“Suzlon Energy Limited FY17 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Suzlon Energy Limited 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. If 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 - CMD, Suzlon Energy. Thank you, and over to you, sir.

Tulsi Tanti: Thank you. Good evening to all. Thank you for joining us on this call. I have J.P. Chalasani – Group CEO; Kirti Vagadia, and Sanjay Baweja from the Finance and our Investor Relations team with me in this call. The results are uploaded on the stock exchange. I will share with you an overview of the industry and my team will walk you through quarter 4 and annual performance, post which we are very happy to take your questions.

First and foremost, we are happy to say that Suzlon has established itself on a path of the sustained profitability and growth. I would like to congratulate my leadership team who hit the deck running and delivering the fantastic performance with the focus on delivering driving the results.

The renewable sectors in India has grown 100% year-on-year for the last 2 years for the expansion in India after the Honorable Prime Minister had set the target for 175 GW by 2022. The last year, India emerged as the third-largest renewable energy market in the world in terms of annual installations and the fourth-largest in cumulative installations. It was also the first year India, when the renewable capacity addition exceeds the thermal capacity. Wind installation attained as a new peak in the FY17 at 5.5 GW installation in a single year, which is a 61% growth over the last fiscal year, with the cumulative additions reaching 32 GW total installed base in the country, much more ahead of the 30 GW target set by the government until FY17. We are confident that we will also exceed the 60 GW target by 2022. This is purely driven by the competitiveness, wind industries is no more dependent on a fiscal benefit, it is competing with the conventional fuels purely on a commercial basis.

Wind market in India is currently under the transition phase from FIT and incentive regime to the auction-based competitive market. This augurs well from the industry's volume point of view. With participation from the non-windy states, the canvas expand from the 9 windy states to 29 states in the country. The first auctions concluded the last month saw 100% response in offtakes from non-windy states. Another 1 GW bidding has been announced already. These central-level auction will enable primarily on the non-windy states to meet their RPO obligation backlog of 35 GW. We believe 5 to 6 GW per annum of the such central-level auction is being planned by the government. Apart from the above, existing windy states are also planning auction for their wind power requirement to meet their RPO. Around 3 to 4 GW per annum is expected to come from these windy states.

The huge traction is also seen in the captive and PSU market, which is now estimated 1 GW per annum. And also each bid, central bidding, provisions of the 10% capacity is also allocated especially for PSU. With all 3 segment put together, industry is on the track become a 8-10 GW annual market from FY19.

With a drop in PPA rate, the entire value chain need to correct on pricing and return expectations, requiring increase in the focus on cost efficiency and product innovation & technology to obtain the margin and to gain volume share. We at Suzlon started our journey to reduce levelized cost of energy few years back. Our strong in-house R&D thus has enabled us to proactively develop the product to reduce LCOE to remain competitive. Our 9X product was launched in FY12 and thereafter, we have constantly innovated to bring out the turbine, which will reduce LCOE by incremental PLF increase at the reasonable cost increase.

We are proud to announce that our latest state-of-art product S111-120 wind turbine generator, which has achieved 42% plant-load factor in its first 12 months of operations in Gujarat. This is the highest PLF registered by any renewable technology in India till date. The turbine model is designed to generate 20% more than S97-120 on the same site locations, thus enabling the lower LCOE. Our next product under development is 12X, which has potential to further push down the LCOE by another 10%, and will be in the market by the next year. This product will enable our customer to compete low tariffs while protecting their return as well as our margins.

In addition to above, given we are the most vertically-integrated manufacturer in India, the benefit of operating leverage will be the maximum for us, enabling us to drive the higher cost efficiency while retaining the control over the quality and reliability.

Project under the auctions, with much lower uncertainty on the tariff and PPA, is enjoying the lower cost of capital. Availability of the cheaper and longer tenure debt and reduced IRR expectations of developers enables the commercial viability of even at the low tariff rates.

FY18 is a transition year, as the industries moves towards the auction regime competitive markets. We believe that the few existing windy states will continue to sign PPA at SERC determined rates till they come out their own bidding. Apart from the above, there will be a 1 GW of a captive and PSU market and about 2 GW of bidding that has already been announced. We believe market should remain around 6 GW level in FY18, and our clear target to achieve 40% market share in this current year.

I now invite my team to take you through our quarter 4 and full-year performance, and give you some insight on the business for the FY18. Hand over to, J.P.C.

J.P. Chalasani: Thank you, Tulsibhai. Good evening to each one of you. It gives me immense pleasure to share with you that we at Suzlon recorded an all-time high installations in India, up 1,779 MW in FY17, which takes our cumulative installations to over 11 GW in India and over 17 GW globally. It's also significant here to note that, this is the second consecutive year we achieved almost close to 100% growth rate in our installations. This phenomenal growth was possibly to 2 factors primarily. Number one, growth in overall market size. As you all know, Indian market grew at 61% in FY17 to touch its all-time high figure of 5.5 GW on this. Factor 2, which we take proud in is, the continued increase in our market share. In FY17, while rest of the market grew at 48%, we grew by 98%. Our market share has increased from 26% to 32%. In terms of delivery, we achieved 1,682 MW in volumes, which comprises 1,573 MW in wind and 109 MW in solar in FY17.

I would now like to spend some time on our current order backlog. Our backlog has multiple elements that differentiates us from any other wind player in India. First, on the domestic wind side, we have a current order backlog of 1,331 MW. This includes 250 MW bid-based orders, the recent SECI bid-based order, while the rest 1,081 MW is FIT-based orders. All these orders have either signed PPAs or on the verge of getting signed. While due to the transition to auction-based regime, few of the states have slowed down on PPA signing, but few states have adopted a more transitory stance. We see these states signing PPAs until they come out with auctions. Due to our unique position of strong project pipeline in all the states, with our preparedness, we have a huge competitive advantage on this.

Apart from wind, we have a solar backlog of 231 MW. Of the total 340 MW of signed solar PPAs we have delivered 109 MW worth of equipment in FY17. The balance 231 MW will be delivered in FY18. That means, entire 340 MW will also be commissioned in FY18. This excludes the 175 MW which we won in the bid in Jharkhand where the PPA signing is still awaited. That is beyond this 340 MW. In FY18 we also target to re-enter and build our international business as part of our market diversification strategy. While we are in discussion for orders in quite a few countries, in U.S., in particular, we have a unique position of having created a 500 MW pipeline of project that qualifies for 100% PTC benefit. We expect this 500 MW to be executed over the next 2 years time frame.

Whatever backlog we have on our service and forging vertical is over and above the backlog what I explained till now. As a practice, we do not include them when calculating our backlog of orders. Both our service vertical and forging vertical are fast-growing in volumes and profitability, turning into sizable piece in the overall picture. With 15-plus GW under maintenance, we are today one of the largest O&M wind service providers from Asia and only one of the scale to have nearly 100% renewal rate. Forging and foundry vertical continues to grow on back of increasing Suzlon volume as well as by adding new customers, both in wind and non-wind sector, both domestic as well as international.

I would now like to invite Sanjay to take you through the detailed aspects of our financial performance in Q4 as well as FY17.

Sanjay Baweja: Thank you, J.P.C. Good evening, everyone. I'm happy to share our full year financial results for FY17, which strongly demonstrates our sustainable and profitable growth. The FY17 saw 49% increase in delivery volumes to 1,682 MW, including 109 MW in solar. It had a 98% increase in commissioning volume to 1,779 MW; revenues of Rs. 12,693 crores; 64% growth in EBITDA pre-FX at Rs. 2,203 crores; and 17.4% EBITDA margins. This enabled us to deliver a PAT and pre foreign exchange impact, which is a positive one, of Rs. 543 crores.

Now coming to Q4, just a comparison. Wind volume are up 25% year-on-year and 20% quarter-on-quarter at 554 MW. Our gross margins of 34% and EBITDA margins at of pre-FX of 14.5% is in line with the Q4 of last year. On quarter-on-quarter basis, however, there's a slight decline in profitability. Decline in gross margin is purely because of revenue mix, share of low margin solar revenues and construction revenue was much higher than the previous quarter. Segmental margins continue to remain strong. Higher provisioning, due to increased commissioning in Q4 also impacted our EBITDA in Q4.

With focused efficiency, our net working capital remained tightly controlled at 12.8%, well within our guidance levels. Our net debt stands reduced by Rs. 341 crores to Rs. 9,920 crores: Rs. 128 crores was due to favorable currency movement and the balance of Rs. 213 crores was reduction through cash movements.

Our high profitable service business continues to grow, reaching a revenue of Rs. 1,623 crore from external sales in FY17 comprising of 12.8% of revenues. Forging and foundry business clocked a topline of Rs. 491 crores in FY17, constituting about 4% of revenues.

Our other financial liabilities in the balance sheet have increased substantially in FY17. This is primarily due to inclusion of SBLC backed debt of over Rs. 4,000 crores being classified as current maturity. While the debt has current maturity of March/April 2018, we have already received consent for the extension of SBLC from the lenders, and most recently the extension has also been approved by RBI. For all practical purposes, the SBLC backed debt maturity will be now in 2023.

I'll now hand you back to Mr. Tanti.

J.P. Chalasani: We're now open for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Ruchir Khare from Kotak Securities. Please go ahead.

Ruchir Khare: Just one question regarding the FIT piece, what does this exactly mean as the states which have earlier signed the FITs would not honor the obligations now?

J.P. Chalasani: There is absolutely, at least in our experience with our PPAs what is being signed, we have not experienced anything of that nature. As I've said in my opening comments that out of 1,331 MW of ordered backlog, what we have today, excluding the solar, 250 MW is the bid based order. The balance, 1,081 is FIT based with most of it is PPA signed, some of them are on the verge of signing. And wherever we have signed, there's absolutely no issue of those projects moving ahead and we have not heard anything about the renegotiation anything about the PPAs. And in fact, we are going ahead and executing those projects.

Moderator: Thank you. We have the next question from the line of Deepak Agarwalla from Elara Capital. Please go ahead.

Deepak Agarwalla: So my first question, can you comment on how do you see the pricing outlook as well as the margin now as we enter the auction market? And the government is talking about 6,000 MW of auction during the course of this year. So what is your view on how should we read this kind of development?

J.P. Chalasani: So the market outlook which if you recall that the last 2 quarters we had been giving the guidance that with the auction we see as a positive thing for us because the volumes will grow significantly. Instead of the 8 windy states being the customers today, the entire country becomes a customer base for us, and you also know that the Government of India has come up with the long term trajectory for RPO and these states, which are non-windy states, till now had not been meeting this RPO, they have to meet that RPO. So therefore, one is that. And second, the auction has started, and you have seen the response in the first round and second round has been announced. Our expectation is not just the central bidding, what is likely to happen about, let's say, 5 to 6 GW, we also expect the states will start auctions. In the states, one is a windy state, for their own consumption they'll come out with bids. And I also expect, based on my experience earlier, that even the non-windy states, like what we have the case on bidding in the conventional power, can also come up with bidding for procuring power. They don't need to depend upon the Center to run a bid. So therefore this whole game is going to change into the bidding, and the tariffs being what it is, being competitive, you know very well that the demand elasticity in India is very much function of the tariff. So the tariffs being competitive, that actually expands the demand further. So therefore, we see a significant expansion in volumes. So obviously with the increase in volumes, there will be some pressure on the margins, but that to a lot of extent gets mitigated because the volumes are going to increase. And second is that we, as a company, we will be able to mitigate that through new technology, as we said that our 111-120, which completed 1 year of prototype test, gave us 42% PLF, and which is a highest ever achieved in this country. So such technological changes, plus being a vertically integrated company, having control in the entire thing from raw material to the end product, that would give us an advantage. Plus, obviously, that there will be tighter controls on the cost efficiency, which is mandatory. So I think all these factors put together along with the volumes, we would see that there will be growth, at the same time, reasonable protection to the margins what we got till now.

Kirti Vagadia: And the same, is also explained on slide number 13 in our Investor presentation.

Deepak Agarwalla: Okay. So we still think we should be able to clock around 14%, 15% kind of a margin as we enter, if not FY18, but at least FY19, 20 onwards on a sustained basis?

Tulsi Tanti: No, no. Even current year also, we'll maintain our margin, 14% to 15%.

J.P. Chalasani: Yes. But earlier also we gave guidance on the margin. See, whenever people talked about the high margins, we always gave the guidance that we expect 15% is the right number to take, and we stand at that number of the guidance what we gave earlier. And we don't see any exception for FY18.

Deepak Agarwalla: Great. And sir, my second and last question is, you mentioned the open order book we have about 1,300 MW, and obviously, we see being one of the market leaders, you're sure to get some kind of order inflows during the auction. So in your view, are we working on a, almost a 2,000 MW kind of an execution for the current year?

J.P. Chalasani: See, we don't give guidance on that angle. Our guidance still remains that we expect to grow faster than the market, and our target is to achieve 40% of the market share. So then we also gave a guidance that we expect the market to be at around 6 GW.

Moderator: Thank you. We have the next question from the line of Dhavan Shah from KR Choksey. Please go ahead.

Dhavan Shah: Just a few questions. Of this 1,331 MW of order book, how many of them are without PPA signed?

J.P. Chalasani: See, I don't want to split between how much is signed, how much is not signed. I said, out of 1,331, 250 is the SECI bid. So for them the PPA is already signed, you know that. In the balance 1,081, which is FIT-based one on this, most of it is signed. Some of them are on the verge of signing. And as I had mentioned earlier I just wanted to reiterate that, many of these projects are under execution today.

Dhavan Shah: Okay. So for the first 2 months of this FY18, what kind of execution is going on? And as you highlighted, as a country as a whole, I mean, there could be 6,000 MW of capacity addition for the year, and we are targeting around 40% stake in market share. So is it safe to assume that we can commission around 2,000, 2,200 or 2,400 MW of orders during this year?

J.P. Chalasani: As I said, in the previous question I clearly answered that we don't give a number of what we're going to do. But clearly, our guidance is that 6 GW market, 40% market share is what we do, and we grow faster than the market. Like last year, we gave that guidance, and we have achieved that and we grew at 98% while market grow at 49%.

Dhavan Shah: Okay. And GST rate on wind turbine generators?

J.P. Chalasani: Yes, Kirti?

Kirti Vagadia: GST rate yesterday announced on wind turbine, it is about 5%.

Dhavan Shah: So it is line with our expectation?

Kirti Vagadia: It is in line with our expectation, and it is not going to impact or it is not going to have any incremental burden on the company.

Moderator: Thank you. We have the next question from the line of Anand Agarwal from BlackRock. Please go ahead.

Anand Agarwal: I have a few questions. Firstly, just wanted to understand what our order backlog is by value. You've not given that this time.

J.P. Chalasani: Yes. That's one of the reasons why we didn't give it is that because 250 MW, which is the bid-based one, is yet to sign, but it is there in the investor presentation. The slide number #9 of investor presentation talks about the values, except for 250-MW balance, which is other than the 250-MW, this is worth about Rs. 7,000 crores roughly.

Anand Agarwal: Okay. And I think you said that there would be discussions or renegotiations with the customers on the pending execution. So has that already happened? You said...

J.P. Chalasani: I said there is no renegotiation, either with the utility for the PPA nor a renegotiation with any of our customers. Projects are signed or under execution today.

Anand Agarwal: Okay. What was the solar revenue in the quarter that we booked, 109 MWs. But what was it in revenue and in figures?

J.P. Chalasani: It's Rs. 548 crores.

Anand Agarwal: And what would be the margin in this?

J.P. Chalasani: We wouldn't like segment wise margins to give it on this. We generally try to give it in overall basis.

Anand Agarwal: But it is in line with high-single-digit or thereabout? I mean, what ….

J.P. Chalasani: It is in line with our expectations when we took the business.

Anand Agarwal: I think you were earlier guiding for high single digits or something like that?

Sanjay Baweja: Yes, we meet that.

Anand Agarwal: Okay. Third, I mean of the installations that are under your maintenance O&M, how much of it is still in the free warranty period?

J.P. Chalasani: Well, that is a moving scale, because each one we commissioned that gets in the free warranty. At any point of time, there'll be some free warranty, what is going to happen under warranty because constantly we keep commissioning. Like we commissioned 1,779 MW last year. So then again we'll start commissioning on this. It's a moving thing. At any point of time, there'll be some number which comes under this category. Yes, but number wise, it keeps changing.

Kirti Vagadia: Generally we give it for two years, but number wise it keeps on changing.

Tulsi Tanti: In nutshell, any given time, last 24 months, all installation in turbine is in the warranty period.

Anand Agarwal: So FY16 installations and FY17 installations would be largely be in the warranty period.

J.P. Chalasani: Yes, this year. In the FY18, it will be FY16 and FY17 will be under this thing. That's the right way to...

Anand Agarwal: So our O&M revenue will start only probably growing from FY19, right? Because FY16 and 17 is when we thought it is going….

J.P. Chalasani: That's fine. But FY16, what we did, will start now, no? So it keeps happening.

Anand Agarwal: But that was a very small number, right?

J.P. Chalasani: Agreed, agreed.

Sanjay Baweja: It will show a significant shift, you're right, it will show a significant shift as we go along. As it continue to grow more and more, the O&M revenue will continue to grow rapidly.

J.P. Chalasani: And also what happens is, it's not the year-end, right? What happens is, FY16 whatever we did commissioning, it's month-to-month. Depending upon which month we commissioned, the 2-year gets completed in FY18. But your point is valid.

Tulsi Tanti: But every contract has an every year's escalation clause also. So that every year 5% to 6% increase, anyway, naturally it is happening. Plus, when this warranty is over, then volume will be added again.

Anand Agarwal: Right. Next on the bidding project. In bidding projects, so we have got 250 MW order out of the 1 GW, right? That puts your market share at something like a 25%. We have seen one of our competitors go and directly bid in these projects, right? So if we were to target a 40% market share, do you envisage ourselves also going and directly bidding in these projects? Or are you seeing you'll be able to achieve 40% market share just by being the equipment supplier and not directly participating in these bids?

J.P. Chalasani: See, we are in the business of EPC, okay? So therefore, our target is always to achieve market share in terms of EPC. And for that type, we don't need to go and bid and increase our risk to get the EPC business. So the way, whatever we had done earlier, like we have pre-bid tie-ups and we have other aspects of it, where we still target 40% market share. And we, as a company, believe that this is not a prudent practice to go out and participate in the bid and get it for EPC purpose.

Tulsi Tanti: Plus we are offering in a pre-bid, our sites, we are offering to our customers with the very good commercial arrangement, and they will bid. And so customer is taking all the risk based on their expectation of the IRR, but site is supplied by us.

J.P. Chalasani: And also what happens is, once you go and you start participating yourself, then your pre-bid tie-ups gets completely restricted. Then you're bidding just for that 1 block of 250 MW, because of conflict of interest. Whereas I can potentially go and have a pre-bid tie-up with a number of sites what I have. If I offer 4 sites, I can go out and do a tie-up with 4 people for 250 MW. And the best-case scenario is, we'll be in 100%. Probability wise, 100% we can win.

Anand Agarwal: Sure. And on these bidding process, I mean, do you think the working capital cycle would be similar or lower than what it has been in the past?

Tulsi Tanti: It will be lower, because now period is available from 18 months. And current order-to-commissioning cycle is 9 months today, based on FIT regime. So in a bidding process, it will be 18 months. So order book size will increase, and which will give some relief in a working capital.

Anand Agarwal: How will that work? Sorry, I didn't understand.

Sanjay Baweja: So the way it'll work is that, since there will be an order which will, a firm order in our hand and there will be advance around it. We can plan our inventory properly. There is no unknown in the entire working capital cycle, and therefore actually we effectively will be able to plan it and therefore, reduce our working capital requirements.

Tulsi Tanti: So orders on hand, the duration today is 6-month is there. Then it's become 18 months after 18 months. So the cycle will increase. So there will be the advance from the customers

J.P. Chalasani: So even if you start preparation of the site and other things, post the order comes, you'll still meet the bid schedule, and you're going to meet that preparation work from the advance we already received from the client. You don't need to put any of your working capital beforehand to prepare the sites ready because sometimes in FIT, we deliver projects even in 4 to 6 months.

Moderator: Thank you. We have the next question from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: Sir, I have this question on importance of land bank, okay? Earlier like we -- Suzlon is one of the very few players that who has a presence across all the windy states of India, but now with SECI tender coming there's is no importance as to where I'm putting my wind turbines, right, for the tender order. So has the importance of land bank and the presence in all the states has reduced and a new player can come up and can offer a competitive bid and win higher share in SECI tender, that's the one. And sir, we have seen that like over last couple of years market has consolidated in larger 2 to 3 players. With new SECI tender based procurement model, do you see market getting fragmented or you see yourself increasing market share? Because this is a more because we have seen couple of 2, 3 international companies have expanded or setup shops in India. So these are two questions.

J.P. Chalasani: Yes, on the first question wise, I really cannot understand that how that doesn't become important. In bidding stage, the quality of the site, which is the most important thing because if you have a good site with a high generation, which gives a competitive advantage and you can sell at price which is higher than the market, because better efficiency. Therefore it is necessary to have identified sites closer to the CTU, because they are all to be CTU connected ones, not just STU. So closer to the CTU where you have your wind masts and the other data, even if you don't have the full land, but identified land, identified sites is mandatory for you to become competitive in the market to win. So therefore, it is very very important from that point of view for that how many sites with the full wind data and to the extent identified land, land boundaries we have it on this. In fact, importance of that in the bidding stage is now is more compared to even the FIT based tariff on this, because tariffs have become so competitive. And you have a site, which is little more than 10% more generation of the competition sites, to that extent you get extra margin or to that extent you become sure to win on this.

Shrinidhi Karlekar: When state allocates land for you, when you develop that, it is like you only can develop? Or state can reallocate to a different player, if you can't...?

J.P. Chalasani: No. Once if it is for us it's for us. See more important is that when you want to go and do the pre-bid tie-up with any customer on this, he will say that where is your site and give me the data for the wind, so that your site will go and generate so much. So more than before the land bank you need to have the wind data there, you need to have your wind mast and get the data for the last few months and years, saying it as, this is the site I have and this is the demarcation, this is what is the wind data I have on this, that's fundamental on this. So it is not like solar, you have a radiation somewhere so you can just go and set up the solar plant anywhere on this place, wind is completely different. So because your whole resource is wind data, more than a land bank, the good windy sites identified and which are closer to the CTU, which is again very important because if they are not near to the CTU, evacuation costs go up, again, you become non-competitive on this. So therefore, having proper sites with the high wind potential closer to the CTU is the key for winning in the SECI bids. Whereas in the state specific bids, obviously, you don't need to be near the CTU as long as they're close to STU any STU substation is fine on this. Can I just ask your second question once more?

Shrinidhi Karlekar: So yes, so that one was more of a market share, like we have seen market getting consolidated in the larger 2 players like you and Gamesa. But do you see with SECI tenders, do you think that markets can get fragmented and there could be a challenge retaining this market share, particularly, given that newer players are in the market?

J.P. Chalasani: I don't expect so because, see, if the bid is just 1 GW, it's a different issue that everybody can come in and chip in and say that, I get 250 MW, any new player come in and take a 250 MW. If the bids are going to be to the extent of 5, 6 GWs or bigger on this, obviously then established players, where they have the site, where they have the land, where they have the manufacturing capabilities, deliverable within those time periods simultaneously plays a significant role. So it's a one-off. Somebody is taking a bid of 100 MW, 150 MW, anybody can take it, okay. But if you're talking about the larger volume over year, the game is same as it is competitive bidding on FIT-based bidding. Established players is what have the market share. So I don't see that next year as well changing significantly in terms of the top 2 players.

Shrinidhi Karlekar: Okay, sir, last one if I can ask. The only thing that goes against wind story is just this, every day we see solar tariffs coming down, so like, okay, FY18 or FY19 we can have a good SECI tender so volumes could go up, so to say 6 GW and 7 GW. Going into '20/'21 do you still think states and the center utilities will be buying wind power if the difference between solar and wind tariff becomes material?

J.P. Chalasani: Okay, the first thing is we always believe that it is not wind versus solar, it is wind and solar. That's the principle what we follow on this. There is specific RPO obligations requirement for both, that's point number 1. And point number 2 is that also as we've been giving guidance earlier as well, wind and solar combination together actually, in fact, is going to be much more beneficial to the grid and everyone on this. So before these 2 combination will continue on this and the wind will continue in its own because of the different RPO obligations. At least my experience, I've never seen in this country that one coming and killing of the second one, unless it has its own inherent problems on this one. Our view that wind and solar will continue and more and more, wind and solar together which has a basic advantage, will be the future.

Moderator: Thank you. We have the next question from the line of Shirish Rane from IDFC securities. Please go ahead.

Shirish Rane: Sir, you have said enabling resolution in the board meeting to raise funds. Can you explain what purpose it is and what kind of funds are we looking to raise?

Kirti Vagadia: There are no plans as of now. It is enabling regulation, which we take every year, so that in case any opportunity comes, we don't waste our time in formalities. That is purely enabling. There is no fund-raising plan or anything.

Shirish Rane: And sir, second question is about this United States PTC opportunity, so how much money we would have invested as of now? And assuming all 500 MW happen in reality, how much money will we need to invest?

J.P. Chalasani: So say, right now, what we have done, it is like an insurance. There is a safe harbor concept in U.S. So whereby minimal investment, the 5% of the equipment is what you put in inventory and you have the 100% benefit of PTC. So that process, we are insured for 500 MW to be done, where you get 100% PTC benefit, so with the investment of 5% inventory on this. So that's the concept of safe harbor. And now we can go ahead and develop this 500 MW because we have 100% PTC benefits.

Shirish Rane: So what would be the total investment as of now, if you could tell me?

J.P. Chalasani: We have done about $40 million.

Shirish Rane: $40 million. Okay.

J.P. Chalasani: $40 million for the inventory.

Shirish Rane: Yes and so would it work like this that once you start developing it there will be a buyer who will actually pay us to develop the site, so we don't have to invest any further. Is that right?

J.P. Chalasani: Yes.

Kirti Vagadia: It is kind of our inventory.

Shirish Rane: Right. So essentially, what I'm more asking from that, our investment is limited to $40 million, maybe $50 million?

Sanjay Baweja: Yes. Our investments will be limited. We're not gulping the whole thing ourselves, so it will be buyers be found and that they will invest, you're right.

Moderator: Thank you. We have the next question from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu: I have a few questions. Sir my first question is again on the SECI auction. So what would be your strategy going into this auction? Would it be open for direct bidding? Or you do joint bidding as you have done in the SECI 1?

J.P. Chalasani: No, we didn't do a joint bidding in SECI1. Our strategy is always same is that, we have a pre-bid tie-up, we offer our sites to the potential winning bidders, not the potential bidders, potential winning bidders. We have our own way of analyzing bidders who could potentially win based on the DNA for bidding participation. So we could tie-up with those people who have the potential to win, and we offer them the sites. They need, obviously, the site, and we do exclusivity agreement with them for the pre-bid. That is if they win, it's mandatory for us to supply the equipment at the pre-agreed price and it's mandatory at their part to give us an EPC order. So we can do the tie-up not with one, we can do it with as many people, as many sites we have in our hand.

Sudhakar Prabhu: Okay. So just to understand, you'll tie-up with multiple bidders. So you have a higher, better chance of winning the bids?

J.P. Chalasani: Yes. Multiple bidders, with multiple sites. Meaning for a single site, we'll tie-up with single bidder.

Sudhakar Prabhu: Okay. And secondly, you said you expect the central auction to be around 5 to 6 GW next year. So when would this bidding open?

J.P. Chalasani: The first one is already completed, second 1 GW is already announced and we're expecting that to be in June. So then progressively there's no time table they give it on this, so basically we expect that should come follow-up every alternate month or every 2 months. And parallely, what will happen is now if you would have seen is they have also issued intra state bidding guidelines, okay, which is up for the comments, which we have also commented, once those documents get finalized shortly, maybe let's say, 30 to 40 days, then the states will also start planning their own bids. They don't need to wait for Central Government to run the bids. So that would pick up, let's say, in the next 90 days or so.

Sudhakar Prabhu: Okay. And just to understand the execution. The execution will start in FY18 only, right?

J.P. Chalasani: Yes.

Sudhakar Prabhu: And in the previous FIT rating, the execution used to be largely in Q4, with this auction market coming up, do you see the execution being more or less evenly spread out throughout the year?

J.P. Chalasani: The auction market, what happens when the commissioning happens depends upon when the auction is happening, and also being the first year, you really can't predict when the auctions are going to happen. I think FY19 onwards you will clearly have an established way of the bidding happening, how much in quarter 1 and quarter 2. But this year, as the time moves out and also what happens is that traditionally, even in FIT regime you'll see in H1 to H2 the ratio, in the last year if you see 23% also came in H1 and the balance 77% came in H2. So that to some extent might continue this year as well because the bidding is just starting now. We still see the volumes skewed towards H2.

Sudhakar Prabhu: Okay. So just to understand, FY18, you see execution similarly? And going to FY19, depending upon the auction, execution can be more or less smooth?

J.P. Chalasani: Yes. And also what would happen in some of the auctions what will happen this year, auctions will be more than what is execution this year. So you will have some of the good orders left out the carry forwards the next year and which we will execute.

Sudhakar Prabhu: Right. And my second question is in terms of execution capability. Would you require to make any more maintenance CAPEX or few CAPEX to go for higher execution? Or your capacities are more or less enough for execution?

J.P. Chalasani: As you've seen in our investor presentation also we said last year, we created additional capacity of 1,800 MW for our new product of blade capacity. Which is what is a critical capacity required on a single year. Because significantly this year our model which is going to be out in the market is going to be the 111-120, which is what -- as I said that 42% PLF. That is the highest efficient machine which is most suited for the bidding purpose and for which we are fully prepared. And last year alone, we created 1,800 MW of additional capacity for this product alone. Right. So we are fully prepared?

Sudhakar Prabhu: And my last question is again on your margins, as you mentioned that margins would be lower in FY18. You gave a guidance of 14% to 15%. Is the margin guidance on a lower side? Or...

J.P. Chalasani: No. I will slightly correct. We never said margins would be lower. This year, FY17 happens to be the margins are higher, so our guidance always been 15%, and we maintain the same 15%.

Kirti Vagadia: Even for FY17, our guidance was 15% only

Sudhakar Prabhu: But moving to FY18, won't you have the advantage of operating leverage also playing into?

J.P. Chalasani: Our guidance remains at 15%.

Sanjay Baweja: So you're right, but there will be a substantial increase in revenue and, therefore, operating leverage will be there but please understand, there will be some amount of pressure which we will take away the operating leverage benefit that we'll have. So 15% is, I think, a good number to go with.

J.P. Chalasani: Yes, only correction I'm making is it's not lowering our guidance. Our guidance is constant, but FY17, we did much better than our guidance.

Sudhakar Prabhu: My only point was it is lower than FY17. That was my point.

Moderator: Thank you. There's a next question from the line of Abhinav Bhandari from Reliance Mutual Fund. Please go ahead.

Abhinav Bhandari: Sir, just one understanding I needed, when you are saying market could be 6,000 MW in FY18, basically, are we including commissioning of this 1,000 MW of SECI bid also, which has happened?

J.P. Chalasani: Definitely, yes. There would be different segments in this. One is the whatever the carry forward orders we have which we're doing it and there will be transitional FIT-based PPAs which will come in, then the bidding what will happen plus there will be a captive segment, which is one of our significant targets as well on this. All put together, 6,000 MW when we talked, is the commissioning this year which would definitely include the bidding MW as well.

Abhinav Bhandari: Sure. And just to get a clarification, what they do in the transmission lines in the SECI order?

J.P. Chalasani: Clearly, we are supposed to take the power up to the CTU connectivity point that is in our scope. Wherever the nearest CTU substation is there, up to that is our responsibility from there onwards, the CTU will transmit whatever is the offtaker is based on where the PTC signs the PSAs.

Abhinav Bhandari: So basically, your execution has to be in sync with the CTUs basically in all those regions where the bidding is happening?

J.P. Chalasani: Yes. We have sites where we offer will be in sync with the CTU program. That's how we select our sites.

Abhinav Bhandari: Okay, sure. Just one understanding. I mean, just in case that the CTU is not ready in, let's say, 18 months' time to take up this incremental capacity, how do you get compensated for this?

J.P. Chalasani: See, we as an EPC player, we don't take the risk of the CTU grid. That's the risk of the developer who does that. But having said that, we as a strong player, we ensure that the grids are available in time, so therefore we offer the sites after doing the due diligence as the CTU capacity is going to come within the time.

Abhinav Bhandari: Sure. And at least for this initial 1,000-MW, which has already got bidded, you don't foresee any pressure?

J.P. Chalasani: Yes, for the 250 MW what we offered, we have no issue of CTU grid not being ready before the scheduled time.

Moderator: Thank you. We have the next question from line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: I'm sorry for the repetition of the question. Can you help me understand of the March order book of 670 MW how much do you think does not have a signed PPA?

J.P. Chalasani: As I said that in the 1,331 MW we said we have orders, 250 MW is the SECI order, the balance, 1,081 is FIT based. We have not given the breakup till now, we said that most of it has a PPA, some portion of it is PPA under signing. So that's where we leave it as a guidance wise and which is under signing today. But most of it is signed and I repeat once again that these projects are under execution today, as we speak.

Baidik Sarkar: And which states would they be sir, could you just give us a rough breakup of how those will add up excluding 250 MW?

J.P. Chalasani: The FIT based PPAs are among 3 states, which is Gujarat, Karnataka and AP with a carry forward, there are three states where you have an FIT based PPAs.

Baidik Sarkar: Okay. Also because -- pardon me for going this line, but we've been told repeatedly by, of course, your other listed peer that Gujarat, there has been a completely breakdown in execution post February. So is that an aberration only in cases that they had signed PPAs with FIT or can you just help me understand what's going on, how come PPAs with Gujarat have been honoured in certain cases and not being honoured in certain other cases.

Tulsi Tanti: I think we cannot comment what other industries or people are saying. The point is very clear. None of our customers, any PPA we have faced any difficulty or any problem. All the project you have seen by 31st March, we've executed and delivered in time to all the backlog of the orders. And all the PPA has signed and executed. It's a question of whether you are in as per the compliance and as per the required document and everything in timeframe, you don't face any difficulties.

J.P. Chalasani: This is the basic reason, that's why we didn't want to get into specifics, of which state or what it is. So all the 3 states, what I am talking. You also need to understand that some of our PPAs are with the distribution utilities, which are other than the government owned distribution utilities. They don't have any restriction on that, they buy and they sell it to their own distribution utilities. We have different types of customers, we have captive customers in this, which don't need a PPA. There are different varieties of people on these, so, therefore, that's the reason when we made a comment that the 1,081 MW, most of it is PPAs, rest is under signing. Specific state wise we don't want to discuss because these issues will come and somebody will start interpreting in a different way. As Mr. Tanti mentioned, that we have not faced till date any problem either from the utility side of the PPA or from the clients' side, if anybody saying, that we don't want to move ahead or we want to renegotiate, or we want to cancel the order. Not even a whiff

Tulsi Tanti: And all the orders we have is fully safe and secure.

Baidik Sarkar: Okay. So would you able to quantify for us, how much is the non-state distribution quantum out of the 1030? Just a ballpark.

J.P. Chalasani: Well that becomes a segment, where it is giving you, how much is.., then obviously, you know who are my customers. So leave it there, we also have a captive segment.

Baidik Sarkar: What is the pace of execution. So what you're essentially saying is the pace of execution we are seeing in Q1 on a Y-o-Y basis is fairly secular, there's been no let down in execution. Is that what alluding to?

J.P. Chalasani: Yes, see the trend follows like whatever was being followed every year, so we expect the same thing.

Baidik Sarkar: And the last question. I just want to understand the revenue recognition norm for the 250 MW bid that you got. Would recognition be done as and when we put an individual capacities would recognize it a one go? How is the project structured?

Sanjay Baweja: From a turbine perspective, revenue is recognized on completion of the complete supply of the turbine. Does that answer your question or your question was on the projects execution part?

Baidik Sarkar: So actually more on the project execution side because obviously 250 MW would include several hundred turbines. So I'm just trying to understand from accounting perspective how would that be structured. Every time we're done with one turbine execution and transacting live, at least from your end, would you go back to P&L or would you wait for, say, a bunch of 50 MW or 125, whatever that might be.

Kirti Vagadia: Turbine revenue is recognized on complete supply of each turbine. That is the first part. On the project side, each activity when we complete, it is recognized. Say, for example, if you have completed civil foundation, we will recognize for civil foundation, and the final invoice will be for commissioning.

Baidik Sarkar: Got you. So what could be conservative timeline for execution of these entire 250 MW look like. I understand SECI gives us 18 months but from our end, what does it look like?

J.P. Chalasani: No we will do within that 18 months. So right now, I don't want to get into that we can do it in 12 months or 9 months, but within 18 months, starting from June. June is when they have issued, April or end of April is when they have issued the LoA. So we'll maintain that timeline on this. How much that we are doing is between us and the customer, obviously, he won’t like us to talk, give that schedule out on his behalf.

Moderator: Thank you. We have the next question from the line of Ronak Shah from SBI Capital. Please go ahead.

Ronak Shah: Most of my questions have been answered, but just wanted to get your sense on, you know the market has grown rapidly this year. We are projecting very strong growth again next year. Is the entire ecosystem ready in terms of your various vendors, suppliers, trade manufacturers, transport, are you taking any constraints there?

J.P. Chalasani: No. See in fact when the market grew by 60% last year and currently, we're saying that our guidance for the next year is 6 GW from the current 5.5 GW. So therefore obviously, when we met for 5.5 to meet the 6 GW, we don't see a big challenge at all.

Tulsi Tanti: I think full ecosystems is now getting full confidence about the volumes, and we have seen more and more the overseas vendors, particular in the component manufacturing companies are establishing their manufacturing base in India very fast and expanding the capacity, not for just India, but also they are planning to leverage the cost benefit here and to get the domestic market and to export to other countries. And some of the vendor has already started the export from India. So if I say the wind turbine company, component manufacturing company, project management companies plus project executions and the power ecosystems related. All ecosystems are well and fully established. So the whole ecosystem is, I strongly see for the next financial year, so almost 10 GW size of the business if India wants to deliver, is fully equipped and geared up is there. There is not much issues that we are facing on the land acquisitions or other areas because state government and other support has increased also very well. So all these systems are improving and reducing the cycle time and project execution cycle time is also reducing and the supply chain is fully matured in India and cost is becoming very competitive because scale is increasing and the supply cost is also reducing. So every value chain people are getting sufficient business. We've seen the traction, the reduction in the price and everything. So it is supporting very well. Industries are well equipped and industries are fully confident about the size of the market. So that's why well in advance they are building the total ecosystems.

Ronak Shah: Right. And just last question, what was your capacity utilization last year and then what do you suggest it will be, including the 1,800 MWs or the new capacity you're adding for FY18?

Tulsi Tanti: Approximately 2/3 capacity we have utilized, which is very difficult to define the capacity because production capacity we have a very large capacity. So main capacity we have to measure is, what is the project execution capability and everything. So project execution capability, we've utilized fully last year. And the manufacturing capacity is just 2/3 we've utilized. So now we will expand more project execution capability, so that we can be able to do more.

Moderator: Thank you. We have the next question from the line of Sameer Dalal from Natverlal & Sons Stockbrokers. Please go ahead.

Sameer Dalal: Most of the questions have been answered. Just one last question I had on the solar side. You discussed that you will finish the remaining execution in the current year. Beyond that, what's the plan on the solar? Are we going to bid for more of these auctions that are coming about? What is the plan on that side?

J.P. Chalasani: We gave a guidance earlier that we'll continue to work on solar, but in the form of solar and wind hybrid combination, that we'll continue to work in that direction.

Sameer Dalal: So any guidance?

Kirti Vagadia: We will not participate in any bidding in solar.

J.P. Chalasani: Not in the bidding, but the wind solar hybrid is where our solar participation will come from.

Sameer Dalal: Okay sir. There is no further guidance you're giving on what kind of execution could come in FY18 beyond the 250 one?

J.P. Chalasani: FY18 is this 340 MW is what will get commission fully, and we're waiting for what happens in Jharkhand, where we also won and that 175 MW PPA gets signed, then obviously it will get added.

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

Ashutosh Mehta: So the first question relates to how do see that 111-120 meters wind turbines, they have around 20% higher energy, right? So do you see a shift towards only these turbines going ahead?

J.P. Chalasani: Yes.

Ashutosh Mehta: And what is the capacity, sir, as I missed the number there.

J.P. Chalasani: Last year, as I said that, important is the blade capacity, that we said how much you can do it on this. Last year, we built about 1,800 MW of blade capacity for that.

Ashutosh Mehta: So we have added 1,800-MW capacity. And in the current order book, how much is it that relates to the 111-120 meter supply?

J.P. Chalasani: Most of it, 80%-85%.

Moderator: Ladies and gentlemen, due to time constraint, that was our last question. I would like to hand the conference over to Mr. Tulsi Tanti for closing comments. Thank you, and over to you, sir.

Tulsi Tanti: So thank you very much, and I appreciate the participation of all the investors and analysts. Really, it's a great time for the renewable industries and this transformation year for moving from the FIT regime market with the most competitive market. It will give a great opportunity to company like us, because we are extremely well positioned and equipped with the suitable technology for Indian regime. With the value chain and end-to-end solution provider, our strategy will now work very efficiently and it will unlock the volumes of the market, which gave the highest opportunity for Suzlon**.** Our highest priority this year also, again will remain how and what way we will strengthen our balance sheet. And that is the focus area will remain on top of the 40% market share, but the priority will goes to the strengthening of the balance sheet and we have strategic opportunities to explore and to strengthen our balance sheet. So once again, thank you very much. Thanks for your participation, and we really appreciate your time and supports to us. Thank you very much.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Suzlon Energy Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.