



# “Suzlon Energy Limited Q4 FY13 Results Conference Call”

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**Moderator**

Ladies and gentlemen, good day and welcome to the Suzlon Energy Limited Q4 FY13 Results Conference Call. As a reminder for the duration of this conference 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. Should you need assistance during this conference call please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. 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**

A very good afternoon to everyone. Thank you for making the time to join with us. I am joined today by Kirti Vagadia – our Group Head of the Finance and Amit Agarwal – Suzlon Wind new CFO, along with our Investor Relations team. I would like to remind everyone that our comprehensive investor presentation is available on our website [suzlon.com](http://suzlon.com). I would first share some key aspects of our year end results and then as usual we will be happy to take any questions you have.

Clearly there are very disappointing results for us as you will appreciate FY13 become a year of the liability management. This was a difficult decision to make but we believe it was a necessary sacrifice in order to stabilize the business and secure it for the long term. I think everyone would agree that we have made the real progress on our liability management and despite our internal and external challenge it is important to note that the group still brought in order book of US\$4.3 billion over the fiscal year.

Additionally our German subsidiary REpower sourced another year of the solid and profitable growth with the revenues up by 33% year on year basis. As reported, our initiatives the project transformation has also delivered us the good performance. At the Suzlon Wind level, head count is down by 2000 and fixed operative cost are reduced by 20% and at the group level our average working capital for the full year was reduced to 20% from 25% of the earlier year. There is still a lot of work to do but we now begin the new fiscal as a leaner and more flexible organization with the lower break-even point and post entering the CDR mechanism with the liquidity head room we need to now focus on order delivery execution.

In terms of the products, we have introduced 120 meter hub height tower which will increase the 10% energy yield. The customers have told us this is an attractive proposition and will maintain our competitive position in the market place because in India most of the new sites are very low wind sites. By introducing this 120 meter tower hub height it will increase the area of the installations so that we will be able to increase more installation capacity in India.

We will also start to sell our S111 this year, it is a new product in the 2 megawatt platform. We are introducing in the next financial year but our order booking will start in this year for delivery in FY15. The S111 has a 20% improved the power yield and it is an excellent new addition to our comprehensive group product portfolio. This product is very specially designed for the

extremely low wind sites so that we are able to go into more remote locations in the country and we can harness the wind energy and we can increase capacity in our country.

I would now like to ask our Group head of Finance Kirti Vagadia to share his thoughts about the full year financial performance.

**Kirti Vagadia**

As you know the shrinkage of our home market here in India combined with our constrained liquidity condition has resulted into lower volumes. Our focus on liability management and some of our non-routine costs, all impacted our bottom line very significantly. However it is important to note that the progress we have made during this financial year on few areas: 1. we have completed our CDR, MRA is signed, working capital limits started getting released, and foreign currency loan has been refinanced by credit enhanced bond. Suzlon Winds head count reduced with scope for further rationalization. Fixed cost got reduced. Cost reduction program launched at REpower with a target to realize potential saving of about 100 million euro in current financial year, working capital holding level got reduced significantly. So these are the positive aspects we wanted to highlight.

In addition to this our service business which is popularly known as OMS business is growing by approximately 30% with healthy EBITDA margin of 25% and we expect this to continue as you all know that this is an annuity business. In addition to the lower volume this year's performance was also impacted by non-routine costs of about Rs 1100 crores. Just to give you break-up of that this cost includes about 600 crores of asset impairment costs across various manufacturing assets, our US receivable and about 300 crores of foreign currency loss which is resulted primarily due to change over of loan from one to another. So foreign exchange loan repayment has resulted into this loss of 300 crores and the tax credit reversal of about 150 crores. This all put together resulting to 1100 crores non-frequent costs, I would say. In conclusion there is a lot of work still to do but business is in significantly stronger place than even 6 months ago. So I would conclude the things with a statement that our business has started to become achieve normalcy as of now. Thank you.

**Tulsi Tanti**

Now we are happy to take any question you have. Please go ahead.

**Moderator**

Thank you very much. We will now begin the question and answer session. First question is from the line of Abhimanyu Talwar from Nomura. Please go ahead.

**Abhimanyu Talwar**

I have a couple of questions. First is around: can you give us an indication of your undrawn working capital facilities at the moment. So we understand that as a part of the CDR package you received 1800 crores of working capital facility but we see a 1300 plus a 500 facility as well in your presentation. So can you give us the total undrawn amount?

**Kirti Vagadia**

Right now 1800 is total new facility which is non-fund based, if you see our presentation it is given in 2 brackets; 500 we have included in fund based bracket which is fungible and 1300 in

non-fund based bracket. Based on our requirement we have drawn, normally we do not give accurate detail, but right now since it is a special situation, I wanted to give you the accurate information that we have drawn more than 1000 crores by as we speak.

**Abhimanyu Talwar** Just to confirm: Of this 1300 plus 500 you have drawn 1000 crores-

**Kirti Vagadia** Yes, 1000 crores.

**Abhimanyu Talwar** And there is another 1800 existing NFB which is listed on the same slide. So is that in addition to this 1300 plus 500?

**Kirti Vagadia** No I think there is some confusion. Total additional facility is 1800 crores; of which more than 1000 crores is drawn.

**Abhimanyu Talwar** Just to confirm a final detail: it was drawn before the 31<sup>st</sup> of March, I guess?

**Kirti Vagadia** No, I would say I am giving you detail till date.

**Management** Today.

**Abhimanyu Talwar** As of 31<sup>st</sup> of March, I mean I just want to confirm if the cash balance which you reported for the 31<sup>st</sup> of March that does not include any drawn portion or so?

**Kirti Vagadia** you are correct, absolutely correct.

**Abhimanyu Talwar** So it does not include any drawn amount?

**Tulsi Tanti** Yes because 31<sup>st</sup> March MRA document was closed after that bank has started the release from somewhere of this month of May.

**Abhimanyu Talwar** My second question is so there has been an improvement in working capital. Is that because of payment from Edison of that 10 billion rupees?

**Kirti Vagadia** No that is not the reason.

**Abhimanyu Talwar** Can we safely assume working capital levels to be at around 12% of your sales going forward as well?

**Kirti Vagadia** Yes definitely as we have mentioned, that we want to continue our journey on improvement in working capital. This is one of the goals which we have established for ourselves in key priorities for current year.

- Abhimanyu Talwar** My last and final question is around the debt maturity schedule which you have reported post re-structuring? So can you confirm that does not include the working capital loan and includes all the term loans, is it and the SBLC bond as well?
- Dhaval Vakil** Yes it includes only the term loans and the credit enhanced bonds that we take. It does not include the working capital loans.
- Moderator** Thank you. Next question is from the line of Rosita D'souza from Elara Capital. Please go ahead.
- Rosita D'souza** I had a few questions. I will just begin with REpower, this particular entity has registered very decent growth in the last couple of years. How should we see growth going forward you know given that the numbers have been very robust in the last couple of years?
- Kirti Vagadia** As a group we have decided not to give guidance so probably I will not be able to give you any specific details so far as REpower is concerned. However based on the progress I would say REpower continues to remain profitable entity for us and will be able to register steady EBITDA percentage so far as future year to come.
- Rosita D'souza** Is it fair to assume that EBIT margins at RE Power is about 6% or so?
- Tulsi Tanti** So you are talking about last year or the going forward?
- Rosita D'souza** No I was asking about the year that just went by.
- Kirti Vagadia** Our last year EBIT at REpower was close to about 4%.
- Rosita D'souza** Just wanted to understand, you have taken up the cost reduction exercise within both entities now. Will it in any way impair your ability to deliver volumes going forward particular because you know you have done a lot of rationalization as far as employee cost is concerned?
- Kirti Vagadia** Size of organization is capable and sufficient to deliver what we are planning.
- Tulsi Tanti** Yes, actually whatever the area is we are reducing like some of the component manufacturing capacity which we do not require to own or we are out sourcing, so that is where the reduction is happening like some of the change in the China is there, same time some of the market there is no order visibility but some market there is a very good order visibility. So reduction is happening and 3<sup>rd</sup> is overall optimization efficiency improvement areas across the value chain we are focusing aggressively so that will give because as you know that we have a great order book and we have to execute, so based on the business plan and based on the scope and requirement, we are keeping the key talent and the resources. There is no sense to reduce that otherwise we will not be able to grow further and maintaining that level so that we can make competitive situation and same time we can sustain.

**Rosita D'souza** One last question from my side: I believe you are not going to be given guidance you know this year. If you could just give us color on how we should see FY14 for the entity as a whole?

**Tulsi Tanti** So the FY14 is naturally our highest priority is going in as far as the Suzlon is the focus on the India business because lots of good business is growing, same time we have a lot of backlog of the projects to execute and deliver, so we are quite comfortable to bring as much as the volumes subject to the some constraints of the liquidity we are improving because now bank has given additional working capital and other things.

As far as the REpower is concerned, they are focusing more on developed economy and as you know the recently the good announcement of the US market ITC and PTC is on board and there is a good opportunity of the volume increasing is there. And our core market like Germany, Australia and Canada and the off-shore segment, we have a good order pipeline and that is the priority on our execution front. And as you know the overall cost optimization and working capital reductions will bring us the opportunity to enhance the volumes because order intake is not a constraint. Already in the last financial year \$4.3 billion order we have already achieved. So we have only the challenge for the execution part to deliver and same time to optimize the cost structure and manage the working capital cycle more aggressively, more efficiently by reducing the cycle time.

**Moderator** Thank you. Next question is from the line of William Mak from Nomura. Please go ahead.

**William Mak** I had a couple of questions. First of all: can you update us in terms of the progress of the restructuring of the US dollar CB like how is the negotiation with this CB holders look like recently?

**Vikas Rathee** Now that we have finalized and finished our secured debt, we are kind of refinancing both on the CDR and then the Indian rupee side and also the refinancing of the foreign currency loans to the credit enhanced bonds, obviously our focus is on the last remaining piece, which is the FCCB. We continue to be in very active dialogue and we had dialogue is not just between the company and the bond holders and the Ad-hoc committee of the bond holders, it also includes our senior lenders so what I can tell you is we continue make progress again but the negotiations are still are at commercially kind of sensitive stage. So that is all I can say from a confidentiality perspective. We continue to make progress but we still continue be at a sensitive stage and need to do more before we can come out and say something more publicly.

**William Mak** My second question is regarding the planned asset sale. So right now what is the progress like and is any due diligence has started and also have you hired any financial advisors for the asset sales?

**Kirti Vagadia** We will be making a progress on quarterly basis for every quarter. We have set a target of about 400 million to be realized from various asset sales. We have identified about 15 different assets

and we have also appointed advisors for different assets depending on expertise of respective advisor in that particular type of assets. So yes there is a progress and momentum we are running a specialized program for getting that work done at the earliest.

**William Mak**

Is there any potential buyers that have emerged so far?

**Vikas**

As soon as we have something announceable, we will make the announcement. Right now, for few assets, we are at very sensitive stage.

**William Mak**

The third question is: Regarding the non- fund lines you have. Can just clarify: I guess like you said that the existing non-fund business is 1800 crore and new non-fund business line is 1300 crores. So may I know whether 1300 crores is in addition to 1800 crores or is it basically the same thing?

**Dhaval Vakil**

Yes it is in addition to 1800 crores. So the total non-fund based facility is about 3100 crores and total fund based facility will be about 2700 crores. So all put together it is about 5800 crores of working capital facility.

**Dhaval Vakil**

In the title also, you will find the numbers are given on total level and out of the 1800 crores of new facility- (non fund based and fund based), we have drawn about 1000 crores so far.

**William Mak**

And my final question is what is the outlook for Suzlon Wind, now that you have liquidity in place do you think that it will go back to 2012 levels of margins?

**Kirti Vagadia**

Unfortunately we will not be able to give guidance on numbers because indirectly by responding to your question I am giving indirect guidance. But yes, the efforts are to normalize the business and you know what is our normal volume in every quarters.

**Moderator**

Thank you. Next question is from the line of Charanjeet Singh from HSBC. Please go ahead.

**Charanjeet Singh**

My first question given that now you have the working capital facilities sanctioned and also you have a very strong book. So can you provide some color has to in which quarter you expect break-even in Suzlon India?

**Tulsi Tanti**

Whatever the working capital facility and the banks facility is there, same time there are a lot of projects in pipeline and everything so gross working is substantial that we have in the system. So the momentum will start because last 6 months its complete stand still position because no bank guarantees and LC facilities were available because of the liability management. Now that momentum has started, as per our budget because it is not giving any guidance or forecast. As per our budget planning and everything quarter 4 we are going on a breakeven level and we are reaching that level. So the project pipeline is increasing and that will help us to move towards the profitability area. So quarter 4 will be the breakeven.

**Charanjeet Singh** Mr. Kirti Vagadi just now mentioned that you have put some sort of targets for asset sales on a quarterly basis. So would you like to share some information as to what these quarterly targets are? Because the reason for asking this question is that last year also you have given guidance probably given an indication of \$100 to \$200 million sales of assets. However, we have not seen that coming through. So since now you have some sort of quarterly targets so it will be good to get some indicative numbers on a quarterly basis.

**Kirti Vagadia** Yes, this is definitely an internal target which is monitored at highest level in the company but unfortunately will not be sharing that publicly as of now.

**Charanjeet Singh** My third questions is primarily related to the GBI – given that the details of GBI are still pending and our notification in that regard is also pending, so with the delay in GBI, the developers are likely to push back the commissioning date. So how does that impact Suzlon India's operation?

**Tulsi Tanti** So first of all because of the GBI update none of the project is push back because as per the budget guideline this GBI is applicable for the current financial year, it is only the cabinet approval is still pending. So process is going on. That will be available from the 1<sup>st</sup> of April. There are two scenarios either it is 1<sup>st</sup> of April 2013 so that is fully secured but there is a possibility because framework is to reinstate means it is applicable from 1<sup>st</sup> April 2012 also but we are strongly believing is that after the cabinet approval it will be implemented and there is full possibility. So, all the customers and investors are comfortable to go ahead with the GBI planning, so that is available. The process point of view it is still pending but we are expecting very soon it will be cleared by the Government because there is a parallel process going on to introduce accelerated depreciation also and that is why it is taking some process time. because Government is expecting more renewable energy to come because the cost of energy from the wind is quite low compared to new coal energy and that is why it is very important for each and every state is pushing and supporting the renewable and particularly within renewable is wind is very lucrative for the state because the cost of energy is quite competitive. So the Government is focusing positively and GBI has already cleared the budget process and pending some formalities are completed there is an opportunity and possibilities to accelerate depreciation may come back.

**Charanjeet Singh** Last question on the EBIT margins of REpower in case you think that you may like to answer it. We have seen the EBIT margin declining for REpower in the last year. Now looking forward where should we see this, moving northwards or southwards and possible reasons for the same?

**Tulsi Tanti** So the last year the EBIT margin was lower at ~4% but we have taken the conscious decision because REpower is quite comfortable to deliver the (+6%) EBIT margins. The last year we have given a topline growth and particularly the majority growth had come from the US market which is very competitive market so we have bring the volumes but the same time we have sacrificed in the percentage of the margin which is very important to bring down our COGS cost we need a volume. So it is also trade off for the last year and current year we are expecting it will go



upward of more than 4%. So that is comfortable because this year the US volume is very less and most of the volume is the European market and the off-shore.

**Charanjeet Singh** And my last question if I may: one-off expenses on account of REpower restructuring which are likely to come this year.

**Tulsi Tanti** Yes because we have already established the programs to reduce the €100 million across the value chain the reduction will happen in the current financial year and there are some actions we have some fixed cost areas which is approximately 40 -45 million cost effect will come.

**Moderator** Thank you. Next question is from the line of Balchandra Shinde from Batlivala and Karani. Please go ahead.

**Balchandra Shinde** I want to have a brief idea about execution cycle on order from different region like in India what is the exhibition cycle, from REpower execution cycle is how much? If you can give idea on that.

**Tulsi Tanti** I think normally it's the type of the scope; suppose if the equipment supply is nearly 6 month execution cycle is there and if it is a EPC project and within the country and then it is 6 to 9 months but if it is other country then it is shipment and other thing then it is one year. Like South Africa one year, Brazil is one year, India is 6 to 9 months whether it is in Germany 6 month is there, France, Italy all these market 6 months is there, US again is 9 months, Canada is 12 months, Australia is 15 months.

**Balchandra Shinde** Basically for this quarter especially we had problem on the Indian operations only. We did not have that much problem on execution on REpower I guess.

**Tulsi Tanti** The execution problem is because we are busy in the last financial year for the liability management. And because of that the constraints of the non-fund facility and liquidity constraints irrespective of the orders in hand, we were not able to execute but the pipelines are good. Now the liquidity is improving every month by month. So every month we are increasing and now business is normal we can say and within the next 3 to 4 months we will stabilize our operation completely and our highest and the maximum focus is currently on backlog in India is there. So we are giving more thrust on the Indian projects.

**Balchandra Shinde** Are we facing any execution deferment from customer side or payment deferment from the customer side?

**Tulsi Tanti** I can say the great and biggest support is available to us is my customers and my vendors. They are supporting because they strongly believe in the business model and company. Second thing as you know we are operating 22,000 megawatt our operations fleet across the 32 country and all the turbines is running extremely good performance. So majority of our customer or we can say

99% of customers are extremely happy with our service performance and they are getting a good cash flow out of that business. So they are supporting that and we are not facing on that front but some of the projects in last financial year were cancelled because it was planned based on certain tariff and everything and it was delayed and change was there. Some of the projects were cancelled in the last year but now today all projects are on and very good support is there and customer liquidity and everything is-

**Balchandra Shinde** Only cancellation was due to the liquidity constrained but not because of the overall challenging environment?

**Tulsi Tanti** No there are 2 types of the cancellation norms – one is the liquidity constraint part 1, the second is some of the sites suppose it is a stuck up projects like ROW when it is exceeding more than 6 to 9 months then we are also cancelling that location and then we transfer that order to other sites. That nature is happening.

**Balchandra Shinde** So out of our total order booked how much we can take it as percentage as a slow moving or in a stagnant condition?

**Tulsi Tanti** It is a normal average in India because ground reality and ground issues in a country are very complex. Out of the 10 projects normally 2 projects goes in some problems and then slow down but it will not get delayed for than 6 months.

**Moderator** Thank you. Next question is from the line of Sunil Shah from SGA. Please go ahead.

**Sunil Shah** I wanted to know your view on the Indian market having collapsed 50% in the last financial year. How much time do you think will it take to stabilize and what will be the market size that you expect in India going forward?

**Tulsi Tanti** I think it is a very important question. As you know Suzlon is extremely dependent on current environment in the Indian markets. The last year almost 50% of the reduction in the market size because of the withdrawal of the GBI and also withdrawal of the accelerated depreciation. So that has affected much more and some of the state level regulatory policy and the tariff was not announced the right way. But best part is that in the current financial year the GBI's already announced but it is not yet executed, we are expecting very soon it will be executed and for accelerated depreciation there is a quite good possibility but still government has not taken the action and decision but there is a positive side. So if we take a scenario one is based on just the GBI we are expecting the minimum size compared to last year 1500, it will go to somewhere 2500 megawatts. So 1000 megawatts will increase in Indian market and if in the next 2 to 3 months the accelerated depreciation announcement will come so it will give the boost of another 500 to 700 megawatts. So that is the likely scenario to be developed but we are quite comfortable it will go nearly more than 2500 megawatt size market will remain in the current year.

- Moderator** Thank you. Next question is from the line of Rosita D'souza from Elara capital. Please go ahead.
- Rosita D'souza** Just wanted some color on what is your CAPEX plans would be for the current year particularly because you need to continue to do research and development which was very important for your business.
- Dhaval Vakil** We do not plan any growth CAPEX for Suzlon Wind, we will probably have a maintenance CAPEX at Suzlon Wind level which will be probably in the region of about 50 to 100 crores as usual and at REpower level also we will probably have more maintenance CAPEX which could be in the region of about €40 million.
- Tulsi Tanti** And regarding the R&D, we do continuous investment, 70% is the fixed cost in nature. We always have to invest continuously in the technology and that is 2% of our revenue, every year we are investing in the R&D.
- Rosita D'souza** One last question: what is the order book in Suzlon Wind in terms of megawatt?
- Dhaval Vakil** It is about 1.9 gigawatt.
- Moderator** Thank you. Next question is from the line of William Mak from Nomura. Please go ahead.
- William Mak** I saw that Suzlon has got the board approval for recent equity or FCCB or GDR to the extent of 5000 crores. May I know what is your plan regarding the equity issuance?
- Kirti Vagadia** No, I think let me clarify that it is enabling resolution which we do take every year end. So that will reduce the transaction time when you want to actually execute any transaction. So this is just an enabling resolution it is not something which we are planning immediately or near future.
- Moderator** Thank you. Next question is from the line of David Kungsen from Pine River. Please go ahead.
- David Kungsen** If you just look at the last quarter standalone operational profits I compare to the consolidated one there is a difference of about 500 crores. I just want to know is that mostly you know relating to losses of REpower or is it something else?
- Vikas Rathee** I think it is kind of reconcile on the call right away right now. Starting what you should do is: one we have a separate conversation to see you know where the difference is coming from. There is definitely no loss at REpower, we can definitely confirm that to you. So it is going to be something which kind of misleading. We can have a separate call off-line and try and reconcile that.
- Kirti Vagadia** I think basically this might be due to couple of one-off item which I talked about in China and US.

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

**Tulsi Tanti** Thank you. Let me conclude by saying once again that we acknowledge this has been disappointing result for the reason I set out earlier. We have spent most of the time in the last financial year for liability management and it has impacted our volume and same time because of the collapse of Indian market almost 50%.

As we start the new fiscal our key priorities are very clear and we are aggressively focusing on that. The absolute focus on India order execution and investment in a project pipeline in India to build the capacity further going forward. Continuing our transition to an asset light and debt light model the highest priority to sell non-critical assets \$400 million asset as early as possible and we have established very aggressive program management on different 15 assets to convert into cash as early as possible, reducing the OPEX even further partly by optimizing manufacturing and adopting make versus buy model and also by further reduction in employee cost in Suzlon and REpower. Continuing to invest in R&D to bring the next generation of the turbine like S-111 and in REpower 3 megawatts low wind site turbines which will give us the great opportunity to become more competitive and enhance our contribution margin and to reduce the cost of energy by at least 5% so that it gives the good benefit to our customers.

The sustaining and growing our quality order book, we are quite comfortable but still we have to continuously build our quality order book with the good margin status to bring the more and more liquidity in the operations. So we are very clear, with focus we have to do and the current is the highest and key priority, all the area executions and executions.

So many thanks for joining to us and we are quite confident we will deliver you the good performance compared to the last year. Thanks a lot. .

**Moderator** Thank you. On behalf of Suzlon Energy Limited that concludes this conference. Thank you for joining.