"Suzlon Energy Limited
Q1 FY'24 Earnings Conference Call"
July 25, 2023

MANAGEMENT: **MR. J. P. CHALASANI – GROUP CHIEF EXECUTIVE OFFICER – SUZLON ENERGY LIMITED**
MR. HIMANSHU MODY – GROUP CHIEF FINANCIAL OFFICER – SUZLON ENERGY LIMITED

MODERATOR: **MR. ASHWANI SHARMA – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '24 Earnings Conference Call of Suzlon Energy Limited, hosted by ICICI Securities. During this call, the company management may make certain statements which reflect their outlook for the future, or which could be construed as forward-looking statements. These statements are based on management's current expectations and are associated with uncertainties and risks as fully detailed in the company's annual report, which may cause the actual results to differ. Hence, these statements must be reviewed in conjunction with the risks that the company faces. Thank you.

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 operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mr. Ashwani Sharma from ICICI Securities. Thank you, and over to you, sir.

Ashwani Sharma: Yes. Thank you, Michel. Good afternoon, everyone. On behalf of ICICI Securities, we welcome you to the Q1 FY'24 earnings call of Suzlon Energy Limited. We have with us, the top management of the company, being represented by Mr. JP Chalasani, Group CEO; and Mr. Himanshu Mody, Group CFO. I hand over the call now to the management for their opening remarks, post which we'll open the floor for Q&A. Thank you, and over to you, sir.

J.P. Chalasani: Thank you, Ashwani. Good afternoon to each one of you for joining our FY'24, Quarter 1 earnings call. I hope you had an opportunity to review our results and the investor presentation released few hours back. We will now share with you an overview of the industry, and we will walk you through Q1 performance. We will then take your questions. With good policy initiatives from the government, the wind energy and renewable energy sector has got much needed impetus.

The 2030 GOI target of 500 gigawatt of non-fossil fuel-based capacities includes a healthy mix of wind and solar capacities. So, wind to extent of 100 gigawatt and solar to extent of 300 gigawatts. The idea is to have both solar and wind to coexist and not compete with each other. And this combination gives us the lowest cost of generation to meet the demand. This helps in diversity of the generation sources and is also healthy from the perspective of great health.

The fact that wind is also available during the late evening and night, when the power demand in India takes helps balance the power generation profile and also support the grid. Initiatives like discontinuation of e-reverse auction for wind, new regime being on a single stage two envelope closed bids basis is expected to lead to better tariffs discovery. There will also be a pooling of tariff for different states, which will reduce the average cost of procurement of power.

The good part is that under the new bidding wind capacity will come up in all 8 windy states, significantly opening up the availability of land and evacuation infrastructure. The MNRE has also announced a renewable energy projects bidding trajectory of 50 gigawatt per annum, which includes 10 gigawatts of wind from FY '24 to FY '28. There is also a monthly RE bidding plan in place for FY '24, which will be conducted through renewable energy implementing agencies like SECI, NTPC, NHPC and SJVN.

FY24 wind bid plan: 2.5 GW each by SECI, NTPC, NHPC & SJVN is totalling to 10 GW. Hybrid projects and C&I market shall further drive up the demand for wind, which will be over and above this 10 gigawatt per annum plan. Initiatives like ISTS waiver extension for COD projects till June 25 and gradual phasing thereafter will boost C&I segment and lead to huge demand of RE projects. Wind repowering potential of 25 gigawatts and green hydrogen mission targets, RPO, RGO obligations, green open access regulations, etc will further boost this sector.

Our cumulative orders of 1,582 megawatt include order book as on June 30, 2023, of 1,433 megawatt plus orders announced subsequently – and subsequently 149 megawatts – 1,433 as on June 30th and 149-megawatt thereafter. This is also well diversified and healthy order book. Our priority going forward is to pursue quality orders with a higher value and better margins. Our focus remains on executing and building our order book. Our service business continues to do well with 14.2 gigawatt capacity under our service. I would also want you to know about the business impact of cyclone which hit Kutch & Saurashtra regions of Gujarat during June 2023. It also affected our OMS operations in a limited manner and some of the customers' WTGs along with transmission lines and other HT network were damaged. Restoration works are on-going at the said wind farms, and these are expected to be completed soon. Net of expected insurance claims (on a conservative basis), the company has provided for an expenditure of Rs. 20 Crs during Q1FY24 towards restoration expenditure.

With strong fundamentals and strong sectoral tailwinds, Suzlon is now well equipped to leverage the market opportunity arising from energy transition. I would now like to invite Himanshu to take you through our financial performance.

Himanshu Mody: Thank you, JPC, sir and good evening, ladies and gentlemen. I would be using slide numbers 17 to 23 of our investor presentation, which has been uploaded on our website as the reference point for my discussion during this presentation. Q1 FY '24 has seen us register consistent improvement in all our key parameters. Our balance sheet gets even more stronger. And the fundamentals have strengthened with a focus on bottom line based on performance. We are pleased to report that we are ending the quarter with a strong consolidated net worth of INR1,297 crores. Our gross debt for the quarter stands at INR1,806 crores, which is a substantial reduction from little over INR13,000 crores in March 2020.

Our net debt as of 30 June 2023 is INR1,223 crores resulting in a net debt-to-net worth ratio of 0.9, which is less than 1, which is quite healthy. Our consolidated PAT for Q1 FY '24 before exceptional item, stands at INR93 crores. This is against Q1 PAT of the previous financial year FY '23 before exceptional items was negative INR37 crores and our Q4 PAT of FY '23 was positive INR68 crores. This is all before exceptional items.

With continuous focus on deleveraging of the balance sheet in the last financial year, we have achieved a substantial reduction in net finance costs, which for Q1 of FY '24 stands at INR51 crores versus INR148 crores in Q1 of the previous financial year, resulting in a substantial reduction of 66%. Being in the capital goods segment, it is important to look at the annual performance of the company rather than quarterly because in our case, quarterly performance is very cyclical due to mix of orders that we are able to deliver, climatic conditions allowing us right of way for implementation of projects, installation and balance of plant activity.

As a result of which, typically, in the first half of any financial year, we're able to deliver about 30% to 35%, whereas H2 is the balance. The economy being on the strong footing and as JPC sir said, sectoral tailwinds being even stronger for a renewed focus on renewable energy, it all augurs well for Suzlon at this time. With that, I'd like to conclude my presentation, and we can now open the floor for any Q&A that the callers may have. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We have the first question from the line of Abhineet Anand from Emkay Global Financial Services. Please go ahead.

Abhineet Anand: Thanks for the opportunity. So, first is on the standalone margin, if I see there has been strong uptick on the gross margin side, whether we see Q-o-Q or Y-o-Y. If you can just explain whether it is because of some good order product mix or how is it?

Himanshu Mody: Hi, Abhineet, Himanshu here. So, as I said in my opening remarks, I urge everyone to look at our overall annual performance rather than quarterly performance. Yes, you are right, there is an uptick in the Q1 margins at the contribution level. That is not necessarily representative of the margins that we may see for the next few quarters. So, I would say that the margins that we saw in FY '23 for the full year should be the benchmark or basis of what you assume for FY '24. Of course, the endeavour at the management is to keep improving on those margins. And with improved supply chain, inventory levels and increased focus on working capital. We are confident that we'll be able to improve our margins from FY '23 onwards. But having said that, you should not assume the Q1 FY '24 as the benchmark.

Abhineet Anand: Secondly, sir, this INR20 crores impact because of the cyclone is largely impacting the OMS margin, I'm assuming, right?

Himanshu Mody: That's correct. Yes.

Abhineet Anand: Okay. So, x of -- so I think earlier you guys used to give a guidance of around 40% on the margin for OMS, that could be a fair assumption?

Himanshu Mody: Yes. I think if you add back the INR20 crores that we should -- for this exceptional, then we would be at about a bit over 40% in operating margins.

Abhineet Anand: And in terms of order pipeline, if you can see if you can throw some light in terms of F24 crores, obviously, ordering for Suzlon has been good than some of the other players, so for the rest of the year, how is the pipeline looking? I understand there is a large tailwind to the industry, but from a pipeline perspective next 3 months to 6 months, how are the inquiries and all?

J.P. Chalasani: We are seeing continue to see the traction in order pipeline both from the bidding side, which is like utility PPA basis and also we are looking at a large interest in terms of the C&I segment, including the retail segment. Obviously, there's a lot of interest, and the interest also is more on -- the interest is also significant because of 3 megawatts having come out. So, the momentum continues. So, I would say that much. And we are looking at FY '25 as well as there could be potentially moving at some orders, which will get locked in even for beginning of FY26 because now the projects are like 24 months to 30 months kind of a thing like latest SECI bid it's has got the order to some other players and these things should now be coming for FY '26, so even those discussions are happening. So, we are quite optimistic about the order pipeline and the interest being shown from all sectors.

Abhineet Anand: Thank you sir. Those are my questions.

J.P. Chalasani: Thank you Abhineet.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial Services PMS. Please go ahead.

Amish Kanani: Hi, sir congrats on a good set of numbers. Sir, two questions one if you see the quarter execution looks relatively low vis-a-vis our order book. So, if you can explain what are the challenges on the ground for execution and I understand you said it first half will be 30%, 35% of the overall. But the situation the way it is, why should we execute so low when our order book is so high, so if you can give us some sense on the execution side. And second question, sir, is with the 3-megawatt order and also our orders being a mix of EPC versus non-EPC.

If you could give us some sense of whether our execution can be much faster in the second half of this year. And what are the kind of maybe directionally, if not exact numbers, what are the margin differences at the gross margin on the WTG side for the 3-megawatt versus non-3 megawatt and the EPC versus non-EPC, if you can give us some colour that will be really helpful, thanks.

J.P. Chalasani: Long list I could say. On the execution side, I'm assuming when you call about execution, you're talking about supply, you're not talking about the commissioning. For commissioning we did 283 megawatt which is significant it's 25% of the market end of quarter one and I'm assuming you're talking about supply, not about the commissioning, am I right?

Amish Kanani: Yes, sir. 135 megawatts is what I think we are seeing versus our outstanding order book?

J.P. Chalasani: There are two factors. The order book looks quite healthy. But if you see the presentation as well the slide, 50% of it is for 3-megawatt orders, okay. The supply of which will start in quarter four of this year. And as far as the 2.1 megawatts are concerned, the supplies will depend upon when did you get the orders. So, the orders would have been issued, and there the dispatch schedule comes from quarter two and quarter three and quarter four. So, the – normally the – when you have an order the site has to be ready and they should be ready to accept the turbines and when did you receive the orders, from that angle is what the schedule happens. So, most of this will come in Q3 and Q4. And Q4 gets added up because of 3 megawatts also starts coming in.

Himanshu Mody: Also, you must keep in mind, as I said, the climatic conditions, especially during fag end of Q1 and early Q2 create certain implementation hurdles on right-of-way as a result of which H1 is the sort of sales is more skewed towards H2. To your point on margins, as I mentioned earlier, you should assume FY '23 margin, the gross margin is something that we can definitely continue with whether we'd be able to better that or not, would be the only time will tell with more sort of inventory and working capital and supply chain getting streamlined. But that is the base case that you should assume.

J.P. Chalasani: And your comparison of 3 megawatts and 2.1 megawatts from the margin's perspective. Obviously, 2.1 megawatt is an established product where cost is established, whereas 3-megawatt is coming now. In 3 megawatt, not the turbine mainly the BOP cost comes down. So, therefore you take advantage of that and maybe you can increase your pricing. So, therefore just wait and see how the market plays and it depends upon both internal factors of cost-out, the initial rollout versus as we keep increasing the volumes and the BOP cost reduction for the IPPs.

Amish Kanani: And sir about EPC versus non-EPC?

J.P. Chalasani: Yes, right today is like two-third EPC and one-third of sort of non-EPC type of a thing, but it's changing with some few new orders coming. I expect that it would remain as a 50-50 or 60-40 in terms of EPC and it's like it is not just the EPC and non-EPC and we have categories like supply-cum-supervision alone, and there is nothing called in some places, we have supply and installation and in some places we have supply plus foundation plus installation and commissioning of turbine. So, there are different types of contracts are coming in now. And EPC is a pure EPC where we take the total but not the turnkey. We have a different contract for supply, BOP, land, etcetera and each contract doesn't talk to other one. So, that we get that -- we don't have the cross contract LDs coming on.

Amish Kanani: Sure, sure, sir. I have a few more, but I will get back to the queue. Thanks.

Moderator: Thank you. The next question is from the line of Dhaval from Girik Capital. Please go ahead.

Dhaval: My question is how much -- what execution are we targeting for FY '24?

J.P. Chalasani: Our guidance is, it depends upon what is your estimate for the country. So, our guidance will always been we would be reaching around 30%, 25% to 30% of the total country capacity addition. That's what we did in quarter one, if you see our numbers, but we are about 25% of the total capacity addition happened in the Q1. And we expect to maintain that 25% to 30% market share in terms of commissioning.

Dhaval: Okay. And given this current excessive rains and this flooding situation a couple of places. Is it causing any hindrance in our execution? And I mean, in just our overall operations of the company?

J.P. Chalasani: It is in terms of like there are our clients in that area who are where they are supposed to do the balance of plant and all the work, and we just do the supply & erection. We have done erection, but we're unable to commission because the balance of plants are not ready and other things are not ready. In some places where the erection is still pending, the crane movement is getting impacted. There is some impact definitely in Gujarat. But most of those projects are not most, the none of the projects are actually EPC contracts they are more of a supply-cum-erection supply cum supervision, but commissioning is impacted definitely. Otherwise, we could have done more than what we did in Q1.

Dhaval: Because in FY '23, we executed 664 megawatts -- and now versus that we have a very healthy order book still our Q1 numbers are not very exciting compared to the last year. So, that -- I just wanted to understand in terms of the profitability, what is it where are we -- I mean, why are we lower than the last year in the top line and also the margins?

J.P. Chalasani: Yes. I answered the previous question. The overall order book is definitely one difference point. And if you look at overall order book, 50% of that is 3-megawatt orders, which the supply would start from quarter four. So, suddenly, you will see the more quality coming in because that's a 3-megawatt versus 2 megawatts so therefore 10 turbines supply of 20 megawatts versus 30 megawatts, but that supply happens those orders are there 50% of our order book is on that capacity, but the supply of that would commence in Quarter 4.

So, before you will see such coming there. And second, as for the 2-megawatt is concerned, while orders are there, I just said some time back, it also depends upon when did we receive the order and what is the dispatch clearances we get some of the clients because many of these things are in their scope in some places the evacuation substation of power grid is getting delayed so they want to readjust the time lines. So, therefore as Himanshu said not just the numbers, the capacity also -- you'll seen it earlier as well. You can't really look at the quarter-by-quarter and then say that this is what is going to be the annual performance. There will be a number of factors.

Dhaval: Okay. So, if I want to understand this 3-megawatt more clearly, so 50% of order book is 3-megawatt and assume we do say maybe 800-megawatt of execution for the current year, for example, so 50% of that will happen in fourth quarter that didn't mean that?

J.P. Chalasani: No, no, no. Out of the existing order book, 50% is for 3 megawatts. So, we are not saying 800 assumption. So, I'm just quoting your number, 800, if we take it, 50% of that will be 3 megawatt, no, we're not saying that. So, these two are two different things. The 3-megawatt supply will commence in quarter four. So therefore, the volumes will significantly increase in quarter 4 because that's where it's coming in. Till then we keep supplying 2 megawatts, but the ratio will not be 50-50 for this year. Order book is 50-50, but the ratio of 2-megawatt and 3-megawatt won't 50-50 this year. 2 megawatt will be more and 3 megawatt will be less.

Dhaval: Correct. So, a lot of it 3-megawatt will be executed in Q4 this year than Q1, Q2 of next year?

J.P. Chalasani: Yes, and then FY25.

Himanshu Mody: So, just to add also to give you another factoid. So, if you see FY '22, the total deliveries in FY '22 was 808 megawatts. And those were all 2-megawatt turbines. Now, in Q1 of FY '22, we did 116 megawatts of deliveries. I just leave those two data points to address your concerns.

Dhaval: Understood. And so technically the yield for the customer is higher and also for us, the profitability should be a little higher in 3-megawatt turbine. So, then your profitability also should be much better in '25 compared to '24?

J.P. Chalasani: Let's see when we come '25, obviously, we will have these earning calls and we will keep seeing the results. We'll keep discussing.

Dhaval: Okay. Thank you, sir.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference. Please limit your questions to two per participant. Should you have a follow-up question. Please rejoin the queue. Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Thank much for taking my questions. Sir, just I wanted to understand the first up, so what is the capacity addition at the industry level we are looking at maybe this year, any sort of benchmark we have?

J.P. Chalasani: This is anybody's guess. So, anything towards the north of 4 gigawatts.

Deepak Poddar: Come again north of…

J.P. Chalasani: 4 gigawatts and then up to 5 gigawatts is what is the estimate -- and let's say, in the quarter one, if you look at it, quarter one we did about 1,140 megawatts.

Deepak Poddar: So, 1,140 was the addition in the first quarter, right and for the entire year, I could not get the number sir?

J.P. Chalasani: It is between anywhere between 4 to 5 GW, let us say, 4.5 to 5.

Deepak Poddar: 4,000 to 5,000 megawatts around about that.

J.P. Chalasani: Megawatt and not gigawatt I wish it is gigawatt, but it is megawatt.

Deepak Poddar: Yes around 25% to 30% is the market share that we are looking at. So, ideally from 1,000 to 1,200 is the range that we might look at, I mean, ideally?

J.P. Chalasani: The simple correlation for your assumption we gave you both.

Deepak Poddar: Understood. And sir do we see any risk that the 3-megawatts, which is expected to start from fourth quarter it might spill into in FY'25 itself and nothing comes in FY24?

J.P. Chalasani: No, we don't see anything because this is already type test certificate has come from third party and it's already lodged for the RLMM listing. Listing is also expected to come in this quarter. So, then we are full geared up from the manufacturing point of it. I don't think we see any problems in terms of...

Deepak Poddar: Understood. And the clarification, you mentioned that FY '23 should be the benchmark margin for FY '24 -- so you're talking about the gross margins here or the EBITDA margins?

Himanshu Mody: No, no. We're talking about the gross margins.

Deepak Poddar: And sir my final question is on your threshold margin. I mean, whenever we take any kind of orders, so what is the minimum threshold margins at the EBITDA level that we look at...

J.P. Chalasani: No, no, no. I don't think -- it varies. We can't really answer simply by saying that order-to-order, it depends upon a number of things, we are just taking supply, or we are taking supply cum supervision whatever the risk we're taking it, at which stage it is. There are a number of other factors and which time of our production cycle comes. So, it's not possible to say that each order what margins are there. There are number of variables coming into picture.

Himanshu Mody: And let me just clarify because we have said this on a few occasions in this call. So, when I say FY '23 as a benchmark, that is for standalone contribution margins, not for the consolidated.

Deepak Poddar: Standalone, right?

Himanshu Mody: Yes.

Deepak Poddar: Fair enough. I understood. That's it from my side. Thank you and all the very best.

Moderator: Thank you. The next question is from the line of Nikhil Abhyankar from ICICI Securities. Please go ahead.

Nikhil Abhyankar: Sir, my first question is regarding can you brief us about the idea behind the fund raise that you have just announced because we have significantly reduced our debt in the last three years. So, what is the rationale behind this fund raising now?

Himanshu Mody: So, the thought process essentially is, of course, as you know, there's gross debt of about INR1,800 crores, and there are certain capex requirements plus to ease out the working capital. Of course, there are certain covenants that they are there from a lender perspective. So, when a lender looks at growth of a company that will be very different from how an equity investor looks at. So, long as that debt continues in the company at these levels, we would be tied to those covenants.

Now the optionality between before the company management is very simple that we continue on a status quo basis, which is no need to do any fund raise, keep performing whatever working capital we are able to generate, keep delivering basis that we will still have a decent market share. But if we need to sort of have a good chance in getting market share, which is in excess of 30% as we go forward.

I mean, not so much for FY '24, but FY '25, FY '26 onwards, then it probably makes sense for us to look at some kind of an issuance that we are thinking of which enables us to make the balance sheet debt light or near debt-free. And also releases some cash for working capital and capex needs of the company over the next few quarters. So that is the intention of the management. Of course, the size and type of issuance, we will decide in the next few weeks and based on that as and when we make any progress or development, we will come back to you.

Nikhil Abhyankar: Understood. So, the entire fundraising will be used for debt reduction for current debt reduction.

Himanshu Mody: Well, it depends on the size of the issue. As we've taken enabling approval from the Board of fundraise of up to INR2,000 crores, and that is currently impending shareholder approval. So, whether we do up to INR2,000 crores means, we could theoretically do full INR2,000 crores or we could do less. That is something we will be deciding as I said, over the next few weeks and we'll come back to the markets, accordingly.

Nikhil Abhyankar: Sure. And the final question regarding the C&I segment. So, what is the kind of response you're getting from the industry and which segments of the industry are really interested in this segment?

J P Chalasani: Right now, the between C&I and retail, particularly what do you call it, what the C&I is, or order book is more than 50%, 55% plus is coming from that segment. The C&I segment is predominantly like one is smaller segment where 35 megawatts, 30 megawatts, 50 megawatts. But there's a bigger segment of large industries, where they have a captive requirement, which today is happening on fossil fuel. They want to replace that with renewables. Just an example, giving two names like Birla or Tata Steel or the Sterlite, there are various big companies, who are trying to do this.

And my assumption is that this would further in the next few years, start immediately, further go up because once the hydrogen picks up but that's few years away anyway, we all know. But once this initial C&I segment of replacing the existing captive capacity with renewable gets fulfilled in let's say, next couple of years, where you will see significant uptick in terms of demand. The hydrogen would pick up by then. So, renewable energy for hydrogen, that again would be more of a C&I segment.

Nikhil Abhyankar: Understood, sir. That’s all from my side and all the best.

Moderator: Thank you. The next question is from the line of Vikram Sharma from Niveshaay Investment Advisory. Please go ahead.

Vikram Sharma: Hi, sir. Thank you for the opportunity. So, first question, we think we can 90 lakh per megawatt around...

Moderator: Mr. Sharma, your audio is not clear. May we request you to use your handset to ask a question please.

Vikram Sharma: So, I was asking, we say 90 lakh per megawatt around contribution, and we have the fixed expenses of around 500 -550 Crore. So, I wanted to know break up of INR500 crores fixed cost. And I also want to ask if it will remain same, if we do like 3 gigawatts if we -- once we add our 3-megawatt capabilities, so what will be the fixed expenses for company per annum?

Himanshu Mody: So, let me just try and understand the question because audio was a little faint. So, in terms of contribution margin, as I've said, I'm not commenting on rupees, lakhs, but one should assume mid-teens as a contribution margin, which is what we did in FY '23. And as I said, we'll endeavour to improve on that, but you should not take that as an assumption.

So far as fixed costs are concerned, yes, our fixed costs are approximately INR500 crores on the manufacturing side. We won't be able to give a split of that, but that is various corporate functions, our technology group, R&D team, manufacturing facilities all put together. So, we won't be able to provide a split on that. And for -- if we -- even once we get 3-megawatt turbine into serial production. We don't see a significant increase in the fixed costs other than what inflationary increases would normally be there.

Vikram Sharma: And sir, second question, what will be our 3-megawatt-plus capacity in FY '25?

J P Chalasani: Let's see. Right now, let's not go into that because the first requirement is the quarter 4 stabilizes and then look at the FY '25, what would come. So, the -- right now, we are getting in different modes. It all depends upon what is the blade capacity. So that's where I want to leave it.

Vikram Sharma: Okay**.** And sir last question on O&M portfolio side like what...

Moderator: Sir, you voice is not muffled. We are not able to understand what you're speaking.

Vikram Sharma: So, I was asking what is our revenue per megawatt on O&M portfolio side? And what is the expenses on that side?

Himanshu Mody: So again, if you see the investor presentation, we have given details of the -- each business and certain broad KPIs, so Slide number 20 on the investor presentation, you will get the detailed answers to your question.

Vikram Sharma: Thank you.

Himanshu Mody: Thank you.

Moderator: Thank you. We have the next question from the line of Priyesh Babariya from Max Life Insurance. Please go ahead.

Priyesh Babariya: Thank you so much, sir, for the opportunity and congratulations for the good set of numbers. Sir, you just rightly mentioned that our fixed cost is around INR500 crores or so, and it is expected to increase when we execute 3 megawatt portfolio. So, can you please elaborate on the same?

Himanshu Mody: No. That's not what we said. We didn't say the fixed cost will increase. We said, in fact, the fixed cost will not increase if we add the 3-megawatt portfolio from Q4. The only increase will be on account of normal inflationary cost increases. That's it. So INR500 crores would not see an increase.

Priyesh Babariya: Okay. That’s all from my side. Thank you.

Himanshu Mody: Thank you.

Moderator: Thank you. The next question is from the line of Vineet Gala from Xylum Investments. Please go ahead.

Vineet Gala: Sir, you have mentioned about these government orders of 2.5 gigawatts being floated by these four entities. Sir, recently, NHPC mentioned that they would want to focus only on solar. So how do we see this? And what is the level of commitment have these four entities already given on these orders to be floated?

J P Chalasani: See, directionally, the government said that we will do 50 gigawatts per year bidding and another 10 gigawatt is for wind. That's one direction. Second thing is the pure solar is not the recommended route today because solar is already touched. As I said that the last time, also we discussed, when you go to 2030, as per the CEA detailed study, if you want to meet the grid demand, not talking about the captive demand, grid demand in 2030, least cost option, they said is 300 gigawatts of solar and 100 gigawatts of wind. Okay.

Obviously, we all know that in India, we are extremely sensitive to the tariff. And that is a least cost option, whether you do it pure solar, pure wind ultimately needs to be based on RTC. Therefore, the wind, especially now if we see the last few months, there's an uptick on the wind because the wind has to catch up. There is two types of hybridization. One happens at the project level.

Second happens at the grid level. There is more question on wind to do it. In fact, if you see that SECI had issued the RFS for 2.5 gigawatts of wind. And NIT they issued; they're supposed to come back with our RFS. So, the -- it is not -- we always said it is not solar versus wind. It's is solar and wind and what the required for grid stability plus which is the least cost generation.

So, therefore, directionally, the government is also saying, if we are at 43 gigawatts today, we need to go to 100 gigawatts of wind by 2030. So therefore, we will first focus on that part of it. If somebody is coming up with pure solar, so be it. But ultimately at the end of the day, this will meet the global study of 300 gigawatts of solar and 100 gigawatts of wind.

Who does pure solar, who does pure wind is not an issue, but I think directionally, this is where we're going to go. And obviously, when it comes to the C&I segment, we -- it is like -- again, they will do a hybrid, depending upon the load profile of the captive load, and they will do the other calculations.

And also, if you see the profile of wind in terms of the demand versus the profile of solar is different. They together is good. And if you look at pure wind wise, wind gives a better profile at the time of grid demand.

Vineet Gala: Right**.** So, like all of this put together and given our conversations with the OEMs from 4 gigawatts of installations built there, how do we see next couple of years timing now given that these 10 gigawatts worth of orders only from government and then you have C&I segment. So how do we see basically the installation flowing from the current levels?

J P Chalasani: Yes. See, the thing -- what happens is that the time 10 gigawatts of order, then fructification of order into a reality. Because you've seen even earlier orders, there's always a lag, how much awarded, how much commissioned, we all know the numbers. We should take these 10 gigawatts, we should take C&I and at the end of it, all this put together the x megawatts is what going to get sort of fructify in the year.

The government is talking about, let's say, even if you take this target at 2030, you need to do about 7 gigawatts to 8 gigawatts every year, we are at 43 gigawatts today. So therefore, let's say, the range of 7 gigawatts to 8 gigawatts is what is the requirement, then it depends upon the infrastructure, it depends upon the crane availability and supply chain and if a supply chain not just a pure WTG because component supply chain looking at globally, what's going to happen.

All these things will play a role, but the government is hoping that, we will reach 7 gigawatts to 8 gigawatts shortly.

Vineet Gala: Fair enough, sir. Sir, my last question is on the O&M segment and the margin. You mentioned like we had the cyclone impact of INR20 crores, even adjusting that, on a year-on-year basis, the EBIT margins are off by 10%. So, what is the sustainable margin to look at? You mentioned 40% but most like our competitor is doing a much better number than that. So, I just wanted your view as to how to look at this segment and the sustainable margins thereof.

Himanshu Mody: So, on margin, I would say that EBITDA margin would be a little over 40% is what one should assume given the scale of the capacity that we have, which is 14 gigawatts plus already installed. And of that, close to about 13 gigawatts of revenue generating, while it's about close to 1 gigawatt is under warranty period still. So, I would say that look at the margin profile as being 40%. I don't want to comment on competitor margins. That is your analysis from publicly available data. But from our perspective, that's what we should look at.

J P Chalasani: I will also expect you to look at the margins of comparative competition. Okay. That would give you the real test for this.

Vineet Gala: Fair enough, sir.

Moderator: Thank you. We have the next question from the line of Dhaval from Girik Capital. Please go ahead.

Dhaval: Yes. Sir, my question is with regards to the managing the raw material volatility. So given we have a lot of bought-out parts for our turbine, now from the time you -- sir, you have order book currently and till the time you ship out the final turbine and the steel price goes up by 20% and some other raw material goes up by whatever percent, how does that adjustment takes place with regards to passing on because that can eat up a lot of your EBITDA?

J P Chalasani: See the input cost for any component will depend upon two factors. One is the fair input price. That's the steel what you said. And second thing is the demand. These two actually make the difference. As a sales is concern in all over the contracts, now it's a pass-through. So, on the steel price, it's a pass-through in our contract. So therefore, that's we are hedged in that way, the contract is.

And that's how the commodity is concerned. And as for the component, other price is concerned, we keep placing our orders or relationships so you can manage. So therefore, we've been managing this for a year. So how do we -- how to do with vendors but as a steel price is concern, there's a pass-through in the contract with...

Moderator: Sir, the current participant has left the queue. We move on to the next question, which is from the line of Eshan Bhargava from Emkay Global. Please go ahead.

Eshan Bhargava: Hi, good evening, sir. Thanks for the opportunity to ask the question.. I'll ask simple question. What is the capital expenditure that you envisage for the next two years?

J P Chalasani: Himanshu, a simple answer.

Himanshu Mody: Yes, I wish there was a simple answer to that. So, for possible next two years, I don't think, we are in a position to project right now. But in this year, especially FY '24, our sustenance capex is about INR100 crores, which we will certainly, of course, continue. In addition to the sustenance capex, we envisage an additional capex of a little over INR200 crores to be incurred in FY '24 and that's largely due, adding further mould capacity of our 3-megawatt turbine.

Eshan Bhargava: Understood. Thank you.

Himanshu Mody: Thank you.

Moderator: Thank you. We have the next question from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Choudhary: Yes. Hi, sir. So, I just wanted to understand on the O&M side, once we deliver a certain turbine. So usually, when does the O&M revenue start coming from the same? Like what's the time horizon on that?

Himanshu Mody: So, from the commissioning date depending on the contract, there is typically two years to three years of warranty period, which is free OMS that is built into the sales price of the turbine. So, most of our contracts would are three years. So typically, from, let's say, 37th month onward from commissioning is when the billing for O&M would start.

Pradyumna Choudhary: Understood. So, suppose something is getting commissioned today, so we can assume that the revenue will start flowing in 2026? O&M revenue.

J P Chalasani: Yes, depending upon which month. So, suppose, if plant start in July is done and then obviously another thirty six months…

Pradyumna Choudhary: And usually, these contracts are for how long?

J P Chalasani: The contracts are normally for full life of the turbine. But then, there are a review clauses. So, it varies, somebody says, it's 10 years, somebody says it's 12 years. And segment-wise, retail is different but its normally full life.

Pradyumna Choudhary: Even in the corporate side, that's the idea. Usually, it's for the full life, at least 10 years, 12 years?

J P Chalasani: Yes.

Pradyumna Choudhary: Understood. Thank you, sir.

Moderator: Thank you. We have the next question from the line of Faisal Zubair Hawa from HG Hawa and Co. Please go ahead.

Faisal Hawa: We now have a promoter stake, which is one of the lowest in the corporate world. How will the promoters ever have any skin in the game with such a low promoter stake? And secondly is that, if there is this huge explosion of orders that comes up from corporate India also going to green energy, we may again short of capital because -- so will we again go towards the debt route, or do you have something else in mind?

J P Chalasani: See the first one, skin in the game. Everyone knows what the skin in the game of Mr. Tulsi Tanti, not just Suzlon, in the sector as well. Okay? So how they've been up and down, the stake is down for different reasons because of the journey of the company and even today, the Chairman and Vice Chairman from the promoters and they have completely deep interest. And so, it's the one, that they have started.

I don't think, it's just dependent upon what are the stake, especially the extent of involvement and the commitment. On the second issue, yes, so, you want to add?

Himanshu Mody: Yes. So, to further add on to that, one must not forget that close to INR250 crores has been pumped in by the promoters in the company, in the last two years by way of rights and the preferential allotment. So, I don't think, if they are willing to commit this kind of capital. So, I don't think one should be wanting to question the commitment despite low stake. And -- so that's one.

On your second point, there is such an explosion of orders, would we really come back to the capital markets. Difficult to predict the future. But I would say sitting here today, my best-case assessment would be unlikely because there are other pockets of assets within the company which we would look at value-add or monetization, which, of course, we've not lost our focus on. That is something will take precedence should such a capital raise be required in the future.

Faisal Hawa: So, what kind of capital would these assets be able to raise? And do you feel that these assets should get a better price if there's an explosion of orders?

Himanshu Mody: Very difficult to say. I mean what kind of capital raise, definitely, I cannot answer your question. To your second point, logically, the answer is yes. I mean if there are some tailwinds. And then of course, the answer is yes. But the first one, very difficult to answer.

Faisal Hawa: Thank you.

Moderator: Thank you. We have the next question from the line of Rohit Bahirwani from Vijit Global Securities Private Limited. Please go ahead.

Rohit Bahirwani: Yes. Thank you for giving me the opportunity. Sir, can you please provide the value of orders in megawatt that you'd be able to complete in the next three quarters, that is before 31, March '24?

J P Chalasani: We said the 1,582 megawatts is the order book as on today working order book, and we've already done 135 megawatts in the quarter 1, and then, we also said that, more than 50% of this for the next year, the balance is for this year. I won't be able to give a guidance of how much we will do it, but we will be able to what order approximately, what it would be.

Rohit Bahirwani: So, you are saying more than 50% order book is for the next year and less than 50% is for this year, am I right?

J P Chalasani: 50% is for next year, 50% is for this year.

Rohit Bahirwani: Okay. So, my second question is, though the WTG revenues are down, volumes are down, but the realization seems to have improved, which is around Rs 6 cr per megawatt. So, can we expect this to continue in future as well? Is this realization sustainable in the future?

Himanshu Mody: I think the realization, again, I will say what I said in the opening remarks that one should look at on an annual basis. The realization may have been stuck slightly in Q1. But maybe other than small fluctuations, we should be able to get close to those realizations. And of course, it also depends on the order mix of EPC, non-EPC but all of that remaining same, realization should not waiver much.

Rohit Bahirwani: Okay. And my last question is, why has there been a decline in O&M PBIT, if you compare both quarterly as well as on a Y-o-Y basis?

Himanshu Mody: So again, when we said that, there has been a onetime cost of about INR20 crores in the O&M business on account of the cyclone in Gujarat. That is largely led to the decline in Q1.

Rohit Bahirwani: Okay, sir. Thank you.

Moderator: Thank you. The next question is from the line of Suman from Rajiv Capital. Please go ahead.

Suman: One of the questions has been previously answered. So, I'll just ask you futuristic question. We see that offshore wind energy is coming to starting in India, so how is Suzlon taking his view on offshore wind energy? And the second is regarding the debt fund raising, when would you be taking the approval of shareholders for postal ballot, any idea? Thank you.

J P Chalasani: Yes, on the offshore, fine. There are talks about offshore and obviously, at some point of time, it may come. Like we said India as well, we would be ready, as in when India, it's going to be ready for offshore. Having said that, offshore is still a difficult proposition for India in terms of tariffs because we are quiet, as you said sometimes back, we are extremely sensitive to the tariffs.

The offshore abroad, like Europe and offshore in India are different because the incremental generation versus incremental cost ratio is different. Incremental generation from onshore to offshore is not very high, but incremental cost is very high. So, the tariffs are expected to be very high. So therefore, while we might do some experimental in offshore, but it's still, in our view, that it's a bit way offshore. And having said that, if we pick up, we would be ready with offshore turbines.

Suman: Thanks a lot. Regarding my second -- regarding the debt fundraising...

Himanshu Mody: Firstly, to clarify, the resolution is not for a debt fundraise. So that's number one. Secondly, the postal ballot has already gone, been dispatched about two weeks back to all the shareholders. So, by first week of August is when we expect to receive approval from all the shareholders of the postal ballot.

Suman: Great. Thanks a lot. That's all.

Moderator: Thank you. The next question is from the line of Dhaval from Girik Capital. Please go ahead.

Dhaval: Yes, hello. Okay, so continuing the question on this raw material thing, sir. So, if there's a sharp volatility of 15%,20% kind of thing on the steel prices, so does that also hedge us in terms of our contracts for the pass-on?

J P Chalasani: Our answer is affirmative, yes.

Dhaval: Okay, great. Sir, my second question is on this INR20 crores hit on the O&M side. If you can quantify, because that's a very large amount, and so where was this, what is it regarding, regarding the cyclone, like what was that loss?

J P Chalasani: See, what happens in a cyclone, we got the, we had the transmission line getting collapsed, which is actually, of course, we managed to get the Gujarat government agency, but the turbines shut down, they spend that money. So therefore, the insurance coverage is not there. And the second, what happens is number of turbines, there'll be small, small issues like what in this, and things like that, where you spend some money, but that the insurance will also have the minimum deductible thing, so therefore the client doesn't get full insurance. Wherever there's an insurance we get it this is net of that is what this INR20 crores.

Dhaval: Okay. And sir, one clarification I wanted on the fundraising. So, this fundraising, the equity fundraising will happen in the entire in the parent company or something can happen, the chances of happening in the O&M subsidiary also?

Himanshu Mody: So, the resolution right now that has been moved for postal ballot approval by the equity shareholders is for equity issues at the parent company in the list code.

Dhaval: Okay and sir, the fully diluted number of shares will be as on today will be 1267, right, the figure?

Himanshu Mody: Yes, while including for ESOPs, so about 20 crores shares have been approved by the shareholders on account of ESOPs. So, after that, adding that 1267 is the right number. Assuming that, all the ESOP shares will get vested and granted, which of course will happen over a period of time. Currently other than ESOPs, about 1247 crores shares is the fully diluted capital of which roughly about 5 crores shares still remain outstanding as partly paid and about 1242 crores shares is fully paid up.

Dhaval: Okay. And sir, what are our plans for SE forge in terms of any capex would be required there? Like, if a kind of opportunity what we are seeing, how are we placed there?

J P Chalasani: Yes, we expect the significant opportunities for SE Forge. There is a little capex, but that can be met from their own revenue. We don't need to raise any separate capex. In SE Forge, right now we're working on is the, like you look at quantity, we're looking at the productivity improvement, number of castings per day and things like that. So, the--yes, because right now our utilization levels are very low, which is about 19%, 20% levels. So therefore, there is significant surplus capacity available both in forging as well as foundry. We don't need the capex, plus also there is possibility of some operations outsourcing.

Our focus is now on SE Forge to see that how do we actually capture the market much more. We are just about 2% of the total wind market globally. So, we can separate global wind players. So, we're quite, the focus on SE Forge now.

Dhaval: Okay, so that's 19%, 20% as of quarter one revenue. As per quarter one revenue is the utilization level?

J P Chalasani: Yes, that's normally that's been the range for quite some time, not just the quarter one.

Dhaval: Okay, thank you.

Moderator: Thank you. We have the next question from the line of Priyansh, an individual investor.

Priyansh: Hello, my first question is regarding these ISTS charges, which are going to be like incurred for the COD after 30, June 2025. So kindly advise that, how this, how Suzlon is gearing up for this scenario after two years?

J P Chalasani: No, it is not for us to gear up, it's basically for the IPP. So obviously there will be pressure for, commissioning by 30, June 2025 to get 100% waiver. Thereafter, it's also a tapering, which goes to 75%, 50%, and 25%, depending upon, where the commission is. It's not completely becoming zero post-June 2025. So therefore, especially the C&I segment, there is a lot of urgency for meeting this 100% means taking advantage of this 100% waiver on ISTS.

Priyansh: Can you please speak slowly so that your voice is clear, sir?

J P Chalasani: Yes, see this 2025 June commissioning is for 100% payable on ISTS charges. For the life of the project. And it is not 1 and 0 after that. It tapers down to 75%, 50% and 25% as we move ahead. Okay. Like it becomes 25% charges, then 50% charges, then 75% charges. Having said that, the sunset clause for 100% is June 2025, there will be more pressure, means there will be more orders, more pressure for commissioning the projects before that time, especially in the C&I segment.

Priyansh: That is totally understandable and that's totally like in implied, but the question is that do we have this pass on close? Suppose, for example, whatever order now we are receiving, so like everything may not be commissioning. So, suppose the order will be receiving after six months. So definitely it will stretch to the next year like beyond June ‘25 also. So, do we have this clause like VAT for example, GST like, will we be able to pass it on to the customer or not?

J P Chalasani: No, this we have a contractual schedule. And as far as we are concerned, we have nothing to do with ISTS charges. So, we need to deliver as per the contractual schedule. And we don't take any liability with respect to the ISTS charges being. There could be different reasons, their project gets delayed. So, we don't take any responsibility for ISTS charges.

Priyansh: One thing is there, what I'm saying is, sir, like suppose if you are getting some order, for example, in the September ‘24, for example, so definitely it will be commissioned beyond June ‘25. So, my question is that, whatever we will commission beyond June ‘25, the ISTS will be recovered from the client or not? That's my question.

Himanshu Mody: Sir, please understand our business model is to supply turbines to customers, who are availing these ISTS benefits. So, when the customer is placing an order to us, as per our delivery and commissioning schedule, we have to deliver and commission the turbine by a certain date. Now, if we, in your example, if we get an order by September '24, and the order says that we have to deliver and commission the turbine by let's say March '25, then we have to do that, there is no question. If we agree to that schedule and if we, whether he is able to avail ISTS's benefit or not is his problem, not ours.

Priyansh: So, means, it is not a charge to us?

Himanshu Mody: No, it is not. So, my suggestion would be, you connect offline with our IR team, they will explain this to you. It will require some detailed explanation.

Priyansh: No problem. Number two sir, regarding our standalone financials, our standalone financials are definitely like not very good. For example, it is our PBT is in loss only, whereas our this console is in profit for example. So, what action or what corrective action we are taking to turn around our standalone financials like for the pruning the cost or like this capacity like this exceeding, whatever like. What is the external plan to bring the standalone to profitability?

Himanshu Mody: So, we are working towards that. We will, of course, keep coming back quarter-on-quarter. And I would urge that because, yes, there are three different subsidiaries, or rather two active subsidiaries, that are adding to the consolidated profitability. And all businesses are very closely connected with each other. We urge you to look at the consolidated numbers. So far as standalone legal entity profitability is concerned, hopefully with time, we should get there, but very difficult for us to comment anything specific on that.

Priyansh: No, but sir, like with regard to console also, if you see the segment accounting, we are in almost in like, almost in our like segment, which you can say like gross profit is only like INR5 crores only profit and ultimately, it's loss only. The profit is coming only from the O&M. So, what are we doing to have the product, like a sale, like generating profit from the product sale. And, there too a recently, the raw material have also soften.

So, but like this impact we are not seeing much here. So, the question is that our core is the product, for example turbine, there we are not making profit even in the console also. The profit is coming INR100 crores to INR135 crores is coming only from O&M only. So, what are we doing for that, sir? Like why don't? Like, why don't we reduce this, this fixed cost? Or like, why don't we defer the ESOP? Because we are in losses, like we are doing like a little bit of profit.

So, I will not consider the profit considering a lot of these things. Or, or even if it is small profit, we are too liberal and give INR20 crores for example, ESOP. So let us do something, I don't know, something, for example, even in the case of Wipro, like this, the Chairman of Wipro, has taken 50% hit in their salary. Even the CEO has taken a hit on the salary.

So, what I'm saying, let us do something so that for one year, two years, if we reduce the cost, payroll cost, ESOP cost or the other cost, at least the company can turn around. And like, once it is turned around, definitely its value will be higher. And then like, we can definitely reward the employees also?

J P Chalasani: Thank you, I think good suggestions, we'll look at them.

Priyansh: Thank you.

Moderator: Thank you. Ladies and gentlemen, we take that as the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you.

Himanshu Mody: I think, thank you very much for attending the call and taking time out today. For any follow-up queries or questions, me or my IR team are available. You can reach out to us, and our presentation is available on the website, and we will see you in person over the next few months or speak with you during the quarterly call results. Thank you so much.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.