"Suzlon Energy Limited H1 FY18 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day, and Welcome to Suzlon Energy Limited H1 FY18 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements do not guarantee the future performance of the company and involve risks and uncertainties that are difficult to predict.

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 telephone. 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: Thanks. Good evening. Thank you for joining us for today's investor call. I have J.P. Chalasani – Group CEO; Kirti Vagadia – Group CFO; and our Investor Relation team with me on this call.

I hope you had a chance to go through our results and the investor presentation. I will share with you an overview of the industry, and my team will walk through our H1 performance, post which we are very happy to take your questions.

Last year India emerged as the third largest renewable energy market in the world in terms of the annual installation of 5,500 MW, and the fourth largest in cumulative terms. We are confident that the momentum will continue, and wind will also exceed the 60 GW of the target until 2022. I would like to clarify that we are seeing in FY18 is the only transition phase year. Indian wind industry is shifting from FiT based market, the PPA regime, which was established since last 3 decades, to competitive bidding regime environment.

Due to administrative process stabilization, the regulatory process, and some of the shift from the state level to central process; there is a temporary vacuum in the marketplace for this financial year. However, we still emphasize that the competitive bidding is positive for the industry and has the following advantage.

1. The market expansion from the existing nine states to pan-India demand, because earlier only nine states were giving the PPA, which is the windy states; but now the opportunity is based on the RPO requirement of all the states, so now pan-India the demand is created by the central bidding process.
2. The reduced tariff and PPA uncertainty. The PPA signing and the tariff fixation is upfront, not linked to the commissioning timelines. And so many times we have seen the uncertainty is creating a lot of turbulence in the industry's forecast.
3. The increased willingness from the DISCOMs to buy the wind. As wind has become one of the cheapest source of energy and it is very competitive for the DISCOMs, so the interest has increased to invest, to buy the more and more wind energy by the DISCOM, not just in nine windy states, but across the India.
4. The large scale order size enabling economies of the scale. Because the maximum bid size is 250 MW, it is giving a good opportunity for the investor and for the OEMs to build and

execute this project more cost efficient way. And also the good opportunity in this types of the project, the timeline is 18 months, so we have different working capital cycles which will bring instead of the positive working capital, it will be the opportunity to go in a negative cycle also. So, better visibility on a market size enabling the players to equip themselves in advance and plan accordingly to create the growth and demand. It gives a good clarity of forecast of the future.

5. The better visibility of the timely payments, because it is linked with the certain commitment and clarity so that the financial investor or bank's perspectives, it give a stability of the cash flow. And that will improve the investment opportunity and investors' interest will increase in the Indian market.

The government is strongly committed to 175 GW of the renewables by 2022, while we firmly believe that the wind target of 60 GW will be achieved earlier than 2022.

Industry is positioned to grow to about 8 GW to 10 GW annually. This year, it is a dip year, but the way the certain initiatives and momentum is there, like the 5 GW to 6 GW annual bidding will come from the central government level, 3 GW to 4 GW capacity auctions will come from the nine windy states and 1 GW capacity will come from the PSU and captive markets. So, all this put together, the size of the market will become the 10 GW in the near future.

SECI 2 GW and the state level almost 1 GW, so 3 GW is already pipelined, and another 4.5 GW is on the way.

The momentum in the wind industry is purely driven by the competitiveness enabled by technology advancements, the site with the very high PLF locations and local supply chain will be the competitive edge for the sector. The wind industry no more depends on the fiscal benefit, it is competing with the conventional fuels purely on a commercial basis. If we take just imported coal, the cost of the fuel itself is Rs. 2.60, and now wind energy is competitive even at the raw material level.

Suzlon is focused on leveraging its strong in-house R&D by proactively developing the product to reduce the levelized cost of energy and grow in a competitive market. Our new turbines are performing in line with our expectations. S111-120M wind turbine generator has achieved 42% plant load factor, which is the highest by any renewable technology in India till date.

But that is not enough, we have to go further. So we have also installed our first turbine of S111-140M in this quarter. And this S111-140 is the tallest and one of the most efficient turbine in the country. We expect it will deliver 44% PLF in its first year.

Our next product is under development, S128-140M tower, which has the potential to further push down the levelized cost of energy by another 10%. And this will be available in the market from the next year. This product will enable all participants in the value chain to protect the returns even in a competitive market environment.

I reiterate that FY18 is a transition year and the new systems under the auction regime is taking some time to stabilize. This has created a temporary delay with the respect to the volumes. However, the government's focus on renewables and target of 175 GW by 2022 and job creation, remains unchanged. Hence, there is a significant growth for the renewables and sufficiently in the wind. We are well equipped to cater the current market scenarios.

I now invite my team to take you through our H1 performance and give you some insights of the business for the FY18. Hand over to JPC.

J.P. Chalasani: Thank you, Tulsibhai. Good evening to each one of you on the call. As you all know, wind industry in India is at the cusp of major transition. In fact, we believe it is sort of a revolution. Bringing down the cost of energy enabled by renewable energy sources is no more a distant target. It is here and manifested in the record low tariff of Rs. 2.64 per Kw hour, discovered through the latest SECI-II auction. We are geared to cater to the exponential demand growth in the next few years. We strongly believe that innovation is a solution to all challenges, be it product, process, supply chain and finance, amongst others.

Tulsibhai has already elaborated on the positive impact of the current market dynamics and the exponential opportunities for volume growth. We are already seeing early signs of the same. We have seen 2 plus GW central wind auctions already completed. Another, as per the announcements made, another 4.5 GWs minimum is expected from now to March 2018.

At the state level, Tamil Nadu had completed 500 MWs bidding and Gujarat 500 MW bidding is in progress. We are seeing some momentum in states like Rajasthan and Madhya Pradesh for bidding. Plus, we are also seeing a huge amount of traction in PSU and captive segments. Clearly we see FY19 to be a high volume opportunity with market expected to cross plus 6 GW as Tulsibhai explained. And, in fact, we expect beyond that subsequent years to grow to 8 GW to 10 GW per annum.

However, with the declining tariffs, obviously, the cost competitiveness and efficiency becomes the key. Hence our India based vertically integrated manufacturing and strong in-house technology is a huge competitive advantage. We continue to focus on cost optimization and with an aim to substantially lower our cost structure. This has enabled us to become lean and agile, thereby accelerating decision making and implementation in highly competitive market environment which we are all seeing today.

Coming to FY18, as a result of the transition from FiT to competitive bidding, the entire renewable energy ecosystem in India is taking some time to adopt and stabilize. And this has created short-term volatility. In fact, this is what we discussed even in the last quarter when we had interactions. It is clearly reflected in industry volumes in H1 FY18, plummeting to 1/3 of what it was during the same period last year, with most of the players sitting on almost nil volumes in H1. Despite this volatility, we have performed much better than the industry.

We have a strong order book visibility supported by PPAs, which is I think the most important aspect today; not just getting the orders, but how much of it is backed by the PPAs. We have significant volumes coming up from captive segment, which we mentioned earlier also, that is going to be our targeted area. We have a very strong presence there and good market share. Execution of solar projects, strong revenue base of more than 14 GW of fleet-under-maintenance through our global OMS business and Component sale from our SE Forge.

Due to the dynamic policy environment, in the quarter we have also changed the criteria for classifying orders as firm in order books. In the earlier regime when PPA signing was generally back-ended, in fact, in many cases no one ever used to bother about whether PPA has been ratified by the regulatory commission or not, but things have changed now. So, therefore, today PPA has become the most important. Therefore, we started saying that orders which have the firm PPAs are firm orders. We changed from based on the advanced, earlier we used to announce firm orders as advanced from the customers to now the PPAs as the firm orders, which is going to be the case moving ahead as well.

In line with this criteria, our order book as on 30th September stood at 670 MWs, based on the PPAs. Apart from that, we have another 1 GW of framework contracts which are backed by advance, as well as PPAs which are under various stages of approval.

We also target to re-enter and build our international business as part of our market diversification strategy. While we are on discussion for orders in quite a few countries, in the US we have unique position of having created 500 MW pipeline of projects that qualify for 100% PTC, which we explained last time. We expect this 500 MW to be completed over the next two to three years.

With 14 GW under maintenance, we are today one of the largest O&M wind service provider from Asia and only one of this case to have near 100% renewal rate.

With this, now I will ask Kirti to take you through the detailed aspects of our financial performance. Kirti.

Kirti Vagadia: Thank you, JPC. Good evening, everybody. At the outset, I wish to reiterate that the fact that industry is passing through temporary phase of complete standstill from execution standpoint. But despite this, we delivered 527 MW in H1 and revenue of Rs. 3,852 crore, which is 12% lower on YoY basis as compared to H1 last year. Despite lower operating leverage, our EBITDA margin came in healthy at 15.1% helped by our cost optimization efforts. We reported net profit of about Rs. 117 crore. However, the net profit on one hand was impacted by FX loss of Rs. 141 crores, on other hand it was helped by exceptional gain of Rs. 455 crores relating to overseas provision write-back. We saw a seasonal buildup of working capital in Q2 to 25.8%, which is in line with 24.3% seen on YoY basis. As a result, our working capital debt in Q2 temporarily increased by Rs. 700 crores as compared to Q1. And that is in-line with last year's trend.

Under the auction regime, we expect more smoothened out quarterly distribution volumes, resulting in better utilization of working capital in FY19. Service revenue continues to remain healthy and stable at Rs. 888 crore. During H1 FY18, we saw $76 million worth FCCB getting converted into equity shares. Our current FCCB balance now stands at $172 million, which is 30% of original issuance size. Our net term debt, excluding FCCB, stood at Rs. 6,747 crore. Going ahead, our main priorities are clear, manpower and other fixed cost optimization, drive further working capital efficiency, finance cost reduction through interest rate reduction and debt reduction / replacement.

We are now open for questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. First question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: First of all, on the financial side, if you can help us explain that Rs. 400 odd crores of write-back, what does that pertain to?

Kirti Vagadia: There are two-portion of that write-back. An amount of roughly Rs. 145 crores is primarily the release of provision due to closure of one of our subsidiary. So, that is one item. And the second item is, due to same reason but Rs. 306 crore which will get released from foreign currency translation reserve, because now that country operation is no more in continuation. So, whatever foreign currency reserve was sitting due to translation of that country's balance sheet gets released into P&L account. So, these are the two major factors contributing to this.

Puneet Gulati: Both these are non-cash item I would presume?

Kirti Vagadia: Yes, both are non-cash items. That is correct.

Puneet Gulati: Okay. Secondly, if you can talk about how do you think, the auction obviously has brought down prices to almost Rs. 2.64. How do you think about margins now in that scenario?

J.P. Chalasani: Obviously, if you look at SECI-I was Rs. 3.46 and SECI-II was Rs. 2.64. One of the reasons for seeing such competitive tariff, there are multiple reasons in fact. One is that you are seeing still bids coming only from two states, which is Gujarat and Tamil Nadu. The reason for this thing is that because you have a high wind sites, because of that there is a higher generation, which gives you lower costs per Kw hour. That is one major advantage which is coming in, obviously, there are limited sites of the nature, but we still have those sites around this.

The second factor, as we were mentioning earlier also is, both from the point of investor there is lower cost of funds and expectation of returns coming lower on this. And from the OEM side, obviously one is that we have better products because these are to be delivered over next 18 months, so therefore the products which are in the pipeline will become available for this particular tender. And secondly, the cost reduction in terms of the manufacturing or fixed cost, which is what again contributing on this.

Plus, obviously, the one factor which is common for both investors and OEMs is that we have a limited market out there therefore you are going to be competitive in few of these bids before the market expands and comes to that. So, I think these are the multiple factors which leads to that.

So coming to the margins wise, they are tight compared to what it used to be earlier, but I do not think because of these factors what I explained to you. Because of the high generation levels and new model and the cost reductions on this, we are pretty confident that we will still be able to maintain the EBITDA margins even in these bids, EBITDA margins guidance what we gave earlier.

Puneet Gulati: So, 15% is what you said earlier.

J.P. Chalasani: Yes. We still stand by the guidance what we gave.

Puneet Gulati: Okay. So Rs. 2.64, still 15% EBITDA margins?

J.P. Chalasani: Please let's be careful. This specific project Rs. 2.64 still 15% EBITDA. Because you cannot take a Rs. 2.64 universally and say that Rs. 2.64 will give you 15% EBITDA. Rs. 2.64 is specific to your project, depending upon what its potential of generation and things like that. You cannot just take away rest of the factors and say 2.64 will give you 15% EBITDA. That is not the right interpretation to make.

Puneet Gulati: No, I get that. So, for this particular project this will generate 15%.

J.P. Chalasani: Absolutely. The one which we tied up with one of our investors, yes.

Puneet Gulati: And then this 15% EBITDA margin guidance, you are not factoring in any future operating leverage advantage which may come from more number of SECI auctions?

J.P. Chalasani: Yes. That will keep happening. Like, see when they bid the SECI-I with expectations of returns what we have, and even in this six months' time when we worked on this, internally we improved the margins what we expect from the SECI-I projects. Obviously, with the continuous efforts we keep doing on improving our margins.

Kirti Vagadia: Yes, but just to clarify, you cannot expect that entire just only 250 MW or 500 MW order will absorb all the fixed cost. All the fixed cost need to be absorbed on our annual planned volume.

Puneet Gulati: Yes. So if I were to think about gross margin, so at least on the gross margin level you are saying there is no negative impact?

J.P. Chalasani: I am not saying there is no negative impact. We are saying that, earlier we gave a guidance of 15%, we were actually making more than that. But now I am saying that we will be able to meet the guidance numbers. Plus, also you need to understand is that each of this MW we sell, we are also getting along with that the services business, which is a long-term business. So, therefore, when we look at this, we look at it as lifetime returns for us than just looking at one sale and then what money we are making it on this. At least we look at it as a lifecycle basis.

Puneet Gulati: Yes, but that is accounted separately, right, on O&M businesses?

J.P. Chalasani: I agree. But if I do not win this order, I do not have the business.

Kirti Vagadia: And our quarterly result or annual result always reflects the blended margin including OMS, SE Forge, everything.

Puneet Gulati: Okay. So basically if I were to assume that there were to be only one more SECI auction and not over three as has been envisaged, you should still be able to generate 15% EBITDA margin for FY19?

J.P. Chalasani: I do not think so. We are talking about this specific project, what is the return this is going to give us on this, we are not talking about the company level. As Kirti has clearly explained, at the company level what margins we get also depends on the volumes what we get. So, therefore, we cannot pick one project because that project is giving me X amount of margins, irrespective whether we get further order or not, we will maintain 15% is not the statement we are making, which is what Kirti explained. That 15% EBITDA at the group level would still depend upon the volumes what we get. This is a project specific statement that at Rs. 2.64, this project our margins are still intact.

Puneet Gulati: Okay. And lastly, also there was an order backlog which you reported last time about 1 GW, it is now 670. You seem to have removed the non-firm orders. What is the…?

J.P. Chalasani: Let me explain. We have not removed on this. I think in my opening comments I did mention that we changed the criteria of what is a firm order. Earlier till last time, we were reporting firm orders based on receiving the advance from the customers. If I go by that order, still our order book remains exactly the same, it has improved actually compared then to now. But now because it is not just having an order from the customer is important, it is most important in today's context is having the PPA. Today we have orders, we have advance, but I cannot implement those projects unless we have a PPA. Therefore, to be transparent with the analyst community, we said that we will change this definition to the PPA being available for execution of a project. So, there we are saying 670 MWs we have firm PPA where we can execute today without any constraints, not waiting for anything. Having said that, we also said that we have more than 1 GW of framework where for significant capacity we have signed the PPA, but that is in the process of approvals and various things. So till that approval happens we do not want to convert this into a firm order. That is the difference. And this framework what we have put is with advance. So, therefore as per our previous definition, they are actually firm orders.

Kirti Vagadia: Now it is a reclassification. If you go with the earlier definition, then it is roughly about 1,670.

Puneet Gulati: Okay. And is there any risk to pricing on this 1,000 MW of orders which helped the so-called framework agreement?

J.P. Chalasani: Risk with respect to what is most important. Like we said last time, a significant amount of this capacity is also in Andhra. There is a regulation today, there is tariff of Rs. 4.73 - Rs. 4.76 which exists today for these things. Whether do you have a risk? I do not think in the sector anybody can say we have a risk, we do not have a risk, because after having seen what has happened in Karnataka where we had a valid tariff till March 2018 till the regulator said that I am revising the tariff downwards to Rs. 3.73. So, me making simply a statement to your satisfaction that there is no risk is not the right kind of statement. In the power sector you always continue to have this risk of regulators revising the tariffs, but at this stage it is Rs. 4.76 and if he revises that, he revises that. Based on whatever you are witnessing in the market on this. So, that is my guess is as much as your guess.

Puneet Gulati: Okay. Is it possible to break down this 1 GW between AP, Karnataka, Gujarat?

J P Chalasani: Like last time also I said that we never give you state-wise breakup of this, but it is basically in three states; which is Karnataka, Gujarat and AP; which we told last time also. These are the three states. But significant portion being in Andhra.

Puneet Gulati: Okay. So basically if Karnataka were to revise it down, at Rs. 3.74 the pricing is firmed up, right, there is no risk?

J.P. Chalasani: In Karnataka there is no risk because he has already done it. I am assuming that the risk is gone, nobody has stopped the regulator do it second time. But it is reasonable to assume because he has already done it now, now he will not do it second time.

Puneet Gulati: But this pricing anyway is backward calculated to your turbine price also.

J.P. Chalasani: Yes.

Moderator: Thank you. Next question is from the line of Dhavan Shah from K.R. Choksey. Please go ahead.

Dhavan Shah: A few questions. Firstly, just want to understand about the execution. So, what was the execution for this quarter in wind, was that 100 MW?

J.P. Chalasani: RR is 101 MW.

Dhavan Shah: Okay, 101 MW in wind and 14 MW in solar, right?

J.P. Chalasani: Yes.

Dhavan Shah: And what was the commissioning for the second quarter and first half in wind sector?

J.P. Chalasani: See, in H1 you have seen there is a public domain results which is available 428 MW is what is commissioned in the country as a whole, and we did 169 MW in H1 with about 40% market share.

Dhavan Shah: And for the second quarter?

J.P. Chalasani: It is hardly a break up of 50-50 there. I think we did about 100 MW in the first quarter and the balance in the second quarter.

Dhavan Shah: Okay. Secondly, wanted to understand about the inventory cycle. So, we did execution of around 320 MWs in first quarter and we commissioned around 100 MWs, so 220 MWs was the inventory, and now the execution is around 100 MWs. So, how much inventory can we keep in particular one quarter?

J.P. Chalasani: No. See, first thing is whatever we supplied is against the signed PPAs. Not only we did 170 MWs of commissioning, we have also done quite a few number of them, it is directed and ready for commissioning. There are some other places we have signed PPAs, or getting approved by the regulator now for the new systems, so once that approval comes these things will get converted quickly into a commissioned thing. It is basically held up because last mile connectivity in terms of the regulatory approval.

Dhavan Shah: Yes. So the purpose for asking this question is like for this FY18 maybe capacity addition could be around 1.5 GWs for the country. So, what kind of execution cycle can be there for each quarter, because I think we can keep little bit inventory for one quarter? So from that angle, I just wanted to understand.

J.P. Chalasani: Yes, this is a moving goal post. So as far as we are concerned, I think we can give a guidance for FY18 that we would be around up to 50% of market.

Dhavan Shah: Okay. So maybe around 700 MW to 800 MW of capacity addition we can see from Suzlon?

J.P. Chalasani: Yes.

Dhavan Shah: So, I mean third question is about any thoughts to divest some minority stake in the O&M business, which can help us to pay down some debt?

Kirti Vagadia: See, first of all this is an idea which one can explore. But right now I cannot say that there is any transaction on hand. This is an idea which we can implement at a right time in future.

Dhavan Shah: Okay. And one more thing, I heard from other sources that there are still problems in terms of the interstate transmission lines, and that is why SECI is not coming up with the orders. So, can you please share some thoughts on this?

J.P. Chalasani: I do not think that SECI coming up with bids is anyway connected with interstate thing. But, yes, as far the grid connectivity is concerned, there were certain issues which went to CERC and subsequently Power Grid had a meeting, and that is more or less getting resolved. There is a process identified now how the connectivity will be given, and all stakeholders are involved. And it is practically resolved. So, they have to go back to CERC and get that done on it. The other one is the interstate transmission charges, which were zero for competitive bidding till March 2019, has to get notified by the regulatory commission CERC. But that would happen, because that is the assumption on which the bids are done. So, I do not see any uncertainty in terms of it. It is a question of the initial stages of bidding to get things streamlined.

Dhavan Shah: So can we see around 6 GWs to 7 GWs of capacity addition in FY19?

J.P. Chalasani: We are clearly seeing that. Because you have seen already 2.1 GWs - 2.2 GWs of bidding done already, awarded on this. Plus they said 4.5 GWs to happen before March. So, therefore, you have significant amount for 7 GWs coming from center itself. You are seeing 1 GW, out of that 0.5 GW is already done and 0.5 GW is in the process in state level, others are talking. Plus there are already bids in the market for the public sector undertakings like NTPC and others. If you put all of them together, this is all we are talking about orders getting finalized before March, but obviously there will be orders which will get finalized in the first quarter and things like that, which will also come in the next year. So 6 GWs to 7 GWs, we feel pretty confident of that market level, which in fact in my opinion would increase in subsequent years. In FY19 it would be 6 GWs to 7 GWs and thereafter we expect it to go up to plus 8 GWs.

Moderator: Thank you. Next question is from the line of Deepak Agarwala from Elara Capital. Please go ahead.

Deepak Agarwala: Can you help us understand in terms of this framework agreement, now if there is an FiT already of Karnataka at Rs. 3.74 and AP at Rs. 4.76, so isn't it likely that these projects have to be completed before 31st March of next year before these states also go in for competitive bidding?

J.P. Chalasani: See, as I mentioned in my opening comments, in normal circumstances if it was last year, I would have told you 100% sure. But now because these PPAs are there, these PPAs also have to be ratified with respect to regulatory commissions, which is the process happening in AP and in Karnataka. Therefore, unless that process is completed we cannot start the work till that is done. So depending upon when that is completed, yes, theoretically there is a probability that some part of this capacity can get commissioned even in March, before March. And you all know that in Andhra the process is happening right now.

Deepak Agarwala: So, there is about 41 PPAs, right?

J.P. Chalasani: Yes, 41 PPAs happens and automatically everything else will follow. 41 PPAs order is expected on 25th, it is posted for order on 25th of November. So, then that is the first set of PPAs. Then in that we have some and then subsequent PPAs will follow after that.

Deepak Agarwala: Okay. My second question is also, can you help us any progress that we are contemplating on exiting the CDR because that is what one of the thing that we were expecting in May that it should come anytime during first half, but we have not heard anything on the CDR. So any development on that?

Kirti Vagadia: No, I think we have been working on this thing from the beginning of the year. You know that basically in banking there has been multiple changes and all those things. So, due to this administrative reason we believe that it will move to fag end of this financial year.

Deepak Agarwala: Okay. And my third question is, now given that where we are in H1, yes, I agree from the long-term market FY20 point of view that the wind will bounce back, but at least for the next three to four quarters how do we see and understand, because there is quite a bit of volatility that one can expect in EBITDA. So, how should we read this in terms of interest commitments and everything?

Kirti Vagadia: First of all, we have been regularly making our payment of all financial obligations till date and we do not foresee any challenge in meeting those obligation in next couple of quarters as well. Even at a lower volume also, we will be able to meet our financial obligations.

Deepak Agarwala: In this solar, have you included the Jharkhand 150 MW PPA also?

Kirti Vagadia: No it is not included.

Deepak Agarwala: That you are not going ahead with it.

J.P. Chalasani: No, we will. That is there in the order book that that has gone for the approval of regulatory commission so once that comes, then they will become formal and we will start executing it.

Deepak Agarwala: Okay. So, that is still there in the order book?

Kirti Vagadia: No. In this order book, it is not there. What Mr. JPC means is that it is not within the firm order. It is in our plan for execution.

J.P. Chalasani: It is not in the firm order book, because we said that very clearly that unless there is approved PPA, it would not become a firm on this. So, you know that currently it is with the Jharkhand regulatory commission for approval, revised tariff and numbers on this. Once that comes out then they sign the PPA with us, obviously it will become as a firm.

Deepak Agarwala: Okay. And how is the progress that is happening on the SECI 1 250 MW because it is now quite some time that…?

J.P. Chalasani: Work is happening on the ground on this and we are on schedule to meet all the intermittent milestones like land acquisition by December and everything else. And hopefully we expect to do it few months ahead of the 18-month period.

Deepak Agarwala: Okay. We still have not heard anything on who got the fourth tender of 250 MW actually in the first round of SECI.

J.P. Chalasani: I am also keen to know, because we are also contesting for that.

Deepak Agarwala: Okay. And the SECI-II, the entire 1,000 is already awarded to all the four WTG guys?

J.P. Chalasani: No. I am talking about SECI-1, your earlier comment was SECI-I. Okay.

Deepak Agarwala: Earlier was in SECI-I and now is in SECI-II.

J.P. Chalasani: SECI-II, we have signed one which is what we mentioned in our presentation on this, and we are trying for one more, we are in the race for one more. Let's see what happens.

Moderator: Thank you. Next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir, there was this Tamil Nadu bid happened for 900 MWs. Has this order been finalized?

J.P. Chalasani: Yes, they have finalized the order. They have signed, they given order for 450 MWs till date I think on that, another 50 MW is probably, the NLC is the lowest bidder there. So, that is to be signed, because there is a probability that they might increase the size and give it to NLC. But otherwise, 450 MWs are already signed with two parties.

Kirti Vagadia: That takes you to 900 MWs, so it is either 500 MWs or 900 MWs, that is the way.

Mohit Kumar: Okay. So you are saying that out of 500 MWs, 450 MWs order has been awarded to one of the…?

J.P. Chalasani: PPAs have been awarded.

Mohit Kumar: Not the order, right?

J.P. Chalasani: No. One of them is OEM, one of them is an IPP. So obviously there, the IPP is yet to award to the OEM.

Mohit Kumar: And what about NLC, has NLC got the PPA?

J.P. Chalasani: To our knowledge, not yet, because they want to enhance the capacity from 50 MWs to 400 MWs.

Mohit Kumar: Okay. And sir, my second question is regarding SECI. Have you heard anything about the future bids which might happen going forward? And third is, have you heard the other states calling for the bid, what is key account there?

J.P. Chalasani: As far as SECI is concerned, the government is on record saying that at least 4.5 GWs is what they will complete before this financial year end. And our expectation, as per the current thing is that they should announce the SECI-III sometime in this month. So, as far as states are concerned, obviously Gujarat is under process, you know it on this, and we are also seeing some traction in Rajasthan and Madhya Pradesh.

Mohit Kumar: When do you expect MP to finalize the tender? And pertaining with that question, when do you expect the guidelines by the center to be finalized for the bidding for the windy states?

J.P. Chalasani: See, currently whatever the information is available in the public domain, government is saying that the guidelines will be issued before March. But that is not preventing the states going ahead with the bidding. So, already Tamil Nadu has done, Gujarat is doing it, so rest of the states also forming their own guidelines and going ahead, without waiting for the center guidelines for the competitive bidding.

Mohit Kumar: One last question, sir. In this 1 GW of framework, let us say if you get the approval for the entire capacity, can we do the entire 1 GW in the balance 4 to 5 months left?

J.P. Chalasani: No. See, obviously not possible. And also there is no compulsion to do it by March, because wherever we are signing the PPAs we expect that there is, we have already signed these PPAs which are yet to be approved by the regulatory commission, there is a finite time given from the date of signing of the PPA. So, there is no compulsion, but whatever capacity depending up on what stage it is in when the regulatory thing happens, part of the capacity is possible to do it by March. We will try to do as early as possible because today we have capability to execute projects.

Mohit Kumar: Are you carrying any inventory at this point of time of some MW which you can maybe define right now can give you a sizeable number, which you are carrying?

J.P. Chalasani: No. We actually do not create inventory without certain basis of this. So, therefore, whatever we have supplied till date, whatever you are seeing after executing, we have the PPAs there on this. But some of those PPAs, a couple of them are getting approved, otherwise if we do not have a PPA, we do not start executing the order.

Moderator: Thank you. Next question is from the line of Archit Singhal from Safe Enterprises. Please go ahead.

Archit Singhal: I have just one question. Basically, wanted to understand regarding the turbine you mentioned, S111-140, wherein we can generate the PLF of around 45% in the first year. So, how is the competition placed here? I mean, are we the only players with such a turbine?

J.P. Chalasani: In India, yes.

Archit Singhal: Okay. And in your opinion like in the competition with other two players, how much time it can take to catch-up?

J.P. Chalasani: I think I will be more keen on what I want to do rather than looking at when are they going to come in. You see that like we were the first people who pioneered the hybrid tower. It is possible to do this sort of a size only because it is a hybrid design. So 120 itself it is hybrid and we have actually pioneered in that and then we are doing the same thing in 140. So, what, when the competition will do, I hope they will do an analyst call and we should ask them.

Archit Singhal: Understood. And sir, just one more thing. You made a comment that we can have 50% of the market in FY18. Any kind of a guidance for FY19? I mean what is our target maybe in terms of market share?

J.P. Chalasani: See, generally like last time we gave the guidance, we always target to set 40% market share.

Moderator: Thank you. Next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: Sir, there is a good improved visibility on the market expanding on 6 GWs plus in FY19 and onwards. Sir, I just want to understand is the overall ecosystem in terms of logistics prepared to take that much volume? And coming to Suzlon, are you prepared to do say north of 2,000 MWs of volume per year in terms of land bank, all mold capacities? So, that is my question really.

J.P. Chalasani: See, on the supply side, clearly we have a capacity of almost going up to 4 GWs, There is absolutely no issue on the supply side on this. The second factor is, as far as the land bank and exercise is concerned, it is a constant process, we keep developing on this. And 2 GWs is we can easily do it. Last year itself we did 1,800 MW and in fact this year we could have done much better, but for this transition period we could not, 2 GWs, in my opinion, is not a tough target at all and we can actually do much more than 2 GWs anyhow.

Shrinidhi Karlekar: And sir, on the logistic side overall if industry is going to 6 GWs, can India as a whole can do that?

J.P. Chalasani: I think so. See, one advantage what is going to happen, we need to look at this that earlier also we did 6 GWs, but on a quarterly basis annualized, we have done much more than 6 GWs. So, therefore, it is possible as long as the load is even. I think now with the competitive bidding scenario, what we are expecting to happen, see that there is going be an uniform load over all the quarters compared to in FiT regime. Because in FiT regime every state was finalizing in the first quarter or the second quarter, then it was becoming an uneven thing and most of the capacity was getting added in the last quarter. Even last year if you see out of 5,500 MWs, first half we did 1,300 MWs and in H2 we 3,200 MWs. So therefore if you compare even last year itself means 3,200, you double it, you are at 6,400 MWs on this. So once the quarter wise load gets evened out, it is very easy to execute 6 GWs to 8 GWs in India.

Shrinidhi Karlekar: And sir, has your land buying, acquisition of land has already increased to the 2GW per annum? Like are we prepared on the land side for the next two, three years?

J.P. Chalasani: We do that much in advance not just for two years, it is in fact that four to five years of sighting the land, getting our wind masts, identifying which are the good sites and doing our preparatory work and keep converting that into a land bank depending upon the visibility state by state. It is a continuous process, as I said. In fact, that is our key strategy.

Shrinidhi Karlekar: Sir, just wondering that, the pace of execution is going to ramp up so fast that earlier five years it could be 15,000 for the industry now just rate has gone up so fast and so high level. So earlier five year could be now two years, That's why I was asking.

J.P. Chalasani: What needs to be done is that, which we have started, in addition to our in-house strengths we complement that with external outsourcing as well. So, when more and more is required, because we have worked with most of these agencies earlier, and in fact they grew with Suzlon and we have partnership with them in each of the states. So, we couple them and that is how we do the capacity building for land, not just depending only on internal resources.

Shrinidhi Karlekar: And then last one if I may. Sir, if you build a 1,000 MW wind farm, is it possible to allocate part to the SECI and part to, say if you are building in Gujarat, part to the state auction, is that possible?

J.P. Chalasani: No, it depends upon in the particular CTU there is an off-take for that state, like in Gujarat there are some substations which have an immediate off-take to the state. It is possible to do that. It depends upon substation to substation. If that substation is not connected anywhere to the state STU and it is straight going to the next state, it is a different issue. But yes, it is feasible, but substation wise.

Moderator: Thank you. Next question is form the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir, my first question is, considering the fact that the tariffs have crashed by 30% to 50% in this auction regime, and also your raw material prices have been increasing. So, do you still feel that if you do a 2,000 MW kind of number in say FY19 - FY20 whenever, you can still maintain your margins at 14% - 15%?

J.P. Chalasani: Yes, I think that is what I answered in the earlier question. So we are still confident, because of the factors which I explained earlier, that our guidance of 15% EBITDA margin at that volume levels we will maintain.

Ankit Babel: And how sure you are that FY19 could be 2,000 MW?

J.P. Chalasani: So based on whatever the visibility is today, I am confident, but nobody can be sure. We were sure about much larger volumes in this year in the beginning of the year.

Tulsi Tanti: We are confident about 7 GW of market size.

J.P. Chalasani: It is obvious the 7 GW is the market size, 2 GWs of Suzlon we are confident.

Ankit Babel: So, again, my question was actually how sure you are that the size of the market would be 6,000 to 7,000 MWs?

J.P. Chalasani: No, see, there is a rationale. As I said, we explained the rationale that why we think it is 6 to 7 GW, it is not a wishful thinking. We said that 2.2 GW of bidding has already happened which is going to get done in the next year. 4.5 GWs is what they have announced that they will do a bidding before March, this is central level itself. 1 GW in the states is happening today and we are seeing 2 more states in the visibility of doing it, plus public sector plus captive. So based on this rationale is what we are assuming it would be minimum 6 to 7 GW next year. There is a basis for our assumption. If tomorrow that they just do not do any bidding and they just close the shop tomorrow morning, it is a different issue.

Ankit Babel: And this 6 to 7 GW can it sustain for at least next two, three years.

J.P. Chalasani: Yes, our expectation is that in FY20 it will be little more than 6 to 7 GWs, because more and more states will come into bidding in the next year.

Ankit Babel: And sir lastly, can we expect you coming back into profits in Q3 and in the current quarter?

J.P. Chalasani: I think we will.

Kirti Vagadia: We cannot guide on a quarterly basis.

J.P. Chalasani: No, we will definitely confirm in the next call.

Ankit Babel: No. I mean, just sequentially can we see an improvement?

J.P. Chalasani: Let's wait. I think we have never been giving guidance on future so we do not like to break that.

Moderator: Thank you. Next question is from the line of Bhavesh Jain from Envision Capital. Please go ahead.

Bhavesh Jain: Sir, one question, in this H1 our O&M revenue have more or less remained flat, but our EBIT margins have expanded for this H1. So just wanted to check what is the outlook for margins on O&M side going forward?

Kirti Vagadia: On a quarterly basis there are few factors. Say, for example, we discontinued operation in one of the countries, so certain MW has gone out, and that is why it remained flat. But on margin, definitely on an annual basis we can guide on OMS margin, but on a quarterly basis if you compare, there are seasonality element involved before high season you have slightly higher maintenance cost. So, those kind of factor, on OMS particularly, should not be measured on a quarterly basis.

Bhavesh Jain: And so, what will be the outlook for the whole year FY18?

Kirti Vagadia: You have already seen OMS margins that on OMS we have revenue of roughly about Rs. 1,800 - 1,900 crores on annual basis. And one can see that EBITDA margin level, particularly, we will be roughly somewhere between 25% to 30%.

Moderator: Thank you. Next question is from the line of Mohit Ansari from Hyderabad Investor Forum. Please go ahead.

Mohit Ansari: I just wanted an update on substation construction in Tamil Nadu, Tirunelveli district. What is the status of that? I am given to understand that till that substation is completed, we cannot be evacuating any power from their terminal?

J.P. Chalasani: Our information from Power Grid is it will be ready by February, March 2018.

Mohit Ansari: Okay. And second thing is, what about the asset monetization to reduce debt regarding stakes in SE Forge or Global Services, Suzlon Global, any developments on that?

Kirti Vagadia: On Suzlon Global Services, we have already answered, that it is one of our wish list, but right now we are not actively pursuing that. We are working on a certain specific asset sales, but due to commercial sensitivity, we will not be disclosing one by one on an item by item basis.

Moderator: Thank you. Next question is from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: Sir, if you can just help us understand about the wind turbine realizations, how it has moved for the industry? While, on the one hand we have upgraded the product to higher energy efficiency levels, there would also be an increase in the raw material cost. Are we able to get compensated for that in the realization or because of this tariff based auction based bidding the pricing continues to be under pressure?

J.P. Chalasani: I think this is what we deliberated in detail sometime back to a different question. As we said that those tariffs have become competitive to the extent of Rs. 2.64 for various factors. We said that we are still able to protect to a reasonable extent our margins what we were getting earlier. We said that that is because of the high generation sites, we said it is because of the new models which are coming in and we have option to introduce those models into this market because it is an 18-month cycle plus cost reduction internally. And all these factors put together is what's helping us to protect our margins.

Charanjit Singh: Sir, and the other thing is that you also highlighted that there are certain PPAs which are expected to be signed by AP and some other states. Now if you can help us understand the ability of those states to absorb this extra wind power or renewable power, because lot of states would have already met their obligation or what their gird can actually absorb. So, could there be a limitation to that which would actually lead to delays in these PPA signings?

J.P. Chalasani: No. As I said, most part of this framework, what we are talking about, the PPAs are signed. So we said that only once they get ratified by the regulatory commission is what they become firm orders for us. Otherwise with the states we inked many, not all but most of it is inked with PPAs with the states. And coming to the RPO obligations on this, if you know that this RPO obligation what is put in the power requirement is a minimum requirement, it is not the maximum requirement on this. We need to meet minimum so much of RPO obligations on this. And the third is that as the tariffs are becoming competitive and conventional fuel costs are going up, these are becoming more and more attractive. So, as we explained in the last analyst call, Andhra has been on record to say that in the May and June the wind is what really saved them, because for high generation, second thing is they had to spend zero on coal, they did not have coal and also the cost of coal has gone up. I think there are various factors because of which now the renewables are slowly becoming a part of the mainstay rather than they were a fringe player earlier.

Charanjit Singh: Okay. And sir, on the SECI tenders if you can help us understand, was that idea earlier to get these orders finalized tenders earlier in the quarter and it is getting pushed out. So, do you think that the comfort or the confidence on the 6,000 MW market in FY19 is definitely there despite if SECI tenders to get delayed?

J.P. Chalasani: Yes, I think initially obviously there was delay compared to what was expected, especially between the first and second tender. But the second tender having come out and they are on record clearly saying, because seeing the slowdown in the FiT PPAs, I think Government of India is also extremely keen that they push this 4.5 GWs into the market before March. And looking at the current information, we are pretty confident that this will happen.

Charanjit Singh: Okay. So, but what could be the risks to this SECI tender and finalization which could delay the finalization?

J.P. Chalasani: No, I do not see any risk in that from that point. They are promising that they will be 4.5 GWs and we expect them to do that. So, in fact, we are saying this third round of bidding would be around sometime end of this month.

Moderator: Thank you. Ladies and Gentlemen, due to time constraint, this was the last question. I would now like to hand over the floor to Mr. Tulsi Tanti for his closing comments. Over to you, sir.

Tulsi Tanti: Thank you. In the new changed environment Suzlon is well positioned to capitalize the growth market opportunity with our presence across the value chain, end-to-end solutions, technology edge and best-in-class service. With manufacturing facility in all windy states, our project cost is very, very competitive. We are fully vertically integrated company with the local supply chain is giving us the cost competitiveness in the supply chain. Market is on the cusp of the new growth era and our focus remains on increasing our market share, expand the size of the markets and continue our focus on technology and cost efficiency, so that we will remain extremely competitive and volume increase in the future four to five years market visibility looks strong, which can give us the good opportunity to continue to grow in this market environment. Apart from the conventional wind demand, we believe areas such as wind solar hybrid projects, repowering and offshore has a huge opportunity in the long-term future. I assure you once again, we are dedicated and focused on a value creation for all of our stakeholders and we seek your continuous faith and support.

I also thank my team to holding forth in the current market scenario, which is a quite challenging and transition phase for the industry, we have to sail within that. Thank you, everyone. We hope all your queries are answered. In case any further questions, get in touch with our IR team. Thanks a lot. We appreciate your time and presence with us. Thank you very much.

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