"Suzlon Energy Limited Q1 FY17 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day, and Welcome to Suzlon Energy Limited Q1 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. J. P. Chalasani. Thank you and over to you, sir.

J. P. Chalasani: Hello to each one of you. And we welcome you for this call. And I would like to thank you at the outset for each one of you for taking time out and joining us. I have with me Mr. Tulsi Tanti who is our Chairman and Managing Director, Mr. Kirti Vagadia who is our Group CFO as well as our Investor Relations team. I presume that you had a chance to go through our investor presentation what was put up yesterday. What I will do is initially I will share some details on our overall performance then I will ask Kirti to take you through the financial performance in much more detail on this. Post that, we will be happy to take your questions.

To start with, I must say that me, my team as well as the entire organization is extremely happy and proud to be part of this sector. And as all of you are aware that the renewable sector now by installed capacity basis has crossed the hydro power and it is now second only to the coal based power in this country. So that is a big achievement for renewable sector as a whole for the country on this.

In our view, the renewable energy sector which started picking up purely based on the government policy support has now moved on to the five different principles on which its foundation has been laid. First is, it does not need fuel, and more importantly it does not need water. Having worked for the thermal sector for over three decades I understand the importance of water and water scarcity, what is being happening in this country. So from that angle no fuel and no water is one significant factor which is pushing the renewables. Number two is shorter gestation period, therefore quick turnaround from capital to the revenue. Third, mass improvement in the technology therefore leading to competitive tariffs. Fourth, obviously the government support policies. But fifth, which actually wraps all these four principles is the concern for the environment. Whether be it at individual level, at each one of our level or at the international level, there is a concern for environmental mitigation. I think these five principles is what is actually pushing renewables rather than general perception that it is just the government policy which is pushing. So, there are different factors which are now pushing on this. That is the reason we went ahead and declared that as a country we set ourselves a target of 175 gigawatts of renewable energy by 2022. Keeping this in mind we are quite confident that the industry will grow by over 30% in the current fiscal.

In this, with our current position, which is being the market leader in India on a cumulative basis, with our technologically advanced and innovative product portfolio plus our strong order backlog, which we will see in the details later, our proven execution capabilities, our capable service teams which we take proud of operating 15,000 megawatts across the globe and only second to NTPC in terms of operating capacity in this country, strong pan-India presence across the entire chain, the only company to have the blade manufacturing facility in every single wind state in the country and also serving every single customer segmentation on this. Even if you look at IPP sector which contributes 70% - 80% of this, every single IPP we have been working with, all this together we are confident that will continue to give growth momentum to the Company.

On the product wise, our new products, S111 90 meters, S97 120 meters as well as S111 120-meter hybrid tower are likely to unlock many more low wind sites on this. In fact, our latest product which is S111 120 hybrid tower which recently received the certification, we gave a guidance earlier that it will have a PLF north of 40%, we are happy to say that initial few months' performance of the product since its commission actually confirms this assumption that the PLF is going to be north of 40% for this.

We are committed to bring down the levelized cost of energy by 20% in the next five years. Looking at the canvas of the renewable energy sector currently and then looking at what is likely to happen in the new areas of development in terms of re-powering, in terms of the solar hybrid sectors on this, we are quite confident of the guidance what we gave earlier. We will look at the details, subsequently in the Q&A as well, I would now ask Kirti to address the detailed aspects of our financial performance for the Q1.

Kirti Vagadia: Thank you, JPC. Hello, everyone. I am happy to share with you our quarter one FY17 financial performance. In quarter one FY17 we have delivered a stable volume of 204 megawatts. As you are aware by tracking Company for quite a long time that quarter one is a seasonally low volume quarter for the entire industry and generally the entire industry in India does about 10% to 15% of annual volume in quarter one. If you see on a profitability part, our gross margin remains strong at 44.6% while EBITDA margin, pre-FOREX gain or loss, came to about 10.4% on this quarter. This is impacted primarily due to low degree of operating leverage in this quarter. This quarter we built up inventory to cater to the growth volumes in the balance nine months this year. But the same was offset by better receivable management, so we have restricted our working capital days to 61 days. Our stable debt balance, reducing interest cost and back ended maturity profile give us sufficient headroom for our operations.

With our strong order backlog at 1,306 megawatts, including the order we won post 30th June, our focus for the remaining year is to execute the order backlog. Our solar plans are well on track with ongoing disinvestment of solar bid capacity. We have won total bid of 515 megawatt capacity, we have already divested 49% stake in 100 megawatts solar project in Telangana, we have already identified investors for another 110 megawatt projects in Telangana. Our cautious bidding with average tariff of Rs. 5.36 per unit is paying well. I wish to also highlight that the new accounting regime in form of IndAS mainly reflects in two major areas, namely foreign exchange and impact of right of recompense on our potential corporate debt restructuring exit scenario. Our net loss under Indian GAAP, which is old accounting standard, for this quarter was Rs. 144 crores versus Rs. 260 crores under IndAS, so the impact of new accounting standard on our numbers in this quarter has been quite significant at Rs. 116 crores. The difference is primarily explained by Rs. 90 crores delta due to foreign exchange losses and Rs. 20 crores delta in finance cost.

I would like to close by saying that we are well capitalized and fully equipped with resources and infrastructure to leverage the immense market opportunity available in India and to deliver on our goals.

Thank you very much. Over to you, JPC.

J. P. Chalasani: Thank you, Kirti. We will be now happy to take the questions whatever you have.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar: Two, three questions. First one on your volumes, you have done close to around 205 this quarter, are we still on track to kind of look at roughly around 35% kind of a market share through the year? That is one. The second question is on your receivables, what would be the duration of your receivables now for the Rs. 2,000 crores which are outstanding? So if you could give us a rough idea about the buckets whether how much of that is likely to be received during the year. That is second. And third one is, if you could give us an idea about the recompensed amount which would need to be paid after you come out of the CDR?

J. P. Chalasani: Let me answer the first question in terms of the market share. With whatever we achieved in quarter one, which is +200 megawatt, plus the strong order backlog of over 1,300 megawatts as of today on this, I am looking at what is in the pipeline as well, we stand by the guidance what we gave earlier and we are quite confident that we will be able to maintain the market share what the guidance we have been giving from the beginning. There is no revision in terms of the guidance with respect to market share. And as far as the receivables are concerned, in fact it's a decreasing trend, Kirti can give the details.

Kirti Vagadia: Yes. See, our receivable in March was Rs.2,500-odd crores, we reduced it by almost Rs. 560 crores in this quarter, so Rs. 2,000 crores is reflecting roughly about I would say something about 55 days.

Ashutosh Narkar: So, what I wanted to understand is that this kind of receivable should be kind of received over the next two quarters timeframe, right? You should be able to encash these receivables?

Kirti Vagadia: Yes, correct but new will also keep on coming.

J. P. Chalasani: No, if your question is that do we have any sort of sticky receivables, no.

Ashutosh Narkar: Yes, that was the whole idea to understand that.

Kirti Vagadia: And on a CDR right of recompense the impact in this quarter is about Rs. 9 crores and the impact in last financial whole year is about Rs. 32 crores. And so far as past impact is concerned, due to commercial sensitivity involved because we are in middle of negotiation with our bankers, I would be hesitant to give that number.

Moderator: Thank you. We will take the next question from the line of Sudhakar Prabhu from Stan Capital. Please go ahead.

Sudhakar Prabhu: A couple of questions. My first question is based on your annual report. Your annual report mentions that Suzlon has signed MoU with AP Government for around 4,000 megawatts of renewable power, sir just wanted to understand details about the same.

J. P. Chalasani: See, we converted some of the MoU to a firm agreement between us and Government of Andhra Pradesh, that has been executed and it has been approved by the cabinet of this. As per this we would do 4,000 megawatt for the next five year period, Government of AP would provide us all the required facilities in terms of the power evacuation and the PPAs. In fact, they started the action based on that, we already received a significant amount of power evacuation approvals and then we expect that the balance also to get received in this year for the entire 4,000 megawatts. And as far the PPAs are concerned, they would be signing PPAs in advance for our capacities and then thereafter we would assign to whosoever is the customer we get on this. So, therefore you will have 4,000 megawatts at once PPAs as well as power evacuation are approved by the state and then they are developing the upstream, the evacuation facility based on this agreement. So that is what is the advantage of this whole agreement, it is not an MoU anymore it is a firm agreement approved by the cabinet of AP.

Sudhakar Prabhu: So, is it safe to assume that execution of this would start only by next year FY18?

J. P. Chalasani: It has started already.

Sudhakar Prabhu: It is already started and is any part of it included in our order book?

J. P. Chalasani: Yes.

Sudhakar Prabhu: Can I ask you how much?

J. P. Chalasani: Right now there are different pipelines on this, but what I can say is that this 4,000 megawatts what we have arrangement with AP is to be executed in the next five year period max, but we can expedite and do it in a shorter period if we want to do it on this. And this year our AP capacity is going to be significant in the overall business and currently what we are executing should be around 300 megawatts to 400 megawatts already orders signed from this capacity.

Sudhakar Prabhu: And my second question is on your JV with DSA, what is the progress on that?

Kirti Vagadia: Yes, we are planning to execute those volumes in next financial year.

Sudhakar Prabhu: And my third question is on your margins, as we all know that Q1 is a flat quarter and as the quarter progresses Q3 and Q4 are the best ones for you, how do we see the margins for the whole year in FY17 and FY18?

Kirti Vagadia: FY17 we already indicated in the beginning of the year that margin would be around 15% at EBITDA level and we believe that it will be maintained accordingly.

Sudhakar Prabhu: And my last question is on your services business, we have seen a 5% growth year-on-year in this business, so how do we see the services revenue for the full year?

Kirti Vagadia: Okay, in service business please remember that whatever growth you are seeing in last year and this year is purely on account of low volume which we have executed. Once our volume under execution increases this is the one factor which will straight away add in the volume. The second factor which is added is that in our India megawatt under service we are generally getting 5% escalation every year, so irrespective of megawatt growth 5% of Indian service revenue will continue to grow, that is one. Number two, our international maintenance revenue generally are linked with CPI index of respective countries, so there also you can expect that about on an average my experience has been 3% growth in that as well.

Moderator: Thank you. We have the next question from the line of H.R. Gala from Panav Advisors. Please go ahead.

H.R. Gala: Will it be right to assume that we would be doing close to 1700 megawatt in this year, FY17?

J. P. Chalasani: We have been giving guidance not in terms of the absolute capacity but we have been giving guidance in terms of the market share and obviously then you can estimate **.**I would neither say yes nor say no at this stage on these number.

H.R. Gala: But you are hopeful that a country as a whole we will do around 4,000 megawatt?

J. P. Chalasani: Yes, as per our estimates we expect that there will be 30% growth in terms of the additional capacity.

Kirti Vagadia: And we have given estimate of 4,300 on slide number 25

H.R. Gala: Yes, I am seeing that sir.

J. P. Chalasani: This is based on the ground information what we have.

H.R. Gala: And my second thing is, I will just draw your attention to today's Business Line page number two, I hope that you must have got chance to see, there is a picture given winds of change that Vestas is trying to build one different type of wind station or wind pant with just one tower and four turbines attached to it. Do you see that as a feasible thing for Suzlon also in future and is it better way of doing it than having only one turbine per tower?

J. P. Chalasani: No, we would not comment on what competition is doing and their technology, we have our own technology improvements which we take pride of on this. And as I said in my opening comments that our latest product which is the S111 120 which prototype was commissioned sometime back and now we got certification where we gave a guidance we will go to north of 40% PLF and initial few months when it is operating today actually confirms this thing. So therefore we are confident in taking the efficiencies higher and higher.

H.R. Gala: But at the same time I am sure that you must be having a look at what the competition is doing globally, is it not?

Tulsi Tanti: Just to add regarding the Vestas product whatever is multi-turbine on one tower, it is a new concept which is there, it still requires a lot of technological research, study, testing and all aspects. As per our technical expertise there is not much commercial benefits, it is creative, fine, but not levelized cost of energy perspective is that much changed but we are evaluating also. We are going country specific rather than following the competition. What India needs based on availability of the sites, geography, grid infrastructure and man power resources, what should be the ideal technology and competency required depends on the wind resource available in our country in different-different height. So we have improved our technology study on that and based on that each state also has a mix situation, all India is different, each state is unique and based on that we are creating the technology in products to bring down the levelized cost of energy down by 20%. Because so many different technology can be possible but ultimate dream of the business is very simple, to bring down the levelized cost of energy down, like S111 120 we are expecting 40% PLF irrespective of the lower wind sites, because every wind sites are little bit lower. So that why we are bringing our product technology which is home grown to suitable for the home market.

H.R. Gala: Thank you very much. And my last question is on the capital expenditure, how much CAPEX are we planning in this year and next couple of years?

Kirti Vagadia: Current year total CAPEX would be less than Rs. 300 crores, in first quarter it has been roughly about Rs. 89 crores. And we believe that our CAPEX would be restricted below current year target in next couple of years as well, and this includes R&D CAPEX as well.

Moderator: Thank you. We have the next question from the line of Pawan Parikh from HDFC Securities. Please go ahead.

Pawan Parikh: Sir, my first question is on your employee cost, so I am actually comparing your employee cost of Q1 FY17 with the employee cost that you had reported in the wind P&L in Q1 FY16, because Q1 FY16 consolidated numbers obviously are not comparable YoY. And if I look at that way the employee cost has gone from Rs. 192-odd crores to about Rs. 260-odd crores now which is a very sharp jump. So just wanted to understand that.

J. P. Chalasani: For employee cost you need to compare with respect to the Q4, because that is what is the manpower available on that day, with respect to that what is the Q1 cost. And if you look at from that angle you will not see a much difference between the two. And the second is there would be some marginal increase because we are getting prepared for a much larger volume, creating a new manufacturing capacities and things like that, so the right comparison is Q4 and Q1.

Kirti Vagadia: And there is one more element which I just wanted to highlight that previously our R&D used to be in our subsidiary company and that is why the cost of R&D was going into OPEX. In current year what has happened that we have converted them into branch setup, so that amount is reflected into manpower cost, so there is a change of about Rs. 20 crores in that head item.

Pawan Parikh: And sir secondly, you have indicated EBITDA margins that you have said about 15%, that is including the FOREX loss right, or is it before the FOREX gain loss?

Kirti Vagadia: Actually speaking FOREX loss is something which is very difficult for me to predict what is going to be there in the end of the year, so it is excluding it. And second is, FOREX is practically notional, it is not sucking any cash.

Pawan Parikh: So sir, you said that as per IndAS the impact on FOREX loss is about Rs. 90 crores. We have reported a forex loss of Rs. 49 crs under IND AS, had it not been for IndAS it would have been a gain, is that right?

Kirti Vagadia: It would have been a gain of roughly about Rs. 42 crores if we were under earlier Indian GAAP accounting. And you are aware about the reason that since we have refinanced our FOREX loan in April itself, which is saving on a cash basis from 5% to 3.3% per annum, the FOREX movement between April to June which has been very sharp, that entire movement I need to take into account in quarter one itself. Generally, otherwise if I was under earlier accounting regime that would have been spread across coming eight, nine quarters.

Pawan Parikh: Yes, I read that in the presentation. Sir, on the solar part, just want to understand by when should we see execution of the solar orders coming and how would that reflect in our P&L?

J. P. Chalasani: See, as Kirti said in his opening comments that the 100 megawatt we announced already for balance 110 megawatt in Telangana also we have identified investors and these projects are now rolled out into execution of this. As per the PPA schedule so the part capacity's first year will be commissioning in February this year and the balance is supposed to come by April in the next year. So we would be…

Pawan Parikh: That is for Telangana?

J. P. Chalasani: Yes, Telangana, 210 megawatt in Telangana.

Pawan Parikh: So sir, just wanted to understand, now that we still own 51% in that venture so now that you book revenues, so in the consol P&L it will actually get knock off, right. So, just wanted to understand, I mean, in the profit for the FY17 numbers will there be any contribution from solar business or will there be no contribution?

Kirti Vagadia: No, it will not be knocked out because consolidation rule will follow the structure of the agreement with potential buyer, not just percentage. So, the way the agreement are structured that we will be in a position to consolidate the revenue and profit both.

J. P. Chalasani: And we do expect it to continue to the bottom-line.

Pawan Parikh: So there will be some contribution in…

Kirti Vagadia: Yes, there will be addition to bottom-line for sure. Revenue and bottom-line both.

Pawan Parikh: And in this year it will be only about 110 megawatt?

J. P. Chalasani: No, it is 210 megawatt in Telangana we are supposed to do. See, commissioning is next year, PPA target is May, we gave a guidance that we will be within the PPA target.

Pawan Parikh: So, maybe from Q3 onwards there will be some revenue booking?

J. P. Chalasani: Exactly, yes.

Pawan Parikh: And sir lastly, so as much as I understand the order book that you have in hand about 1200 megawatt is for FY17 itself, so standing today we do not really have a big pipeline for FY18. And obviously, I mean, Q2 is almost over now so you think Q3 and Q4 will be good enough for you to actually grow your volumes in FY18?

J. P. Chalasani: Yes, as we speak I said it is, as on date it is more than 1300 megawatt…

Kirti Vagadia: 1306 megawatt precisely.

J. P. Chalasani: So therefore this year we are on track and we are now discussing with various customers for FY18 as well and we expect them to convert into a firm order in H2 of this year. And like last year we expect to close this year with a strong order back log for next year.

Moderator: Thank you. We have the next question from the line of Sameer Dalal from Natwarlal and Sons. Please go ahead.

Sameer Dalal: Sir, I wanted to know with the tariffs coming down from the wind side what are the kind of IRRs that you all are able to help your clients generate at this point of time?

J. P. Chalasani: See, the tariffs have been coming down even earlier on this, we normally expect with our improvement in technology with that efficiencies are improving. Like, as I talked sometime back about…

Sameer Dalal: No, I agree with that you are improving your technology but I am asking you at today's point, given the way situation is…

J. P. Chalasani: Currently, we are working with them in the IRR range of 15% to 18% by them and we expect that to continue to be there.

Sameer Dalal: So you are working with 15% to 18% on your current technology upgrade, this is not the S128 with 120 meter height?

J. P. Chalasani: Yes.

Sameer Dalal: So, this is with the S111, right?

J. P. Chalasani: S111 90 is what is sold, S111 120 is what is the prototype in commission that got certification latest which is what we are talking about higher PLFs.

Kirti Vagadia: And other two factors which you need to keep in mind which impact the equity IRR of the customer is that the rate of interest at which they are getting the finance is also coming down sharply, that is number one. And number two, the tenure of the debt in India now people started getting loans in the range of 15 to 18 years repayment period and that also impact the equity IRR.

Sameer Dalal: The second question I had was also on this, since you mentioned that you are negotiating right now for next year's order book, are you all looking at all getting some orders for the S128 the 2.6 megawatt or the S128 3 megawatt or it is still on the S111 that you all are still trying to get the order which is a 2.1 megawatt?

J. P. Chalasani: Right now most of the orders we are talking about is the S111 machines.

Sameer Dalal: So, by when would you be able to maybe commercialize the S128 which would help the IRRs in the future?

J. P. Chalasani: That should come towards the end of next year.

Sameer Dalal: So, the actual work on that will start only in FY19, is it?

J. P. Chalasani: Yes, it is a transition, could be later part of FY18 or early FY19.

Kirti Vagadia: We will deliver in last quarter of next financial year.

Sameer Dalal: The next question, you also mentioned very rightfully that the financing is becoming really easier, I just wanted to understand for the projects that you undertake do you all also have some sort of tie-ups with certain NBFCs or banks which help you getting your customer financing or do you leave that entirely to your customers?

Kirti Vagadia: Generally, IPP customer does not require that kind of help, help we provide is in the due diligence are done by the lenders into sites related things, product related things, those kind of help we provide. But in arrangement of finance we do not take that kind of a responsibility.

J. P. Chalasani: We will indirectly help them by giving our brand.

Sameer Dalal: Now coming just over to the solar side also, because the solar side is something you all are also very focused on given that the opportunity there is quite large. All of these projects that you have won, these are all being done in separate SPVs correct, or are they being done in the parent company itself?

J. P. Chalasani: Separate SPVs.

Sameer Dalal: So you all are planning on getting funding, like you raised 49, I mean, you sold 51% stake in the 100 megawatt one, you are looking to raise money across all of them or you will hold on to some of the smaller projects for yourselves, how exactly…?

J. P. Chalasani: All of them.

Sameer Dalal: And up to what percentage stake are you willing to part with at this point of time or would you be open to give 100%?

Kirti Vagadia: Statutorily we are holding 51%, so the balance up to 49% we are divesting.

J. P. Chalasani: Yes, we are supposed to hold 51% till one year after COD.

Sameer Dalal: Okay, so then only after one year we will be able to monetize those?

J. P. Chalasani: Yes.

Kirti Vagadia: But the debt will not come on our balance sheet as we mentioned earlier that the entire debt will come on SPVs balance sheet and that will not be consolidated due to structuring of the contract.

Sameer Dalal: But if you own 51%?

Kirti Vagadia: Yes, it is not just the holding, it is the structure of the contract which is being looked for consolidation.

Moderator: Thank you. We have the next question from the line of Jigar Shah from Maybank. Please go ahead.

Jigar Shah: My question pertains to your view on the reforms in the transmission and distribution and the industry growth that you are saying that about 30% industry growth will take place. So, do you feel confident that the evacuation infrastructure is sufficient for this kind of growth and for it to further scale up in the years to come? Please give some idea on that, and how Uday scheme is affecting you, etc.

J. P. Chalasani: Well, the transmission distribution sector is something which is hot topic, we can talk every year at any point of time. On the transmission segment, it is never sufficient, obviously it needs to grow along with the generation capacity. Currently if you look at AP it is one state which is expected to add significant capacity in renewable sector in coming few years, so they have actually prepared a specific plan at the state level, at 400 KV level how to strengthen the upstream capacity to evacuate, what they call a green corridor, to evacuate the power from the renewable energy. Similar way, you are aware that Power Grid has plan for a green corridor, they have identified substations and identified lines which are basically meant for renewable energy. There are plans so therefore we expect that the transmission be in line with the generation capacity which is getting added, though sometimes you see that transmission lags but over the last decade or so when you are seeing, before a decade transmission was a major bottleneck but now it is not to that extent, I do not say it is 100% but there is a significant planning to match up with the capacity and there has to be augmentation, there will be augmentation over a period on the transmission. And as far as the growth is concerned, we are talking about 30% growth in the renewable sector on this, we are not talking about the power sector as a whole, so this is limited to the renewable sector which will grow at about 30%. Currently if you look at total capacity we have become number two to the coal, in terms of the energy our share is around 5.3%, the share varies from 4% to 8% depending upon which season of the year we are talking about, maximum share is 8% in the high wind season of July. So that will grow by 30%. So that when you look at from the point of view of energy, then obviously you are not talking about the huge jump in terms of the overall energy.

Jigar Shah: And one last thing, are the SEBs paying your clients in time and what are your views around that?

J. P. Chalasani: I will say yes and no, depending upon which state we are talking about, I think whether the SEBs are making payments is an issue for every single generation irrespective of its renewable or its conventional power on this. Some states are doing pretty well, like if you are look at Andhra and other things, there are some states like Maharashtra where there are sort of issues I think which are getting resolved. But this is an ongoing issue which you need to resolve from time to time in terms of the receivables.

Kirti Vagadia: Just to add on this that majority of customers are building these in their projections as a working capital investment.

Moderator: Thank you. We will take the next question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir, the repowering policy, the government has come with a repowering policy that they have, so what are the next steps for you to get the order in this segment?

J. P. Chalasani: See, at the repowering policy they are saying any installed capacity which is one megawatt and below is what you can go for repowering and it clearly talks about, the policy talks about how the tariff would be calculated for existing capacity, existing PPA and things like that. Therefore, it throws up significant potential in states like Karnataka, Tamil Nadu and few other states like Maharashtra where we had these machines installed right from the early days, so therefore you have got a lot of population which is less than 1 megawatt. Those areas is what we are now looking at and then looking at this segment as one of the possible growth areas for us in FY18 or maybe FY19, starting with FY18 in some way and then going in a significant way upwards thereafter.

Mohit Kumar: And my last question pertains to whether, do you have an idea of how much your order book is for the AD benefit and how much with the IPPs order book?

J. P. Chalasani: Significantly IPPs, so about 70% to 80% is IPP capacity.

Moderator: Thank you. We will take the next question from the line of Deepak Agarwal from Elara Capital. Please go ahead.

Deepak Agarwal: My first question is, if I heard correctly you mentioned that the order from the joint venture has slipped to FY18, sorry commissioning has shift to FY18, inflow is still there in this year.

Kirti Vagadia: It is not included in order backlog because since we are also joint venture partner, we have not included anything in order backlog. What I meant is that execution will happen in next financial year.

Deepak Agarwal: But you will book some amount of revenue as an equipment manufacturer in FY17?

Kirti Vagadia: Generally not, but we will see the way we progress on quarter four. Right now there is no plan to include any revenue in this quarter in this financial year.

Deepak Agarwal: And my last question is, can you comment on how do you see the progress on this 1 gigawatt CTU tendering on competitive bidding basis, so do you think that is gaining some traction from FY18 perspective?

J. P. Chalasani: I think they made some progress in terms of identifying the trading agency in terms of PTC, but the fundamental issue is that it is getting connected to CTU and the open access responsibility remains with the supplier of power. Unless you know which customer you are supplying power, So you cannot go where the open access is required and you cannot go and block the open access, so therefore that is a huge risk. I think that is the issue which they are now trying to sort out, there was the stakeholders meeting last month towards the end of month and questions were raised, so I think these issues are addressed. My view is that the market determined pricing is always good for the sector, but then sector needs to be mature enough to address these issues. We have seen, as most of you have seen the set of issues we had in terms of UMPP bidding and in terms of imported coal based bidding and we had in road sector, we had in metro sector, every single sector we had issues on this. So therefore it is necessary to address some of these issues and there are some fundamental issues like if one is responsible for a open access without knowing where the power will go and tomorrow you bid and then you do not get that open access then it is a major issue. So, I think those issues will get resolved and it will come out then, it is my take, in our opinion it might take some time before it comes up.

Moderator: Thank you. Our next question is from the line of Arun Manjwani from Talisman Investment. Please go ahead.

Arun Manjwani: I would like to understand in terms of the distribution of this execution across quarters, you say that the first quarter is about 10% to 15%, how do you actually do this capacity planning, like for instance if you had to face let's say an additional load of 2 gigawatts or more then how would you actually plan this?

J. P. Chalasani: See, one of the reasons why you get into this sort of uneven distribution of this thing is the policy relation. If you yourself analyze over the last, let's say, even if you take the last five years history there are seven states, if I do not include Telangana as one of the state, are the windy states. Top three states contribute for about 70% to 80% of the capacity in the year, but the problem is these top three states are a like musical chairs, like last year you had MP, Rajasthan in number one and number two position, and obviously this year you do not find MP and Rajasthan in number one and number two. Because of this policy shift many of the orders start implementation in the later part of the year or the early part of the financial year, that is the reason it gets committed to subsequent quarters, so therefore you do not get firmed up in terms of ways to execute, what to execute, then you shift from one state to other state, that is one major reason. So once we get into a policy regime which is stable which you know very clearly for the next three to four years' tariff and everything on this and people are going to sign PPAs, this would change to some extent, that is an external factor. And obviously internal factor is that if you are able to create significant amount of land bank and that you have a readymade projects and then you can to some extent improve but most importantly quarter-by-quarter capacity addition depends most on the external factors.

Arun Manjwani: And also the second question is on the inventory cost is negative, could you please explain?

Kirti Vagadia: Yes it has gone up, because see volume wise as you are aware that we have a lumpiness in the volume, we have back ended volumes but supplier volume is generally even because the whole majority of supplier is manufacturing almost equal every month. So, we need to build up inventory and that is the reason we have inventory built up of Rs. 556 crores higher as compared to Q4 so that we can catch up on the volume in quarter two onwards.

J. P. Chalasani: That is reason we are confident that we will be able to achieve higher volumes in this year, that is the reason if you see the inventory at the end of Q1 of last year versus Q1 of this year, there is a significant increase in terms of the volume and that is basically to make that increased volume ramp up this year.

Arun Manjwani: So just to summarize, are you planning for the next quarter alone or for the remaining quarters as well?

J. P. Chalasani: We will plan for the year as a whole.

Moderator: Thank you. We have the next question from the line of Utkarsh Maheshwari from Reliance General. Please go ahead.

Utkarsh Maheshwari: Sir, just want to get an idea, you did spoke about CDR exit, any timelines you can give at this time, sir?

Kirti Vagadia: I think we have publicly said that we are planning to exit from CDR in this financial year.

Utkarsh Maheshwari: So, in all circumstances we intend to exit by FY17 and as such?

Kirti Vagadia: Yes, that is correct.

Utkarsh Maheshwari: So what, I mean, you did mention about that IndAS impact for that right per say, recompense, so what can be the tentative liability in the sense we did saw that it is Rs. 9 crores for this quarter what you have mentioned in the IndAS, what can be the full year impact and if it is, I mean, if we assume so it is happening in Q2 or something…?

Kirti Vagadia: Yes, I think similar amount on a quarterly basis is a fair estimate.

Utkarsh Maheshwari: So I mean, for the full year it should be like Rs. 36 crores - Rd. 37-odd crores for the…

Kirti Vagadia: Yes, Rs. 35 crores, roughly it is Rs. 8.8 crores precisely, so you can assume Rs. 35 crores - Rs. 36 crores.

Utkarsh Maheshwari: So this should be additional cost for us for exiting it as such?

Kirti Vagadia: It is, whether we exit or not this kind of cost we need to make provision for.

Utkarsh Maheshwari: No, this is basically a cost which we have to incur in case we decide to exit out, right?

Kirti Vagadia: Both are not linked event, I must say that. Even if the company was not planning to exit we need to make the provision. The CDR exit related liability is a negotiation between company and the banks. We are going on a voluntary exit, it is a negotiated settlement.

Utkarsh Maheshwari: So, this will be a negotiated number. Sir one more thing, do we see, I mean this quarter we had a little bit higher of this FX related losses vis-à-vis the last quarter, basically the Q4, do you see this number being a little bit on a higher side or is this number should be more sustainable number in terms of the Rs. 40-odd crores what you mentioned?

Kirti Vagadia: See, it is a function of how the currency moves during the quarter, unfortunately at the end of quarter one rupee has touched Rs. 67.52 or Rs. 67.53 probably, so it is always a function where rupee stays against dollar.

Utkarsh Maheshwari: So basically this is difficult to put a number, basically there will not be any range?

Kirti Vagadia: It is very hard to put a number.

Moderator: Thank you. Our next question is from the line of Manan Patel from Cholamandalam Insurance. Please go ahead.

Manan Patel: Sir, in your initial comments you mentioned government policies is one of the pillars for growth in renewables, so we know that after FY17 the AD and GBI benefits are going to expire, so in your calculations are you factoring any drop in the wind energy installation or something?

J. P. Chalasani: When we are doing business in this country obviously we need to be aware of the policy and then we need to be prepared for any sort of a policy change, we keep getting prepared. As I said, one of the reasons why we get ready for such eventuality also is improving our efficiency in terms of new products coming in on this. So therefore any uncertainties in terms of the policy or the wind side quality is coming down, we have all the uncertainties which the improved efficiencies will meet.

Manan Patel: But sir, in terms of do you see the volumes itself coming down due to the expiry of benefits?

Kirti Vagadia: AD wise let me try to give you that AD segment of the market is hardly 10% to 15% of the total volume, so AD is something which is not going to impact the volume. On GBI, I would say that first of all whether GBI will go or not that kind of indication is not there, so we assume that GBI will continue.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments.

J. P. Chalasani: I will now request Tulsi Bhai to give his comments.

Tulsi Tanti: So, thank you for your keen interest and continuous straight forward strategic vision. We are seeing a huge momentum in the renewable energy space and we are well equipped to capitalize on the market opportunity. We strongly believe that in the next five years our renewable sectors, particularly wind will continue to grow by average CAGR of 15% to 20%. Maybe quarter by quarter or some policy uncertainty will remain in the market, but at the longer prospective the sector will continue to grow because competitiveness is huge and it is having a lot of economic value in the country. We are well positioned in the industries with our superior product, end to end project execution capability, very strong service base across India and because of our full presence in all the states and manufacturing base in all the states we are well equipped to leverage the growth of the sector. We are committed to drive the growth in the industries through a continuous technological innovation by bringing the levelized cost of energy continuously down so that we remain competitive and at the same time we have taken care of the consumers' expectations.

In conclusion, I wish to summarize that our priority during the forthcoming quarters is:

- Very rapidly execution on a projects in different-different states, we are working on a huge pipeline in a different states, so ramp up of the volume is the highest priority and you will see going forward in the coming next quarter.
- Achieve higher than the industries growth rate of 30%, Industry will grow 30% this year but we will grow higher than that.
- We maintain a strong control on a working capital level so that we can leverage the resource for the better volume and better optimized profitability.
- We will continue to leverage technology to further optimize the product and reduce the cost and for the higher return of the investment for the customer, so the investment interest should continue irrespective of the lower windy sites, irrespective lower tariff and also some of the incentive withdrawal in the future.

I assure that we are well on the path of sustainable growth, we look forward to your continuous support in our endeavor to be the best renewable energy company in the world.

Thanks a lot, I appreciate your time and support to us and we are very confident on our management team who are equipped to deliver the growth of the company. Thank you very much.

J. P. Chalasani: Thank you Tulsi bhai. We now conclude the call.

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