



“Suzlon Energy Limited Q3 FY11 Investor and Analyst Conference Call”

February 7, 2011



Moderator

Ladies and gentlemen, good day and welcome to the Q3 FY11 Suzlon Energy Limited Investor and Analyst Conference Call. As a reminder, for the duration of this conference, 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. If you should need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

At this time I would like to hand the conference over to Mr. Tulsi Tanti, Chairman and Managing Director, Suzlon. Thank you. And over to you, sir.

Tulsi Tanti

Thank you very much. Very good afternoon and thank you for joining our Q3 Investor Call. I am joined today by Kirti Vagadia, Our Head of the Group Corporate Finance, Robin Banerjee, our CFO and our Investor Relations team along with the members of the finance team. I hope you have seen our group investor presentation available on our web site along with the Q3 press release.

I would like to start by giving you some of the highlights of the Q3 performance. We believe that this quarter once again shows the steady improvement in the key performance parameters. The group order book has grown significantly and now stands at the record \$7.3 billion, one of the largest in the sector and the frame agreement of 2,000 MW are on top of this. The new order intakes during the last three months is over 2,000 MW. Our gross margins were maintained at 32% irrespective of the pricing pressures. For a second quarter in a row, we posted a positive EBIT and EBITDA. The notional Forex impacted our bottom-line significantly. We believe our strategy is sound and starting to delivering the best. In brief, there is a focus on emerging markets like India, Brazil, China, South Africa and Mexico and through the REpower focusing on select matured European market onshore and offshore. With REpower offshore technology leaderships, we are now well-positioned to exploit the strong growth in the offshore market.

I said in our last earning call that I believe that the worst was over. Our results are evidence of this. All said, challenge in certain geography, US and certain parts of the Europe remain. Hence, our excitement about the countries which are now delivering the real growth for us including the growing markets we are seeing here in India.

Now, I will be very happy to take any questions from you. Thanks.

Moderator

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Venugopal Garre from Credit Suisse. Please go ahead.

- Venugopal Garre** Sir, I just had two questions. One, if you could outline towards the current orders in hand in terms of delivery schedule, especially for the international orders?
- Robin Banerjee** Most of the orders in hand who have deliveries during the next financial year except for one, in fact, that is the domestic order, so most of the orders in hand we have in the international market are for delivering in the next financial year unless however, the customer postpones the projects by a few months.
- Venugopal Garre** Okay. And secondly, I just want to understand, the 1,000 MW order which we got from Caparo Energy, typically, since it is a large size project that is a reason why I am asking this. Is this a project which is financially close to the extent of 1,000 MW or is it going to be financially closed over a period of time?
- Tulsi Tanti** I think all 1,000 MW; the financial closure is yet not completed. The part of the projects is completed based on some of the sites we offer, but periodically, every quarter, we will offer the sites and based on that the financial closure will happen.
- Venugopal Garre** Okay. Thank you so much, sir.
- Moderator** Thank you. Next question is from Venkatesh B from Citi. Please go ahead.
- Venkatesh B** Sir, congratulations on the Caparo Group order, the Martifer order, and congratulations for almost doubling your order backlog over the last nine months. Now, as Venugopal asked previously, you mean basically 954 MW of the export order backlog the entire thing should happen in FY12, right? There is no delivery in the fourth quarter?
- Samir** Venkatesh, this is Samir here. From the total order book of 2600 basically, 1400 to 1450 will happen in FY12 which includes 700 of India and the balance of the international orders and in FY13, 500 will happen from India, that is the Caparo one, so roughly, about 700 MW will happen in the current quarter. So some part of the international order book will be serviced in the current Quarter too.
- Venkatesh B** Okay. I am a little confused; the Caparo order is in the domestic order backlog, right?
- Samir** Yeah, yeah, of course.
- Venkatesh B** So 500 MW goes in March...?
- Samir** FY13.

- Venkatesh B** 500 in FY13 and 500 in FY12?
- Samir** Yeah.
- Venkatesh B** Out of this 954 MW export, there is nothing in the fourth quarter. Everything is in the next two years, right?
- Robin Banerjee** No, that is not true. There is some order
- Tulsi Tanti** 40 MW is going in Q4.
- Venkatesh B** Okay. And 954 MW if you remove 40 MW you get 914 MW, 914 MW how much is due in FY12?
- Robin Banerjee** Actually, as I said little earlier, the orders are for the next financial year unless the customer postpones the project by a few quarters or a few months. But these are live, current orders for delivery next financial year. Unlike Caparo, where the contract says that it is broken up into two parts; one for year one, one for year two.
- Venkatesh B** Okay. Sir, you have done a very good job on the order booking side. Now, if I look at your nine months wind turbine profits without including the interest cost on the acquisition, your profits in the nine months are at 11.8 billion of losses. Now if I knock out the Forex fluctuations which are there, then Rs. 9.9 billion of losses is what you have made in the nine months. Your working capital at the start of the year was around Rs.51 billion, it has gone to Rs.52 billion which means working capital has gone up. Now, if we expect very good sales next year, whatever profits you make, will go into funding the working capital increase which will happen because you are doing good sales next year. Now, that means at the end of FY12, when we have to come and service the FCCBs of around USD690 million and then the debt repayment starts, it does not look like the business can generate that amount of money to go about servicing. So, it looks like next year, we definitely need to raise money and that too not a small amount of money it could be in the tune of around almost \$700-800 million. What are your plans regarding the same?
- Robin Banerjee** Two parts to your question. One is you have calculated what is our so-called normalized loss and the second is a working capital reduction. Just to set the matter correct, our net working capital reduction over the last 12 months has gone down from 5,300 crores to 4,400 crores. So actually, our working capital has gone down by 900 crores. I am happy to give you the details later but I believe that these figures are already in the investor presentation. Having said that, the business as you can see in Q3, if you take out the

notional Forex loss, it is almost at a breakeven point. So, we are starting to see business generating profits at EBIT and EBITDA levels, already the profits have been generated. And we still have 4,500 crores of working capital in our business which can be extracted to a substantial extent so we believe.

Venkatesh B Okay. Sir, the reason I was telling this is because your presentation says that 31 December '09, your net working capital was around 5,179 crores, as of the current December in quarter it is 5,224 crores, so I do not know if I am missing something, how does....

Robin Banerjee I think you are looking wind debtor, you should look at the consolidated working capital, Venkatesh. Maybe you have a different figure, I think you should see, Page 30 indeed it shows 5,753 on 31st December 2009, it has gone down to 4,449 of 31st of December 2010. You can check the figures once again. The figures have gone down.

Venkatesh B Okay sir, my next question is in nine months in the wind turbine business that is Suzlon wind turbine business, what has been your freight cost which has been included in the other expenses?

Robin Banerjee Samir, do you want to give the information?

Samir Venkatesh, that is about 146 crores.

Venkatesh B Secondly, last year we had around 170 crores of consultancy charges which we paid. Now, was this entire amount booked in the fourth quarter of last year?

Robin Banerjee 170 crores, Venkatesh, from where you did get this information, because....?

Venkatesh B Mentioned in the conference call, when we had asked a question, that in FY10, you were asked on a breakdown of the other expenses, so that time it was said 170 crores was the consultancy charges. The reason I am asking this question is because this year again do we have similar consultancy charges or we will have savings on those front? Because we do not have those charges.

Samir If you look at the FY10 consultancy charges, basically, you are right. Now, in the current nine months, it is 133 crores. It has gone down substantially.

Venkatesh B Okay. Fine my last question is on the US sales. If you see for the first nine months of the year, your order backlog has pretty much remained stagnant and it looks like there have been no deliveries to the US. Who are these clients whose orders you have been holding

and has there been significant pushback from these clients? Around 246 MW is the backlog.

Tulsi Tanti The US customer, mainly, it is a delay because they are looking for the right PPA and once they will get the right PPA I think deliveries will be there. Because against that order, there is a good amount of advance payment that the customer has paid. So that is a live order. Only just missing is that PPA and once that will be cleared which we are expecting in the next financial year it will be clear and then delivery will happen.

Venkatesh B Okay. And the order backlog by the way does not include the EUFER framework contact, no sir?

Tulsi Tanti No, no. It does not. That is out of the 7.3 billion order book. Three orders are not included in this. One is the Canada 954 is there order, which is out of that 300 is included, rest is not included. Second, Spain is not included. The third is the offshore project is there which is a 1,500 MW, out of that only 300 MW is included; rest of it is not included.

Venkatesh B Why is this framework not converting into a firm order, sir and what is the update on the Spain order?

Tulsi Tanti No, the normal cycle is there. The first, we have to enter in a frame agreement, then based on the certain customers and the milestone, they will convert either full, or piece into the firm order and then they are paying the some of the advance money. As per our company policy, once we get the advance money on particular size of the order, then we are converting into the firm order. That is our internal process.

Venkatesh B Okay. Have you got any advance from Caparo Energy sir yet?

Tulsi Tanti Yes.

Venkatesh B Thank you very much sir and all the very best.

Moderator Thank you. The next question is from Laxminarayana Ganti from BNP Paribas. Please go ahead.

Laxminarayana Ganti Would you like to give a guidance on Suzlon wind's EBITDA margins for the next year? That is number one. Secondly, we have seen a slight drop in per MW realizations for Suzlon wind. Obviously, with India dominating, we thought they would be better. Now, the reason for the question is given the rise in raw material prices, though I suspect

freight would be under check, because most of the deliveries are in India, just wanted to get your sense on what margins you will be making in fiscal '12 because we do suspect some price erosion in India?

Robin Banerjee

I will explain to you. About the EBITDA margin guidance, we will not be able to provide the guidance for the future. So, that we will not be able to answer. As regards per MW realization is concerned, it would vary from quarter-to-quarter because in our sales realization, there is something called 'project income' which gets included and therefore the sales value goes up and the MW remains what it is, the per MW may change from time-to-time, however, you should look at a gross profit margin which has been increasing since Q1, our consolidated gross profit margin was 25.9%, in Q1, it is 31.6%, it is almost 32%. So from 26% to 32% in three quarters, within the last six months, our gross profit has enhanced. So that is the testimony that our business is doing well and of course, our realizations are good and the cost of manufacturing is also coming down.

Laxminarayana Ganti

Okay. Second, a follow-up question on the working capital. Somebody else asked this question earlier. In the Suzlon wind business, we actually do not see significant reduction in a) inventories and b) receivables. And we are aware that a large customers in the US has heldup some money, so if you could give us a sense of why the inventory level is not going down. We saw that actually through the cycle from December '09 or even earlier also, the inventory is staying..... both on inventories and receivables.

Robin Banerjee

Yes, I will explain to you. As far as inventory is concerned, it is basically it is a ramping up, Q4 is our heaviest and the most busiest of the quarters, so obviously, we need to ramp up our inventory. So, if you look at quarter-after-quarter inventory for Suzlon wind, it was around 2800 in March, then, it went up slightly to 3000 in September end and now it has gone up slightly to 3200, this is very short-term inventory and large portion of that will get converted into Q4. It is a normal thing that inventory gets ramped up, as the volume goes up and the financial year end comes to a closure.

Laxminarayana Ganti

And on the receivables?

Robin Banerjee

In the receivable front, it has gone down from 31st of March from 4700 to 4180, so it has gone down. Yes, over the last three months from September it has gone up from 3600 to 4200 that is because of higher sales during Q3, which of course should get realized in Q4. Again, these are seasonal, all our debtors are good including the debtors, which you just talked about Edison Mission which is also a good debtor, fully secured, fully backed by the parent, parent guarantee and all that, so, it is all secured and of course it is based on last quarter and last few months sales.

- Laxminarayana Ganti** Okay. Thank you sir.
- Moderator** Thank you. The next question is from Rajesh Panjwani from CLSA. Please go ahead.
- Rajesh Panjwani** Can you give us some idea about the realization of the Caparo Energy orders? Because of the size of the order, is there any inherent discount in that?
- Tulsi Tanti** I think Rajesh; we are not giving irrespective of the size. It should be other way around, because the volume cannot be possible in such a short time, such a big delivery. So we are not giving any discount on such a size of the project, number one. \$1.29 billion, it is approximately per MW is 5.77 per MW average price is there. And it will be increased also based on the certain escalation clause after the 500 MW delivery.
- Rajesh Panjwani** Okay. And this 5.77 MW is for a project basis or this is just for turbine?
- Tulsi Tanti** No, we are selling in India, it's a turnkey.
- Rajesh Panjwani** Fine. Sir, what is your expectation of Suzlon's market share this year and next year in India?
- Tulsi Tanti** There is a two way of calculation. Normally, we are calculating on a financial year basis, but whatever the other published information is calendar year basis, so there some difference will be there. So, we are expecting in a current financial year based on our forecast point of view. We will maintain somewhere close to the 50%, but maybe on calendar year basis it will be lower.
- Rajesh Panjwani** And do you expect to sustain in the coming year?
- Tulsi Tanti** Absolutely, yes. Maybe better.
- Rajesh Panjwani** Maybe better? Okay. Sir, recently, you won REpower won this case in about breaking the JV with Essar Group, can REpower now sign a JV with you or anyone else to set up a facility in India and is something like that on cards?
- Tulsi Tanti** I think Rajesh in this area it is quite subjudice matter I think we will not be able to comment on this subject.
- Rajesh Panjwani** Okay, sir and what is your outlook on your interest rates you are paying on your debt going forward in the next year thereafter?

- Robin Banerjee** See, there is a market rate increase that perhaps will affect us, otherwise, we do not see an inherent increase for us, but if market goes up it might go up. But our strategy is to bring it down and then we would be working on how to bring down the effective interest cost for the organization is concerned
- Rajesh Panjwani** Because market interest rates seem to have gone up, but so far in your numbers it doesn't appear that your interest rates have actually gone up, so is it that, that could impact with the delay?
- Tulsi Tanti** No, Rajesh, it also depends highly on working capital utilization so we are continuously optimizing the reduction on that and some of the debt optimization so that we are maintaining to not to increase the costs and we are trying to further optimize and to reduce.
- Rajesh Panjwani** Okay, and then on the cost side itself now you seem to have managed your cost pretty well in the first nine months, is there further scope for savings there? And also I would like to know how much of this cost reduction we are seeing because of the transportation cost?
- Tulsi Tanti** I think cost is a three different area is there; one is the material cost, we are heavily focusing on optimizing through the value engineering options and that technology and supply chain is continuously optimizing and reducing. Now we also feel we are quite comfortable to compete in China with the Chinese market price also. Same time in other market we feel we are quite lowest cost producer company in a material cost area. The second is mainly the fixed cost area. We are closely watching and we are optimizing continuously and reducing because lot of things we are consolidating some of the cost area so that's giving good comfort on going forward. Now the third is interest cost we have already discussed on that, so these are the overall optimization is there.
- Samir** Rajesh, if you look at the three quarters of the last year the total freight charges were about Rs.219 crores with the MW being 810 and this year first nine months it is about Rs.146 crores with the MW being 1030, so the freight cost is coming down primarily because there is a lot of shift in the mix of the market India is getting more share. So on a per megawatt basis of course it is coming down substantially.
- Rajesh Panjwani** Okay and my last question is, with the rising metal prices, most of the other engineering companies are actually guiding for increase in material cost as a percentage of sales going forward. What is your feeling at this point of time?

- Tulsi Tanti** You are absolutely right, Rajesh. Currently, let us take steel prices, one month before it is \$600 per tonne and now it's \$700 per tonne, particularly, in our segment i.e. plates so that is affecting some of the cost, but at the same time we are focusing and optimizing the overall cost of the material cost so that we are managing within that. Top of that we are bringing two new products S95 and S97, that is giving more energy generation approximately, its range between 12% to 18% range is there, so it's a higher energy output and there is not much cost increase, there is only marginal cost increase but cost per kWh its becoming very, very competitive in that, so we can optimize there. On top of that whatever the steel we are using and whatever tower we are consuming we have optimized the new design and everything. That has reduced some weight on the tower part but the steel prices increasing so we can offset by these weight reduction. And some of the contracts which is longer-terms there is always some escalation clause there, it is affecting us in steel only on the tower price area, for other component not much effect is there, because the other components are more high value component is there, so we are putting some escalation clause if delivery is more than six months.
- Rajesh Panjwani** Okay, great sir, thanks a lot and best wishes.
- Moderator** Thank you. The next question is from Sumit Kishore from JP Morgan. Please go ahead
- Sumit Kishore** I have a couple of questions; for the nine month period, the employee cost in the wind business is up marginally about 2% Y-o-Y given weak sales in the developed market and return of focus to India in the next fiscal, is there potential to reduce employee cost on a Y-o-Y basis in FY12?
- Tulsi Tanti** Not really, marginally, reduction will come, but we have to understand nearly 11,000 MW we are operating globally, so that is the major manpower cost. Sales and marketing anyway we will require in a continuous basis so we have optimized lot of manpower cost but marginally, it will improve.
- Robin Banerjee** Sumit, one more information, if you look at from Q3 to Q2, the staff cost of Suzlon Wind, I presume that's what you are asking, has actually gone down in rupees crores term from 238 crores to 219 crores, so we are also looking at how rupees crores outlay itself can come down, so every effort is on to do so.
- Sumit Kishore** Okay, my second question is on sales realization once again, both in India and China now which account for roughly 90% of your sales, it seems that sales realizations in the wind business for about 54.5 million per MW in the December quarter also, so is there a reason to believe that realizations are coming down in India or is it simply a factor of project revenue being booked in a lower way in the first nine months?

- Tulsi Tanti** I think this per megawatt is somehow very variable based on the product mix also, so some influence is there. And China scope is different, India scope is different. So it is not comparable between both the countries. But if you ask me today going forward the per MW price whatever the average is there it will not go down, it will be little bit higher based on the next generation of the machines per MW realization will be higher.
- Sumit Kishore** So you are saying it will be higher than 55 million per MW that it has been for the first nine months?
- Tulsi Tanti** Yeah, whatever the current nine months is there, going forward...
- Robin Banerjee** It is actually 5.96 crores for the first nine months.
- Sumit Kishore** For the December quarter, sorry, 54.5 for the December quarter.
- Tulsi Tanti** Okay, compared to that it will be higher based on the new product mix.
- Sumit Kishore** Okay, my follow-up question on this is that gross margin has been at about Rs. 19.7 million per MW in nine months FY11. Now again given the commodity price inflation and pressures of competition that you may face in FY12, at gross margin level would 2 crore per megawatt be sustainable?
- Tulsi Tanti** Our objective is very clear to maintain that by three ways; one, pressure is the material price issues, second is the pricing pressure. But what best part is that we are optimizing our product overall cost and bringing the new product which is very competitive in nature is there, so that's why we are comfortable feeling we are able to maintain that.
- Sumit Kishore** Okay, thank you so much sir.
- Moderator** Thank you. The next question is from Arindham Basu from Barclays Capital, please go ahead
- Arindham Basu** A few questions; first, 246 MW order backlog that you have in the US. Do you think there is any risk that this could be deferred given the ITC cash grant has been extended by a year and so, if your customer is not able to secure a PPA easily, and have the option would just push it back at least by 12 months and still get the 30% cash grant?
- Tulsi Tanti** I think based on the feedback from the customer, only the constraint for the PPA is there and now we are expecting the PPA feasibility is there from their end, but today we don't

have a clarity, but we have a plan for the next year delivery, it is feasible because this order is firm and plus it is backed by the good advance also.

Arindham Basu Okay, great. Then the S97, when does this go into serial production and if you could also tell me what part of your 2.5 GW of order backlog is actually going to be the S97?

Tulsi Tanti First, we are introducing in the month of April 2011, it is S95 in Indian market it will be start series delivery and approximately nearly October 2011 the series delivery will start of S97.

Arindham Basu Okay and can you comment on what part of your order backlog are these new turbines combined?

Tulsi Tanti That means how many MW out of these new machines?

Arindham Basu Yeah.

Samir I think we cannot provide the breakup on this right now, we will give you later.

Arindham Basu Okay, the only reason I am trying to ask that is because it seems that one of your...

Samir In cases where like Caparo, if you read the press release, it is a mix of the old machines and the new machines, so it is not finalized with the client, so it is very difficult for us to give you that data.

Arindham Basu Okay, okay. From what I understand one of your best approaches to deal with reducing or pricing pressure from your customers but also rising material expenses is that you are getting these new turbines in the market which should reduce your material cost and also get better pricing per megawatt. So I am trying to just get to what part of your order backlog can actually have that kind of gross margin stabilization from these new turbines?

Samir I agree with you but the point is that we are not able to provide you that data at this point of time that is the problem.

Arindham Basu Okay, okay, that's fine, no problem. And then in China where is your production capacity right now?

Tulsi Tanti So China, total production capacity we have 600 MW and we are able to ramp up by adding only the rotor plate additional capacity, so currently 600 is there. And current

financial year we are using somewhere 60% utilization is there and the next year our plan is to utilize the full capacity.

Arindham Basu Okay, that is great. And any update on the REpower acquisition, is there any development on that end and the remaining stake?

Tulsi Tanti I think that is very clear public information. Current, our ownership is 91% is there, beyond that based on the regulation we are not able to comment.

Arindham Basu Okay, okay, great, thanks a lot. Thanks for answering my questions.

Moderator Thank you. The next question is from Anuj Upadhyay from Brics Securities, please go ahead

Manoj Bagesar Its Manoj Bagesar here. My question relates to your Brazilian market. The company has recently won 218 MW from Martifer does this 218 MW form a part of 1.8 GW auction, which was delivered in December 2009?

Tulsi Tanti Yeah, this is part of the last auction.

Manoj Bagesar Last in the sense, August 2010 or December 2009?

Tulsi Tanti Martifer is 2009.

Manoj Bagesar Okay. So the entire 1.8 GW orders have been delivered or just a partial delivery has begun and the company is able to won 218 MW of this?

Tulsi Tanti 1.8 GW is a total auction was happened. Out of this, this auction was available for the Martifer, 218, that is only what we are delivering.

Manoj Bagesar Okay. And what about the second auction?

Tulsi Tanti From the second auction, some of the customers' discussions are going on and we are expecting some order out of it.

Manoj Bagesar Okay. I think the third auction will be beginning by what time, sir?

Tulsi Tanti The third auction is in August 2011. And currently, we are quite advanced stage with so many our existing and potential new customers because at the very beginning we have to connect our side, because customer has to do the auction based on our turbine, offer and

everything. And once they win the auction, then they will start discussing the finalizing the contract.

Manoj Bagesar Okay. What is the total capacity for the third auction?

Tulsi Tanti We are expecting at least 2 GW plus something.

Manoj Bagesar So 2 GW for the third, 2 GW for the second and 1.8 GW in the first one. Of this total, around 5.8 GW what is our market that we are expecting out here? Because anyways we have 50% capacity, we would not be that bullish, but still any numbers you want to comment on to this?

Tulsi Tanti No, I think Brazil market will remain very strong, because we have to understand that strategically, Brazil is extremely dependent on hydro energy and currently 70-80 GW load base is there and most of these coming nearly 80% plus from the hydro. And wind is complementing during the season point of view on a quarter-by-quarter so that is why it is a huge complementary strength is there. Second is, the PPA price whatever is there, 130 BRL, it is close to the merchant power rate in the Brazilian market so government perspective also they are very comfortable and wind resource is more than 160 GW, so we strongly see the market growth rapidly increase and we are well-positioned and we have very strong relationships with so many customers and the nature of the market is equal to the Indian market.

Manoj Bagesar But any percentage share that you want to mention?

Tulsi Tanti We will keep our leadership position. That should be must.

Manoj Bagesar Okay. Fine. That is it. Thank you sir.

Moderator Thank you. The next question is from Ankush Mahajan from KR Choksey. Please go ahead.

Ankush Mahajan Can you give us a breakup for these operating expenses for the third quarter and our endeavour to decrease this other operating expenses?

Samir If you look at the operating expenses, they have gone down from 559 for the previous year to 512 in the current quarter and some of the items which were reduced I will give you. Traveling has gone down from 32 to 22, consultancy has gone down from 54 to 44, and bank charges have gone down from 71 to 35. These are the major items which have

been reduced. And freight has gone down from 107 to about 73. These are the major items.

Ankush Mahajan And in future, our endeavour would be to decrease the charges?

Samir Yeah, as we go along.

Ankush Mahajan Sir, what is our planning for the repayment of loan in FY12?

Robin Banerjee Ankush, the repayment of loan will come from business results and also from working capital reduction, so we are hopeful that both will work and we see no challenge in doing so.

Ankush Mahajan So, we can consider a deduction from the working capital or internal accruals?

Robin Banerjee That is correct.

Ankush Mahajan Okay. Thank you sir.

Moderator Thank you. The next question is from Srinivas Rao from HDFC Mutual Fund. Please go ahead.

Srinivas Rao My first question is on the Indian market size. Can you tell me what is the likely size in FY11 and for FY12?

Tulsi Tanti The current financial year we are expecting nearly 2,200 MW somewhere the range will be 100 MW plus/minus and the next financial year is based on the certain momentum and the growth in the demand and most of the states are very active, so we are expecting somewhere 3500 MW size market, 100 MW plus/minus.

Srinivas Rao Okay. And apart from Suzlon, according to you who is the most aggressive or active in Indian market right now?

Tulsi Tanti I think after the Suzlon, there are so many players there. Second, we can say most active is Enercon which has so many years with us is thereand after that I think so many small and medium companies are there.

Srinivas Rao Okay. Sir, my next question is on the REpower. Can you tell us what is the current status of integration in terms of sourcing in terms of cash flows or in terms of businesses?

Tulsi Tanti

Regarding the Suzlon and REpower, as you know both are quite independent organization as per certain minority shareholders interest in both the companies. But we are doing enormous synergy benefits which we can able to explore. A is the RETC where both companies have a joint venture. We are developing the next generation of the technology and some of the key technological feature we are developing which is a joint development. Last 24 months, this joint venture is working very well and it is creating some of the new innovative concept and product. So that is one. Second is, we cannot do the joint sourcing but we are leveraging the relationship with both side of the vendors and we are optimizing both side of the procurement cost. So that is also going very well. Third, we are sharing the best practices on process and manufacturing areas and we supporting to REpower some of the component developments which we are doing in Suzlon and we have started supplying like rotor blades we are supplying and now we are started supplying the casting materials from SE Forge and also we have started supplying the generators and other electrical equipments and panels and other things. So the capacity utilization of Suzlon is increasing by that way. At the same time REpower can get some price advantage and benefit and it is going very well. The third area, it is coming out more on a market place point of view. There are two important agreements we have done. All the Suzlon market sales teams are able to sell the REpower machines through the agency agreement. So we have started in USA and Australian market team can able to sell Suzlon and REpower both the machines. So we can increase the sales of the REpower. Second we recently have the final stage that is the distribution agreement, in wherever the emerging market, where Suzlon is operating where the REpower is giving turbine on a distribution point of view so that we are able to sell on those market which we are starting for the next financial year. So both the companies are getting complementary strength and a lot of competitive edge is increasing. And that's why we are continuously improving the gross profit margin and there is still a good room to improve further.

Srinivas Rao

Sir what kind of exports we would have done to REpower from Suzlon in this last quarter or in the nine months as a sourcing for REpower?

Tulsi Tanti

The REpower purchase from Suzlon?

Srinivas Rao

Yeah.

Tulsi Tanti

Yeah I think that information is not handy. But Samir can give you later on.

Srinivas Rao

Okay sir, thank you and all the best.

- Moderator** Thank you. The next question is from Akshayan Thakkar from Enam Securities. Please go ahead
- Akshayan Thakkar** Firstly, my congratulations on a good set of numbers. Most of my questions have been answered. I just have one question, of the international order backlog could you just break it out between what is to be delivered in the fourth quarter? What is to be delivered in FY12 and beyond that?
- Tulsi Tanti** I think quarter four is nearly 120 MW. And rest of it is in the next financial year.
- Akshayan Thakkar** And my second question was on working capital. Robin was making a point that inventory levels are building up to service the fourth quarter but in the fourth quarter wouldn't correspondingly the debtor go up and hence the overall working capital not come down and any view, any guidance, any number that you would like to throw for next year would you like to bring down your working capital via number or should we just take it as flat?
- Tulsi Tanti** Sorry just to correct quarter four delivery of the international market, total is 220 MW.
- Robin Banerjee** Coming back to you working capital question, while inventories will come down in quarter four end, debtors might go up. So there should not be any corresponding massive increase or decrease. So that is what will happen in quarter four. And of course as our intentions for future is to extract more value for working capital, our effort to extract value from working capital will continue.
- Akshayan Thakkar** Okay, thank you sir.
- Moderator** Thank you. The next question is from Sunil Gupta from Morgan Stanley. Please go ahead
- Sunil Gupta** I wanted to understand your future product roadmap, you were earlier talking about S95 and S97, do you have plans beyond that, beyond 2.1 MW.
- Tulsi Tanti** As you know that the product technology development cycle always a 3 years plan is required. So we have already for the further next generation of the product development. But this moment we cannot able to share with you. But answer is yes. But if you take the Suzlon and REpower both, S95 and S97 is 2 MW platform specially designed for the low wind class area in the high energy output performance. With the same time the variable speed and the DFIG technology with this state of the art concept. And also REpower has introduced 3.2MW and 3.4MW again 3.2MW is a class 3 machine for the low wind site particularly for the European market and most of the market demand and need is 2

megawatt is there. Bigger size machines in market are not growing much. Most important is cost per KWh. Its reduction is increasing so that currently we are focusing to optimize the existing platform with the high energy output with the low cost. And next machine development is in the pipeline which will be introduced in the market in 2013 which is bigger than 2 MW machines.

Sunil Gupta

And that's being jointly developed by Suzlon and REpower. Its not going to be a purely REpower design?

Tulsi Tanti

No, we have to understand that both the market is quite different. If we want to sell in off shore and European market, the product requirements and other things are different. If you are looking at emerging market like India, China, Brazil, so those products requirement is also quite different is there. So the REpower is developing the product and focusing more on the European requirement but that product can be sellable in other market it does not mean cannot sell but the main focus is European market. When Suzlon is focusing and its product strategy is more on emerging market requirement keeping in mind.

Sunil Gupta

And you mentioned earlier as part of your strategy you are refocusing on China and that's a business that's growing very nicely, what kind of pricing are you able to achieve in china and how does it compare with some of the domestic competitors there?

Tulsi Tanti

I think the current China market price averaged is 4000 RMB per KW. We have brought the 2 MW platforms. It is a 2.25 MW platform. We have introduced for the next financial year and of that 80% is locally developed and local supply chain and everything and keeping in mind, on the value engineering need of the domestic customers point of view. And that product we are just 5% is the higher price compared to the local Chinese company price. But at the same time we are following the GL and German standards in the product. So the reliability and quality for the 20 years is intact irrespective of the reduction of the price and other things. Where the Chinese companies are following their local standards where we are following the German standards of the reliability and quality. That's the difference and the customer is willing to pay at least 5 to 10% better price based on the high reliability and the high availability performance. And they are good energy performance based on whatever 1000 megawatt fleets are running in China. So the customers are gradually appreciating and they like the product very much.

Sunil Gupta

And with this kind of cost structure and pricing that you are pursuing in China are you able to achieve an EBITDA margin similar to what you achieve in domestic Indian business.

Tulsi Tanti Naturally Indian business in a good profitable market and we will not be able to achieve the same. The China market is lower than the Indian market. But the best part is that the scope of the China market is just equipment supply. So it is only the manufacturing base that we have to use there is no EPC and no other infrastructure development and other things. So that is quite reasonably good for us.

Sunil Gupta And it seems like in China you are able to achieve a very good balance of low cost and very high reliability and very good power through-put. If you are to bring some of those component supply chain to India or some of the manufacturing processes to India, is there an opportunity for you to change your market share it has been around 50% for many years. If the market is growing again, is there anything you could do to take this share higher?

Tulsi Tanti First of all our objective in Indian markets will rapidly grow. If the major constraint is in the execution part, and through the execution constraint, if you are able to maintain 50% market share that will be our highest priority. We are not looking to increase much more on that. But at the same time we are focusing to improve the margin that can be better strategy than encouraging more market share in Indian market. And supply chain point of view we have a strong supply chain in India and China both. We are continuously optimizing which component is very competitive in China market which component in India and that value chain we are adding in both side of manufacturing so that we can get the overall margin improvement focus is higher in both the markets.

Robin Banerjee Sunil, the best practice in between the two countries are always being shared seamlessly.

Sunil Gupta And the other market you are focusing on is of course Brazil where you have a very strong position but we have also been watching some the local content requirements that the government has asked for and some of the domestic banks financing which sometimes insists on local content, how are you going to deal with that? Will you continue to ship everything in there and pay higher financing cost or do you have a different strategy to deal with that market?

Tulsi Tanti I think not much difficulty is there because most of the countries are preferred to some manufacturing base from the local. What they are putting on a total installed project cost basis. They normally expect nearly 50-60 % value they normally expect locally. So what is our clear strategy on that part a) tower anyway we hope to procure from the local and some of the EPC, BOP cost anyway its from the local. So that's some percentage it is taken care by that. And based on the size of the market we are producing the rotor blades in the domestic markets. So that we are closer to the sites and logistics cost can be

optimized and production cost is not much impacted compared to the shipping cost. So the rotor blade we are producing depends on the size like US production facility we have and now we are building the rotor blade production facility in Brazil also over the next financial year it is going to be there. So by that way we can maintain the localizations requirements and the local finance need point of view. Turbine can go from India and that is naturally high value, nearly 60% value is for our sense point of view nacelle is there, so that is going from either India or China.

Sunil Gupta

And finally a last question from me. I would be very interested in hearing your views about the US market which has been stagnant for a while and you mentioned that you have some customers who are struggling to sign reasonable power purchase agreement. So what do you think is likely to happen to US market in 2011 and 2012? And how are you positioning for that scenario?

Tulsi Tanti

I think the US market is mainly because of the lower gas price and not an increase of energy demand and other things and there is no mandatory requirement for the utility point of view for the RPS mainly for the federal RPS point of view. So because of that we have to remain and become more competitive and then we can sell. So we have come out with a very strong strategy for the next financial year because one side in some of the market we have a good business but we don't want to lose whatever the business is available in USA. So we are bringing this new 2 product is a S95 and S97. The customers are very interested in that and we are bringing some of the projects on a turnkey basis solution to optimizing the complete project cost in such a competitive way by identifying some good windy site and other things. So that we can make the project very commercially viable and lucrative. So that is why we are expecting some business we will extract and as you know ITC is up to December 2011 is available. So some good momentum is there small and medium investor point of view to capture the 30% grant benefit and other things. So we are targeting small and medium sized project rather than the larger utility scale project. So based on that we may get some good business from the US market. The size of the market for 2011 will not be more than 5000 MW. It will not go beyond that and 2012 we are expecting it will be somewhere 8000 to 9000 MW because of the ITC benefit. At the same time, also very important the Canada market is growing very well. I think the last quarter we already announced one very good 300 MW order in Canada but Ontario State has come out with the good policy framework and regime. Our team US team is also working in Canada market, simultaneously. With the same cost structure we can manage Canada operation from the USA because we are very close. So we are expecting some good business will come from Canada in the next financial year.

- Sunil Gupta** Thank you very much and all the best for the future.
- Moderator** Thank you. The next question is from Kamlesh Ratadia from Enam holdings. Please go ahead.
- Kamlesh Ratadia** I have couple of questions. Firstly in terms of the order backlog that you have currently, I am talking about Suzlon in India, 2578 megawatt, of this about 500 if I deduct which is executable FY13 and 1400 if you deduct for FY12, then the balance order book is basically about 668 megawatt which is executable in Q4 of this year. So I just wanted to understand in Q4 we are targeting 700 megawatt, that's what Samir mentioned in the call, so the remaining is likely to come from India?
- Samir** Kamlesh, this order book, though it is stated for 4th of February, it also has certain RR book during January also because you cannot do that during the mid month and mid quarter. So there will be some megawatt which is booked in January which also gets reflected in RR by the end of the quarter. About 20-30 MW difference, which I was saying, this is the probable number.
- Kamlesh Ratadia** Okay so the 700 megawatt that we are targeting is largely to come from India which is going to be close to about 480 megawatt in Q4.
- Samir** 495 is India.
- Kamlesh Ratadia** 495 is what you are looking at.
- Samir** And then you add some more for India.
- Kamlesh Ratadia** No. Let us look at it this way, India you are doing international is 220 megawatt in Q4, what will be the India number. So that is 220-700.
- Samir** 480-485.
- Kamlesh Ratadia** 480-485. Is that a reasonable number to go by?
- Samir** Yes.
- Kamlesh Ratadia** And the gross margin which has declined below 2 crores per megawatt is it likely to move up back to 2 crores per megawatt or it is likely to remain in this range?

- Robin Banerjee** Gross margin as I said a little earlier, this should be looked at from percentage gross profit basis. But we do not believe that the number would change significantly.
- Kamlesh Ratadia** Assuming we don't look at it, on a percentage basis and look at it on a per megawatt basis, this should remain at around 2 crores per megawatt.
- Robin Banerjee** It shouldn't change much.
- Kamlesh Ratadia** Okay. Thank you.
- Moderator** Thank you. The next question is from Bhavin Vitlani from Enam. Please go ahead.
- Bhavin Vitlani** In the last analyst meet you highlighted that grid connected infrastructure is a biggest bottleneck for India. Could you help quantify given the existing infrastructure which Suzlon is currently working on. What is the megawatt of delivery which Suzlon can help in India for the fiscal year 12?
- Tulsi Tanti** Already earlier I mentioned the execution is the key bottleneck these days. Demand of the energy and demand of the wind projects is quite high. So we believe in the next financial year, India is able to do 3500 megawatt based on this constraint. Mainly it's a grid infrastructure and grid interconnection point of view so the 3,500 MW, 100 megawatt plus minus.
- Bhavin Vitlani** But my question was specific to Suzlon. Given the grid connected infrastructure which Suzlon has or is currently working on, what is megawatt of delivery which Suzlon can achieve for fiscal year 12?
- Tulsi Tanti** As you know we are not giving the guidance. So I cannot comment on that. But the requirement of the investment is continued in the grid infrastructure that we are doing and we are building the infrastructure based on our business plan point of view. We feel comfortable as per our plan we will be able to achieve and deliver but I am not able to give the guidance.
- Bhavin Vitlani** My second question is pertaining to the earlier question with respect to cost reduction. If I heard right, is it that last proportion of the cost reduction activities are now over and further reduction of cost from current level of activity is difficult?
- Robin Banerjee** The cost reduction efforts are continuing. In fact what has happened is some items identified earlier should kick in later. So we still believe that we should be able to extract

value from the exercises which we have done so far. And we are continuing to do further efforts to reduce cost further.

Bhavin Vitlani Could you elaborate further in detail citing examples?

Robin Banerjee That will be very difficult to provide you Bhavin. Because those are very specific to our organization and we will have to share our internal details. But the taste of the pudding is in the eating so hopefully we should be able to see that flowing in our results in the quarters to come.

Bhavin Vitlani My next question pertains to the Chinese market. We hear that a significant price correction is actually undergoing in the Chinese wind turbine market as significant proportion of the installed capacity is lying idle and new installation is seeing a kind of slow down. In the event what is your outlook on the Chinese market?

Robin Banerjee As it stands, China continues to be bullish while yes there are instances where there are non grid connected chinese installations but there orders are placed generally by the government owned power companies and they are continuing to buy from the market and it is continuing to be buoyant as it stands. So we do not foresee any slowing down in that area whatsoever.

Bhavin Vitlani And about the pricing pressure in China?

Tulsi Tanti Yes. There is pricing pressure. Prices have got adjusted in the recent past. As you know we are a local Chinese player. We manufacture there. We employ Chinese employees and we have got a Chinese formula to meet the Chinese market requirements. So we are fine with whatever is happening in the local country.

Bhavin Vitlani My last question is pertaining to the castings and forging in SEForge. Could you share the outlook for the next fiscal? As highlighted earlier that REpower is also likely to scale up outsourcing of casting from India. Could you give specific outlook with respect to ramp up in the production and potential profitability?

Tulsi Tanti As per the current market and other development in particular in SEForge, based on the wind industry's market growth in India we are getting lot of other customers business. More than 50% of the business for SEforges is coming from the non Suzlon customers. We are working for the like Enercon the GE, Gamesa and REpower; other companies are also taking a lot of component and everything development is going on. So we are expecting the next financial year based on the cost structure what we have in SEForge is very interesting for other wind company. The same time we are developing lot of

component for the non wind company also. And that is going very well in that development. Initially it takes a lot of time for component and product development . After that we have to just ramp up the production once the product is stabilized. So this financial year a lot of new components we have developed for so many companies. And that cycle has been doing very well and the next financial year we are expecting the good volume business based on the wind industry's growth also. And also the non-wind company. So SEforge progress is good. And mainly the biggest support we are getting for the forging company all the domestic companies' requirement of the tower and the need lot of flanges and other things, most of the domestic market demand has diverted to the SEForge and that's we are ramping the forging part is also very well going. So overall we see the good growth in a next financial year.

Bhavin Vitlani If not that could you help share that, could SEforge reach 40-50% utilization levels next year?

Tulsi Tanti As per the current number nearly 25-30% is running. And there is a likelihood it will go close to the 40-50% level.

Bhavin Vitlani Thank you and wish you all the best for the future.

Moderator Thank you. Ladies and Gentlemen, we will take one last question from Krishnakant Thakur form Quant Capital. Please go ahead.

Krishnakant Thakur Sir basically couple of questions. One is if you can just highlight the outlook in terms of any manufacturing capacity we are looking to set up next year. So in terms of CapEx outlook for next year as well as how much we have incurred in nine months.

Tulsi Tanti So major CapEx plan is not much required. It's a additional whatever the new product we are developing that the rotor blade mould structures are required because we have to build that and that we treat as a CapEx and the one production facility is in Brazil we have planned but that will not be in the next financial year but last quarter of the financial year investment will start in Brazil.

Krishnakant Thakur And roughly how much have we incurred in nine months?

Robin Banerjee It's a very small amount Krishnakant because we already have all our factories in place. So some balancing equipments here and there. Very small amount, negligible amount.

- Krishnakant Thakur** Right sir. I mean that was what was assumed but if you look at the quarterly run rate for depreciation that has significantly gone up from 60-70 crores odd. Or to around 80-85 crores odd, so that has been I would assume is on a rise.
- Robin Banerjee** That is because some WIPs, capital work in progress which got commissioned during the quarter and therefore depreciation is kicking in. There has been no cash outflow for that.
- Krishnakant Thakur** Got it. Sir my second question was regarding REpower. If you look at the Euro million as well as the rupee million basically the results, the translation loss we can understand but if you can explain on the interest part, ₹ million is the interest outflow for REpower for this quarter but in the rupees million it is close to around 65 crores.
- Robin Banerjee** I presume you are looking at a rupee balance sheet. So there is an acquisition interest which gets charged to because Suzlon energy has acquired on its balance sheet, REpower asset, and therefore a portion of the acquisition interest goes and sits in the REpower balance sheet, from Suzlon perspective which when you see the REpower balance sheet independently in Euro that is not reflected. That is the difference.
- Krishnakant Thakur** Got it. And sir regarding the 2 large orders from the domestic market one is Caparo, which basically maintains a pipeline of 3,000 megawatt as well as Gujarat government MoU that we have signed, any thought process on the same of likely order intake from these two accounts?
- Tulsi Tanti** Can you repeat the question?
- Krishnakant Thakur** Sir Caparo is maintaining a pipeline of 3,000 MW, 1,000MW they have already released, so that is one.
- Tulsi Tanti** No first I just want to clarify. Our agreement between Suzlon and Caparo is only 1,000 megawatt not beyond that.
- Krishnakant Thakur** Sir in terms of initial talks that you must have had with Caparo, regarding remaining 2000 megawatt a year or two down the line.
- Tulsi Tanti** No never we have discussed about Caparo 3,000 MW.
- Krishnakant Thakur** Fine sir. Finally if you look at our WTG revenue by geography, some of the geographies are very small for example, ANZ, the realizations seem to be very different as per our historical as well as an average realization. So just wanted to understand that what could be the scope of work that has caused this much of difference in the realization?

- Tulsi Tanti** In Australia, the realization will always be higher because full turnkey projects that we are offering in Australia market. And as you know, in Australia the project cost is quite high so that is why the realization in Australia will always remain higher.
- Krishnakant Thakur** But it works out roughly around 12-13 crores per megawatt, so would that be the number for that geography?
- Tulsi Tanti** No what is happening, if you see a particular quarter there the project works are going much more and the supply of the megawatt turbine in particular quarter is lower. So the overall per megawatt can go higher because of that.
- Robin Banerjee** But 9 months figure is higher because of the projects which got executed or getting executed in these nine months. For which supplies were made in the previous year or previous quarter. That disbalance can take place from time to time.
- Tulsi Tanti** Project megawatt is higher and supply megawatt is lower during that nine month, because of that.
- Krishnakant Thakur** Okay. And a final thing, on the Gujarat Government MoU that we have signed, any thought process on the same?
- Tulsi Tanti** As you know, every 2 years we have the Gujarat Vibrant event and continuously last 6 years we are doing that development activities because as you know we have to build the pipeline from the point of view of our wind project. So that 1000 megawatt MoU we have signed for the development. It gives us opportunity from the point of view of single window clearance.
- Krishnakant Thakur** But sir in terms of execution, when can we expect or any such timelines?
- Tulsi Tanti** This is a development pipeline MoU, so this will be completed in the next three years that is also our commitment to the government.
- Krishnakant Thakur** Fine sir. That's about it from my side and all the best for the future. Thank you.
- Robin Banerjee** Thanks Krishnakant.
- Moderator** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand over the conference back to Mr. Tulsi Tanti for closing comments.

Tulsi Tanti

Thanks a lot. I wanted to wrap up by making some key points. I believe the group is witnessing the benefit of the cost reduction initiatives and it is a well-positioned to exploit our strengths in the emerging markets and the off-shore market. Our order book and the gross margin are robust and healthy. Our product is delivering the strong performance. Our global turbine fleet of over a 15,000 megawatt is constantly delivering over 97% of availability and our new product development program is on track and seeing a good interest from our customer in a different part of the world. Altogether we have a clear reason for the optimism. Thanks a lot and thanks for your time and thanks for your continuous support.

Moderator

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