



“Suzlon Energy Limited’s Q1FY14 Results Conference Call”

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Moderator

Ladies and gentlemen, good day and welcome to the Suzlon Energy Limited's Q1 FY14 results conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Please note that the duration of the call is 60 minutes only. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tulsi Tanti. Thank you and over to you sir.

Tulsi Tanti

A very good afternoon to everyone. Thank you for taking the time to join us. I am joined today by Kirti Vagadia our group head of finance and Amit Agarwal – Suzlon CFO along with our investor relations team. I hope you have had a chance to review our investor presentation which is available on our website www.suzlon.com. First I would like to share some key aspects of the first quarter results then as usual we will be happy to take any of your questions. We believe that the business we are now is trending towards the normalization. This is a result of our work in the last fiscal to stabilize the business. Just looking at the Suzlon wind level execution was 219 MW this quarter compared to 250 MW we executed during the whole of the last fiscal. This shows a very clear progress which is going in the right directions. Our group order book remains at solid \$7.1 billion giving us the good visibility for the next 12 to 14 months and showing that our customers have good confidence in us. The project transformation is delivering the group opex down 31% quarter on quarter; head count is down by the additional 1000 employees. Working capital is also down to 11.4% of the sales compared to 13.6% at the fourth quarter of last fiscal. However it is disappointing that we still posted a loss, it is important to remember that historically speaking first quarter is always the weakest quarter due to lower volumes. Also the exceptional depreciation of the rupee has impacted our result to the tune of Rs. 155 crores or \$26 million. And we incurred the one time restructuring cost of Rs. 136 crore or \$23 million at the REpower level. Moving forward the domestic market is regaining momentum and with our market share here in India we expect to benefit from this. We are also seeing a real interest being expressed from the new emerging market as well as Brazil and South Africa where we already have a major presence. At the REpower level, we are seeing a significant moment in the more developed market of Australia, Canada and Europe. Clearly we still have a lot of work to do. Turning the company with the size and complexity of the Suzlon Group was always going to take some time. However we are working aggressively with the total focus on our key priorities. #1 and highest priority for us is absolute focus on executions. We are reducing opex, optimizing working capital and rationalizing the headcount even further. We continue to invest in R&D to optimize yield and reducing cost of energy and ensure we have the right product in the right market, driving the non-critical asset disinvestment program aggressively. Maintaining in growing our quality order book and focusing on the core profitable markets and through this we firmly believe we are now moving towards the normalization and we look forward to reporting further progress as we move through the fiscals. Now we are happy to take any of your questions and once again thanks for your patience with us.

- Moderator** Thank you very much sir. Ladies & gentlemen we will now begin the question and answer session. Our first question is from Charanjeet Singh of HSBC, please go ahead.
- Charanjeet Singh** Can you provide some guidance on the current financial year and also help in explaining that why for REpower there is a 25% decline in revenue even after excluding the sales in the US market?
- Kirti Vagadia** First of all let me talk about REpower revenue reduction. As you might be aware that in last year first quarter in case of REpower we had advantage of having good volume in US market and right now in current year first quarter, the numbers are ex-US market, so that is the major difference you can see between two periods. And this is something which we have tried to give on our slide #9 as well. That is one. And secondly on guidance as you might be aware that we as a company have decided not to give guidance for this financial year so I would not be able to respond on your first part of the question.
- Charanjeet Singh** Sir on REpower you said that that is primarily because of the US, I am trying to understand why a 25% decline excluding the sales in the US market because ex-US markets the sales were 425.
- Kirti Vagadia** It was 425 to 328, yes I understand that is correct. That is primarily mainly you see that certain customers' project, completion are dependent on many factors so in first quarter last year, we have been fortunate to complete many projects for customers in that quarter and in this quarter that advantage is not available to us. So it is not a major difference between last year as current year except US, so far as full year picture is concerned. It is primarily a timing difference. If you see the first quarter of FY12, we have just 213 million Euro as revenue without US and with US it was 263. So it is just kind of a quarter on quarter timing difference in project completions.
- Charanjeet Singh** Okay. If you can share some light on the asset sale.
- Kirti Vagadia** Yes, on asset sale we have put target for ourselves of roughly about \$400 million from sales of various non-critical assets and we are on track so far as asset sale is concerned. Till date we have not announced any major asset sales but we are having a good pipeline and hopefully we will be able to announce couple of deals in this quarter.
- Charanjeet Singh** Do you have a specific target for this financial year? You said 400 million, is it for this financial year?
- Kirti Vagadia** It is spread over about 18 months starting from April so I would say that from now onwards we are left with about 14 months.
- Moderator** Our next question is from Abhimanyu Talwar of Nomura, please go ahead.

- Abhimanyu Talwar** I had a couple of questions. First is how should we think about the seasonality of your business because if you look at the past the first quarter is around 20% of revenue. So can we make the same assumptions for Suzlon Wind for FY14 as well?
- Kirti Vagadia** I do not think that is possible to respond because that will tantamount to guidance indirectly but I can say that within the last 10 to 15 years our Q1 has been somewhere closer to 15% I would say.
- Abhimanyu Talwar** My next question is about the REpower non-USA revenues. So you say it is just a timing issue but is it fair to extrapolate the year on year decline for the full year as well or is it just the timing issue which could be ignored?
- Kirti Vagadia** If you are talking ex-US your assumption is correct.
- Abhimanyu Talwar** So it should be extrapolated, the decline should hold for the full year then?
- Kirti Vagadia** No, if you are talking about ex-US probably it is purely seasonality as I explained on previous question. So you cannot extrapolate the Q1 numbers.
- Abhimanyu Talwar** My third question is about your fund based and non-fund based facilities of 5800 crores, so can share how much of that as still undrawn as of the end of first year 2014?
- Kirti Vagadia** Precise number is not right now readily available with me but I can give you rough indication that ballpark probably about 800 would have been undrawn.
- Abhimanyu Talwar** So out of 5800 only 800 has been undrawn?
- Dhaval Vakil** Yes, that is correct.
- Moderator** Our next question is from Bhalchandra Shinde of B&K Securities, please go ahead.
- Bhalchandra Shinde** Actually just wanted to know what exactly happened in US that our total sales got so much depleted?
- Tulsi Tanti** As you know the US market the production tax credit and ITC was withdrawn from the December 2012 onwards there is no incentive. So that is why first quarter, not just for REpower but for across the industry, there is not much business in the US. But the good news is that again the production tax credit and ITC has been reinstated so this calendar year when we are talking about calendar year 2013 will be almost hardly 1000 to 2000 MW in the US market and very big and large volume will come in the calendar year 2014. So again business will be back in 2014 and there is no business in 2013 because of the withdrawal of policy and now the policy has already been reinstated so the market will again come back on 2014.

- Bhalchandra Shinde** And sir about the execution side on the REpower, more than that on the sales side, I would like to know what is the bifurcation of Indian execution and outside Indian execution?
- Dhaval Vakil** Our total order book is about \$7.1 billion of which India is about \$1.2 billion and the rest is outside.
- Bhalchandra Shinde** This is regarding the order book, about the sales?
- Dhaval Vakil** Out of the 219 MW in Suzlon Wind, about 92 MW is in India and balance is outside.
- Bhalchandra Shinde** Regarding REpower just wanted to know, as we have seen a drop in execution and you are saying that it is a seasonal trend it will improve. Are we not seeing any payment deferments or customer delaying their orders? Means any delays in Capex is what we are seeing in India.
- Tulsi Tanti** Particularly in REpower there is no such event, any delay of the project or any order execution is delayed by the customer because these are all large utility orders and we have a strong long term frame agreement which we are working in Germany and also in Canada, also in Australia. So all these markets, very large utility business is there. So there is no change there. Only change compared to the last financial year to current financial year the volume of the US market is not there. That is the only change we see and all other financial parameters will be satisfactory in the current year.
- Bhalchandra Shinde** If you can give me in FY13 how much execution was there for USA?
- Kirti Vagadia** Total US market you mean in REpower or Suzlon?
- Bhalchandra Shinde** Yes, total Suzlon because it will be affecting Suzlon Wind also or it is affecting only REpower?
- Dhaval Vakil** We will give you offline if that is okay. REpower number in the presentation, I will give you the Suzlon consolidated number for last quarter.
- Bhalchandra Shinde** I want total FY13 number.
- Moderator** We will take our next question from Rosita Dsouza of Elara Capital. Please go ahead.
- Rosita Dsouza** My first question is what is the order book at the Suzlon Wind level currently in terms of MW?
- Dhaval Vakil** It is about 1.6 GW.
- Rosita Dsouza** Given that the SOPs have not been reinstated in India so far, I mean if you could give us some color on how do you see order book scenario panning out for you in India?

Tulsi Tanti

Indian market is moving very positively because a lot of interest on large IPP customer is increasing and they have a big plan. As far as the policy frame and regulatory framework is concerned, I think 2-3 positive improvements are there. Most of the state utility and state regulators have improved the PPA tariff rates, so that is giving a good opportunity for the large IPP investment because of improvement in the IRR. The second is as you know that we have brought the next generation of the turbine which is S97, currently we are selling in the market which is giving the better PLF and that is also improving the IRR for the customers. An important part is in the last financial budget of the countries the generation based incentive announcement is positive, so the policy framework has come back and because of that we believe compared to the last financial year the current year market will increase by 50% to 60% market growth in the current financial year. As far as Suzlon we have a quite good order backlog situation is there 1.2 GW firm orders in hand. And another new orders we are getting which is we are converting from frame agreement to firm order and that is a good visibility of the order book. And there is a likelihood of AD in the near future but still yet the government has not taken the decision. The accelerated depreciation will come back so it will give a boost to retail demand which is particularly for SME industries which is very important to hedge their power cost and to make SME industries more sustainable which will be a good benefit to the SME and there is a possibility that the accelerated depreciations will come back may be in the current month the government will come with a positive news. So this way we see the strong momentum in two segments. One is particular for SME industries for captive and for the retail markets, which is for the depreciation and for the captive driven market and the second is the large IPP investment will continue. Because for the large IPP point of view it is a very good investment opportunity because most of the other industries investment opportunity is not great and that is why most of the global funds are very much interested to invest in a real asset base and long term annuity base business and secure the revenue and at the same time as you know the rupee is depreciated it is a good sense to invest in the Indian assets. So that is giving a good momentum in the Indian market and we see a good growth for the current year and also this momentum will continue in the next financial year. And at Suzlon, we have a highest and aggressive priority to focus only in the Indian market will be the top most priority and REpower aggressively will focus on all the other developed economy. So this way we are strengthening our market positions in the both part of the world very strongly.

Rosita Dsouza

Okay. And how do you see the pricing environment shaping up? Is there any pressure on realization or are you seeing it whole steady?

Tulsi Tanti

In Indian market the turbine price or EPC pricing there is not much pressure. Based on some of the increase of the dollar change we have all the contract which is linked with the dollar and also there is some commodity price linkage. So we are not losing the margin and we are maintaining our margin position. There is no much pressure. Only some disadvantage is there for the Suzlon in particular in quarter 1 and quarter 2, we have some old orders which we are executing in the current year because of the last financial year we were busy with the liability management, so those orders are generating some lower margin. But all the H2 business and

the new orders with the reasonably good margin and also we have improved the 3% to 4% price also.

Rosita Dsouza Sir the other question is on the REpower, what are the EBITDA margins at REpower that you have delivered in Q1?

Kirti Vagadia We do not give separate margin for Suzlon and REpower on a quarterly basis, so probably you need to excuse us.

Rosita Dsouza Can you just give me your ballpark number just to get an idea as to in which area is it hovering?

Kirti Vagadia Unfortunately I would not be able to do that.

Rosita Dsouza One more question on the employee expenses, the number of employees in the organization is actually coming down but the employee expense is holding up. Am I not able to read something here?

Kirti Vagadia No, definitely your observation is absolutely right. The issue is there is a steep movement in currency as compared to last year first quarter and you know that major portion of our employee cost is also sitting in overseas that is one. And secondly, the number of employees which you are seeing is on a particular quarter end. So the impact of reduction would be seen in coming quarters.

Rosita Dsouza Sure. One last question from my side, I just want to check if there has been any recategorization of loans as of 31st March, 2013, while the total number has not changed I just see that the working capital number, working capital and other loan was reported at 8440 crores when the last presentation was out. But if I look at the current presentation that number has gone up to 8700 crores so have there been some recategorization done?

Dhaval Vakil Rosita, can I come back to you on this separately?

Rosita Dsouza Sure, not a problem.

Moderator Our next question is a follow-up question from Charanjeet Singh of HSBC. Please go ahead.

Charanjeet Singh Sir, can you provide some visibility on the GBI? Government was supposed to release the details of GBI. Have they done it?

Kirti Vagadia Yes, the GBI in principally the central government has decided and now the question of implementation is there. I think within next one or two weeks the clear scheme will be announced. So GBI is there, so there is no issue. It is a question of the implementation. When

we see the structure is approximately Rs. 0.50 to Rs. 0.60 per kilowatt-hour it will come for the next 10 years.

Charanjeet Singh Okay, that is helpful. Probably my last question if we can point some visibility at what rate the promoters loans will be converted to equity?

Kirti Vagadia I think we will be governed by regulatory requirement prevailing at that time.

Charanjeet Singh Okay. And is there a date at which this conversion will happen?

Kirti Vagadia No, that it will require board and shareholders' approval so probably we will move at appropriate time in this financial year.

Charanjeet Singh Okay, so there are no conditions put by the CDR restructuring package as to when this is to happen?

Kirti Vagadia Yes, as per CDR, promoters were required to bring in the money which they have already brought in, now it is a question that that need to be converted from loan to equity, which is only a process.

Moderator We have a follow-up question from Rosita Dsouza of Elara Capital. Please go ahead.

Rosita Dsouza We are seeing a remarkable improvement in the net working capital ratio to sales. Just wanted to check with you what is the sustainable level because there has been some sort of fluctuation so if you could give us some color on what is the level that you think can sustain through the year?

Amit Agarwal See this is basically the reduction which is coming from the past inventories and receivables and we see on a long term basis in the range of 15% to 16% as the normal ratio which we will be able to achieve.

Rosita Dsouza One last question from my side on Edison, I mean has there been any hearing on the court case that you have filed?

Kirti Vagadia Yes, unfortunately it is not – there has been submissions from both the sides which got completed.

Rosita Dsouza I did not follow what that meant. Submission in the sense that hearing has happened?

Kirti Vagadia No submissions in the sense of documentary submissions.

Rosita Dsouza Okay, so no hearing has happened so far?

- Vikas Rathee** See I think Rozita it is a procedural thing that is going around, a judicial matter perspective. I think we are still in the early to mid stages of the situation here. So it is going on as of now there is nothing substantial for us to report to the market as of now. But obviously we were extremely focused on a legal or even a commercial solution with the party.
- Moderator** Thank you. Ladies and gentlemen that was our last question. I would now like to hand the conference back to Mr. Tulsi Tanti for closing comments.
- Tulsi Tanti** So let me conclude by saying once again that while we acknowledge there is a great deal of the hard work ahead. We believe things are trending towards the normalization. Many thanks for joining us on today's call and thanks a lot and thanks for your time.
- Moderator** Thank you very much members of the management team. Ladies & gentlemen on behalf of Suzlon Energy Limited, that concludes this conference. Thank you for joining us.