on the timeline, but specifically on the pipeline that what are the kind of pipeline that these big ticket sized orders that we are looking at?
- Tulsi Tanti** I think as per our group policy, as and when we are signing our order and we are getting the advance, after that we are announcing most of our orders. And recently also 200 megawatts, one customer of ours, Techno, who is our existing customer and also we have finalized with BPA, 300 megawatts-, so that already we have announced. Currently, we have 4-5 large customers and the discussion and negotiation is going on, as and when we will close and once we get the advance at that time we will announce those orders, before that we are not able to share the information of our customer.
- Krishnakant Thakur** Okay, sure sir, not an issue. Thanks a lot sir, that's it from my side.
- Moderator** Thank you. Our next question comes from the line of Akshen Thakkar from Enam Securities. Please go ahead.
- Akshen Thakkar** Yes hi, I had couple of questions, one was basically if you could explain what has been the impact on translation for REpower accounts, because the Euro numbers that has been announced have been good, but we have loss in the INR terms, how do you see that going forward? And secondly, could you just take us through what are plans to reduce working capital and debt for the rest of the year? That's it from me sir, thank you.
- Robin Banerjee** Akshen, I will explain to the REpower FOREX first. As regards to REpower FOREX is concerned, the loss has happened or the conversion loss is happened because our opening starts of 1<sup>st</sup> of April. As you know, first let me start from beginning, REpower is in euro balance sheet and it has to be converted into Indian rupee balance sheet. So as on 1<sup>st</sup> April, the closing balance sheet or the closing Euro to rupee was around Rs. 67. During this quarter, average euro-rupee was around 59, so stocks which got sold from the opening stocks during



this quarter had to be recognized at Rs. 59 instead of Rs. 67 being the opening stock. So in view of this, it is a notional loss as you can well imagine. As far as the Euro balance sheet is concerned, REpower has made profits, so while converting that into Indian rupee, we had incurred a loss of about Rs. 125 crores, this is only for this quarter, okay.

**Akshen Thakkar**

Okay. And HI?

**Robin Banerjee**

And HI was about Rs. 225 crores. I think we have given a slide, Slide 33 that explains to the calculation, Akshen. And you had a question on working capital, on working capital we would continue to focus on inventory because debtors are of course based on sales and we believe the debtors are working reasonably well. And we will continue to see that our pipeline inventory for manufacturing, we continue to do it on a tight basis. If you see our working capital to sales ratio on a group basis, it's now around 22%-23%, which is more or less at world-class levels, if you take the trailing twelve month sales. Working capital in terms of rupees crores might go up in the second and third, third and fourth quarter because of more manufacturing, more production, but as percentage of the sales, we still believe we would be comparable to the other competition, so there we will continue to focus and optimize it, Akshen.

**Akshen Thakkar**

Okay. And sir one last question, if you could share some plans on SE Forge we acquired and made it into 100% subsidiary now, so how we are seeing tractions in that subsidiary, what are the kinds of utilizations levels that was you expecting this year and broadly how is the breakeven level in that subsidiary?

**Kirti**

Yes, see in case of SE Forge, in spite of the fact that we have IDFC share now converted into Suzlon Energy, SE Forge will continue to remain an independent unit and continue to sell to entire wind industry which they are doing. Right now, they have developed many products for many of players in the industry and we will continue our strategy to maintain that as an independent business. Secondly, so far as its breakeven is concerned, the breakeven is roughly at about between 30%-35% of the capacity and current year we are going to achieve that kind of capacity. Does that answer your question?

**Akshen Thakkar**

Yes, broadly, thank you.

**Moderator**

Thank you. The next question comes from the line of Bhargav B from Ambit Capital. Please go ahead.

**Bhargav B**

Yes Good evening. Sir, there were talks of feed-in tariff rising at the SEB level and also GBI incentive rising from 50 paise to 1 rupees, so I was wondering if you could give us some updates on that?

**Tulsi Tanti**

I think the regulatory framework point of view, each and every state has to work on that on a year-on-year basis based on the available sites and based on the cost structure and based on that to continuously do more and more renewable based on the Prime Minister Climate

Change program 15% by 2020 and by 2010 it should be achieved by 5%. So part of that continuous process regulators are driving and each and every state are revisiting every year by basis, so it's continuous ongoing process there and because of that the feed-in tariff is improving there, number one. Number two, now the site specific tariff mechanism also has started, if it is low-wind site, so the customer can get the higher tariff also, so that is new introduction is there. And as far as the GBI, currently 50 paisa is there, but the Ministry of the New and the Renewable Energy are planning to recommend and suggest to the government to bring at least 1 rupee, so that it becomes a level between the depreciation and the GBI, so still the discussion is going on, there is no concrete outcome there on that, but we are positive some positive result will come.

- Bhargav B** Okay. In terms of the total order intake from the domestic market, would it be possible to share what is the size of orders from IPP which Suzlon has received?
- Tulsi Tanti** Robin Banerjee, you have this bifurcation information?
- Robin Banerjee** We don't have it as yet, but except for one which is about let's say 20%-25% will be IPP large that's the breakdown as it stands today.
- Bhargav B** Okay. And lastly sir, can we throw some insight into the proposed enabling resolution which Suzlon is looking to pass to raise up to Rs. 50 billion, could you throw some insights into that?
- Robin Banerjee** Yes sure, this is a common practice Bhargav, by most companies to have an enabling resolution passed at the board as well as in the general meeting of the shareholders that's what we have done. There are no immediate plans, if that's your question, and it still only provide us with an opportunity should there any need arises, we could take advantage of this enabling provision.
- Bhargav B** And sir, just for my general knowledge purpose, what could be the expiry period for this resolution, I mean what time does this resolution remain valid?
- Robin Banerjee** Normally it's an annual resolution, so normally it expires every year. So normally we will find in every AGM, companies would take this as a resolution, as a matter of practice and abundant precaution.
- Bhargav B** Okay. Thank you very much and all the very best.
- Robin Banerjee** Thank you Bhargav.
- Moderator** Thank you. The next question comes from line of Aditya Bhartia from CLSA. Please go ahead.

- Aditya Bhartia** Hello sir, thanks for taking my question. My question is basically on the outlook in the European market. We have seen that order flow has been strong for a few of your competitors, so where do you think Suzlon has missed out?
- Tulsi Tanti** Yes for the European market point of view, I don't think we have missed out, as you know REpower is doing extremely good in German market, in France, Italy, UK and Turkey. And at the same time, the Suzlon is also working on Sweden, Turkey, and some other markets. So the group as a whole, I think, we are well-positioned compared to whatever the announcement of the orders has happened in the European market based on the last year of our market share, we have improved, we have not lost our market share position in the European market. And top of that, there is a good growth coming in offshore market where REpower is well-positioned there and we are continuously doing a good progress in offshore market in Europe.
- Aditya Bhartia** Okay. Sir, does that mean that in the European market, it will be predominantly REpower which will focusing and Suzlon wind business per se will be more focused towards emerging markets only?
- Tulsi Tanti** Not really, but you can say like that because the need of the market on European market is more of the 3 megawatts turbines requirement has increased, so REpower is extremely well positioned there. Very few companies have 3 megawatts commercialized turbine ready, so we are aggressively enhancing the 3 megawatts. Currently, our plan was not much more volume, but now we got the very good response in the 3 megawatts segment in European market, so we are well-positioned in 3 megawatts segment. But still there are some segments, 2 megawatts are also required and cost proposition has been on the different types of the customers when it's small developers or maybe IPP customers, there is a good need of the 2 megawatts in some of the geography, in European market is there, where the Suzlon is positioning very well.
- Aditya Bhartia** Okay. And sir you talked about the offshore wind market, it will be great if you could give some kind of an outlook on that market please?
- Tulsi Tanti** I think in our investor presentations we have given the future of the next 5 years to 10 years in offshore market, the market will be very strong, because the German market is doing extremely good and top of that the most promising high growth is coming from the UK market and these are the two markets. And top of that the closer the Germany, Belgium market where we have already done 30 megawatts project and there are some of the good projects are under the pipeline in Belgium market. So these markets are doing good and it will continue to grow because the large utility has a huge mandate and plan is there and there is a good ambitious opportunity in there. If we, let's take the forecast approximately 50 gigawatts, the plans are for the next 10 years in the offshore market, in the European market.
- Aditya Bhartia** Okay and sir, what is the difference between realizations in offshore and onshore market, if you could just provide some clip on that?

- Robin Banerjee** On a project to project a huge cost difference is there, so it's very difficult to say, but it's nearly 40%-50%, the cost structure is higher in our offshore market, but same time the plant load factor compared to onshore versus offshore is equally higher there and the feed-in tariff is compared to onshore and offshore quite different.
- Aditya Bharti** Okay. Thanks for answering my questions sir. All the best for the next quarter.
- Moderator** Thank you. Our next question comes from the line of Lakshminarayana Ganti from BNP Paribas. Please go ahead.
- Lakshminarayana Ganti** Hello sir, Good afternoon. I have a couple of questions on REpower. Firstly, the order backlog was 1,756 at the end of March quarter and it's moved up to 2,254, now while the order backlog improved, the sales for the first half were down 18%. Now is the guidance of €1.5 or €1.6 billion with the management of REpower, is that still valid? Because the first half sales have been only €500 million, so it means second half has to be a billion or plus? So that's a first question. Second question is what are the benefits of converting from a German company REpower AG to a European company, is that something to facilitate your takeover of the company is the question?
- Tulsi Tanti** I appreciate it. The first question is regarding the guidance point of view, I think after 7 days there is an analyst call of REpower management, so they will explain to it very precisely, I will not be able to share the REpower guidance as per as the regulations and regulatory environment point of view. But we have to understand in REpower there are two segments, one is the complete completion and the second POC. So because of that the megawatt is sometimes on a quarter by quarter not much relevant, but in an absolute revenue point of view, we are comfortable, REpower in H2 will deliver the better results than H1, higher than H1, it is a normal historical situation there. But in the analyst call somewhere in the next week, the management team of the REpower will clarify you in detail. So now regarding the German entity AG to SE, I think Kirti will explain what is the rationale for that.
- Kirti** Yes basically from AG to SE, we are not changing our position so far as acquisition is concerned. First of all, it doesn't help or harm in that area. However, so far as conversion from AG to SE is concerned, this is facilitating REpower growth practically in European market and to provide them certain legal and structural flexibility to operate.
- Lakshminarayana Ganti** Can you elaborate on that because it's not very clear to me?
- Kirti** Actually I will not be able to spell out in detail the strategic reasons due to legal constraint.
- Lakshminarayana Ganti** Okay. Fair enough, thanks a lot for answering the questions.
- Moderator** Thank you. The next question comes from the line of Abhineet Anand from Antique. Please go ahead.

- Abhineet Anand** Hi sir, I just wanted to understand REpower reconciliation point of view. As I understand these are more book entries that we have got loss from REpower, if we exclude this, actually REpower made a profit of Rs. 126 crores on the half yearly basis and Rs. 115 crores in 2Q, is my understanding right? And secondly on the gross margin from the Suzlon wind perspective, what would be the ideal gross margin, would 1Q be the representative or 2Q?
- Kirti** Yes so far as your question about reconciliation is concerned, your understanding is perfectly correct. Basically REpower has made profit in terms of euro and they maintain the books in euro as Robin Banerjee explained and this is purely on account of certain foreign currency conversions at different, different time period. It is converted into loss in our books, so it is purely a notional loss. So far as your question about gross margin is concerned, I think Robin Banerjee, can you take that.
- Robin Banerjee** Yes sure. I think your question is that should you consider Q1 or Q2, we would think that you should consider half year because from a quarter-to-quarter it can go up and go down slightly because of the nature of the projects we handle, but if you take a half year, that should be a fair number to go by Abhineet.
- Abhineet Anand** Okay. Thanks a lot sir.
- Moderator** Thank you. The next question comes from the line of Abhishek Puri from JM Financial. Please go ahead.
- Abhishek Puri** Yes sir, if you could give us update on the Caparo deal, has anything come by on that?
- Tulsi Tanti** Yes earlier also I have mentioned we are discussing and negotiating so many large IPP customers from domestic market and also from international market, because we have a wide relationship with so many customers globally and now good interest of those global customer investment in India is there, so we are working with that, but we cannot share any customer information. As and when we will close our order and once we get the advance money from our customers, officially we are announcing those orders.
- Abhishek Puri** Okay, fair enough. Secondly, on Brazil, after the first quarter results, I think we had discussed regarding the Brazil orders coming in some time in August whereas your other competitors have announced certain orders, we would like to know your competitive positioning in that bids which have happened in August?
- Tulsi Tanti** Yes in Brazil, a very promising market there, because recently the 2.2 gigawatts additional auction has completed by the government and the market momentum is very good. As you know we have the good market share and we have the market leadership position there, we have a lot of customers, the negotiation and discussion process going on and we are expecting to announce some of the good orders very soon.

- Abhishek Puri** So your customers have already received the projects, but the equipment order is yet to come to us, that is what you are trying to say?
- Robin Banerjee** Yes so normally process is like that, the customer has to do the bidding process, once they are qualified and they get the clearance from the government, yes you go into PPA, then the required final discussion and contract and negotiation and legal process between customer and vendors like us and we have to close the contract based on that. And they have to complete this project, they have a good time as approximately 30 months from today, so they have sufficient time to execute on that. But the normal process is going on and part of that now we will close some of the orders with us very soon in the market.
- Abhishek Puri** Okay. Sir, thirdly my last question would be on the capacities that we have, I think as per the annual report we have 5,200 megawatts of installed capacity, whereas the annual potential which is currently visible will be less than say 2,000 megawatts in next couple of years which is less than 50% utilization, would you look at reducing your capacity or hiving it off going forward?
- Tulsi Tanti** So there is no rational, no benefit to reduce the capacity because it's built infrastructure capacity we have in India and it's not an expensive cost for us, on the CapEx part is already invested. But manpower and other operational cost we are aligning with requirement of the productions. So we are very comfortable on those things and after that as and when we want to ramp up, we are easily able to ramp up our requirement – that is the flexibility we have and that will give us the good benefit as and when market volume will pick up very strong, so we can ramp up very fast with the low cost.
- Abhishek Puri** But I am actually referring to your historical numbers if we look at, if we look at only the Suzlon wind business, our other expenses used to be in the range of 13%-16% whereas currently we are in 25%-30% kind of range. So is it because of the higher capacities or the lesser amount of volumes which we are doing currently and we expect that to come down to about maybe 13%-16% if the volumes are back in the market?
- Robin Banerjee** It's our volume Abhishek, it is absolutely volume.
- Abhishek Puri** It is nothing to do with increased capacity.
- Robin Banerjee** That is correct.
- Abhishek Puri** Okay.
- Tulsi Tanti** But this cost is not effecting because of the manufacturing capacity, we have to understand in the global market, in large market Europe, Australia, USA and Brazil and also now gradually in China. So we have a lot of cost in the marketplaces is there, where we have to operate the machines also and nearly 5,000 megawatts we are operating outside India and those operation

maintenance costs, fixed costs and manpower costs and other costs are already there. Same time project sales and other marketing is there. So those fixed cost and technology and R&D and innovation cost is also sitting there. So these are the costs there, manufacturing cost is not much more higher and because of the capacity utilization, it is not affecting much more to us, only the outside India the cost is there. Now we are optimizing and reducing certain costs whatever best is possible. And same time in India as and when we require more manufacturing capacity we can then up the manpower and then we are able to deliver more turbines.

**Abhishek Puri**

Okay fair enough and all the very best for the next coming quarters.

**Moderator**

Thank you. The next question comes from the line of Harish K S from Tower Capital. Please go ahead.

**Harish K S**

Hello sir, Good afternoon and thanks for taking my question. With respect to the international market in 2011 and 2012, could you share as to what traction are we seeing in those markets especially Brazil, Africa, China and Australia? You have touched upon Brazil a little bit, but if you can talk about the other geographies as well and see how much traction we are seeing in this year and in the next year, so that can culminate into order book?

**Tulsi Tanti**

I think the market outlook point of view, most of the emerging economy markets are in high growth and it will remain growth particularly India, China, Brazil, and the South Africa markets, so that will remain in good growth. Talking about the US market, it's highly dependant on when the national RPS will come, based on that the market will pick up and it will go very good way, because there is 30% ITC grants are available in the market which will be the key driver for the immediate growth, but it depends on when the national RPS will come. The European market is slowly and steadily growing very nicely, but no high growth is there, but we can say 2010 is more stable there, 2011-12 further slowly growth will pick up. Within the European market, the major high growth is coming in offshore market and that's the outlook we say. The China market will continue to grow, Indian market will continue to grow and Brazil, earlier the size of the market was somewhere 500-700 megawatts, now it looks like nearly 1,500-2,000 megawatts size of the market. Top of that, Canada is doing good currently and we have a good order book from the Canada in REpower and that market will continue to grow, so in particularly in Ontario State, it's a good policy framework is available. Within the Europe, I think some of the market like Sweden will pick up very strongly and it's growing good and we have already installed two turbines of the Suzlon and very good support is coming. Turkey market will continue to grow in Europe. In German markets, it's stable and steady there, but REpower is steadily capturing more market share. Compared to last year, this year our market share in the German market will be improved and better. So that is the market outlook. Overall the global scenario point of view 2009 versus 2010 we are expecting overall global market will remain flat and going forward in the next 5 years, it's nearly 10%-25% growth feasible depending on the regulatory environment change. Project financing and the finance part is not a constraint in the market currently, so we are very comfortable there, only

the momentum has to come. At same time the overall project has grown quite good, so the cost of energy out of the wind in global market everywhere, is becoming more and more lucrative, so that will be the key driver for the next phase of the growth.

**Harish K S** Okay. If you can put a number to it, in terms of Suzlon, how much do you expect in each of these geographies, it will be good sir?

**Tulsi Tanti** I think it's very difficult to give a forecast.

**Harish K S** At least in Africa and probably Brazil and China, if you can?

**Tulsi Tanti** African size of the market is somewhere between 200-300 megawatts and as you know the Suzlon is always going early stage to go to the new market, so we are quite comfortable. We have lot of customer discussions and developer discussion going on, so once the regulatory framework will be stabilizing little bit in the South Africa market, we will start showing some good orders in African market.

**Harish K S** Okay, which will basically next year, right?

**Tulsi Tanti** It's very difficult to say.

**Harish K S** Okay. This year we are expecting more of Brazil and China to contribute to the international order book, right, the execution I am saying?

**Tulsi Tanti** It may be possible Africa order in this year also.

**Harish K S** Another thing that I wanted to ask you that there is an EUFER agreement with Spain which has been remaining there for a long time, so I just wanted to know the status on the framework agreement, is it still in good?

**Tulsi Tanti** Yes first of all the agreement is there and on the both sides good commitment, interest, and intention from the customer and from the Suzlon point of view is there. It's a live contract, there no doubt is there. But as you know the Spanish market regulatory frameworks and current feed-in tariff mechanisms are not in current position. As and when government will start releasing that, we are expecting, may be after one year or something so then that will become more activated.

**Harish K S** Okay, sir, my last question is in terms of SE Forge to Mr. Kirti, I just wanted to know outlook on FY12 for SE Forge on how much we are internally targeting to achieve both revenues and margins?

**Kirti** Yes I think close to about 50% capacity utilization is achievable and so far, 50% capacity utilization is concerned probably it will be revenue of close to about 600-700 Crs.



- Harish K S** Okay.
- Tulsi Tanti** Yes just add, domestic market demand is very good, it's most of the turbine companies are working with SE Forge. Same time, nearly the 50% of the business is coming from other than Suzlon and nearly 30%-40% within that mix is coming from Non-wind Company also globally. I think SE Forge now is in a well position situation and next year we are expecting capacity utilization will be good and top of that the profitability will also improve. Current year we are expecting a breakeven level and the next good profit positions will be there.
- Harish K S** Okay. Thank you so much sir and all the best for the future.
- Moderator** Thank you. The next question comes from the line of Manu Saxena from Motilal Oswal Securities. Please go ahead.
- Manu Saxena** Hi, Good evening sir. You mentioned that the breakeven was at 30%-35% of the capacity for REpower, is that correct sir?
- Tulsi Tanti** No for SE Forge.
- Manu Saxena** For SE Forge, okay. And sir what would be the install capacity for this?
- Tulsi Tanti** Installed capacity of SE Forge?
- Manu Saxena** Yes that's what the breakeven was for, right?
- Kirti** Yes SE Forge's capacity is about 42,000 rings, in case of their forging unit and about 120,000 metric tons in case of casting unit.
- Manu Saxena** Right. And sir, I missed because I came slightly late, you had put a figure to the execution of which it could not go beyond. You said that execution cannot go beyond the particular megawatt this year, what was that figure?
- Tulsi Tanti** No, we have not mentioned, but one of the question as there, how much possibility in Indian market it is to deliver and execute? 440 megawatts odd we have already delivered and based on the order book balance will be delivered. And there some more order of retail nature will be added in the current financial year.
- Manu Saxena** Right, thank you very much.
- Moderator** Thank you. The next question comes from the line of Kunal Sheth from Prabhudas Liladher. Please go ahead.

- Kunal Sheth** Good evening sir. I wanted to understand out of the current market size of the domestic market of 2000-2500 megawatts that we are talking about, how much does the IPP contribute?
- Tulsi Tanti** Currently the IPP scenario we can say that 25%-30% level is there that is the large IPP, but there is equally small IPP, they are also IPP, but nature is small, so that is another 20% level is there, so both put together IPP small and large it's nearly 50% and 50% is going in the nature of the captive requirement.
- Kunal Sheth** Sir, do you think that this percentage will change significantly over the course of the next two years or they should be at this level only?
- Tulsi Tanti** Yes the outlook point of view, the next three years point of view, whatever the additional growth is coming is just because of the large IPP and that will grow because of the new regulatory framework which has already established now and it will become a fully operational for the next financial year that is RE certificate mechanisms. And because of that a lot of good interest in the large IPP has increased, so growth of the India market will come from the IPP and that will be driven by the REC mechanisms.
- Kunal Sheth** Okay. Sir, you were mentioning that the size of the Indian market next year could be about 3,000 megawatts?
- Tulsi Tanti** 3,000-3,600 megawatts.
- Kunal Sheth** That is CY11 is what we are talking about?
- Tulsi Tanti** Next financial year.
- Kunal Sheth** Next financial year, okay. Sir we were talking about the renewable portfolio standard, so are these voluntary standards or they are imposed on states with some deadlines in terms of compulsions?
- Tulsi Tanti** Majority state is mandatory. Majority, not all the states, because that regulatory process is going on. Most of the states have adopted mandatory.
- Kunal Sheth** Sir, how many of the states have made it mandatory, any clue sir?
- Tulsi Tanti** Maybe offline my team we will give you the exact detail about that.
- Kunal Sheth** Sure, and also what are the penalties for non-performance or non-achieving this targets?
- Tulsi Tanti** Yes that also I think you will get offline, all the details.
- Kunal Sheth** Okay sir, no problem, thank you so much sir.

**Moderator** Thank you. The next question comes from the line of Lakshminarayana Ganti from BNP Paribas. Please go ahead.

**Lakshminarayana Ganti** Sir, one follow up question from my side, recently the 12<sup>th</sup> plan of China talks about wind in a big manner, they are currently planning to move from 23 to 200 by 2020 if grid permits then even they are talking of 300 gigawatts. Now largely the sales to China have been very lackluster and we have seen that your capacity of 600 megawatts has not been fully utilized, sales have been around 150-200 megawatts only. Will there be a need for change in the strategy towards China of say for example forming a joint venture with a local bank or another local partner, local utilities for example to get some of those business also. If you could highlight what your plans are for China? Thank you so much.

**Tulsi Tanti** The Chinese market is very promising; we can say China is the epicenter of the whole industry, because it is the largest market for the next decade at the same time it will remain as largest manufacturing hub for the whole industry. We are well-positioned in the China market because we have started 5 years before and we have a good supply chain controls for sourcing for the global requirement and at the same time its domestic production for the domestic market. Next year our plan is very clear, we will fully utilize our capacity in China, we don't see any difficulty, two reasons, one is for the domestic market and maybe we can start some exports from the China market to other surrounding market business point of view, so we are comfortable. May be after one year, we require to expand the capacity in China because by adding the balancing equipment and some balancing building, our infrastructure is suitable to go up to 1,200 megawatts capacity. So the capacity part will not remain a constraint. As far as the strategy point of view, we are not looking any joint venture partner in onshore market point of view, but we are seriously looking for the offshore market joint venture partner for the REpower so that we can leverage the next phase of the growing market of China, which is very large in offshore also. As we see the resources of China, nearly 250 gigawatt, onshore potentiality is there and nearly 750 gigawatts is three times than onshore, offshore is there. So we are looking at a joint venture with the local partner who can support and contribute the complementary strength to leverage the offshore market.

**Lakshminarayana Ganti** Sir, that helps, but my real question was it's largely been a domestic market, horribly protectionist country. Foreign vendors like Gamesa, Vestas and GE have cried foul saying the market capacities we have expanded but none of that is translating into order flow. That's your experience also, anything that you would want to change there so that you can tap the market in a big way, I understand the offshore a bit with REpower. What about the onshore?

**Tulsi Tanti** Let me tell you, first of all it is not a protected market, we do not agree on that. It is a very, very competitive market there. If we are not able to compete the local Chinese companies players then we will not get any business, first of all, because the local company and the tender process is very transparent there in China. So if you are competitive price wise, you will get the business, I don't see the difficulty on that. It's very difficult for the foreign

company to achieve that price tag level, the way Chinese companies are operating. We are fortunate because we are coming from the Asian countries and we understand the cost structure very fast and other things and we have developed the supply chain very efficiently there. And now the 95% of my production is from the local China there. The same time, we have developed a very China-specific product which we are introducing in 2011, January 2011 onwards and that is 2.25 megawatts turbine, it is externally suitable for the requirement of the Chinese customer from the technology point of view and the cost proposition point of view. So now we are competing with the Chinese local companies price structure level and we have a good position there and that's why we are able to get more business in the marketplaces there. The same time, it's nearly 600-700 megawatts operation in the market, all turbines are running with 97% availability performance and everything, all my existing customers of China are extremely happy with the performance, because same time they have a local Chinese turbines running and their performance versus our performance is a 20%-30% difference. So they are willing to continue to more business and more order with us and same time we are doing in the Chinese price with the German technology, so this is the combination we are putting there strategically and now we have successfully completed all the supply chain and product and cost structure and everything. So we are quite comfortable and happy and in the next financial year, we will get more business from the China market.

- Lakshminarayana Ganti** Thank you so much and all the best sir.
- Moderator** Thank you. The next question comes from the line of Pey Herng from Morgan Stanley. Please go ahead.
- Pey Herng** I want to ask follow up questions on competition in the India market, it's one understanding that the Vestas and Gamesa and some of the Chinese players like Sinovel entries in the India market and also there is local guys there has been starting out the manufacturing capacity in India. It's just want to know that the competition is going to get intense in India, would you like to comment how that means to Suzlon and where are we going to see a pricing pressure going forward?
- Tulsi Tanti** No, I appreciate this, if market is very competitive, always we enjoy the market and we would like this competition in Indian market also, but at the same time it's very, very competitive market there. The per megawatt, the total installed cost in India market, I think it is quite lowest in the world market and that is because of our cost structure and our large manufacturing base in India we have established. So we see that competition will increase, but the same time we have to understand the market size is also expanding very rapidly and in that environment we are very comfortable to give the opportunity to others also and we will maintain our 50% plus market share in Indian market. And same time we are well-positioned in the Indian market and the key success in Indian market is always the pipeline of the projects and other things and we are well-positioned in the pipeline, so we are able to ramp up our projects very fast. And manufacturing base point of view, we have a large capacities are

available for domestic and international market point of view of India, so we don't require any additional CapEx or investment or anything and we can utilize those capacities without any additional CapEx and we will be able to grow more faster than our competition.

**Pey Herng** Okay. Well my next question is for the Indian market, you mentioned that for financial next year, it's going to be 3.6 GW, can I roughly have an idea like how do you actually come out with these estimates on it, is it based on the order book momentum you are seeing right now in the market?

**Tulsi Tanti** No, I think there are three different ways that we have to do the forecast, which is based on how many states have the policy regimes available currently and what are the size and the infrastructure of the grid and other connectivity and approvals and process is going on. So based on the project infrastructures the pipeline of the whole country in different states, we have a very quite visibility about our positions and based on that we are forecasting some of the competition positions, so based on that we can forecast what is the potential size of the market. The second approach is what is the demand in the market point of view; the demand is quite higher than 3 gigawatt there, so there is constraint on that part there. The third is coming out on execution and physical construction and other thing, what is the capability and capacity of the country, we can able execute and deliver, because that has always remained a big challenge in India to build the infrastructure. So based on that, some analysis is there, it is quite feasible to achieve because number of states are increasing and that is giving a good comfort for the growth of Indian market.

**Pey Herng** And then based on that is there other means that you think we can do about 1.5 GW and to about 1.8 GW of next year, is that what you are thinking?

**Robin Banerjee** Yes the market size will be 3-3.6 gigawatt and we will maintain more than 50% of our market share, and the answer is yes.

**Pey Herng** Okay. So that means if I have to look that up, you should able to see pretty much about kind of like momentum about 400 megawatts new orders for Indian market in the quarter.

**Robin Banerjee** It's quite feasible.

**Pey Herng** Okay alright. Thank you.

**Moderator** Thank you. As there are no further questions, I would like to hand the floor over to Mr. Tulsi Tanti for closing comments.

**Tulsi Tanti** Thanks. So thank you very much of your participation and your time and support and cooperation. In conclusion, I would like to take opportunity to underline our strength and focus area. The Suzlon Group is well-positioned around the world. We are very strong in Indian market, our home market, which is delivering good margins and it is very positive

outlook for the next 3-5 years. We have similar well positions in other emerging market as well as such as China, Brazil and South Africa. While developed markets through REpower continue to be dynamic we are well-positioned in the key market of the Europe, such as Germany, France, UK and Italy emerging market like Turkey. And we will continue to expand our market share in the German market. The outlook for the offshore market is very strong and we will well position to take advantage of this through our REpower technology leadership in offshore and this market and segment is quite profitable compared to the onshore market. Our product portfolio is strong with the right product mix extending from 600 kw to 6 megawatts across the all wind regime and onshore and offshore, so we are able to satisfy each and every global customer in any geography their requirement of the need we have a good product portfolio with us. We have a strong focus on being competitive or manufacturing takes advantage of the low cost country and we have a relatively low cost base of the fixed cost. This allows us to manage our breakeven at relatively lower level and the same time we are getting a great opportunity to grow faster in this dynamic market condition environment and at the same time to make a good profitability. So we can say we are well-positioned in this current dynamic market situation. Thank you very much. Thanks for your participation.

**Moderator**

Thank you. On behalf of Suzlon Energy Ltd. that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.