



# “Suzlon Energy Limited Q3FY12 Results Conference Call”

**February 13, 2012**



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

**Moderator:** Ladies and gentlemen good day and welcome to the Suzlon Energy Limited Q3FY12 Results Conference Call. The duration of this conference will be 60 minutes and all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Tulsi Tanti. Thank you. And over to you sir.

**Tulsi Tanti:** Thank you for making the time to join our Q3 Investor Conference Call. I am joined today by Kirti Vagadia – our Group Corporate Finance Head; Robin Banerjee – our CFO and our IR Team.

I would like to first share some thoughts on our results and then we will be happy to take any questions you have. We thought it would be useful to look at the last 12 months, the 2011 calendar year, followed by the Q3 results and finally discuss our revised guidance and our outlook for our company and the industry. Looking at 2011, the last 12 months, on a calendar year basis, we are pleased to report the revenue of 21,660 crores or equal to \$4.36 billion. That equals to nearly 30% Year-on-Year growth compared to 2010. We delivered an EBIT margin of 7% with the order inflow of \$5.6 billion. We believe this is a strong result in what remains a challenging economic environment.

Now, looking at the Q3 performance, revenue of Rs. 4,985 crores or \$1 billion, YoY growth of 12%. Our gross margins were robust 33%, the best in our industry. Record order book intake of 1.5 GW in the quarter from all over the world. This means that our order book is worth Rs. 37,500 crores or \$7.5 billion. These new orders are well diversified. We have strong contributions from the international market like US, Canada and Brazil. Despite having a record order book, our volumes were lower than we had expected in Q3. This was primarily due to the extended monsoon in India has affected our project activities. The procedural delay in closing our incremental working capital facilities and the grid infrastructure delay in China. This has resulted in a revision of our full year guidance downwards to revenue of between Rs. 21,000 to 22,000 crores with EBIT margin of between 5% to 6%. But I am happy to tell you that we have now received an incremental sanction of working capital of Rs. 1,100 crores equal to \$220 million in working capital, which will support our planned delivery in Q4 and into the next fiscal year.

In terms of the outlook for the FY13, the global market will remain challenging and very competitive. That environment we believe that with our solid order backlog, we should be able to deliver the revenue growth of approximately 40% in FY13.

Before I conclude I want to highlight a few other important points. We announced just last week that we have now sold more than 1,000 MW of our new S9X turbine and about 750 MW of 3XM, the machine availability or uptime is above industry standards at 97%. We continue

to leverage the group synergy benefit to continue positioning well in the marketplace. We believe that the group is continuing to remain steady and sustainably the progress in the right direction because we believe we are extremely well-positioned in all aspects into the global market. We have enormous competitive edge to leverage our future growth.

Thank you very much. Now I will be very happy to take your any questions.

**Moderator:** Thank you. We will now begin the question-and-answer session. We have the first question from the line of Bharat Gorasia from ICICI Bank. Please go ahead.

**Bharat Gorasia:** I had a couple of questions; basically, just wanted to know how would you fund your bond repayment which is roughly 500 million including the accrued interest? You have roughly Rs. 678 crores cash on your balance sheet. I just wanted one more clarity- on Edison Mission, you have said that that is the current receivable whereas as per the balance sheet of Edison Mission shows as a long-term payment, can you please clarify on this?

**Kirti Vagadia:** I think let us first address bond repayment related things. Definitely, it is becoming due in two tranches; one is becoming due in June and another is becoming due in October. Definitely, right now, since we are listed entity I will not be able to elaborate on each and every source in detail but cash flow in hand is about 100 million. We are working on certain assets sale which is roughly about 100 million. We are seeing free cash flow from our business which is going to throw roughly about 200 to 250 million during this ensuing period of about 9 to 12 months and we do have certain receivable which is long-dated where we are expecting about 200 million to come from those receivables. So, this sum total gives us enough amount of confidence that we will be able to meet our obligation in time. So far as Edison Mission is concerned probably I think your question is about disclosure by both the companies. Both companies are listed entities; separately listed on different exchanges. So, here we do have commercial agreement between both the companies which gives us exact due date for payment. Right now, I would not prefer to go into the discussion that whether it is long-term debt or a short-term receivable. In short, we are confident and we are in dialogue with customers that we will recover that receivable in next financial year and we are trying to receive that as early as possible by mutual discussion.

**Bharat Gorasia:** I ask this question because earlier it was in December 2011, then it got delayed to FY12. And now, if it is going into the next financial year there is a discrepancy between the two parties on how this is accountable. That is why the ambiguity is arising that if they are not recognizing it as a current receivable then there is some mismatch impact, needs to be highlighted as soon as possible.

**Kirti Vagadia:** Sure, definitely, I think both the parties will make a joint statement at appropriate time. You are right that there is a discrepancy in disclosure of both the parties. So the best way is a joint statement for which we will be working with the party.

- Bharat Gorasia:** And last question, on the working capital, the agreemental facility that you have taken, is it for the expected increase in working capital based on your increase in order book or is that be also used to refinance some of your bond prepayments?
- Robin Banerjee:** Working capital is always funded out of based on stocks and debtors and therefore it is always based on working capital requirement of the business and not to repay any debt.
- Moderator:** Thank you. The next question is from the line of Venkatesh B from Citigroup. Please go ahead.
- Venkatesh B:** Can you tell us what is Suzlon Wind Turbines plan delivery in the fourth quarter in terms of both export MWs and domestic MWs?
- Kirti Vagadia:** Roughly, about 700 MW in Suzlon Wind.
- Venkatesh B:** And how much of this would be domestic and how much exports?
- Robin Banerjee:** About 150 would be international and rest is domestic.
- Moderator:** Thank you. The next question is from the line of Lakshminarayana from Standard Chartered Securities. Please go ahead.
- Lakshminarayana:** First question is- if you could give us a sense for REpower top-line? It was very robust, it came at ₹440 million. So, how do you see REpower pan out for Fiscal '12 as well as for Fiscal '13?
- Tulsi Tanti:** Q4 is expected to be closer to between ₹450 million to ₹500 million. So, full year FY12 is closer to about 1.55 billion to 1.6 billion.
- Lakshminarayana:** Anything that led to the higher number this quarter or the second half Fiscal '12?
- Robin Banerjee:** No, I think it is as scheduled by the team, so it is not anything which is leading in the higher number. It is according to plan.
- Lakshminarayana:** Your guidance of 40% growth next year, how should we think about REpower or both businesses are growing 40%?
- Robin Banerjee:** Both businesses will grow something closer to between 40% to 50%.
- Lakshminarayana:** Second question is obviously, you reduced your guidance by 4,000 crores to 5,000-odd crores, if you see roughly the shortfall was mainly from India by 500 crores to 1000 crores shortfall in Q3 compared to last year same quarter. But REpower more than compensated for it. What is it that you are seeing in India business that led to the guidance cut? Is it just the working capital facility not being tied up right in time which means that next quarter also should be some of them? Can you throw some color on that?

- Kirti Vagadia:** Just now Mr. Venkatesh has asked the question and we talked about what we are looking in India next quarter. At Suzlon level we are looking at about 700 MW in Q4. So, I do not think next quarter could be classified as a sub-optimal.
- Lakshminarayana:** One last question finally. A year ago the working capital reduction target was 1,000 crores if I am not mistaken. We have not seen numbers get reduced to that extent. Can you comment on apart from the well-known receivable, etc. anything that is sitting there and it is difficult to come by? Any color on your own goal and where you are on working capital reduction?
- Robin Banerjee:** Our goal for reducing working capital continues but if you see overall last year around this time our working capital to sales ratio was around 27-28%. Now, it is hovering around 24-25%. So, on TTM basis, we have been able to reduce working capital, but on rupees basis perhaps not. That of course, one of the reasons is that one of the major customers which we thought we will be able to recover money, we have not been able to do so, plus at the quarter-end there was accumulation of sales and accumulation of dispatches which also enhances debtors and inventory. And third is, because we have a Q4 high plan we had to accumulate working capital for Q4. So, it has also got skewed towards that extent. So, our plan continues. We believe we will be able to optimize the working capital significantly. Working capital sales ratio is on a decline and bad working capital it might say so, hardly exist in our working capital portfolio.
- Lakshminarayana:** It go to say that other than for your business, for the growth you are targeting, the bad working capital that you yourself have said is really not there in the system. Is that something that we can take away from this?
- Robin Banerjee:** That is correct.
- Moderator:** Thank you. The next question is from the line of Sandeep Tulsyan from JM Financial. Please go ahead.
- Sandeep Tulsyan:** I would like to know the financial implication of the lawsuit filed by Trinity Technologies on our financials? My second question would be I would like to know what is the status on the Mytrah Energy order where we were planning to execute 500 MW of total by end of March, that is the Financial Year '12? Do we still stick on the same guidance?
- Kirti Vagadia:** Let me address first on Trinity case. You know that post-Lehman crisis, Suzlon volume in US took a significant hit. And with the volume dropping significantly resulting into lower off-take than what we envisaged in 2007-2008, when we planned or when we signed a framework agreement. Now, you know that this matter is subjudice and that is why we will not be able to make any further comment at this moment. But we must state that we are hopeful of positive resolution of this issue in near future between two parties.

- Sandeep Tulsyan:** I would just like to know, in case the ruling is not in our favor, what can be the maximum liability?
- Kirti Vagadia:** I do not anticipate that to happen, but definitely it is a commercial agreement where it would not be appropriate for us to comment at this stage in numbers. We have 1000 MW order from them and 400 to 500 MW delivery scheduled for this financial year. And out of which till Q3 I think we have delivered about 240 MW and balance which was required to be delivered in this financial year, we will be delivering in Q4.
- Moderator:** Thank you. The next question is from the line of Arindam Basu from Barclays Capital. Please go ahead.
- Arindam Basu:** Questions from me, first- on the US market, you talked about how the calendar year 2012 is going to be very strong driven by the PTC. I wanted to get a sense from you what are you thinking about 2013, in your discussions what do you think is the likely outcome of the PTC expiry? And also, like your peers, are you adjusting or do plan to adjust your cost base in the US in anticipation of a significant drop in the market in the US for next year? Second question, you talked about offshore market and I noticed a Nord See project. From what I understand is happening at North Sea is that there is almost a 12-month delay because there is a severe lack of grid connection and the infrastructure required around the project. Now, do you think that is a trend that is going to be prevalent at least for this year, some of the larger offshore projects that you are talking about or do you think this is going to be a strong year for REpower business in terms of offshore? And third, just on the Indian market, if we do see the depreciation benefit expired at the end of March and you talked about GBI registrations up until the 4<sup>th</sup> of Jan being about 1300 MW. So, I can use run rate and see the GBI market on an annual basis thing about 1700 MW. Do you still expect Indian market to grow for FY13 on the back of GBI-driven environment?
- Tulsi Tanti:** First, that I will give you the highlights on the US. You are absolutely right, December 2012, PTC and ITCs are expiring, and after that currently, there is no immediate visibility. Two options are there, a) to the long-term policy framework which is requirement of Federal RPS so that is a continuously the discussion and dialogues with the Government but I do not see it will come immediately in FY13. Second is to extension of the PTC and the ITC, there is a likelihood chance is there. Today, at this moment there is no clarity yet. And as you know, the US always at the end of the year there must be some positive announcement we are expecting, at least for the one more year of extension, there is a possibility. So, if not happens the market size we are expecting in calendar year '12 is nearly 12,000 MW, it will go down to nearly 3,000 to 4,000 MW. The best part now is wind turbine projects are extremely competing the gas also and very competitive price in the cost of energy is coming in the USA because of the technology and because of this, then cost optimization and third is because of the scale. So, we believe US economy will slightly improve and positively, so it will give some improvement in the gas price and that will give a huge opportunity to Wind industries to continue without any fiscal benefit also. So, that is one last opportunity also is there. But we believe the US market

will continue and Government has to come out with some good solution, whether it is short-term or whether it is long-term. For us, it is not just the US market, we are operating from the US resources, the whole Canada market also and Canada market is continuously doing very well and it will continue to grow. So, we are using our resources in an optimal way both the US market and Canada market, so we are very comfortable to manage like that in the US market. But the Government has to come out with good solutions and we are expecting some positive results by end of the calendar year. Now, talking about offshore, you are also right, there are a lot of infrastructure, particularly in the Germany. Delay is there, and because of that some of the projects will get delayed, but we are not just one country focus on this, some projects we are doing in Belgium and also Netherlands and also in UK. So, based on certain plan for the next financial year we are not reducing our offshore plan and other things, it will continue. But same time it will be compensated on onshore business also in the REpower. So, it would grow up. So, as earlier also we mentioned compared to the current year to next year, we are expecting in both the companies a minimum 40% to 50% growth and that will support us irrespective of the offshore current situations. Regarding the Indian markets, it will remain very strong for the next four-five years, I do not see any difficulty irrespective of accelerated depreciation will go, but we have to understand AD is linked with the DTC. Once the DTC will be established after that effect will come and I do not see the next financial year DTC will be implemented. So, we strongly believe that next financial year the AD will again continue but it is not affecting market more because as you know, gradually, REC market is well stabilized. And most of the large IPP is looking to invest to the REC concept and that is why it is going to be good, comfortable market. Second is there is a captive market is there parallel for the small and medium industries and that demand is also quite increasing. As you know, the Indian Power sector environment, there is a huge uncertainty is increasing and the cost of energy is continuously going higher and higher, you may contest that wind energy, cost of energy is going down. That is giving huge competitive as compared to the conventional energy and the last year also nearly 25% of the new energy of India is coming from the wind only. So that is giving the mainstream opportunity. So, I believe the next five years the Indian market irrespective of the AD, Indian market will continue to grow. Compared to current financial year the next financial year our expectation is minimum 30 to 35% Indian market will grow. And as you know we are well-positioned and established in all the seven states and we have the large capability and for the competency for execution of the project. So, we are comfortable to grow in the Indian market more efficiently.

**Arindam Basu:**

Just one last follow-up question. You highlighted a strong growth in orders for the S9X series and also the REpower 3XM. Now, across the industry we have seen some of your peers have in trouble launching your turbines and then also some trouble in terms of the performance of using a turbine. Would you be taking any provisions or additional provisions for the new turbine that you are launching or you are just fairly confident of that performance now?

**Tulsi Tanti:**

First of all, we have to understand this 9X and 3XM both is our existing platform. So, it is not a Greenfield new platform. And that is good like more than 2,000 S88 turbines we have been sold.

That the same platform we have upgraded and optimized by the technology and converted into the 9X. So, it can be in the REpower in 3XM. So, this is the existing platform is there. We are happy to tell you that 9X, the first lot of the turbines are rushed from first month, not just first year, but first month directly, it is 97 plus uptime and it is a more optimized product and technology compared to the S88 turbine. So, it is giving a huge benefit. There is no need of any unexpected uncertainty of the product and other things. And as an industry's normal average of 3% guarantee/warranty cost is this, our group will remain below 3% in the next financial year. So, we are very comfortable on a product reliability and performance area. We can say that 18,000 MW all over the world is running above 97% uptime, so it is a good indicator. The existing fleet, the new fleet will be most better than existing. So, there is no risk on the reliability and the performance.

- Moderator:** Thank you. The next question is from the line of Charanjit Singh from Enam Securities. Please go ahead.
- Charanjit Singh:** I would like to just understand one thing. We have guided for 40% growth in FY13. If you can please breakup this growth in terms of what is going to come from REpower and what is the growth prospect coming for the Suzlon?
- Kirti Vagadia:** Basically, I think REpower is going to be somewhere between €2.25 to €2.4 billion and rest will be from Suzlon.
- Charanjit Singh:** Do you foresee any major execution issues in the foreign markets, specifically, US or Europe and any particular delays to large orders which you have in these regions?
- Tulsi Tanti:** No, we do not see, because we have to understand in the US market our scope is supply and erect. So, there is no project execution direct responsibility with us, it will be with the customers. We are supervising the project and we are synchronizing with the customers. So, all the projects should be executed and completed before December 2012 and based on the current plans of the supply chain in the US project and the customer's thing, we are quite comfortable to execute this project in time.
- Charanjit Singh:** Out of the total order backlog of 5.7 GW, what percentage is going to get executed in FY13 and what will go on to FY14?
- Kirti Vagadia:** Basically about 22,000-23,000 crores is expected to come out of order backlog in FY13. So, roughly about balance I would say will be carried forward to FY14 and onwards.
- Charanjit Singh:** So in MW terms?
- Kirti Vagadia:** We try to cover it in revenue terms rather than MW terms.
- Moderator:** Thank you. The next question is from the line of Bhargav Buddhadev from Ambit. Please go ahead.



- Bhargav Buddhadev:** A couple of questions; one is, is there any conditionality attached on the Edison payment, i.e. that the wind farm which Suzlon has financed, should that wind farm first receive bank funding and then the money will be disbursed? And the second question is that in case Edison payment does not come out of the total cash balance consolidated of about Rs. 1,900 crores, what is the amount which could be available to repay the FCCB holders? If it is 100%, will the bankers of REpower not raise any concern?
- Kirti Vagadia:** Basically, as I mentioned earlier that we as well as our customer both are listed entity and we would prefer not to comment on commercial arrangement as of now. So far as performance of turbine is concerned it is performing excellent. Probably, Tulsi bhai, you would like to comment on machine availability of those projects?
- Tulsi Tanti:** It is higher than our contractor commitment and customers are extremely happy with the performance, and they are getting a very nice daily cash flow.
- Kirti Vagadia:** Correct, so far as the cash balance is concerned, entire cash balance is available other than what is required for meeting day-to-day business requirements.
- Bhargav Buddhadev:** If you could quantify it could be very useful in terms of percentage?
- Kirti Vagadia:** It will be very difficult to quantify because our business requirement is varying from month to month, what will be required for executing your next couple of months or three months business plan.
- Bhargav Buddhadev:** In terms of Edison, you have given an outlook that possibly the payment will come in FY13, is it possible to further break that down whether it would be the first half or second half or in terms of first quarter, second quarter that would help?
- Kirti Vagadia:** Our intention is to bring that money as early as possible. It is a commercial agreement between both the parties. So, I would prefer not to quantify the date. Our intention is to bring it in this quarter itself.
- Bhargav Buddhadev:** In terms of announcement which you highlighted that both of you mutually agree to an announcement, is there any timeline to that?
- Kirti Vagadia:** I think in every commercial agreement once both the parties sign up they need to announce. So, it is a function of when we agree.
- Bhargav Buddhadev:** Is it safe to say that the Edison payment is a 'must need' to honor your first tranche, which is in June, is it safe to say or without that also you can go ahead and meet your obligation the first tranche?
- Kirti Vagadia:** If I have an obligation I need to have Plan A, B and C, all three. So, basically, yes, this is a part of one of our plans but without that also I am confident to manage the payment obligation.

- Moderator:** Thank you. The next question is from the line of Ankush Mahajan from KR Choksey. Please go ahead.
- Ankush Mahajan:** My question is regarding that as we have received 1.5 GW of new orders in last quarter, so, how do we see the scenario now in the next year on the growth plan to receive the orders in FY13 and FY14 from different, different geographies? What is our internal assessment to at least that this is our target or at least we will receive the number of orders?
- Tulsi Tanti:** The next financial year growth order intake from all the markets in a range of \$5-6bn which we are following.
- Ankush Mahajan:** Can you quantify the number of all of them, something that internal assessment that we have done.
- Tulsi Tanti:** For the next 12 months there is \$5 to \$6 billion order intake.
- Moderator:** Thank you. The next question is from the line of Ranjit Shivram from B&K Securities. Please go ahead.
- Ranjit Shivram:** My first question will be extension of previously asked question. In REpower cash, how much approximately from advances?
- Kirti Vagadia:** I think cash is fungible. It is very difficult for any accountant to classify what is coming from advance and what is coming from your normal receivables. We do have advances from customer but cash is fungible.
- Ranjit Shivram:** As a percentage, if you have to put some numbers?
- Kirti Vagadia:** I do not think that is possible to do.
- Ranjit Shivram:** And can you help me with the breakup of the RM employee expense and the operating expense for Suzlon Wind and REpower for this quarter?
- Samir Shah:** I can give you breakup on the variable plus fixed expense that's the OpEx on Suzlon Wind. Q3FY12 was about 486 crores. Out of which, 86 crores is variable and 400 crores is fixed cost, which sequentially last quarter was 532 crores total opex, so it is coming down slowly and the variable last quarter also was 120 crores but since my volumes have gone down from 420 to 306, obviously, my variable has come down and fixed has remained almost at 400 levels.
- Ranjit Shivram:** What will be our gross margins in Suzlon Wind and REpower for Q3?
- Robin Banerjee:** 33%.
- Ranjit Shivram:** 33% for the consol, I am asking for the Suzlon Wind and REpower separately.

- Tulsi Tanti:** I think that breakdown we will not be able to share.
- Ranjit Shivram:** Generally, in your presentation, you share your employee cost, RM expense separately for Suzlon Wind and REpower, but this time I did not see, that is why I asked this question.
- Kirti Vagadia:** No, you are right, earlier when REpower was listed entity, we were able to share. This time, even we were internally debating whether we need to give REpower related data separately or not but since all analysts related working is facilitated we have given revenue, EBIDTA and other numbers for your facility. But otherwise we would prefer not to give a detailed breakup because REpower is like my US subsidiary now.
- Ranjit Shivram:** And any ForEx impact on REpower in this quarter?
- Robin Banerjee:** Yes, there is something which is shown as a Forex loss and also there is a Forex loss which has gone into our cost of goods sold which is not separated out. If I may have to give you a ballpark number- the number which has gone into cost of goods sold is about 80 crores and you would see our balance sheet or a P&L account we have taken a loss of 45 crores on foreign currency loss, which has a mix of REpower and other investments between one company and other.
- Ranjit Shivram:** So, pertaining to REpower, what percentage can be, any idea?
- Robin Banerjee:** We would not like to give the split because that is hair splitting, because it is very difficult to quantify that but approximately you can take about 100 crores as a ballpark number to consider for you.
- Ranjit Shivram:** And last question from my side, this REpower the margins have improved substantially, any one-time item in this?
- Kirti Vagadia:** No, there is no one-time item, because normally we do have a practice that if there is something one-time we do mention it separately. So, it is normal ups and downs which can happen on account of currency, that is possible. Yes, other than that, we do not have any one-time item.
- Ranjit Shivram:** This currency like what kind of sustainable margins like? This kind of margin is it sustainable going forward?
- Kirti Vagadia:** Yes, it is sustainable.
- Ranjit Shivram:** With the currency coming down also?
- Kirti Vagadia:** Yes, currency coming up and down probably may have some impact on our numbers. I would not speculate on currency but other than currency in a normal course of business REpower's margins are sustainable.

- Moderator:** Thank you. The next question is from the line of Kenneth Choi from Longitude Group. Please go ahead.
- Kenneth Choi:** I have two questions; my first question is can you clarify one non core asset that you like to dispose to makeup that 100 million you previously mentioned? And second question is regarding your cash level, I want to know how much is at the REpower level and totally useable to pay for FCCB or restricted?
- Kirti Vagadia:** So far as asset is concerned, definitely in previous analyst call of last quarter I mentioned that we have a wind farm asset of about 60 million which we can sell and there are a few other non-core or non-critical assets which also we are exploring the possibility to sell.
- Kenneth Choi:** When do you expect that to occur in the first half?
- Kirti Vagadia:** We are right now running the process and hopefully we should be able to close at within next three to four months.
- Kenneth Choi:** And about the cash?
- Kirti Vagadia:** Cash, I think right now we are one company and we will work together in the best interests of the group. So, it is premature to discuss that whether cash issue at this juncture to repay our debt or not. It is always a business requirement we need to meet that what is required for carrying out day-to-day business at REpower level, according to which we will keep the cash at REpower level or Suzlon level, otherwise we can use the pool of cash available within the group for any future liability within the group.
- Moderator:** Thank you. The next question is from the line of Kamlesh Ratadia from Enam. Please go ahead.
- Kamlesh Ratadia:** I have one question, basically if you look at your CY11, your full year performance has almost been in line with your guidance at the revenue side front which is basically close to about 21,600 crores of revenue and your CapEx was about 7%. So, my question is that when we do similar kind of revenue in the financial year which you have guided for, with better gross margins, then why is that that our EBIT margins will be at 5-6%, what is that we are missing, if can you just explain that?
- Kirti Vagadia:** No, you are not missing anything. Probably, I would say that our guidance for this year- FY12 revised guidance is a bit cautious. Our target for Q4 is something closer to about 7,500 to 7,600 crores of revenue and EBIT at Q4 standalone is something closer to about 7%.
- Kamlesh Ratadia:** But if I were to just take your lower end of the guidance of 21,000 and a 5% EBIT, then if we do the working then you actually will report loss in Q4. That number is completely wrong, right?
- Kirti Vagadia:** Yes, if you are going by range, definitely, we have given a range very cautiously in a revised guidance.

- Kamlesh Ratadia:** So basically in that range if I just take lower end of the range in both the cases Q4 is expected to be a loss which you are not expecting, right?
- Kirti Vagadia:** Yes, definitely. Internally, we are not working for that scenario.
- Kamlesh Ratadia:** And nothing on REpower side that should come as a surprise to us?
- Kirti Vagadia:** Till date there is no surprise.
- Kamlesh Ratadia:** Even on the margin front?
- Kirti Vagadia:** Nothing.
- Moderator:** Thank you. The next question is from the line of Pauline Tay from Standard Chartered Bank. Please go ahead.
- Pauline Tay:** I have few questions regarding the FCCB repayment. First one is- it was mentioned earlier that free cash flow of \$100 million was expected for full FY12 and then \$250 million for the next 9 to 12 months. So, my question is does this include the \$100 million, right?
- Kirti Vagadia:** No, I have said that \$100 million is right now available. I did not mention free cash flow for this year. I mentioned that \$100 million is available in the business.
- Pauline Tay:** Do you have any guidance of operating cash flow for the next 12 months?
- Kirti Vagadia:** I think what I mentioned to the previous question that about 200 million to 250 million cash flow we will be generating in the period of next 9 to 12 months.
- Pauline Tay:** And the other question is you mentioned that even if you do not receive the Edison receivable you are confident that you will be able to payback the FCCB, what options are you considering?
- Kirti Vagadia:** I cannot disclose that now basically. I told you that we are definitely not dependent on one option and that is just Plan A. We have Plan A, Plan B and Plan C. Some of them can be disclosed and discussed publicly but other are confidential and market sensitive and definitely we cannot discuss that.
- Moderator:** Thank you. The next question is from the line of Rosita D'Souza from Elara Capital. Please go ahead.
- Rosita D'Souza:** My first question is on the pricing outlook, if you could give us some indicative, the scenario basically as to how it is panning out given the competitive intensity is increasing? That is number one. And number two, if you could give us some indicative numbers on the kind of capital expenditure that you are looking to incur in both the domestic level, this is on wind level and the REpower level? Another question I wanted to ask you is on the FCCB repayment again. I am sure

the management is working towards repaying the FCCB, what would you like to tell the bondholders to give them comfort that Suzlon would not go in for another round of restructuring?

**Tulsi Tanti:**

In all market really good competitive situation is there and continuously pricing pressure is there. But industry is really working and bringing down the cost of energy and that is giving the new opportunity compared to the all conventional fuel versus the wind energy and that is creating a good space. Most of the emerging economy market, like India, China and Brazil and South Africa, those markets' need of energy is very high there and conventional energy fuel prices is so high, so it is a huge focus in changing towards the renewable and that is giving good space of the growth and the opportunity. It depends on the unique business model which we have in Suzlon, because we are growing from India and that is giving a very good competitive reach and opportunity in the all emerging markets. The same trend is in the developed economy market like European market it remain as a continuous growth for the 7 to 10% level, not much but that market is highly driven by the large utility company and we are so fortunate in REpower most of the large utility companies, our relationship in customers is there, so that is giving us the good benefit. The small and medium developers are more affected in European market but in our portfolio, we have a majority of the large utility companies, so that gives us very competitive edge in the market. In US market is very sharp, price competition is there and irrespective of that environment we are getting a good business and our price and competing is well. Moreover, the margin in the US market is lower but still it is saleable and it is a good market. Coming to the China, it is very strong because market is not growing much more and the competition is very intense there, but we have the right product and technology and the right supply chain we have developed in the China market and that is giving unique position in China market. Now, we have introduced the current quarter also, the 9X product in China market. We are expecting some good business from China also.

**Kirti Vagadia:**

Your question on CapEx, basically, we as a group has a sufficient manufacturing capacity in place to meet our increased volume requirement for next financial year; however, due to logistics reason as well as due to new product introductions, definitely, we do need some CapEx but we estimate that it will be a very marginal requirement less than \$50 million annually. So far as your question on FCCB is concerned, definitely, we do have constant interaction with our bondholders, because of two times we approached them; So, definitely, we are in touch with all our bondholders. Secondly, we have issued FCCB in April last year where it was fully subscribed mainly from existing bondholders in that period. So, bondholders know the company very well and they are confident on management's capability to pay. At this stage, I would say that it is our endeavor to meet all our debt obligation in time and we are committed and working on all the options. Beyond that I would not prefer to make any comment at this stage to my FCCB holders.

**Rosita D'Souza:**

Just a couple of more questions I have; one is on Hansen, the stake sale- was there an obligation to repay part of the acquisition loan out of the Hansen proceeds?

**Kirti Vagadia:**

I would not say that it is obligation, but we have paid almost about \$80-90 million of loan, because ultimately that is the use we wanted to have, from long-term sources to long-term repayment.

- Rosita D'Souza:** Given that you have a lot of repayment coming up due in FY13, one would think that probably you would have retained that money to pay out the FCCB holders rather than depending on several milestones that you need to attain in the coming year to ensure timely repayment, that is the reason why I was little surprised that utilization of the proceeds for repayment of loan.
- Robin Banerjee:** When we took some foreign currency loan about two years back, there was an understanding with the banking system that should we sell Hansen we would make an endeavor to prepay some of the loan should we have the surplus cash so there was an opportunity to do so and we honored our commitment and understanding which we had with the banking system.
- Rosita D'Souza:** One last question, on the additional sanction working capital given that we have already 1.5 months into Q4, how much of it has already been utilized?
- Robin Banerjee:** Working capital is always a fungible. When it gets sanctioned, it gets disbursed based on drawing power and that is what we would like to share at this point of time, but what got sanctioned is about 1,100 crores as we have announced in our press notes.
- Moderator:** Thank you. The next question is from the line of Vaibhav Bharadia from Alchemy. Please go ahead.
- Vaibhav Bharadia:** Just want to go through this point again, you mentioned that around 700 MW is the sales that you are expecting in Suzlon standalone in the last quarter of FY12, right?
- Tulsi Tanti:** Correct.
- Vaibhav Bharadia:** If my understanding is right, last conversation that I had, it takes around 500 MW per quarter to actually for the company to breakeven for its fixed cost?
- Tulsi Tanti:** Yes, that is the correct understanding.
- Vaibhav Bharadia:** If I actually look at the entire year, I believe that you will not be able to complete 2,000 MW for the entire year, right?
- Tulsi Tanti:** Yes.
- Vaibhav Bharadia:** Apart from the Hansen proceeds that have commenced, if I actually exclude that when I expect that for the complete Suzlon, it will be actually a loss in this year in FY12?
- Kirti Vagadia:** At consolidated level, definitely, we will be marginally positive, we should be marginally positive, but definitely we have already given our guidance and ranges. You know the numbers for interest and tax. We have given guidance up to EBIT level. So, basically you can work out four different scenarios on basis of numbers what we have given.

- Vaibhav Bharadia:** Just based on that the first tranche, I believe that you did mentioned that you have around 100 million free cash and you are expected to generate another 100 million through free cash flows from these operations in the upcoming two quarters, am I right?
- Kirti Vagadia:** I have not said 100 million for free cash flows. I said 200 to 250 million over a period of 9 to 12 months.
- Vaibhav Bharadia:** And you are talking about the Edison payment that you are expecting?
- Kirti Vagadia:** Yes, that I have not included in these numbers.
- Vaibhav Bharadia:** So, basically 200 million that you are expecting from Edison; 250 million from your operations and around 100 million from your sale of the assets?
- Kirti Vagadia:** Correct. And 100 million is already sitting in cash.
- Moderator:** Thank you. That would be the final question. I would now like to hand the floor over to Mr. Tulsi Tanti for closing comments.
- Tulsi Tanti:** Thank you very much. I would like to underline what I said as the part of this call. It is disappointing to be revising our guidance downward for the current financial year. This is because of the external reason beyond our control in Q3. Our performance in the last 12 months, calendar year 2011 speaks for itself and we have improved our performance on all operational parameters and we believe we have delivered the quite good performance in the industries. Our order book is at the record level and this gives us both comfort and optimism as we close this last quarter of FY12 and prepare for the financial year '13. Also, we believe that in the financial year '13 we have very solid order backlog and we should be able to deliver the revenue, the growth of approximately 40% in FY13. So, I appreciate everybody's time, presence and cooperation. Thank you very much.
- Moderator:** Thank you. On behalf of Suzlon Energy Limited that concludes this conference. Thank you for joining us.