



# “Suzlon Energy Limited Q3 FY19 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day. And Welcome to Suzlon Energy Limited Earnings Conference Call. This conference call may contain forward-looking statement about the company, which are based on the beliefs, opinions and expectation of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Tulsi Tanti - Chairman and Managing Director, Suzlon Energy Limited. Thank you, and over to you, sir.

**Tulsi Tanti:** Thank you very much. So, good morning. And thank you for joining us on our Q3 FY19 earning call. Present with me during this call are Mr. J.P. Chalasani – our Group CEO; Mr. Kriti Vagadia – our Group CFO; and our Investor Relations team.

I hope you had the opportunity to review our results and investor presentation of quarter three. I will share with you an overview of the industry, and my team will walk you through our 9M FY19 performance. We will then take your questions and also to give you the updates about the market.

The transition period continues to impact the sector in the short term. However, there is a very clear visibility for the next three years, the growth opportunity. The government is strongly committed to its 2022 target of 175 gigawatt of renewable energy. Not only now, recently, they have also announced the 2030 500 gigawatts, because the India's energy sector will be built more and more on the renewable energy space.

If you see the last three years, the new capacity addition in the country in the calendar year 2016 is at 42%, and 2017 is 54%, and the 2018 is at 74% new capacity is added in the power sector is only from the renewable. So this target is quite ambitious, but lots of the ground challenge, that requires about 30 gigawatt volume over the next three years, in the wind sector particularly. And this requires 10 to 12 gigawatts of annual, the market size.

FY20 positions to be the year of huge volume, based on the already concluded auctions. The 10.7 gigawatt of auction have already concluded until date, and large portion of it is likely to be commissioned in FY20 only. We expect the FY20 market itself will be 8 gigawatt+ size market, which will be 45% higher than the previous peak of FY17. Over the last two years, the teething issues such as the project execution approvals, the financing issues, the land allocations, the state and central coordination have been resolved and industry is now moving toward a seamless execution of the projects and that is why we see it next FY20 will be the execution year for the industry.

The new era of the power sectors has emerged because of some of the challenges faced by the industry in the last two years, more focusing on the utility, states and central government, the wind-solar hybrid is huge, solutions are coming for the growth. The wind-solar hybrid projects enable the better utilization of the transmissions, infrastructure and lands and improved the grid stability and reduced the variability in the renewable power generation.

Just to give an example, if you have 100 megawatts of the grid, with wind-solar hybrid we can able to penetrate at least 150 to 160 megawatts. So that is giving the good opportunity to utilize the infrastructure. And same time, it will increase the plant load factors in the grid systems, which is extremely good for the utility load management perspectives.

The first SECI auction of the wind-solar hybrid has already been concluded. And the second wind-solar hybrid tender is also floated. So, the momentum is going on the wind-solar hybrid much and much more.

The states like Andhra Pradesh, Maharashtra, Gujarat have already announced massive plan for the wind-solar hybrid projects. So until now we are heavily dependent on the SECI auction and SECI business, only one supply provider was there. Now Andhra Pradesh, Maharashtra, Gujarat and Karnataka is coming forward, even Rajasthan also. And based on their power requirement and their RPO obligation point of view, they are moving towards the more wind-solar hybrid plants. And we see that very soon they will start the auction by state also, which will give us the good, more opportunity, because state auction will be very efficient because they help to plan the resources, land and grid infrastructure well in advance, based on that they will do that auction so that will be more efficient compared to the SECI.

Offshore and repowering is another area, huge potential is increasing. The first 1 gigawatt offshore EOI has been of huge interest, around 30 investors have shown interest to invest in offshore. Even the last two days before, 1.2 gigawatt bid on the onshore has come. And almost 2,400 megawatt investor has given the interest. So the demand side of the investor is very huge and large is there. The challenge is more on the execution side, and now lots of issue has resolved, the alignment between center and state. So we see good execution years in 2020.

Apart from the auction, country has a very active market for the captive and retail market. And PSU segment, that continues to grow every year, because the cost of energy is very, very competitive compared to the conventional and compared to the utility pricing. So more and more industries are focusing to bring their captive requirement, and that enhance their power cost for next 25 years through renewable energy source. I think that momentum is also increasing very well.

We continue to focus on developing the technology and superior product, while containing their cost of the developments. And the vital role in the renewable energy is coming from the technology. And because of the technology the plant load factor is increasing, and the operating cost is also optimizing, and levelized cost of energy is coming optimum way. So we see the good opportunity in the Indian markets is growing. And that is why the large financial

investors' groups are continuously investing in the larger-scale projects. And also, there is a quite good competition in the marketplace, it is bringing the qualitative business in India.

So thank you very much. Now I invite my team to take you through our quarter three and the nine months FY19 performance. Thank you very much.

**J.P. Chalasani:**

Thank you, Tulsibhai. Good morning to each one of you. I am Chalasani here. As mentioned by Tulsibhai, the teething issues of the transition period are now slowly getting resolved. At least efforts have been made by our stakeholders to resolve their issues. Based on the already concluded auctions, there is a reasonable certainty that FY20 would create a new peak in terms of capacity addition, crossing beyond 5.5 gigawatts versus what we achieved in FY17.

Suzlon's strong execution capabilities, full-scope service offering and robust technology enables us to retain our market leadership position in India. We have the largest order win share from the auction market. Not only our market share is highest, most important is that we also have marquee customers who are some of the largest utilities and IPP companies in India. I think this is going to play a significant role in moving ahead in Indian renewable market.

In the recent quarter we bagged 328 megawatts of order from Adani Green Energy under the bidding regime. We have been successful in improving our order wins tally and auction market share. As we speak, even today, ordering for almost 30% of the auction capacity is actively being discussed. We are in active discussion with our customers for a few of these orders and confident of further increasing our market share.

Apart from winning orders, we are successfully executing the orders as well. We are the first and the only player who have commissioned a SECI 1 project in full, ahead of the schedule. Completion of SECI 2 project is on track and with most of the deliveries completed.

Service continues to be our biggest strength. Our operation maintenance business continues to grow in size, with over 15 gigawatts of renewable capacity under maintenance, of which over 12 gigawatt is in India alone.

As we stated earlier, we are the second largest O&M company in the Indian power sector, next only to NTPC. Despite such large and growing fleet and also with various aiding factors, we have been successful in servicing nearly 100% of our turbines. This has been possible due to our high service standards and continuously improving customers' turbine performance, thus, creating a very high degree of comfort with our customers. We have steadily improved and maintained machine availability of plus 97% of our fleet.

Debt reduction, cost optimization and working capital optimization will remain our top priority, for which we are actively engaging with investors.

I would now like to invite Kriti to take you through the detailed aspects of our financial performance.

**Kirti Vagadia:** Thank you, J.P.C., and good morning to each one of you.

The prolonged transition phase is resulting into deferred execution, not only for us but also for the entire industry. For first nine months of this financial year we delivered 349 megawatt with gross revenue of Rs. 3,557 crores, which is 40% lower on YoY basis as compared to last year. Due to lower operating leverage, our nine months performance pre-FX EBITDA margins came at lower 7.4%. You may notice that we continue to maintain tight control of our fixed costs.

OMS revenues grew by 6.7% on a YoY basis to Rs. 1,429 crores in nine months FY19. Strengthening of rupee in the quarter resulted in FX gain. However, rupee continued to remain weak compared to the start of the financial year. Thus, our nine months FY19 FX loss stood at Rs. 382 crores. FOREX loss is primarily due to impact of fluctuation in rupee against dollar on our FCCB and SBLC backed AERH loans. While our net current asset is reduced to Rs. 1,667 crore, we firmly believe that our working capital as a percentage of revenue in the auction regime will be significantly optimized.

Our gross term debt, including FCCB, is Rs. 8,307 crores. However, our repayment schedule is back ended, giving us required headroom for operations. Despite the transition with muted operational cash flow, we are happy to announce that we are current on all our debt obligations. Debt reduction is our top priority and as mentioned by J.P.C., we are actively working towards the same.

There have been few questions about promoter pledge in last few days. We hereby inform you that the pledge of the shares done by the promoter is primarily as a collateral for borrowing made by the company. The said pledge is not subject to any mark-to-market requirement.

Thank you very much. Now we are open for questions.

**Moderator:** Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Puneet Gulati from HSBC. Please go ahead.

**Puneet Gulati:** Number one, just on the data side, if you can give the installations done in sales in megawatt basis.

**J.P. Chalasani:** Come again?

**Puneet Gulati:** If you can share the data on the installations that you have done and the sales on megawatt basis.

**J.P. Chalasani:** For the auction regime?

**Puneet Gulati:** Yes, for the total in Q3.

**J.P. Chalasani:** In Q3?

- Puneet Gulati:** Yes.
- J.P. Chalasani:** In Q3 the installations what we have done is 283 megawatts.
- Puneet Gulati:** 283 megawatts installation, okay. And sales?
- J.P. Chalasani:** Sales is 73 megawatts.
- Kirti Vagadia:** Sorry, volume is already given on slide. It is 67 megawatts.
- J.P. Chalasani:** 67 megawatts, yes.
- Puneet Gulati:** 67, okay. So when you say volume, that's the sales number, right?
- J.P. Chalasani:** Yes, that is correct.
- Puneet Gulati:** Okay. Secondly, broadly on the industry side, if you look at the last few auctions, both for wind and solar, the government seems to have withdrawn the excess bids on account of not being happy with tariff. How are you seeing the market? Do you think it can slow down from here or are you seeing some signs that government will finally relent to higher tariffs as well?
- J.P. Chalasani:** Both are happening. If you see, the government maintaining its stance. If you have seen that in the hybrid bid, even the bid quantum which has come is less than the total what is offered, they still wanted to go ahead. And they went ahead and awarded 840 megawatts in hybrid. So therefore, there is intention on behalf of the government saying that whatever the bids come, will move ahead. And as far as the investors are concerned, as in the opening comments Tulsibhai has said, if you look at the latest bid, which is in the current indication, in spite of the fact that we all keep talking about hurdles in implementation of the projects, in the SECI 6 1,200 megawatt what has come in, so you had 2x times the offers that has been received. So therefore, I think that is significant. So everybody was saying that we will not cost 1.3x, 1.4x, but you got double the capacity, double the offers there. So I think down the line there is an interest
- Puneet Gulati:** This was the SECI 6 you are mentioning?
- J.P. Chalasani:** Yes, SECI 6, which is the latest dip stick what we have as far as the investor interest is concerned. There have been discussions about the caps should be there, caps should not be there. So we still have the caps here. But as an industry player we think that cap is not the right thing to be there as long as you are running the reverse auction on this cap. But even with all that, what is important is that you received bids 2x. I think that shows the hunger, that shows the appetite for investors to come in. At the same time, looking at hybrid, government also was to move ahead. And they revised the targets. So therefore, once they revise the targets and that they want to go with more capacity to be added, then obviously, all these things are required.

- Puneet Gulati:** Yes. Sorry, I am not updated on the SECI 6. The tariff hasn't been bid so far, right?
- J.P. Chalasani:** No, there is a ceiling tariff. So in that the first round of bidding has happened. I think probably 15<sup>th</sup>, if I remember right, is the reverse auction is going to happen.
- Kirti Vagadia:** It is 15th of February.
- Puneet Gulati:** Okay. Secondly, you also commented that the developers haven't yet closed a lot of orders. And given some of the concerns on banking and NBFC side, what we are hearing is that some of them may probably never be able to close these orders. How are you seeing this?
- J.P. Chalasani:** I think the reason why we keep mentioning in every single call of ours and which, if you notice that I mentioned that even in my opening comments today, with the very, very competitive tariffs being out there the capability of the developers to close financially and move ahead projects with funds coming on time is becoming important. Therefore, I think while there is 10,680 megawatts which got awarded till date, I think more than 3,000 megawatts, 30% of it is still not finalized for various reasons. One is that depending upon which location are you bidding these projects, and do you have any constraints there. And second thing is, if equity is there or not; and various other factors which are playing the role. And also, the fact is that because you have a longer time schedule now, still the industry still thinks that the earlier concept of if you give an order in six months' time you can get commissioned, so those psychological feelings are still there. So some of the developers are actually taking longer time than what they should take for placing the orders. And that will have an impact on actually executing the projects on time.
- Puneet Gulati:** But are you still able to financially close those projects or that has also not happened?
- J.P. Chalasani:** No, without placing an EPC order, you can't financially close anything.
- Kirti Vagadia:** Just to add on two topics, so far, we are concerned as a company, fortunately we have orders from strong utility companies. And in those cases we have very less reason to worry about their financial closer. That is number one. Number two comment is that if you look at the list of SECI 6 bidders, there are very, very strong counterparties entering into a bidding regime, certain new names also.
- Tulsi Tanti:** Just overall, to understand the game of the business is extremely changed. The bidding is one process, but three things have to be synchronized: A, who is the bidder; B, who is the OEM; C, which is the state you are targeting in the bidding process. If these three are properly synchronized, they will be the winner to execute the project. If these three are not properly aligned, maybe bid will happen, it is easy job, anybody can bid and do. And after that whether the project will come or not, it depends of the three parameters. So if that is synchronized then it will be good. And that is why if you see how many megawatt executions is happening out of the bidding process, we are very clearly leaders in this process, on the execution side. The bidding side, so many bidders will be there, but ultimate game of the business and real

outcome is the executions. So, we are leading these things. If you see that today 1,050 megawatt has been commissioned in the current financial year, who is leading that execution? I think that is more important. It depends on state, bidder and OEM, this synchronization is extremely important, then rest of the things is achievable. The challenge for everyone is equal, but who can able to manage that challenge, I think that's the game of the business.

**Puneet Gulati:** Sure. Clearly, your execution has been better, but unfortunately, the industry has become so slow that you are also running against time. So, how is the progress on the monetization of some of the assets, how close are we to see any result?

**Kirti Vagadia:** Yes, on debt reduction related initiatives, we are closely working with a couple of investors. And we are closely working with our lenders also because it is a solution which requires lenders working hand in hand with the company. So we are progressing well on these things. And we will have a meaningful result by end of this financial year.

**Puneet Gulati:** Okay. Lastly, there is also the old question of developers trying to do O&M themselves. Are you seeing that continuing, or has it slowed down, any comments there?

**J.P. Chalasani:** We keep hearing in the market, but we have not seeing any of our customers till now even initiating a discussion with us, saying that they would like to, forget about doing O&M themselves, even reducing the scope of comprehensive O&M at this stage. Because I have been on the other side of the table, I have been running a utility before coming here. We had a small capacity of wind, which I keep giving example to everybody, we were running thousands of megawatts of conventional, but when I got the first 40, 50 megawatts of wind, then I couldn't believe and people said that we need to go from O&M to wind OEM, which happened to be Suzlon. Hear the problem is these are not within the boundary, they are open. And your boundary management, because you are managing the pathways even during the operating life cycle, you are managing various other things, it becomes very, very important. It is not like conventional within the four walls locked up, and you have your team which is operating, and you are not influenced by the external world, it is not the case here. So that is the reason it is not so easy. And second is, what we are doing is that we are constantly working towards how do we improve the performance for the clients. So as long as you keep working with them in tandem of improving their performance, either from the existing machines directly or by giving the value-added products, then there is a mutual interest. So, we are the largest, as I said that more than 12 gigawatts in India, we have not come across any such initiation of discussions. There could be some people who must be thinking, but there is nothing happened on the ground.

**Puneet Gulati:** Okay, that's great. And just one more question. While we understand you are working on reducing debt by monetization of some of your assets, but given where the financial markets are, if that were not to happen, what is the plan B there?

**Kirti Vagadia:** First of all, we are very confident and the time is something I know that the financial market, on borrowing side is something where there are challenges. But the kind of people where we



are talking, we are not worried about their financial aspect due to the size of those people. So, that is number one. Number two, that, okay, on a secure lender side I would say that all my liabilities are back ended, so I have no reason to worry on that, I am current on those all liabilities. So far as convertible bond is concerned, even if there is a one or two months delay on what I am talking about, there is a sufficient time available up to July, middle of July to address that issue. So, basically, right now as I would say that, let us stay focused on the transaction what we are talking about, and see that how qualitatively, value creatively, it is close for all stakeholders, rather than worrying about that, okay, whether it will result into default or not. I am working on a positive side rather than working on a negative side.

**J.P. Chalasani:** And also, I think looking at the stage where we are in today, relevance of plan B has come down. Maybe the plan B was there at some point of time. But I think as Kriti said, we know where we are in. And at this stage I think the relevance of plan B is not there.

**Moderator:** Thank you. Next question is from the line of Nitin Arora from D.E. Shaw. Please go ahead.

**Nitin Arora:** I guess I have two quick questions. One is a follow-up to the last discussion. In addition to asset sales, I was just wondering if there is further margin for working capital optimization and some cash release from kind of rationalization of working capital, and if the management could share some thoughts around that? That is one. And the second one would be around some of the operational issues that you alluded to that have kind of been bearing down on sales, so if you could provide any additional color around what those operational issues are and what has been kind of more meaningful in terms of top-line growth muting down and where do you stand currently relating to those issues? Thank you very much.

**J.P. Chalasani:** On the working capital, obviously, you will see in the presentation itself, what you are saying is what is happening. So it is getting reduced. So therefore it is there clearly a slide in our investor presentation on how the working capital is coming down, which has been our target, which is what I mentioned in the opening comments. And as more and more the SECI volumes get stabilized, with the longer time period we expect this to further happen. As far as the order scenario is concerned, as we said that for us we are the market leaders today in terms of the orders what is finalized, we have about 23% - 24% market share, and been the #1 in that. But then the issue what we were mentioning is that, before we take the order it is important for us to see the counterparty risk. So therefore we are a bit choosy. I am not trying to be egoistic, but I am trying to say practicality wise, we are a bit choosy because we are looking at implementability of the project and time is more important for us and cash flow on time is important for us. So therefore, we have been choosing the customers who are utility type of customers. And practically every single customer of ours in SECI is a utility, both the domestic and international utilities are there. So that is where the issues are and the point which Tulsibhai was enumerating is that all three have to get aligned in terms of who is the OEM and who is the investor; and the third is that at which state are you trying to do. Because these days there are some state specific issues cropping up, like for example we are seeing in Gujarat, because of concentration of projects there, initially it was only the evacuation infrastructure

which we talked about creating delays, but today even the land is creating delays. And the third is that if you have so much of concentration coming up in one single location, it would also start competing for resources, the resources will become little. So those are the things which we need to look at when we take these orders. So that is what we said is operational issues, which we evaluate before we take in the order, rather than post order.

**Nitin Arora:**

Right. Sorry I have one follow-up, if I may. And again, I don't mean to beat around the dead horse, but maybe there is a different way to ask to perhaps kind of phrasing this question. So as it relates to working capital, what I was trying to get at is you said that perhaps a plan B at this point is irrelevant because you are aware of how well you are placed in terms of asset sales. But what I am trying to get at is even as a tail event, I guess, is further working capital optimization necessary to bolster asset sales and then take care of the balance sheet or do you think just asset sales by themselves are good enough, and working capital release is not meaningful either anymore?

**J.P. Chalasani:**

No, I think we handle them independently, irrespective of the asset monetization optimizing the working capital is a constant effort for us. It is very, very important for us to do that. We are not doing working capital optimization fully from the point of our transaction what we are going through, we are doing it for the purpose of improving the efficiency of our own operations. While we deal with the clients in terms of starting from there itself what is our payment terms, in terms of that, because there is a huge amount of upfront investment you need to make these days in terms of your land and evacuation facility for these large projects. And then this doesn't get monetized, evacuation facility doesn't get monetized until at least 50% of the project is done, which is a large capacity today. So therefore, the working capital release is an important aspect, even let's say that whatever Kirti said goes through on that, I don't think our attention towards reduction of working capital will stop, we can't.

**Moderator:**

Thank you. Next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

**Mohit Kumar:**

Sir, my question pertains to the execution, there is quite a slowdown in FY19 in the last nine months, how do you see the execution in Q4 FY19 and FY20 going forward? And what are the various deadlines by which you have reached all, especially SECI 3, where you have a huge order backlog of 785-megawatt, if I am not wrong?

**J.P. Chalasani:**

Yes. See, when we talked about FY20 as a sector before we come to us, when we said that FY20 is going to be the year of peak till now, FY21 could be more than 2020, that is a different issue, but till now, is a simple fact that if you take at the maximum level of this 10,680 megawatt what got awarded, we do not see more than, let's say, 1,500 to 1,800 megawatts getting commissioned in this year, in the SECI 1 and SECI 2 and some state bidding put together. So therefore, you are getting into the next year where most of the capacity, either to be added or at least supplied of this, because the last of this are going which are like 2021, but supply has to happen, are there for the next year. So therefore, if you are starting the year with, let's say, at 9,500 megawatts of this thing, so therefore our expectation

was about 7,000 to 8,000 megawatts is what definitely would get commission in FY20. And as far as coming specific to us is concerned, yes, obviously that this year we could have done more than what we have done currently. The simple reason being that the delays in terms of the land in the last three to four months in terms of the stalemate what we got in terms of Gujarat has impacted us. This has only moved some of our capacity what we could have... not capacity, more importantly some of the supplies, the deliveries moved from this year to the next year; not the commissioning, the deliveries. But as far as the 785 megawatt is concerned, you know that the November 2019 is the PPA date for commissioning of this. Assuming that the land issue in Gujarat would get resolved, which they have already started the process, would get resolved in this quarter, we are still confident of maintaining the date of this. SECI 1, we maintained, we did ahead of scheduled. SECI 2 is in the first week of May, and we will definitely do before the PPA date. So therefore, having done SECI 1 and SECI 2, SECI 3 also in that 785 megawatt the part capacity, we are doing SIA for Adani, we are not doing all of it for them .... So therefore, there the date, they are going ahead with their work and then our supplies will commence this quarter. And that we still get commissioned on this. The other portion what we are doing it, and we are still reasonably hopeful that we will be able to maintain PPA schedule at this stage. And the SECI 4 event is in February 2020, so therefore there is sufficient time for that. So this hurdle should not impact the schedule at this stage.

**Mohit Kumar:**

And sir, what is the status of 700-megawatt PPA which you are awaiting ratification from the regulator?

**J.P. Chalasani:**

In Andhra Pradesh, yes, a lot of water has flown in this quarter in AP finally. The PPAs were examined by the regulatory commission and then they wanted certain modifications to be done. And the modified PPAs, re-signed PPAs have been submitted to the regulator. Regulator has now accepted the petition and allotted the numbers for that. And the first public hearing, not first, the public hearing is on 23rd of February. Already written on the website for anyone to participate. So the process has started. The public hearing also is scheduled now for 23rd of February. So it is reasonable to expect that optimistic way is end of March, but otherwise I think by April, we should have the tariff order in position.

**Mohit Kumar:**

Sir, last question. How is the bid pipeline looking at this point of time? And are you worried that as the country is almost next to election, the further bids should be delayed by six, seven months?

**J.P. Chalasani:**

See, as we spoke, we said that already 10,680 megawatts is awarded. And then, there is 1,200 megawatts of SECI 6 is happening, reverse auction is on 15th of February, that would get awarded definitely before March. And then another 1,200 megawatts of hybrid is also announced. And then there is a possibility, what we hear from the ministry is that another round of bidding, i.e. SECI 7, which hopefully will be back to 2,000 megawatts because the response for the SECI 6 has been good. Because we were told that if the SECI 6 response is good and then they will go back to the full capacity of 2,000 megawatts. So the 2,000 megawatts more might come. So our expectation is that the 4,500 megawatts more bidding

would happen before March. And then, of course, the state level-wise, Gujarat might run their bid.

**Mohit Kumar:** And sir one more small clarification, is SECI 6 is likely to be set up in other states? Is the Gujarat completely full at this point of time?

**J.P. Chalasani:** I wish I know the competition what they are thinking of, because we would know exactly. I think after the reverse auction. And also that also you will not know, initially he can give any state, but subsequently till the financial closure you have an option to shift the projects. We would not know at the stage where these projects are going to come. But as far as we are concerned, we are trying to be careful not to go in the places where there are hurdles.

**Moderator:** Thank you. Next question is from the line of Neha Punjabi from Minerva Advisors. Please go ahead.

**Neha Punjabi:** I had two questions. One being, we have had some sale of assets on the solar power side. And just wanted to understand what kind of reduction in debt did these assets lead to? And what was the equity that got freed up as well?

**J.P. Chalasani:** No, this debt was not on our books anyway, they were there as asset for sale, so they were not getting reflected in our debt. So therefore, there is no impact on the debt portion of it. And these projects, as we explained earlier, all these solar projects, 340 megawatts what we built and sold, these were built and we monetize them much before, so we sold 49% stake as per the PPA 51% is getting transferred later, but the entire funding for the equity also happened from the people who bought it. So therefore, as far as the company is concerned, so there is equity of a debt has no impact, except that whenever we did that we had that EPC and EPC margins.

**Neha Punjabi:** Got it, sir. This debt will not reflective in the overall debt of the company?

**J.P. Chalasani:** No.

**Neha Punjabi:** Got it. My second question is, there is a pipeline of 10.6 gigawatts and you have been stating that about 7 to 8 gigawatts would be commissioned next year. Having said that, you have also stated that there are land issues that are extremely problematic. So on a realistic level how much do you think would be a capacity that would be commissioned based on the auctions that have already happened?

**J.P. Chalasani:** First thing, let be correct, I don't think I mentioned extremely problematic, I didn't go to that extreme level of saying the problem is unresolvable. For the last few months there has been slowdown in the allotment of land in the state of Gujarat. And if you see, the 50% of this capacity what is bid out is coming in Gujarat. And now they are trying to resolve that, in fact, they have come up with a policy for award of land. And the whole thing first thing is getting resolved. So therefore, our assumption at this stage is that this process will get resolved this month, or maximum, middle of next month. So therefore, while there is a temporary impact in

terms of land which is delayed by few months, but I think some capacity which could have come in this year would go to the next year. But the next year we still maintain our estimate of 7 to 8 gigawatts, clearly.

**Moderator:** Thank you. Next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

**Harshit Kapadia:** A few questions from my side. Sir, in SECI 3 auction you have won 785 megawatt. This pertains to largely one state or is it divided across the states?

**J.P. Chalasani:** Entire 785 megawatt is in Gujarat, but there are two different types of projects. 500 megawatts is what we are doing EPC, where it includes the land and everything is our responsibility. And the 252 megawatts is the SIA, what we call it, supply and installation and commissioning for Adani, where we are not doing the land, we are not doing the balance of plant for them. So there is scope is difference. So therefore, there are parallel efforts by both of us, they are acquiring land for them and we are requiring land for us, so therefore it is advantage for us.

**Harshit Kapadia:** Okay. And with the 500 megawatt where you are doing the EPC, the land, is there all the land issues have been resolved? And you are going ahead with the project? Or there has been some delay in that as well?

**J.P. Chalasani:** No, we are going ahead with the project. First of all, there is no stoppage of the project. There has been a slowdown in terms of the land allotment in the last few months, as we mentioned on this, which is now getting, as we speak, is getting resolved. So hopefully, by end of this month it should get resolved. And then it will pick up the speed further. It didn't completely stop because we are also trying to do some private land acquisition. So at least we had some land already in our hands, so therefore we are working there.

**Harshit Kapadia:** Okay. And what about the 252 megawatts Adani order, sir?

**J.P. Chalasani:** They are working, they are going ahead. And as I said some time back, ours is supply and installation, so the supplies will commence this quarter.

**Harshit Kapadia:** In this quarter itself. And sir, within the Q3...

**J.P. Chalasani:** And that will be fastest supplies, because as you know that order we announced just now and supplies are going immediately.

**Harshit Kapadia:** Okay. And sir, your gross margins have improved considerably in this quarter, which has also made you EBIT profit. So can you please explain, sir, what has been the revenue mix? Is it more product driven, less of EPC, that is one of the reasons why and we could see a lower number in next quarter? If you can give color on that?

- Kirti Vagadia:** No, I think gross margin wise, I always told you that please try to see us on annual basis because on quarterly basis, if business unit wise mix is different, the way you explain in this particular quarter where services are higher portion of our revenue, because we did only 67 megawatt in a turbine side. So naturally this will give you a distorted picture on the margin. So 44% is something which you should not be building in any of your projections.
- Harshit Kapadia:** But even in wind turbine generator per se as well, where the revenue difference is not much, but your PBIT difference is considerably high. So can you please let me explain that?
- Kirti Vagadia:** I think you are referring to segmental result, right?
- Harshit Kapadia:** Yes, segmental result, sir.
- Kirti Vagadia:** Yes. For segmental result, there is a consistency number. That is what you are trying to say or there is inconsistency in margin?
- Harshit Kapadia:** Sir, so the loss has turned to profit despite your sale volumes has not increased considerably on a quarter-on-quarter basis, if I am comparing that.
- Kirti Vagadia:** Correct. That is generally in the nature of scope. If you have a higher EPC or higher WTG supply, and that is why if we get into those details of what is supply and what is EPC every quarter, here JPC told you that we supplied 67 megawatt, but we commissioned more than 283 megawatt. So naturally there is a gap in supply versus execution. And that is the primary reason for what inconsistency you are seeing in the number.
- J.P. Chalasani:** I think it is purely, if you are looking at overall consolidated level mix of business segment-wise revenue and if you are looking at segment wise at WTG business alone, there are two variables: one is the supply and another one is the actual execution EPC. So, depending upon whose contribution is more, then the percentage will change. So our margins are higher in supply and that's it.
- Harshit Kapadia:** And sir, with the order book that you have, how much of the orders are for S111-120 for wind turbine?
- J.P. Chalasani:** I think the 111-20, we don't have any orders. We have a few 111 orders, but that's for 140. Otherwise, predominantly our other backlog is for S120.
- Moderator:** Thank you. Next question is from the line of Sudhakar Prabhu from Netsoft. Please go ahead.
- Sudhakar Prabhu:** Sir, my first question is again on this land thing in Gujarat. I was under the impression that Suzlon has all the land and other infrastructure in Gujarat to execute projects, but somehow this is something new to me that you are facing land issue in Gujarat.

**J.P. Chalasani:** Yes, the land what we have we were talking about is the state bidding, okay? In the state level, still, because till 1.5 years back all the projects were happening at the state level. Yes, obviously, you are right, we have the land, we also have the evacuation facility. But now currently in the bidding regime, these are all the projects which are getting connected to the power grid, national grid. So therefore, these are completely different set of lands. And even here the entire land identified, applied is in the middle of the processes. So that's where it got delayed.

**Tulsi Tanti:** So now I will explain about the Gujarat issue. The whole system has changed. Earlier FIT was there. FIT means you are putting a project and putting in the energy into the state grid. Now, it is a successful bidding process. So, whatever the state grid is no more useful and state grid-related surrounding sites are not useful for the SECI bidding process. And SECI bidding process, the substation and line is connected to the PGCIL. So where ever the PGCIL substation is there, so mostly in Gujarat the maximum capacity available is in the Kutch. So almost 10,000 to 15,000 megawatt potentiality in the Kutch is there. So that area in the state does not require much more energy, so Gujarat has most of the sites are in the Saurashtra for the state grid. And Kutch bidding is coming from the SECI. Out of 10.5 gigawatts, almost 4.5 gigawatt land and bidding has happened in the Kutch area particularly, where every party has done. These 4.5 gigawatt has created some problem in the state of the Gujarat, first of all. Because the state government has planned 30,000 megawatt, they want to build the infrastructure for the state requirement for the GUVNL to build in the next 10 years 30,000 megawatt to support this energy production for the requirement of the farmers load, to reduce the cost of energy because this area is very high windy sites and good potentiality of the solar is there. So they have done the planning of 30,000 megawatt to reduce their burden of the cost reduction for the farmers to make that happen. Meanwhile, the SECI has come to bid and 4,500 bid has happened on the same area. So that has created the conflict, first of all. And because of that now government has taken three to four months to resolve that issue. And now they have earmarked certain areas for the SECI purpose and certain areas they have earmarked for their state requirement of 30,000 megawatts. And that all these issues in the last three, four years the government has worked aggressively and resolved that. Now we see in this month, this 4,500 megawatts, it is not just Suzlon one project of 500 megawatt, it is the total industries, not a single megawatt has been given in the last four months. So all the projects of the industries, at a one stock in this month 4,500-megawatt land will be released and people will start working on those. And those project anyway will be installed and commissioned in the next year. So that large bunch is coming to resolve the industry's issues.

**Sudhakar Prabhu:** And for the 4,500 megawatt of land which would remain available to developers, is it fully connected with the grids?

**Tulsi Tanti:** Yes. And the 4,500 megawatt, the grid infrastructure PGCIL is available. Out of that, 3,200 megawatt immediately connection is possible. And PGCIL is also expanding the capacity and that will be sufficient in the next year almost 4,500 to 5,000-megawatt power evacuation is possible. So the both earlier was the power evacuation problem, after that land issues. So both

have been resolved, center and state government is working very aggressively, because the priority is the capacity has to come. And based on that now this all matter is resolved and the question of now to start the execution from next month.

**J.P. Chalasani:** Right. As far the power evacuation is concerned, it depends upon who is where. And as Tuslibhai said that, it would be available, there could be timing. But we can only comment upon the projects which we are executing. The SECI 2 we are doing there which we will be ready for commissioning shortly, in the next few weeks, and the Power Grid substation is getting ready. And similarly for our SECI 3 and SECI 4, we do not see any problem of the power evacuation being available by the time we are ready for that. So therefore, I think it varies from individual contract, individual contract where they are doing and what is the time line. Evacuation will be available. Will it match with the project commissioning or not? I think we won't be able to comment. We can comment only about our capacity.

**Sudhakar Prabhu:** Okay. And your SECI 3 and 4 would be also be in Gujarat?

**J.P. Chalasani:** Yes, SECI 2 is in Gujarat. SECI 3, as I mentioned some time back, is in Gujarat. One other project is EPC, the other project is supply and direction. And the SECI 4, which we are doing is also in Gujarat.

**Sudhakar Prabhu:** Okay, right. And sir, you mentioned that the 700 megawatt of AP framework contract could also be part of your order book by April of 2019. In addition to this, what else can we expect in terms of order inflow in the order book?

**J.P. Chalasani:** No, let me just clarify. What I mentioned the April 2019 is the tariff finalization with the regulatory commission. So because the public hearing we signed the PPAs, PPAs have been submitted to a regulatory commission. They have a public hearing at 23rd of February. So our reasonable expectation is that the process has started. The tariff finalization, most optimistic is in March, but realistic wise, end of April it will happen. So having said that, once that is done then the framework contracts are to get converted into firm orders. So for that I have not mentioned any date, but obviously that would happen soon after that at some point of time. But that is the capacity what is available for us which we have been saying always and that capacities would come for depending upon... we have a time of two years to execute those projects from the date of approval of PPA.

**Sudhakar Prabhu:** Right. And lastly, again coming back...

**J.P. Chalasani:** In addition to that, other pipeline wise, as I said some time back, the 3,200 megawatts which has not been awarded, it means no EPC contract has finalized till date of the awarded projects. We are talking to various investors. So therefore, we are targeting some of those projects. Plus we are also working to bid on some large investors for the SECI 6, where the bids have gone with the pre-bid tie-up. And obviously, we will also look at SECI 7 as well as the second hybrid, what is coming in.



- Sudhakar Prabhu:** Right. And sir, the SECI 5 order and the NTPC order, has the project been already awarded?
- J.P. Chalasani:** To our knowledge, no EPC contract has been finalized for NTPC and the SECI 5. They are still open.
- Sudhakar Prabhu:** So they should be finalized by within the next six months or it will take time?
- J.P. Chalasani:** No, it has to be finalized before that. These PPA dates will be July 2021 commissioning date. So therefore they have to get finalized on.
- Sudhakar Prabhu:** Okay. And lastly, sir, again coming back to your debt thing. So, you have been talking about debt reduction for almost one year now. And I understand that it takes times to complete the process. But what is stopping the company from closing the deal? Is it the valuation thing or is it more a procedural thing which is stopping the company from closing the deal?
- J.P. Chalasani:** Kriti will talk about the process, but let me correct about the guidance. We didn't say on the day one of this year that this could happen tomorrow.
- Sudhakar Prabhu:** No, I understand that, but...
- J.P. Chalasani:** We gave a yearly guidance saying that in this year our target is to reduce the debt by that. And some time back, Kriti has clearly mentioned that as we have given the guidance, by end of March we will see a clear progress in that.
- Kirti Vagadia:** Yes, basically see there is nothing stopping. You know that this kind of a transaction generally takes a lot of time due to a number of steps involved in the process. And unfortunately, I cannot give guidance on each step that where I am right now and what is stopping the process, because that will be too much sharing confidential details about the commercial transaction and which can have implications. So, basically, you need to rely on the fact that we are seriously working and there are good counterparties with whom we are working. And we have already demonstrated the confidence that you will see meaningful progress by end of this financial year.
- Moderator:** Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Tulsi Tanti for his closing comments. Over to you, sir.
- Tulsi Tanti:** We appreciate your interest in the company and concern with respect to the dynamic situation of the industries in the recent past. The industry is at the inflexion point and growth will pick up from FY20 onwards. With 10 to 12 gigawatt of the annual auction expected, India is positioned to meet its long-term target of the 60 gigawatt of the wind industry.
- By this size of the market India is becoming the third largest market in the world after the China and US. As the tariffs remain competitive, more and more states will be encouraged to

firm up their renewable energy policy and procure more and more wind and the solar hybrid powers.

So this is evident from the formation of the various policies with respect to the land allocation or forming of the state-wise wind and wind-solar hybrid policies. The government's focus on the renewable energy will drive the business visibility very strongly. As earlier I have said in the beginning, the calendar year 2018, 74% the new energy capacity added in our country is from the renewable energy. And we see that trend will continue for the next five years, because we don't have a very strong plan for the conventional energy source at this moment.

Also, see the investor interest is very, very strong, because India is becoming the third largest market in the world and China, US and India. There is very few opportunity for the large investor to invest in China and the US is becoming saturated, so there is a good appetite for the large investor to invest in a big way in India. Just an example of the last current SECI 6, the 1,200 megawatts size of the bid and demand has come out to 2,400, so 2x demand is there. So based on that now SECI 7 will come approximately 2,000 megawatt size of the bid to satisfy the demand on the market side. No doubt, challenges remain in the initial stage of the power evacuation, lands and other thing. I think now all that type of the issues is becoming streamlined and we see good executions, the strength and capability will grow in FY20.

Suzlon is ideally positioned to benefit from this huge opportunity, and we are able to garner 30% plus markets even in the growing market, given our core competitive strength. So the competitive integrated business model, end-to-end the executions, the stronger project execution experience spanning over the two decades, the superior cost competitive domestic manufactured technology displayed through our new generation turbine which offers the higher energy yield and lower the levelized cost of energy.

Most of the windy states we have our presence and we have a big and large installed capacity to manage such a high growth which is coming in the next year. Our fully vertical integrated operation is giving our strategy very, very competitive to manage the growth, not only that and they remain in the competitive market, we can be able to make our margin, also, because of our competitive strength.

We have best-in-class service and in the calendar year 2018 our team has delivered 98%-plus uptime of all our turbines, which is a great achievement in Indian market. And very large fleet we are operating and managing and optimizing cost and enhancing our margin to provide the better and better service to our customers. That is the key driver for the large financial investors to come and join with us to bid in the process. So that is a very clear opportunity we are taking.

The technology and innovation which are our key strengths will continue to act as a catalyst and that will drive the growth in our renewable energy sector. And at the same time, we are leveraging the domestic manufacturing capacity, which we have at large. So that is giving the good competitive and fast delivery of the projects. The service business will witness the good

growth due to the larger volume, which will then lead to the better margin over the next five years.

With that, I thank you all for joining us the call today. And we hope all your queries are answered. In case of any further question, kindly get in touch with our IR team. We appreciate your time and presence with us. Thanks a lot. And we appreciate your supports in the company. Thank you very much.

**Moderator:**

Thank you very much. Ladies and gentlemen, on behalf of Suzlon Energy Limited, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.