"Suzlon Energy Limited Q2 FY15 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q2 FY-'15 Earnings Conference Call of Suzlon Energy Limited. 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. 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 – Chairman and Managing Director of Suzlon Energy. Thank you. And over to you, sir.

Tulsi Tanti: Thank you very much. A very Good Morning, Good Afternoon and Good Evening. Thank you for making the time to join us. I am joined with me by Mr. Kirti Vagadia – our Group Head of Finance; Mr. Amit Agarwal – the Suzlon CFO and our Investor Relations team. I hope you had a chance to go through our 'Investor Presentation' on our website. First, I would like to share some details on our overall performance and Amit will walk through our financial performance in a greater detail, then we would be very happy to take any questions from your side.

The positive EBITDA for the three consecutive quarters reaffirms the trend of our improving the operations. Our business efficiency focus enables us to improve our margins, control fixed cost and optimize our working capital requirement. This has enabled us to achieve the positive EBITDA of Rs.187 crores in H1, despite H1 is normally low compared to the H2. Restoration of the accelerated depreciation is a big push for the Indian wind market and we are well positioned to take this opportunity. As you know that we are working in the last 18-years in Indian market, we have more than 1600 customers for the accelerated depreciation market investors. Notified only in late September 2014, deliveries will be seen only in the H2, because recently we got the notification from the government and customer has placed good order with us and we are expecting and we have to deliver before 31st March so that customer can get their accelerated depreciation benefit, so we see that the benefit will come in H2. Orders have started coming and we have received 150 plus MW order and also some of the orders in a final closing stage. With 3 to 6-month of the delivery scheduled most of these orders will get executed in the last quarter. Senvion, our great asset continues to grow in the first half at an impressive 18% year-on-year growth. Having crossed 25,000MW total installations of the group across the world, our service vertical has grown in a size with the first half revenue growing 11% year-on-year. We continue to have a robust order book of 4600 MW valued $6.3 billion, with the robust executable the order position in our home markets like India and Germany. In the past quarter, we continue to make a progress in a new product development. The world's first and the largest unique technology marvel of 120-meter hybrid tower, a revolutionary product combining the lattice tower and tubular tower, is being formally launched on 6th November in Kutch, Gujarat. Being a cost effective solution for the low wind site, product is well positioned to be the game changer across the globe. We successfully produced and tested the first sets of the SB54, the blade specially created for the S111, and are in schedule to prototype installation before March 2015. We further expanded our highly successful 3XM series with the introduction of the 3.4M114 for the medium wind site, an aerodynamically optimized product resulting in the 4.5% higher energy yield than its earlier product of 3.2 MW 114. Our strategy to focus on a select market, offering the right kind of the product, offering best-in-class service and ensuring the maximum operational efficiency has been and will be continuous enablers to increase our market competitiveness in the each and every target market. In H2 FY-'15, our very clear priorities will be to ramp up the volumes and reduce our high debt level. Our strong order book and positive business outlook give us the immense confidence to deliver on our goals. Now, I would like to invite Amit to address the detailed aspect of our financial performance.

Amit Agarwal: Thank you, Tulsi Bhai. Good Evening everyone. I am happy to share that our efforts for improving operational performance have shown good developments. This, of course, is reflected in our results which have achieved a positive EBITDA for the 3rd consecutive quarter. Speaking of broad numbers, in the first half of fiscal '15, we recorded revenues of Rs.9,974 crores, a 16% year-on-year growth and achieved EBITDA of Rs.187 crores also in the first half of fiscal '15, a significant improvement from an EBITDA loss of Rs.333 crores last year. Our gross margins increased by 510 plus basis points going back to its normalized level of 33%. Key drivers of the performance are: 1) 18% year-on-year growth in Senvion first half revenue driven by high execution 2) Near doubling of India volume compared to last year that too without any upside from AD yet 3) Around the 11% year-on-year growth in revenue from our high margin service vertical contributing to Rs.1460 crores to the top in the first half of this financial year.

Our strategy to focus on select markets, streamlining product portfolio and ensuring strict discipline on fixed cost and working capital is paying off. The debt levels and the resultant interest outgo is high and we are actively working towards de-leveraging initiatives. While we managed to trim our losses, we incurred still a significant net loss in the first half of this financial year. Though partly due to seasonality impact, our overall volume levels at Suzlon will continue to be low. Having said that, buoyant market conditions especially in our home market, competitive product offering and our focus on two clear priority of ramp up volume and debt reduction, we are confident of further improving our performance in fiscal '15 and beyond. Now, I turn over to Tulsi Bhai.

Tulsi Tanti: Thank you, Amit. Now I would like to hand over to the investors for any of their questions.

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use only handsets while asking a question. We have the first question from the line of Prabhjot Commar from QVT. Please go ahead.

Prabhjot Commar: I just wanted to focus a little bit on Suzlon Wind. I think Senvion obviously has delivered good results, as you had pointed out. Can I just get a little bit more clarity, obviously, if you look at the first half execution for Suzlon Wind that has been about 359 MW and obviously at a standalone level the business continues to report a loss at a cash level, yes, obviously, second half will be better and AD has just been instituted, can you just help me get a little bit more comfort around what kind of volumes do you expect in the second half, I know you have gotten the 150 MWs of order intake because I guess where I am just struggling a little bit is Senvion obviously continues to do very well but I think at least I speak for a lot of people are waiting for Suzlon India to pick up, so any clarity that you can give us on the second half in terms of numbers, volume, working capital that will really help you execute on the order inflow right, because everyone knows that the market is now there in India, it is just a question of execution?

Tulsi Tanti: You are absolutely right but if you see the Indian market its seasonality because H1 is always normally 1/3rd and 2/3rd is the H2 because Q2 is mostly the rainy season, so it is difficult to execute the project in Indian market. Second thing is we have a very clear good order book, I am talking about just domestic market of India, and the good order book is there which is sufficient for us for IPP investors and for the AD customers also, the sufficient order backlog we have. The third is, we are very comfortable for an execution plan because whatever the order is there, without the land and PE pipelines nobody give the order in Indian markets, so that pipeline is supporting us to execute the project in the next 6-months. So we are comfortable to give better volumes in H2.

Prabhjot Commar: Can you help me understand just a little bit of numbers, so if you have done 360 MWs in the first half, now I understand historically the split was a little bit diverted towards international orders and now the focus is on India and all that, what should we be expecting for the second half and will you require the banks to be more supportive to get to that number?

Tulsi Tanti: As you know that we are not giving any guidance, so I will not go absolute numbers but I have given clarity to 1/3rd and 2/3rd so now you can imagine on that direction.

Prabhjot Commar: For that 2/3rd do you need any additional working capital or?

Tulsi Tanti: Yes, what the bank is giving the facilities, there are two nature of the working capital we have – one is regular working capital facility, second, they are giving each order specific - project specific facilities – and that is the bank is supporting, if you see in the H1, they have already given almost for the 400 MWs project-specific funding on and above the regular facilities, they have already given and even some of the other financial institutes has given like one of the order of the ONGC of 100 MW and another order is under construction another 100 MW, the outside the consortiums of the bank they have given a project-specific funding. So that is a new way of the working capital we have innovative ways started with the banks and the financial institutes and currently we are also in the strong discussion about the certain volumes for the additional project specific working capital which order we have on the hands and bank is seriously looking on that and we are expecting this month they will give us the big limit, I do not want to speculate at this moment because its under process for the approval with the banks, and banks are comfortable to give additional working capital based on the order. So it is order specific project funding so whatever the cash flow will be given by the banks its specifically used for that particular order, and all the cash flow is coming from the customers goes to the specific bank for this repayment point of view. It is a new way of the working capital model, where bank is comfortable and we are also comfortable. So we are demonstrating and because of that, initially they have given somewhere in February, March and April because of that we have demonstrated good volume also and we come out from negative EBITDA to positive EBITDA. So bank is feeling also comfortable, yes, this is a working model, so they have given a small amount, if I am not forget, nearly Rs.500 crores, but now we are working with the banks for almost 3 times the bigger amount, because this model is working, and by that we can be able to go in a positive improvement, but it will remain lots of challenge, but we are very comfortable compared to the past we have a less challenge.

Prabhjot Commar: Basically everything now is effectively ring-financed and that is the way the funding is happening, so you are obviously preponing that for the expected pick up in execution for second half. I am just a little bit worried that it should not be that that the orders are there but because it is a new way of funding and process will take a little bit time it will go to the branch office, central office and that in effect delays execution.

Tulsi Tanti: Normally they take 30-days everything, because it is a project specific funding and one time they have already done, this is the first time in February, March and April they have done, and we have already paid those money also completely, so they feel it is working very well. So now comfort and confidence has changed, #1. #2, it is not the first time; first time already we have exercised, now they have to do second time. So it is more easier to their internal system and board and everything to put properly, because first time was the challenge where performance was not there, and still they have taken the risk and they have given. Now we have delivered the performance and now we have a certain good opportunities, so banks are doing on a positive comfort.

Prabhjot Commar: As the execution starts to pick up and even if you look at this quarter are your receivables coming in time as expected or have you seen some amount of delay in this quarter?

Tulsi Tanti: No, it is not the case because we are aggressively interested, cash should come in time, but as you know the all the large IPP project is also heavily depend on the disbursement of the banks, and there is a group of bank or consortiums are there, and the same group of bank is also financing the Suzlon. So, everybody has a common interest cash flow should come, but there is always some delay is happening but its not more than 30 to 45-days, and that is mainly because of the process of the banks disbursement and consortium process and other things because of the large project. But when I go to the small customers, their cash flow is coming absolutely in time or sometime it is before time. So it is a combination of both is now supporting very well but there is no sense to see the closing month of the outstanding because it will not give the real picture because if I deliver the project in the last month, then the outstanding of the debtors will be naturally higher, then after 1-month that cash flow will come first month, then again 3rd month I will deliver more volume. So it will remain like that. Within the quarter of also last 45-days is a higher volume always because we are running quite efficiently hand-to-mouth.

Moderator: Thank you. Our next question is from the line of Charanjeet Singh from HSBC. Please go ahead.

Charanjeet Singh: Sir, can you kindly give us some progress update on the debt reduction plans?

Kirti Vagadia: On de-leveraging, we continue to work on our plan, which we have communicated to you earlier; however, right now we do not have any specific reportable event, we stick to whatever we have guided to you on a previous call. Today there is something where we cannot have a specific discussion on what is the progress up to today. But we stick to our timeline which we have mentioned in the previous call.

Tulsi Tanti: And also, we are very serious about reduction of our debt and our interest cost in H2, that is very clear, #1. "How" part only we can share when the event will come because we have to understand that some of the regulatory requirements and some of the process we have to follow, that is why it is there but we are quite comfortable to execute our plan in H2 to reduce our debt and also to increase more liquidity in our operations, because the domestic market and other market growth is very high, so we need more funds for our operations on and above the project-specific funding and working capital which bank anyway is giving. This way we can increase our volume in next financial year.

Charanjeet Singh: Can you also help us better understand the reasons for the low volume delivered in India especially during the Q2?

Kirti Vagadia: As Mr. Tanti explained in a previous question that Q2 in India is normally impacted by a monsoon, and this time monsoon was heavy all across the country. So definitely we could not move the material to the site and our revenue recognition is always linked with our movement of material from our factory to our site. So that has been the principle reason for low volume despite we are having orders.

Charanjeet Singh: So is it clear that the volumes – I know that this question was taken initially also – but any sort of ….?

Tulsi Tanti: Volume will be higher, that is very clear.

Charanjeet Singh: Sir, working capital has halved from the previous quarter, and if you look at the working capital to sales ratio, so this is now close to 3%, so not sure as to how does one read it especially when one expects that the business should grow in the coming quarters, so if you could throw some visibility on that aspect?

Kirti Vagadia: Amit, do you have any indication about how it will be built up in next 6-months?

Amit Agarwal: Yes, basically what has happened is during this period the reduction is primarily on the receivables, and as we improve our volume, the ratios will go higher based on the volume, and we will come back to the normal levels which we have around the 6% to 8%.

Charanjeet Singh: And is this consistent across Senvion and Suzlon or do we have a variation out there?

Amit Agarwal: Senvion is slightly lower and Suzlon Wind is moderate.

Charanjeet Singh: My last question is primarily on the orders. You mentioned about 150 MW of orders from India. So are all these orders driven from customers with AD incentive in mind or is it a mix of orders from IPPs and AD-driven customers?

Tulsi Tanti: I think 2/3rd is IPP and 1/3rd is AD.

Charanjeet Singh: And any visibility sir on the RWE order for the offshore wind?

Tulsi Tanti: We cannot be able to share much more, but good news is there the customer has the shortlisted our Senvion as the priority customer, so that is the best part is there, other process is going on, we are quite comfortable and confident to gain that order.

Charanjeet Singh: RWE is deciding to go for a new bidding. So will they do bidding or will this directly give you an order?

Tulsi Tanti: Bidding process is over and we are the now preferred bidder and there are other processes. Honestly, we are not able to share much more on this area, because there is a customer …

Kirti Vagadia: It is a commercial confidentiality but we can share that bidding process is over and we are the preferred bidder.

Moderator: Thank you. Our next question is from the line of Anurag Sharma from HDFC. Please go ahead.

Anurag Sharma: I want to know about, there was some liquidity issues faced earlier as the note 2 goes about the declaration, which indicates that company had some overdue amounts payable to vendors. I just want an indication whether this has been cleared off, just one thing? Second is what is the gains that company is expecting with the Offshore segment with the listing of Senvion and what is the expected contribution from Senvion in the coming fiscal?

Tulsi Tanti: Amit, regarding vendor you can give the clarity, only one thing I can share with you, all my vendors are very comfortable and happy. The comparative the sale versus the outstanding ratio has drastically reduced, but Amit can share with you.

Kirti Vagadia: No, their question is coming from auditor's normal remark which is continuously there for last I would say from October 2012 onwards, but current remark is much more diluted than previous remarks. But Amit, why don't you …?

Amit Agarwal: Yes basically what happens is if you look at it these are may be very-very small vendors and we have the ample strategy in place to deal with such issues. So there we do not see any risk or threat of the liquidation or such issue.

Tulsi Tanti: And the ratio has improved much more; sales versus outstanding, so that is we are good, now we are lifting lots of materials from them, but they are very comfortable because they are with us more than 15-years, and we have to understand, each and every vendor is producing product, it is very tailor-made for exclusively for our design and everything. So it is always long-term association in relations. So both the party cannot afford any disputable situation.

Anurag Sharma: Sir, also wanted to know about the new products launch you have mentioned that you are investing in technology continuously, what are the gains expected and what kind of products you will be launching?

Tulsi Tanti: Over last 2-years, a very high focus on technology because we do not have a much opportunity to go and increase our volume, so we have gone more strategic direction to strengthen our competitive position in the marketplace and that is focus and focus on strategy for the technology development is very clear on two aspects – number one is to reduce continuously cost of energy, so that we become a more competitive compared to the conventional energy. Now, you will be surprised today we are competing the coal energy in the Indian market and some of the emerging market, coal is expensive and wind is cheaper. Even US market, the gas is the most cheapest source of the energy in US, where our products and our technology of the wind is competing compared to the gas energy also. #1 focus is cost of energy reduction. #2 focus is how we can go to the more spread and larger area of the geography, particular on a ground, if every time some discussion is there, there is limited sites are available in any country, if that is not the case, all the sites is possible to make viable if we can do the technology and to use that low wind site the products and technology, then very huge geographies are available for installation of the wind project. In that progress, #1 is 120m tower. As you know, once we go the bigger height, it is very difficult to go on a tubular basis and that is the limitation, but we have come out with unique technology which is first time in the world, the lattice and tubular hybrid and we have already installed the turbine and we got the certificate and everything, we got the order also on that product and that will use for two benefits – one is low cost of energy and second is now, we can be able to go in a geography like small example, Gujarat has a total potentiality of 10,000 MW but by these turbines now potentiality of the Gujarat is 15,000 MW. This is the way all India capacity we can increase by 1.5x. Because now we can able to install in more geographies and particular those areas nobody is buying the sites and everything, because they do not have competitive products to make a project viable or financeable. Second is, we have introduced next generation of the 2 MW platform – S111. Earlier rotor diameter is 97, now it is a 111, which is straight away is giving 20% more energy production from the same 2 MW platform, which is again beneficial to go further lower in site to make the project more and more viable and to increase the customer IRR, that is the second product. Third in Senvion, we have gone for 3.2 MW turbine to 3.4 MW and increasing 4.5% of energy production and also we are developing the 3 MW platform new turbine of 126 or 122.

Anurag Sharma I would also like to know about the further sake of stakeholders because the market is too bullish and also people are also getting the interest back into the equity. So, just wanted to know that what kind of comfort because I am sure that future will be very much robust, what word of note that you want to share with the stakeholders, basically the equity market holders?

Tulsi Tanti For equity investor point of view, not domestic, but globally if you see the most of the wind companies, have started delivering the positive EBITDA and positive EBIT. Last two years, every company in the world was negative EBIT margin most there and company has done the huge losses. Now, all the company has come back on this. So, as an industry, now product and technology is very-very competitive in the marketplace compared to conventional industry. If the global economy or country economy is growing, straightaway this product investment is increasing. Second is the maturity of the products, reliability of the products, and cost of energy has gone down. So it a very good high comfort for any investors or customers to invest in Wind projects, so that is going very well. I strongly believe it is a very right time for any investors to invest in a renewable energy stock, it is very good. Now, only we have to see which are the companies' focus is important ; A) The company has good home market. B) The company has a right product and technology and competency. C) The company has a large service base across the world like we have 32 countries and 25,000 MW which is very important for any customer; and the D) is the growing and profitable market in a particular geography. What we have done, there is 40 countries in the world, we have identified only 10 countries for the next 2 years we want to concentrate, so that those markets we believe is good growth and good profitability is there rather than going 40 countries. So, this is the way we are positioning our Group between Senvion and Suzlon, we are concentrating on some of the geographies, so that we remain continuously in a growth fine, but same time we should be more and more competitive in marketplace and also good profitability. So, this is the right time for any investor to look in this investment. Honestly, it is a good opportunity. The second phase of the growth will be very high which is not visible too much is the Offshore Wind market is there. We have most commercially successful product of 6 MW and we want to leverage this product not just to restrict for the German markets or the UK markets but now we are planning to take it to the global market. And going with the very specific strategies, emerging economy market particularly country like India, China, Brazil, and also for the Japan, because there is a high demand for the offshore market is growing in those segments on a large scale power plant project area. So, this is the phase. The key point of the Wind Energy is there, the product is reliable, product is competing the conventional energy and the potentiality of the wind and resource on the global market is good. The financial institutions are very happy and comfortable to invest. Equity investor is very comfortable to invest in the wind asset. So, all put together, I see the future of the next 5 years for this industry, from any equity investor point of view, looks very nice and very promising.

Moderator Thank you. Our next question is from the line of Balchandra Shinde from Batlivala & Karani Securities. Please go ahead.

Balchandra Shinde Sir, first of all, regarding the US markets, their conditions are turning out favorable. So, what kind of potential you see in US markets?

Tulsi Tanti The US market will remain promising because each and every state there is a strong RPO drive and they are looking for more job creation and local manufacturing capacity and other things. Because of that, the US market and PTC is there, and there is a highly probability, again government will extend the PTC benefit and incentives. So, that is very clear. So, I see the average of the 5 years, the market will remain average of 7,000 to 8,000 MW, which is the second largest market in the world. It will remain like that and I do not see the boom and bust the situation going forward in the US market. So, we are also very confident. We are coming with the very appropriate strategy for the US market and because of that, we have specially developed the S111 turbine, compared to my current 2 MW platform it is a 20% more energy production and it is a very compact design product for the logistic cost point of view which is more important in US market. So, we are positioning this product and we are launching for the next financial year in the US market. Not only that, we have already received the order for S111 for the US market for the first project for the next financial year. So, we are quite comfortable in the position in the market. And as you know we have more than 4,000 MW is running asset, compared to all installed capacity we are the third largest in the US market, our group is there, and we have good long-term investor-customers in the US market. So, from the next year you will see some good performance of the group in the US market.

Balchandra Shinde Regarding the recent news that you will be setting up facility in MP, related to that CAPEX, from exactly where we expect to fund it or how we are going to exactly go forward in that?

Tulsi Tanti We are going ahead with not just MP but MP and Rajasthan because the new governments in MP and Rajasthan is very aggressive in development of renewables and we are planning almost in both the states 2,000 MW in the next 5 years, 2,000 in MP and 2,000 in Rajasthan. But most important in Indian market is when we are going the larger size of the order, it is extremely important the local manufacturing capacity is required and that CAPEX investment plan is not much more high CAPEX, same time we are selling the old plant which we do not require in some of the geographies, the same money will be reinvested and the new CAPEX requirement in such a way we are optimizing, so, it is not the high CAPEX, just give you an example, whatever CAPEX in MP and Rajasthan, if I am not putting within a 6-month whatever my logistic cost compared to my existing plant to MP and existing plant to Rajasthan, the payback is 6-month of my CAPEX of these two plants. So, it is not high CAPEX.

Balchandra Shinde In the debt restructuring slide which you have shown, in that you have such a way that credit enhancement bond, the $647 million, it has a 5-year bullet maturity to FY'18, do we have visibility to fund it through internal accruals or how exactly will be able to facilitate that credit enhancement bond?

Kirti Vagadia No, this size of amount we are not expecting that internal accrual will fully fund that repayment, but since we have sufficient time to explore the possibilities that what is the best way to arrange the funding for these things which may be there are multiple options on asset sale monetization of a few of the assets plus equity-related options or even if need be there is a possibility to enhance the maturity period as well. So, there are multiple options in front of us. But, since it is too far away, it is premature on our part to give you a specific plan at this moment.

Balchandra Shinde If we are planning to list Senvion, where exactly the funds are raised will be utilized?

Kirti Vagadia I would prefer not to go into that discussion right now. As Mr. Tanti mentioned that there are multiple options for deleveraging the company and what you mentioned is one of the options, and naturally, the reduction of debt remains our high priority along with funding the growth for the business. So, these are the two natural utilization which one can think of from any resources which are coming from monetization of any of our assets.

Moderator Thank you. We will take the next question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal First on Senvion, you have shown good growth in the first half. Do you expect this to continue for the second half as well and how are the EBITDA margins in Senvion in the first half?

Tulsi Tanti Compared to H1 to H2, the Senvion performance will remain also the higher and the EBITDA margin compared to H1 to H2 will also remain higher.

Madan Gopal Last year we have done around 8.1% EBITDA margin for the full year. Do you think that you will be able to do better than that this year?

Tulsi Tanti It is a more specific guidance, but our plan is very clear, whatever we have delivered, it will remain equal or better.

Madandagopal Second on the debt reduction program, I agree that you would not want to discuss more on that or specific issues, but just wanted to understand what will be the broad timeline sir – is it like all the structuring that we are planning to do will be completed by the year-end, that is the plan or you probably think it will spill over to next year?

Tulsi Tanti Our plan is from day one is very clear; we have to achieve in the current financial year and we are quite comfortable based on the certain steps, we will achieve in the current financial year.

Madan Gopal Any change broadly on the plan has happened, if you are not just specifically discussing on what structure we are doing, but initially there were thought of selling some portion of our service business to Senvion and then later on getting Senvion listed. Is there any change in the plan?

Tulsi Tanti First of all, you have to understand very clearly as I have mentioned there is a lot of speculative information in the market. Second thing is, as you know, it is a public listed company is there, I have two sets of the group of bankers are there – one is Senvion, one is Suzlon – and there are two boards are there – one is Suzlon board and one is Senvion board. Any plan first I have to pass through that process, and after that I can able to share to the public in a large interest, but I can only tell you we have clear plans for the reduction of our debt and our interest and simultaneously, our interest is to increase the more volumes which can give more comfort for the cash generation point of view and debt reduction and interest reduction. All combinations are really working, our team aggressively, because we have a huge requirement on that aspect, because market opportunity is enormously growing very well, we do not want to lose that. So, as part of process, we have to follow the regulatory requirement and internal compliance also very strictly. We are coming more closer and closer, that is why we have to keep very clear. As and when event will happen, we will officially announce very soon. We are planning to achieve also and execute in the current financial year.

Kirti Vagadia I just wanted to add one thing here that so far as our commitment to our lender is concerned, in current year we have repayment obligation of hardly of about Rs.117 crores. So, basically whatever we are planning is as a prudent management and nothing is a compulsory repayment we need to do for this financial year.

Tulsi Tanti It is not any pressure or any distress situation. If market opportunity is very high for Suzlon, we are equipped with the right technology products for most of the market and we need to increase the volume very aggressively so we need more liquidity on that front, #1. Same time we want to reduce our interest cost. It is our requirement rather than any bank force or anything, so that we can preserve the cash if we reduce the partially interest cost, so then we can reinvest in the growth. Currently, our capacity utilization is quite low. We have a huge capacity, the resources, the market, order book and everything, all these things there. We want to bring the very strong balanced performance. That is the way we are working.

Moderator Thank you. We have the next question from the line of David Kungsen from Pine River Capital Management. Please go ahead.

David Kungsen I just wanted to understand in a bit more granularity about the liquidity condition of the company. From what I can see, you have around Rs.3.5 billion of interest and amortization per quarter, then looking at your cash position standalone level, I just wanted to see how do you see over the next two quarters in meeting the interest payment and the amortization?

Tulsi Tanti First, we have to understand the H1 whatever the reflection in the P&L interest, we do not require to pay 100% because partly is converting into the equity. So in P&L reflection is full interest, but real cash outflow is almost half, that is the H1 situation. H2, we do not have that options. We have to pay from our operation and everything. And as you know earlier we already mentioned compared to H1, in H2 volume and other business is higher. So, we can increase our volumes and out of that we can able to pay. At the same time we are optimizing our working capital utilizations also. And the third is some of the asset sales, the action is going on, so we can get some liquidity. And next is our plan to reduce our debt by capital structure perspectives. All this put together, we are comfortable to pay the requirement of the cash for the interest and for the some Rs.117 crores for the principal amount to pay in H2.

David Kungsen I am just looking at the interest payment just based on your rupee that is 11% effective rate, FCCBs coupons 3.3% and the other high yield bond is 6.25%. So, basically all of these you have to pay in cash interest or the rupee that 11% you actually only have to pay a portion of that?

Kirti Vagadia Let me clarify, up to H1 that is up to September 2014, we were not paying interest on rupee term loan and working capital demand loan. That was getting converted into equity. Now onwards every borrowing-related interest we need to pay in cash.

Tulsi Tanti Also there is some reduction in FCCB because part of FCCB is converted into equity. Even H2, if some FCCB part will be converted in equity that proportionate interest cost will also reduce.

David Kungsen That is how I got around your 3.6 billion of interest and amortization for the next two quarters. Without asset sale and debt reduction, just operationally, what do you think you would be able to meet these payments in Q3 and Q4 or do you need some debt reduction before that in order to meet the liquidity?

Amit Agarwal Basically, what happens is that with an enhanced volume if we compare to the H1, we should be able to meet most of the obligations. So, we do not see much of a concern in terms of meeting the obligations toward the interest cost.

David Kungsen For next year, I guess would be higher debt amortization, do you need this Senvion IPO in order to meet to be in a sustainable kind of a cashflow basis in terms of meeting your interest as well as amortization?

Amit Agarwal Next year also the amortization from Rs.117 crores moves up to Rs.350 crores only. So, it is not a significant increase in the amortization of the debt even in the next year.

David Kungsen Would you say that without Senvion IPO, you would still be able to maintain a cash flow breakeven or better into next year?

Tulsi Tanti Answer is ‘yes.’

Moderator Thank you. We have the next question from the line of Vivek Kohli from Morgan Stanley. Please go ahead.

Vivek Kohli My question is actually similar to what previously asked. I just want to again clarify you are talking about from second half onwards every quarter you had to pay Rs.500 crores of interest. I understand that EBITDA might go up from Rs.100 crores to whatever, but still the liquidity situation seems quite tight to be able to service coming quarter debt, particularly, when the working capital is already used quite efficiently at 2.9%?

Tulsi Tanti No, also earlier I have mentioned this, this is order specific, the bank and other financial institutes is giving a project-specific funding. So, now that constraint is reduced substantially. So, whatever the orders we have, we are comfortable to execute, and if we execute the more orders, we are comfortable to pay the interest cost. Interest cost area; we have already explained the 3 areas – #1 is our increased volume will help us. #2 is further optimization of the working capital because nature of the trade practices change, the new group of customer is coming for the AD benefit customers, they pay the advance money much more and cycle time for that order execution is less, which can give us further more liquidity on a order execution front areas, and simultaneously, we are working on some of the asset sales part also in the H2 of some of the plants and some of the capacity which we do not require, so that is also there. So, all net-net, if we improve the volume with the help of the project funding, we are comfortable to pay the interest and we are comfortable…

Vivek Kohli Are you not cutting yourself too tight, in the sense that from current quarter onwards, you are talking about…?

Tulsi Tanti You are right; there is no doubt about it, it is a quite sweet challenge we have and our team is working very-very aggressively to manage each and every day cash flow efficiently which is giving opportunity to become more and more competitive in the marketplace.

Vivek Kohli I would have expected in this situation you would have done much more aggressively to raise cash from other sources through Senvion listing or through stake sale, but again we are running from quarter-to-quarter like previously?

Tulsi Tanti I have already mentioned there is a limitation for me to give a very clear action plan but in H2 we are working and to make our capital structure more balanced, asset versus debt, because asset is lying in Germany and debt is lying in India, we have to optimize this and this financial year we will do some progress on that area very well. So, that will give the comfort on that front also, which is more on the strategic part or capital structure part. And secondly, simultaneously, we are heavily aggressively focusing on operation side by also bringing the next-generation of products which is giving the better margins and also allowing us to sell those turbines on the very low-wind site location also. As you know, the Indian market is currently supporting very well and the cycle time in India versus international is quite different. India is a 9-month cycle time whereas international is 18-month cycle time. So, all these change of the industry, change in the company, and the aggressiveness within the organization and simultaneous to address the capital structure in this financial year, it will give us slow improvement in a positive direction.

Moderator Participants that was your last question. I now hand the floor back to Mr. Tulsi Tanti for closing comments. Thank you. And over to you sir.

Tulsi Tanti Thanks all my valued investors and analysts for interest in the company's Q2 performance. In a conclusion part, it is very clear, the company will continuously focus #1 priority to increase the volumes through the bank and financial institute support on project-specific funding, that will give us the good volume and that will help us to improve the liquidity part. #2 area, our strategic initiative to optimize our capital structure, our team is working on that directions to perform in the current financial year. #3 focus is very high, continues to invest in technology to bring down the cost of energy and also to go to the more larger geography areas within the state or within the country or within the world, so that we can unlock the capacity potentiality of the country and to make a more competitive project in the marketplace. #4, very high focus, we have 24,000 MW operational assets which is a very strong service annuity income business, we want to enhance our performance to the customer and to increase our margins on that area as annuity source of income for the company. Very clear four strategic drives, continues to work, but once we come to the next 6 months, we have the continuous challenge on a day-to-day basis of the cash situation to optimize and to leverage the volumes, and always it is a conflict of the growth versus interest payment, but we are very much competent based on the last 18 months experience and we will continue to take this challenge and to come out with better result in the future. Thank you very much and thanks for your time and we appreciate your presence with us.

Moderator Thank you, sir. Ladies and Gentlemen, on behalf of Suzlon Energy Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.