"Suzlon Energy Limited Q4 FY18 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day, and Welcome to Suzlon Energy Limited Q4 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tulsi Tanti – CMD, Suzlon Energy. Thank you and over to you, sir.

Tulsi Tanti: Good evening to all. And thank you for joining us on the Fourth Quarter and Full Financial Year FY18 Earning Announcement. Present with me during this call are J.P. Chalasani – our Group CEO; Kirti Vagadia – our Group CFO; and our Investor Relation team. I hope you had an opportunity to review our result and investor presentations. I will share with you an overview of the industries, and my team will take through our full year FY18 performance. We will then take your questions.

I am extremely pleased to let you know that Suzlon has retained the market leadership amidst the challenging industry transition. For third consecutive year, the Suzlon has gained market share in Indian wind industries from 19% in FY15 to now 35% in FY18.

Wind energy is now the lowest cost of power in the country and has entered into the industrialized phase backed by the huge demand. While the transition from the feed in tariff to the bidding regime impacted financial year 2018, the volumes are grown exponentially from here on.

With the policy and regulation falling in place, the bidding momentum is gathering pace. Already, 7.5 GW of the capacity auction is completed until date. Another 9.5 GW is already announced for the auction in H1 FY19. And further 6 GW is expected to be auctioned in H2. Thus, the total 23 GW of the auction by FY19 will be completed. And as per the government and the announcement FY20 and FY21 another 10 GW from central government bidding will continue. Top of that, the state government and some of the FIT regime will also continue. So it is a very clear the long-term market visibility for next three to four years, which is a good opportunity for the manufacturers.

We are confident that going forward, the sector will witness the exponential growth with 10 to 12 GW volume each years for the next four to five years. We believe growth will also come from emerging areas such as wind-solar hybrid, offshore wind projects and the repowering.

Wind solar hybrid is the future and has a lot of potential in the countries. The complementary generation pattern of the wind and solar enable to better utilization of the resources and infrastructure. The wind-solar hybrid would not only be the lower cost but more stable form the power, it is a win-win situation. Wind-solar hybrid is the complementary source, can give the more grid stability and it acts like the conventional power systems.

The wind-solar hybrid is gaining traction here with the around 5 GW of the bid pipeline already sanctioned. The Suzlon is one of the few player having demonstrated turnkey capabilities of the both wind and solar, giving us competitive edge. Offshore and repowering are emerging areas, where the government has already started taking steps to unlock the potential in the country. Apart from the auctions, the company has very active retail captive markets and the central and state PSU segment will continue to remain strong every years.

We are extremely happy to note that Karnataka has recently announced feed-in tariff for less than 25 MW projects for FY19 at Rs. 3.45 per unit. This is a very constructive step by the state that will ensure active retail participation and domestic investors' interest in the FIT segment. The same way, most of the all states gradually will announce the schemes to give the opportunity for the domestic investor.

Thus, there are lots of growth opportunity available in India wind market and Suzlon, being the market leader, will be the obvious beneficiary. The technology continues to remain our main focus with the challenging dynamics in the market. The OEMs have to be swift enough to come up with the right product to remain competitive with higher PLF product, which can give very competitive edge in the marketplace.

During the year FY18, we have launched three new turbines in the market. The S111-140-meter tower giving the 5% to 6% higher energy than our current product of S111-120. Another new product with the same platforms, S120-140 gives, again, 6% to 7% higher energy generations as compared to the S111-140.

Also, a new platform we have introduced and the turbine is running satisfactorily in the marketplace is the S128-140, gives the 20% to 22% higher generations than S120-140. And this turbine rotor is the largest rotor and the biggest turbine in our country.

With each new product, we are pursuing the lower cost of energy and also the higher PLF. With S128, we are launching our first 2.6 MW to 2.8 MW platform, moving beyond our standard 2.1 MW platform.

So we are focusing our effort in material technology and value engineering with the introductions of the carbon fiber blades, the concrete tower, etc. which enable us to manufacture more efficient turbines without increasing the cost and to maintain our margins.

So, I now invite my team to take you through our full year performance. JPC?

J. P. Chalasani: Thank you, Tulsibhai. Good morning to each one of you. And thanks for joining this call during the market hours.

I am pleased that we could deliver a stable financial results for FY18, especially considering the challenging external environment what the sector went through this year, and most importantly, continue to remain the market leader. During this year we delivered 1,173 MW of volumes in line with our guidance, what we gave in the last call at the end of quarter three. We achieved 966 MW of commissioning on a full year basis. FY18 performance is a testament of our resilience in challenging markets, competitive edge and ability to adopt to the changing market dynamics, which has completely changed in the last 12 to 18 months.

As Tulsibhai explained, there is a visible traction in the bidding volumes, and industry is poised for a strong growth ahead. As he explained, the 23 GW of auctions expected to be completed by FY19, and we estimate out of this about 4.5 GW commissioning in FY19 and 10 GW in FY20 for the country.

Wind tariffs after seeing the initial fall seem to be bottoming out, which works well for the sector. On the order book front, we are having over 1,900 MW visibility as we speak today. 1,203 MW is firm order book, of which 1,143 MW is from the auction market and the balance, about 60 MW, is from the captive segment, which is where we are, again, the market leader.

Apart from the above, we have more than 700 MW of signed PPAs, approved by the concerned state government available with us. These PPAs are now at the regulatory commission for tariff ratification. Once ratified, they will be converted into firm orders deliverable in FY19.

Retail, captive and PSU segment is another opportunity which is sizable and stable. Last year we had issues with the retail market because of FIT regime not being there. Now as Tulsibhai explained, the Karnataka being the first one, coming with effective tariff for less than 25 MW, the retail market we expect to pick up this year and captive will substantially increase.

In FY18, we delivered more than 200 MW in the captive and PSU segment. These are short cycle orders that may not necessarily appear in the opening order book which we are seeing today. We are happy to note that we continue to maintain our leadership in auction regime, garnering maximum orders which are finalized till date. Of the 7.5 GW auction till date, we bagged orders about 1.4 GW. But point to be noted is still around 20% of this 7.5 GW capacity is open in the market for which we are also under discussion with customers, and the expectation is that our order share in this 7.5 GW could further increase.

While we are having the largest volume share in bidding, our focus is more on the quality of the order book rather than the market share number. Of 1.4 GW orders what we won until date, all are from top quality customers, including large domestic and international utilities. Substantially, all orders are a result of a strong pre-bid tie-ups and are on fully turnkey basis.

We are not ahead in taking orders but also ahead in execution. We are proud to say that under SECI-1, we are the only player, I repeat, we are the only player to have met the first milestone of land to be in position within 6 months of signing of the PPA.

Our operational and maintenance business continues to grow in size with around 15 GW of renewable capacity under maintenance, including 12 GW from India alone. We are now, in India, the second largest O&M Company in the Indian power sector, next only to NTPC.

In FY19, backed by our strong order visibility, we estimate to grow our revenues by 45% to 55% compared to FY18 to the level of Rs. 12,000 crores to Rs. 13,000 crores, while maintaining our EBITDA margins at around 14%. Debt reduction, cost optimization and working capital optimization would be our top priority for FY19.

I would now like to invite Kirti to take you through the detailed aspects of financial performance. Kirti, over to you.

Kirti Vagadia: Yes, thank you, JPC. Good morning to all of you. As I reflect on the performance for FY18, I am happy to inform you that we have delivered stable performance despite industry passing through a transition year.

During FY18, we delivered 1,173 MW of renewable capacity, while commissioned 966 MW, contributing to overall revenue of Rs. 8,292 crores. Our EBITDA margin came in healthy at around 14%, which is in line with our guidance. That is primarily due to our focus on cost, to attain the margin despite lower wind volume and despite low margin solar business contributing 11% of our top-line.

Our full year manpower expense, which is primarily fixed and inflationary in nature, has reduced by 23% on YoY basis. Similarly, other expenses, which is almost semi-variable in nature, has reduced as high as 36% on YoY basis. During the year, as a part of finance cost, we have conservatively provided for Rs. 294 crores towards Right of Recompense, and a substantial part of that is provided in quarter four. We are also working towards CDR exit and hopeful to get through in quarter three of FY19, and we already initiated the process for CDR exit.

OMS revenue continued to remain stable at Rs. 1,780 crores.

Regulatory uncertainty and project delays due to transition cause temporary build-up of working capital in first three quarters. However, the same started easing off in quarter four. We are happy to note that during quarter four, we have managed to reduce net working capital by Rs. 764 crores. Under the auction regime with elongated project schedule, large-scale-sized projects and minimum regulatory uncertainty and more smoothened-out quarterly distribution of volume will result in better utilization of working capital.

Our working capital debt is temporarily high at Rs. 3,889 crores as on 31st March but is expected to reduce along with working capital in auction regime. Our net term debt, excluding FCCBs stand reduced at Rs. 6,037 crores now, with a back-ended maturity profile. Only 36% of gross term debt is payable over next four years, while 64% is payable in FY23 and beyond, allowing the headroom for our operations to grow.

However, despite scheduled repayment, which is very low, we remain committed to reduce the debt on accelerated basis. In FY19, we target to reduce our debt by 30% to 40% through combination of asset monetization and operational cash flow.

Thank you very much. Over to you, JPC.

J. P. Chalasani: We are now open for the questions.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Shrinidhi Karlekar from HSBC.

Shrinidhi Karlekar: Sir, you gave guidance on revenue growth and EBITDA margin. Sir, would it be possible to share some color on how much would be the finance cost for the full year FY19, as well as what would be the trend on the working capital intensity front going through FY19?

Kirti Vagadia: Yes. On finance cost, excluding debt reduction initiative, what we have talked about, the normal finance cost is expected to be in the range of Rs. 1,100 crore for the year. And whatever we are reducing from our special initiative, depending on timing, debt reduction will be on top of it.

Shrinidhi Karlekar: Okay. And then working capital, sir?

Kirti Vagadia: Working capital will taper down, if you are asking on an absolute amount, I would say that absolute amount will gradually reduce. But if you are asking in terms of a percentage, then on a quarter-on-quarter basis it should definitely get reduced somewhere between 500 to...

Shrinidhi Karlekar: I just want on a closing basis in FY19 what will be your working capital as a percentage of your guided sales? I just wanted that number basically. Sir, basically in auction regime more, what is the percentage of working capital one should assume? I am just curious to know that number.

Kirti Vagadia: Yes, it is fair to assume around 10% of revenue.

Shrinidhi Karlekar: And sir, if you see on a sequential basis Q4 versus Q3, there's a jump in wind turbine revenues. But if we see the segment profit there is a substantial drop. Would it be possible to explain that?

Kirti Vagadia: Yes. Primarily, on a quarter-on-quarter basis, if you are going on a… quarter three versus quarter four you are comparing, right?

Shrinidhi Karlekar: Right, sir.

Kirti Vagadia: Yes, solar is one of the factors.

Shrinidhi Karlekar: No, sir, I am referring to the segment result number where wind turbine generator segment, there, our profits fell from Rs. 228 crores to Rs. 62 crores.

J. P. Chalasani: If you think about it, it is a combination of which orders you are supplying during a particular quarter.

Shrinidhi Karlekar: Okay. So more EPC would have been done, is that the understanding?

J. P. Chalasani: Especially in quarter four, because if you see most of the commissioning has happened in Q4. And also the FOREX impact.

Shrinidhi Karlekar: And sir, lastly, if you see on the commissioning, the year gone by, you achieved something like a 35% market share. But the numbers you touched upon in the auction regime, it points to something like a 25% market share. So, how should one read that? Is it something that you are restricted because of how much you can offer or it is a reflection of a more competitive intensity?

J. P. Chalasani: I think the one thing we need to look at is that beyond a point the percentage starts shifting towards megawatts. Because when you are talking about the 2,000 MW market, the market share, versus when you are talking about a 10,000 MW market, market share would be different. I hope you understand that. And that secondly is that when there are 10,000 MW market, you will also have the multiple players coming and doing that. What guidance we can give you is that we will be the #1 in getting the orders in terms of we win, and we will continue to be #1 in terms of delivery and commissioning the megawatts on this. I think it is more important to measure from the point of it and measure in terms of the absolute quantum what we will be able to do rather than what is the market share. Because market share would completely depend upon what is the volume. I mean, if the volumes grow significantly it will be a completely different story. And they are now talking about 7,500 MW, what orders got finalized. It's not a small quantity of the orders that got finalized. And in the orders finalized within that, as I said, the 20% is still to be finalized, in the orders finalized, today our market share, we are #1 and our market share is 25%. So before the even increased volume base, when you become not only #1, get 25% market share, continue to be market leader, is what we monitor.

And then second most important aspect which is very, very important for us, the primary, last time also what we mentioned is that, in this regime when there are large contracts of upto 250 and 300 MW, we are very, very, very particular about who is the counter-party client. Because doing a 50 MW project you can choose a different type of a customer, but when you're doing a 250 to 300 MW contract then you got to be sure about your customer in terms of their credibility, in terms of their financial strength to close things in terms of their absorption capacity, in terms of any shock and also their expectations of return. There are various factors come into the picture once you are getting into large contracts. So that is why you see that all the contracts we have won until now at SECI-I to SECI-IV are the largest utilities in India and abroad.

Kirti Vagadia: On your segmental question, basically, the delta is primarily due to FOREX. In quarter three, we had a gain of Rs. 98 crore roughly; and in quarter four, we had an FX loss of Rs. 101 crore. So the delta between two is almost Rs. 200 crores. That is primarily due to FOREX.

Shrinidhi Karlekar: The last one, if I may, would it be possible to break your O&M revenue within India and outside India, as well as profit that you generate in that segment within India and outside India?

Kirti Vagadia: Yes, I think there you can ask off-line to our IR department.

Moderator: Thank you. The next question is from Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir, my first question pertains to guidance. What is the assumption behind the revenue number of Rs. 12,000 crore and how we are going to ensure that debt will stay 30% or 40%? Are we assuming that there will be some sale of asset?

J. P. Chalasani: See, as far as the revenue guidance is concerned, obviously, guidance comes from the physical targets what you are expecting to do that. That again comes from the order book, what you have and what is expected to come further and how much of that is deliverable contractually in this financial year. So, I think that is what made us to give you the guidance, in fact if you remember that we gave a guidance even now, today also, saying that though so much megawatts are ordered, but as for the contracted schedule we expect about 4.5 GW only to come this year and the significant portion will come in FY20. So our guidance is based on our contracted schedules, plus our guidance is based on the captive orders we expect from time to time from now on, and based on that is what we gave the guidance.

Mohit Kumar: What will be the SECI volume assumption of this guidance, which we will execute in FY19?

J. P. Chalasani: See, we already completed SECI-I, we are the first chaps to complete the entire this thing. There will be obviously SECI-II also we will do this year, and then part of the SECI-III also we will do. SECI-IV, as you know, even today, the LOI is not issued. So therefore, after the LOI is issued, then after three months they will sign a PPA, then the contract countdown starts.

Mohit Kumar: So how do you plan to reduce the debt in FY19?

J. P. Chalasani: I think we mentioned that in media release and also mentioned by Kirti, that we are trying to use a combination of things of asset monetization as well as from the operational cash flows.

Mohit Kumar: And sir, last question, pertaining to O&M. O&M revenue has not grown as expected, it is around more or less flat year-over-year, is there a specific reason? And can we expect a decent growth in FY19?

Kirti Vagadia: Yes, you are comparing full year basis, right?

Mohit Kumar: Right, right.

Kirti Vagadia: Yes, full year basis, in last year, we had one subsidiary of our international which we are not including in this year because we have stopped operation in that subsidiary.

J. P. Chalasani: That we explained last time also that we exited Brazil last year, last financial year.

Mohit Kumar: Is it possible to quantify the subsidiary O&M?

Kirti Vagadia: Quantification of that subsidiary revenue?

Mohit Kumar: Yes, sir. So that we can compare YoY.

Kirti Vagadia: That we will give you off-line because that is not readily available. So we will dig out and give you off-line. But on OMS, India revenue is increased by 10% that is what we can tell you.

Mohit Kumar: Sir one question more, if I may ask. Sir, what are the one-offs in this particular quarter? There's a provision for recompense, right?

Kirti Vagadia: Yes. That is the one-off in quarter as well as for the full year, both. That is included as a part of financial cost rather than any exceptional item.

Mohit Kumar: Okay. But that is because we are planning to exit CDR, so we have provided in this particular quarter. Am I right?

Kirti Vagadia: No, I do not think there is a relevance to the CDR exit per se. In any CDR scheme you have a recompense which is a liability. Technically, it is payable by you when you are exiting CDR, either at the expiry of term or on a voluntary CDR. And in voluntary CDR, it is something which is agreed between the borrower and lender. Here, we have made the provision on a conservative basis, on yearly basis so as to build up as per contract, I would say, as per MRA whatever is the liability that is something which we are providing. And this is a conservative policy we are adopting.

Moderator: Thank you. The next question is from Deepak Agarwala from Elara Capital. Please go ahead.

Deepak Agarwala: Yes, firstly, just continuing from the previous question, how much does recompense amount pertaining to Q4 specifically?

Kirti Vagadia: I think 274 is something which we provided in Q4 out of 292 or something.

Deepak Agarwala: And any more is expected during FY19?

Kirti Vagadia: I think we need to review on a quarterly basis that what is the utilization of facility and how it is calculated. So on a quarterly basis, sometime it is difficult to give guidance.

Deepak Agarwala: Okay. Secondly, the depreciation has picked up quite sharply on QoQ. Like earlier you guided that in the first nine months versus last year, the depreciation would remain around Rs. 80-odd crores and again it has inched up to Rs. 100-odd crores in Q4. Any specific reason?

Kirti Vagadia: Yes, there are two things. One is, some of the IPR and old model which we discontinued, we have a policy that we don't carry that as our asset. And that is why there is a small fluctuation in depreciation.

Deepak Agarwala: So, if you are not carrying it as an asset then the gross block itself will come down, then the depreciation should...

Kirti Vagadia: No, I will provide the depreciation, because basically, I need to have a count.

Deepak Agarwala: Okay, sure. And also, on the revenue guidance, about Rs. 12,000-odd crores, is it assuming around let's say, Rs. 2,000 crores would be for O&M business. So balance, entire Rs. 10,000 crores, are we assuming any solar inflow and execution during the course of the year or it is purely based on just wind execution?

J. P. Chalasani: I think, it's right, solar as you know that we completed the 340 MW of the solar on this. So right now, it doesn't include any expectation in solar.

Deepak Agarwala: Okay. And my last question is, can you give slightly more help us understand on the debt reduction, because it seems to be a fairly aggressive number of 30% to 40% reduction in a year, especially one of the major FCCB is due only for bullet repayment in 2023. So, can you help us understand? It looks to be too high a reduction in course of just three-four quarters. So any more color if you can offer on that, would be helpful.

Kirti Vagadia: See, basically, as we rightly mentioned in a couple of times in this call itself that it is by combination of reduction in working capital or flow from operations. And, secondly, from asset monetization. Asset monetization, as you are aware, we have various class of assets, some operating, some non-operating and some are very valuable assets. However, as a matter of conservatism, for commercial reason, I do not want to specify that which particular asset we are targeting to sell, but we are confident on the basis of our efforts done in the asset monetization direction that whatever we have guided, we will be confident in achieving it.

J. P. Chalasani: I think the guidance is coming based on what we are currently doing. So therefore, we are quite confident about it.

Moderator: Thank you. The next question is from the line of Dhavan Shah from K. R. Choksey. Please go ahead.

Dhavan Shah: I have two questions. Firstly, about the Andhra Pradesh order worth 600 MW. So that order has not been ratified. So what is our take on that order? And do you foresee that it will be ratified in next one or two quarters?

J. P. Chalasani: Yes. There are a couple of positive developments what happened from last call to this call on this. First thing is the APERC, while they are giving the ARR for this year, as clearly stated in the ARR that they recognize this capacity as part of the installed capacity for this year and recognized that there will be a purchase of power from this in the H2 of this year, okay, in the ARR calculation. They clearly mentioned this in their order on this. So therefore they know that this capacity is going to come this year. And they followed it up with a letter to us saying that now you formally file a tariff application under Section 62. So for this, because they have not yet notified, the control period and things around this. They said that, okay, we will look at this and separately give it to you. So, that application is now being under finalization, and we will be filing that application, let's say, in the next couple of weeks. And we expect thereafter, maybe in six weeks' time is what they will ratify the PPAs. So, therefore, we are reasonably hopeful that, if not full, then part of the capacity would definitely come this year.

Dhavan Shah: Got it. So I think we can expect that the execution and commissioning for FY19 could be equivalent to FY17 at least, right?

J. P. Chalasani: In Andhra?

Dhavan Shah: No, overall consolidated basis.

J. P. Chalasani: I know you are asking me this indirectly, but I said some time back also that we gave a revenue guidance, not a megawatt guidance. But yes, based on whatever we expect to do it. I do not want to put a number to the megawatts at this stage, depending upon which volumes we do and what margins on this. But on Andhra, yes, there is certainty now because he has clearly accepted this capacity coming in the state and asked us to submit tariff petition, so there is no more uncertain date, except for the time for the fixed-in tariff.

Dhavan Shah: Got it. And my last question is about the hybrid contracts. So, I think the MNRE came out with around 2,500 MW of hybrid project. So what is our take on that? And what kind of opportunities are we looking at going at, if we take two, three years of horizon?

J. P. Chalasani: See, there are two things they are talking about right now. One is that they come up with a policy, so obviously that means they are going to be aggressive in terms of hybrid. And personally, with my experience of the sector, it is a right thing to move in that direction because, as you know, right today, we already reached 20% of installed capacity with renewable energy. Though on energy basis we are still at 8%, but installed capacity is 20%. And in fact, in the month of July, it almost reached 12%-13% on this. So, therefore it is now becoming the main portion of it. They have to now work on the variability of the generation of the renewable capacity, so they are now moving next step in the direction, plus also optimizing the transmission capacity. So, moving ahead, I believe that hybrid is going to stay. There are two opportunities which are in the market today. One is brownfield, which they said 1,000 plus 1,000 MW means converting existing solar to adding wind 1,000 MW and the existing wind adding 1,000 MW of solar. That's a brownfield. And second one is 2,500 MW of greenfield capacity. We will be extremely keen, as you know that we, too, have an experience in the setting up of the solar as well, and wind. And we are right now getting fully prepared for taking these bids on this, getting the maximum market share. And we are also in the process of tying up with some of even the large EPC players in solar, because this is going to be a large market, we believe, on this. So we will be very, very serious in the segment, to say that, because it's going to be the future of this country.

Moderator: Thank you. Next question is from the line of Jayesh Mehta from DE Shaw. Please go ahead.

Jayesh Mehta: My first question is on FY19 guidance. Given the strong revenue guidance and the cost optimization program that the company has undertaken over the last 12 months, our EBITDA margin guidance looks conservative, any particular reason for this?

J. P. Chalasani: I think all of us know, as we have been saying earlier also that this is going to be moving ahead high-volume, low-margin market on this. And even when we made 17% EBITDA in FY17, even that point of time and before the bidding came in, we clearly gave a guidance, these are not sustainable EBITDA margins, we always give a guidance of 14% to 15%, even in the FIT regime, that's a sustainable EBITDA margin. What is important is that even in the auction regime we are still seeing that we will maintain 14% on this, that is the guidance what we gave in FIT regime. That is purely because of the confidence we have in terms of reducing the cost so that we do not have significant diversion of market.

Jayesh Mehta: Got it. And my second question is on the expense line item, provision for right to recompense. Can you throw some more light? We never used to record that separately earlier. So what made us to have that line separately

Kirti Vagadia: Yes. Basically, this item is something where there was a provision on a periodical basis, because every quarter end, we, along with our auditor, assess that what is the fair value of ROR liability. Previously, since when we migrated from Indian accounting standard to IndAS, at that time, part has gone into balance sheet item and part has gone into P&L account under financial head. Since across the period, the amount was not so significant, we did not think of showing it separately. Since in this quarter, the amount is notably higher, to guide the investor properly, we have decided to give it as a separate line item.

Jayesh Mehta: And is it a cash line item? In this sense, is it a cash provision or just a provision?

Kirti Vagadia: No, it is non-cash. It is non-cash, and even no bank is taking it as a revenue. So it is purely conservative. Many companies showed this simply as a continued liability without even providing.

Jayesh Mehta: Got it. And, sir, last question, it is more like a housekeeping one. In your presentation, the difference between the gross term debt and net term debt is around Rs. 930 crores. Okay, but when I look at your balance sheet, your cash balance is Rs. 581 crores. So what is the balance, Rs. 340 crores in cash and cash equivalents?

Kirti Vagadia: In a balance sheet format various class of cash balance need to be shown differently. So, if your money is parked temporarily in mutual fund, it needs to be shown under different heads. So that is the difference. There is no inaccuracy.

Jayesh Mehta: No, I am not saying inaccuracy, sir, but I am not able to find that out because in your investment line item...

Kirti Vagadia: Because mutual fund is shown in another this thing.

Jayesh Mehta: You have said your investment line item is 0 in the balance sheet.

Kirti Vagadia: Yes, it is shown in other financial assets. And particularly, the margin FD or mutual fund investment, those kinds of things are shown in the noncurrent asset.

Moderator: Thank you. The next question is from the line of Shabad Thadani from Arkkan Capital. Please go ahead.

Shabad Thadani: Just a few questions from my side. I knew that cancellations reported related to the dispute on the tariff in Andhra Pradesh.

J. P. Chalasani: No, no. There is nothing, no dispute, there was no cancellations. They are put into three categories. One is the order to be executed over a period of time from Mytrah. That was executed doing the FIT regime before the bidding auctions came into picture. But subsequently because of the auctions, there are not going to be FIT PPAs, so therefore, we canceled that. Anyway, we continue to talk to them on the SECI bids, and other bids. But this particular one, which was clearly an FIT based order, is now because FIT is not being there, is canceled. Second, the similar way that there are few orders which were on FIT based, especially last year, because nobody knew that FITs are completely withdrawn in Madhya Pradesh and other places. Everybody thought that FIT will continue. So therefore, there were a few orders based on FIT last year, because no state is coming with FITs, we thought that no point in actually keeping them in the order book. Third category, in Karnataka there is a change in tariff between post 31st March, what is commissioned Rs. 3.75 to Rs. 3. So we have an option of continuing with this order by reducing the cost of our turbines. The second option is for us, instead of that, just short close it and sell the same machines in the captive market at a much higher price. So we took a commercial call of saying it is better for us to short close and sell them at a good price in the captive market on this. In fact, of the 77 MW, we already sold 20 MW, and the balance is on negotiation with various captive vendors.

Shabad Thadani: Understood. Then secondly, in terms of the solar assets now completed on your balance sheet, I presume that relates to the Rs. 375 crore of assets held for sale on the balance sheet, right? So if those are likely to be deconsolidated by March 2019, how much debt will be removed from the balance sheet? And does that also constitute part of your 30% to 40% debt reduction plan?

J. P. Chalasani: It is not that, that is not shown in this debt at all.

Shabad Thadani: So what are the assets held for sale?

J. P. Chalasani: Yes, because it is held as asset for sale, that's not there in our current...

Kirti Vagadia: No, held for asset is the net of debt. So that is Rs. 375 crores are net of the debt. It was something around Rs. 250-odd crores.

Shabad Thadani: Okay. But that relates to the solar assets that you are planning to deconsolidate in line with commissioning, right?

Kirti Vagadia: That is correct. No, planning to deconsolidate, in fact we are in advance stage of selling that asset. So in this quarter or latest by next quarter, it will be off the balance sheet.

Shabad Thadani: Okay. And how should we anticipate the sales price for that? Is that likely to be in line with the book value being carried?

Kirti Vagadia: I think due to commercial reasons, we will not be able to reflect that.

Shabad Thadani: Sure, no problem. And can you just give us an update on some of the near-term auctions that are currently taking place in the market, the NTPC, the Gujarat state auction as well as, I guess, preparation for SECI V?

J. P. Chalasani: Yes. SECI V, you know that the RFS has come day before yesterday, which as per that, 10th of July is the submission of the bids, of course there also will be reverse auction on this. One of the things they have also done is they have given guidance of substations where the capacity is available. They have given guidance for about 4,000 MW for substations in four states, out of which about 1,800 MW is at 220 kV level and 2,200 MW at 400 kV level. This is more of a guidance, it is not a binding that you need to bid only on those substations. We are well prepared, we are talking to various potential bidders for quite some time on this, because now the SECIs are constantly coming, it has nothing to do with the SECI V or SECI VI. We are in regular touch and we have a right today between NTPC and SECI. We are talking to different people, almost to the extent of 2,000 MW worth of this thing. But as we said that always we go on ultimately have a serious pre-bid tie up with some of them on this. So both for NTPC and SECI, we are in advanced stage, and same is the case with Gujarat. NTPC bid is mid-June, and Gujarat is also due sometime in mid-June on this. And rest of the bids like hybrid as well as offshore has just come. So therefore, we will now start the preparation for that.

Shabad Thadani: So I guess, so at least it's the near term, once you anticipate that you will be able to maintain or improve your current market share?

J. P. Chalasani: Yes. I think the guidance what I gave some time back is that we will continue to be the leading player in terms of how much capacity we take. We hope we continue to be #1.

Shabad Thadani: And just one last question for Kirtibhai. If I just look at the numbers, the segment EBIT is provided for the O&M business of Rs. 317 crores. What is the EBITDA for that business?

Kirti Vagadia: EBITDA for OMS business, generally, we don't disclose that number separately.

Shabad Thadani: Okay. Can you just give us an approximation?

Kirti Vagadia: But in OMS, there is no depreciation, so you can, practically there is negligible depreciation in OMS. So you can take your own judgment on that.

Moderator: Thank you. Next question is from Ayush Mittal from Mittal and Company. Please go ahead.

Ayush Mittal: Sir, one thing I would like to understand is that based on these auctions which have happened over the last two, three months and even the SECI-II auction, if we see the timeline for commissioning, it's almost 18 months.

J. P. Chalasani: Correct.

Ayush Mittal: So by when do you see, for your company, these benefits of the current order book translating into numbers? Or if you can give us an indication about the current utilization of your plant, your capacity in the current month? Or do you see it scaling up and the benefits flowing into the results?

J. P. Chalasani: As far as we are concerned, SECI-I, in fact, we already delivered full. It is done in the last financial year itself on this. We completed the full deliveries on SECI-I. And SECI-II, they already started execution of this. And the SECI-III PPAs just signed, so I think even SECI-III will start execution this year, and also SECI-IV might start towards the end of this financial year after the deliveries. So all four what we have will be in different phases. SECI-II, as you know that commissioning is May 2019, so basically, whole of the deliveries will be completed this year.

Ayush Mittal: Okay. Sir, indication about the current utilization of your plants, how would the same improve going forward?

J. P. Chalasani: This year also is going to be a bit of a quarterly change in terms of the loading. Maybe from FY20 onwards it will be constant loading. So therefore, it is difficult to say what will be loading, this loading will vary from quarter-to-quarter. We expect that quarter three and quarter four will be higher loads compared to quarter one and quarter two. See, one thing please understand on this, till now the wind industry has never been static for four quarters, okay? So your capacity always would be made available for the peak quarter. So therefore, there would always be an issue of some of the lean quarters where your capacity is not being fully utilized. It's a fact. That will happen. And even this year, though with a lot of actions happening on this, there is still you will see, as we move ahead, the quarterly commissioning would be different from quarter-to-quarter. So therefore, the utilization will vary from quarter-to-quarter. In the peak quarter, we will use fully. Completely 100% capacity will be utilized on this, even this year we expect it to be quarter four. And hopefully from next year onwards it is expected to even out quarter-to-quarter basis. That is because in one quarter we are utilizing it does not mean that we do not need the capacity, because we need to be prepared for the annual volumes.

Ayush Mittal: That we understand, it is more about that in earlier concall, you had mentioned that going forward in this regime, that things should even out between the quarters

J. P. Chalasani: Yes, that is what we expect completely. We still stand with that. They are currently looking at the schedule of orders, the SECI orders finalized till date. And if you look at the commission schedule for that and you map that, you will still see in the country that all these things are still getting bunched in the quarter three and quarter four for this year. And as it is capacity for this year, we are talking about 4.5 GW only. But the next year, given the guidance for about 10 GW, I expect that to even out. We actually hope that this evening out will start this year itself, when we gave a guidance last time. But you know that there were some delays in terms of auctions happened, but the bids got delayed later.

Ayush Mittal: Okay. The second question is around the Rs. 2,000 crores proposed to be raised by way of equity-linked instrument. So if I have to think about it, like today the market cap of the company is almost Rs. 5,000-odd crores. And if you propose to raise Rs. 2,000-odd crores based on current valuation, already we have had huge dilutions and a very bloated equity structure. And if you want to go ahead with this, then again, it's another huge 40% dilution that we are thinking about.

Kirti Vagadia: First of all, the resolution what we are taking is something which is enabling resolution, which we take every year. It does not mean that I have any immediate plan to raise capital. It is just an enabling provisions whenever in case there is an opportunity which is win-win situation for all stakeholder, in that case I do not lose on a procedural time. That is the objective.

J. P. Chalasani: It was there last year also.

Ayush Mittal: But given the current structure of your balance sheet, you need to have some capital balance at a certain time. Is there an enabling need for that?

J. P. Chalasani: Not at this stage.

Kirti Vagadia: Not at all.

Moderator: Thank you. Next question is from the line of Kenrick Thie from Tahan Capital. Please go ahead.

Kenrick Thie: Just to check, the 30% to 40% in debt reduction, does that include the working capital debt?

Kirti Vagadia: No. Working capital keeps on fluctuating depending on operating cash flow of the company. So working capital, we would prefer to preserve at whatever level we have.

Kenrick Thie: Okay. And so what is the repayment plan for the FCCB that is due in July next year?

Kirti Vagadia: It is fairly long period. So let us wait for a couple more quarter and see that if there are chances that it might get converted also. But we are not solely dependent on conversion. In case there is a situation or scenario arising for repayment, we are geared up for that.

Kenrick Thie: So, the Rs. 900 crores of NCDs, would that be meant for the repayment of this FCCB?

Kirti Vagadia: It is NCD basically, that is the replacement of a costly debt with a cheaper debt. So that is the objective of that resolution.

Kenrick Thie: So, the NCD is meant for repayment of other NCDs, or is it meant for this FCCB?

Kirti Vagadia: No, no. It is not meant for FCCB. It is meant for other term debt.

Moderator: Thank you. Next question is from Ritesh Palodia from Girik Capital. Please go ahead.

Ritesh Palodia: Sir, I believe now FY19 and FY20 will have a higher delivery. Under that backdrop, can you really reduce your working capital loan, that's from current level onwards?

Kirti Vagadia: Yes, we will be able to reduce working capital, despite of the fact that there is a higher delivery, because there are a few things which are going to happen. As Mr. Chalasani rightly mentioned that now onward we are going to have more evenly volumes. Secondly, the order execution time which is available with us is fairly long as compared to what used to be FIT regime. So advance is also going to sit with us for a longer period, and we have a better opportunity to plan the project and deliveries. So, in these all circumstances, we believe that there are fair chance of reducing our working capital intensity significantly.

Ritesh Palodia: Sir, I believe gross debt excluding FCCB is Rs. 10,000 crores. And you want to reduce your 30%, 40% debt. So this 30%-40%, whatever is your guidance, does that include FCCB portion or is it just this out of Rs. 10,000 crore gross debt?

Kirti Vagadia: In earlier question, I explained that it excludes working capital.

Ritesh Palodia: Okay. So of Rs. 6,000 crores of term loan, you want to reduce that 30%-40%.

Kirti Vagadia: Sorry?

Ritesh Palodia: The debt reduction of 30%-40% is of the portion from the term loan side?

Kirti Vagadia: Term debt side, total long-term debt side. Working capital will keep on fluctuating, so I do not say that there will not be any reduction on working capital, I will have a limit which I can continue to increase or reduce depending on what is the operational requirement. In current estimates, we believe that there will be a significant underutilization of our working capital also.

Ritesh Palodia: Okay. So, is it fair to assume that asset monetization would contribute with about 40% - 50% of this debt reduction of about Rs. 2,000 crores - Rs. 2,500 crores?

Kirti Vagadia: I would not prefer to go into specifics target for this.

J. P. Chalasani: That straight away gives valuation numbers. I don't think we can discuss that at this stage where we are in, in terms of asset monetization.

Ritesh Palodia: Okay. One final question. In asset monetization, is O&M part is under plan to divest or it is something different than O&M?

J. P. Chalasani: I think we will come up with clear details once it is effective. Right now we can say that we are in the process and we have confidence. That is the reason we gave this guidance. So, further details because of various confidentiality, counterparty agreement what we had. I think maybe if everything goes well, next call or the following call, we should be able to give you.

Moderator: Thank you very much. Due to time constraints, we will take that as the last question. I would now like to hand the conference back to Mr. Tulsi Tanti for closing comments.

Tulsi Tanti: Thank you. With the newly discovered tariff wind energy is becoming more and more competitive compared to the conventional energy, and that is why we strongly believe that demand of the renewable energy will continue for longer period. And that will give a great opportunity to build more and more capacity.

The government commitment is also very strong to 175 GW by 2022. And until now the 115 GW is still yet to be built. So there is a great next 5 years' opportunity to build the wind and the wind-solar hybrid projects. So, that gives us a great opportunity because in the Indian market in the last 22 years, we are extremely well positioned in all aspect. So that is why it is giving the great opportunity to bring our growth momentum more aggressively. Same time, we have a huge experience in the international market. And most of the financial investor and utility companies are entering the Indian market to do the business. For them Suzlon is the first choice. So we are focusing more aggressively, if we want to leverage this volume, the high focus goes on the execution part. And we are increasing our capacity and capability to execute more projects in the least time so that we can turn around our working capital more efficiently. And that will give us the same resource to increase the more volumes. That's the priority.

So we will continue investing in technology because that is the key success going forward, to remain competitive. Not only that, we will increase the PLF and utilize the lower windy sites and to remain, retain and maintain the tariff level as possible as low so that market demand size will continue to grow.

The second priority is on our management team to focus on working capital reduction. Now based on the new cycles of the bidding and 18-month cycles and everything, we are quite confident by accelerating our execution capability and more volumes, order books well in advance, it will help us to reduce our working capital drastically. And that end you will see that will reflect in our books.

The third of our priority is the focus on the debt reduction, management team has mentioned very clearly. So there some of the good opportunity is there, and we will leverage that and reduce our debt and reduce the financial costs, which can enable us to grow faster and to increase the volume. So going forward, whatever the banking fund, the non-fund facility supports are required, which we can able to increase.

The fourth priority is a focus on the wind-solar, offshore and repowering because these are the new segment is emerging and we are fully equipped. And we are preparing for this, and the offshore will be the new challenge for everyone, and the Indian market as a different environment in offshore. But we are working last five years on our offshore sites in Gujarat. So we are quite prepared and ready to focus on building the utility scale large projects in offshore market in the going forward.

Another is important because we have quite good capacity of the manufacturing and project and everything. The way the momentum of the volume is increasing, we are quite confident next financial years, we can enable to utilize our majority capacity utilization will happen, and also it will be more even quarter. Every quarter will be quite even, because well in advance sufficient order book for the full year will be available. So that will help us next financial year. We see the good volume and good stability each quarter wise, and also it will help us to leverage all our capacity utilizations, because at this moment, we don't require new CAPEX, so that will help us to leverage that and to increase the bottom line.

So, we really appreciate your time and presence with us. Thank you very much. And we will see you again in the next quarter. Thank you very much.

Moderator: Thank you. On behalf of Suzlon Energy Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.