



“Suzlon Energy Limited Q3FY13 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Suzlon Energy Limited Q3FY13 Results Conference Call. We have with us today from Suzlon Energy Limited Mr. Tulsi Tanti – Chairman and Managing Director; Mr. Kirti Vagadia – Group CFO, and the Corporate Finance and Investor Relations team. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing '*' and '0' on your touchtone phone. Please note that this conference is being recorded. Also please note that the duration of the call is one hour. I would now like to hand the conference over to Mr. Tulsi Tanti, thank you and over to you Sir.

Tulsi Tanti: A very good afternoon to everyone. Thank you for making the time to join with us. As usual I am joined today by Kirti Vagadia – our Group CFO along with our Investor Relations team. I remind you that our comprehensive investor presentation is available on our website suzlon.com. I would like to first share some key aspects of our third quarter results, and then as usual we will be happy to take any questions from you. I am sorry to be sharing a clearly disappointing numbers of the third quarter. Indeed while it is appropriate to say that we have made real progress on the liability management front, unfortunately our performance has been negatively impacted by liquidity constraints and our abnormal operations environment. This resulted in a significant loss in the third quarter; that said, the recent approval of our CDR is a major step in the right direction, as that should provide us with liquidity head room to enable us to focus on executing our order book and mobilizing our business. I would like to briefly share with some of the important positive aspects of the third quarter results.

As you know, our fully owned subsidiary REpower is growing revenue wise 58% year-on-year for the first nine months of this fiscal. It continued to make a very strong contribution to the group. We also continue to see the real momentum in our order book, which as of yesterday was worth approximately 7.7 billion US dollars and all my customers are supporting the groups very well, and they are very much interested to continue to give lots of business to us and even in the last three months we have got good number of new order intake. In addition, we are seeing a solid progress in the project transformation. Our initiatives to reduce the OPEX and manpower cost at least by 20%. It will be critical for us as we reshape our business and some of the business models and initiatives into a leaner and more efficient operations with reduced break even position. That will give us the unique competitive position in the marketplace. So finally we welcome the reintroduction in the US production tax credits and ITC, and remain hopeful that the Indian government will announce some positive public policy development in the Union Budget also. Effectively this financial year has been one of the liability management year for us with additional working capital facilities which we expect shortly after completion of some of the formalities we can now turn our focus on execution and delivering to customers excellence, because lots of orders are in the pipeline for us and highest priority is to deliver all the pending orders and pending projects and execution is the topmost

priority currently in the group. Now we are happy to take your questions pertaining to the company's performance. Thanks a lot.

Moderator: Thank you very much Sir. The first question is from the line of Ruchir Khare from Kotak Securities, please go ahead

Ruchir Khare: What is the reason for steep increase in other expenses this quarter? I believe last time there was a freight cost which affected us. What was the trend this time?

Dhaval Vakil: The OPEX include both the fixed cost and the variable cost. If we look at the fixed cost breakup, fixed cost has generally remained stagnant, on the variable cost, again we have been hit by high freight cost in Q3, mainly because there were lot of installation that we did from REpower side in US and Canada.

Ruchir Khare: Okay, second and last question would be, could you throw some light with respect to the domestic market in terms of what is your vision over the take off in REC market because we believe that volumes are very dismal out there and because of regulatory issues, may be, so that compliance is not much. So, how do you see that market panning up?

Tulsi Tanti: Indian market, as all of you are aware about this financial year, almost it is a collapse by 60%, because of two to three reasons: One is, the GBI was withdrawn by the last Union budget and second is they accelerated depreciation, and third is, at the same time the REC market is not yet stabilized, mainly the demand issues. The buyers are not there. Regulatory and policy framework, some of the initiatives are required, mainly to how to make this mandatory for the utility to buy REC certificate, I think the important policy regulatory framework initiatives are required, which industries are working with the government and with regulators to bring that mechanism, so that the demand should be sufficiently created, otherwise the National Action Plan what we have, it cannot be achievable. So the REC market is there. As far as the GBI, industries and ministry of renewable energy is already aggressively and positively working in that direction to reinstate the GBI and may be the government is relooking at accelerated depreciation, so there are all these three initiatives, which will be established properly by this financial year. So there is a possibility that market will go back to the same level of one year before, otherwise it will remain challenging and the pressure market for the next year.

Moderator: The next question is from the line of Rosita Dsouza from Elara Capital. Please go ahead

Rosita Dsouza Since you mentioned in your opening remarks, on account of liability management in this year, your volumes have been affected severely, given that CDR is now behind you technically, do you think you can actually resume normal operations in Q4 or do you expect that to be pushed forward to the next financial year.

Kirti Vagadia; We expect that normal operations will resume in Q1 next financial year. Definitely we are doing some business in Q4, but volume would not be normal.

- Rosita Dsouza** Okay, if you could throw some color on what is the volume you did in India in this particular quarter?
- Dhaval Vakil:** Q3 has been sort of impacted by the liquidity constraints that we had. We at Suzlon Wind level we had no volumes as such, REpower as you know we don't give the MW details. There have been some sales reversals as well in India to the tune of about 77 MW, which is mainly because of the delay in commissioning of some of the projects to some SME companies. We have been asked to reverse the deliveries.
- Rosita Dsouza** In terms of order intake in India, has there been any order inflow in India in Q3.
- Dhaval Vakil:** There has been 100 MW of order inflow in Suzlon wind in India.
- Rosita Dsouza** In Q3?
- Dhaval Vakil:** In Q3 yes.
- Rosita Dsouza** In the statement in your presentation you mentioned that select bond holders representing significant maturity across all series, you are working with them. Does this also mean that the bond holders in 2014 series will be part of the negotiation process?
- Vikas Rathee:** You have to appreciate that we will need to, just like we come from a CDR perspective on the secured debt side, we are looking for holistic situation or solution, I would say across our bond holders and across the different series. Given that they are obviously gross defaults as you can imagine across series. So I think that the solution that we are working with the bond holders is going to be a comprehensive one across all series.
- Moderator:** The next question is from the line Charanjit Singh from HSBC, please go ahead.
- Charanjit Singh:** If you can kindly give some estimate on the number of shares to be issued for the INR 15 billion of interest which will be converted into equity and also the number of shares to be issued in lieu of the promoters' equity?
- Kirti Vagadia:** Okay, in both the cases, we are in the process of ascertaining the applicable date and that is why we will not be able to give you exact number right now, we have already approached the regulator for seeking their opinion that which will be applicable date in both the cases. We are awaiting their response so at this juncture probably we will not be in a position to give the exact number of shares.
- Charanjit Singh:** By which date, can we expect it?
- Kirti Vagadia:** Mostly by end of this financial year.

- Charanjit Singh:** Also, if you can help me understand with respect to the delays in delivery from Suzlon. If there are any penalty clauses in the agreement with your customers.
- Kirti Vagadia:** Generally in all customer related agreements there are standard clauses for liquidated damages on delayed delivery, in few cases we do have provided for liquidated damages in current quarter as well and in parallel we are negotiating with our respective customer that we are in an extraordinary situation during this period and majority of our customers are supportive and accommodating by waiver of liquidated damages either partly or fully.
- Charanjit Singh:** Okay, you mentioned that the operations in full swing may resume in Q1 of the next financial year, so can you roughly give some sort of guidance for the next financial year?
- Kirti Vagadia:** As a company policy we have not yet decided to give guidance for the next financial year, so once internally as Suzlon Board decides to give guidance definitely we will give the number publicly, but at this juncture we have not yet decided to give guidance.
- Charanjit Singh:** Okay, probably my last question, if you can give us some information on the asset sales which are in progress, and the status update on the China facility sales which was announced way back in June, last year.
- Kirti Vagadia:** Yes, unfortunately China asset sale took a little longer than what we expected due to two issues, one was lender in that specific subsidiary and secondly the regulatory approvals required for that matter. We have made some progress and once China opens probably we will be again resuming the work on that. There are a few steps pending and we are hopeful that we should be in a position to make some definitive progress in this quarter itself on China. So far as other asset sale is concerned we have identified a few blocks of assets as we mentioned publicly, one is majority of our manufacturing into component segment, we will be selling at appropriate price ensuring that we are getting the delivery of components from the buyer itself. So, that is one area, secondly as you may be aware that we being about a 17 to 18 year old organization, we have grown a number of manufacturing facilities in different parts of the world, so we are internally working on the rationalizing our manufacturing facilities and so a few of our manufacturing facilities would be also available for realization, thirdly we are having certain sticky receivables including one is United States, that also we are planning to realize in the next 12 to 24 months. So these are the major assets we working on realization. Over and above, we are working on reducing our working capital intensity and that will also release a certain amount of funds.
- Moderator:** The next question is from the line of Prashant Sawant from KNG Securities. Please go ahead
- Prashant Sawant:** Congrats, on your CDR, which has been almost finalized. On the FCCB which is another hurdle, can you update what are the measures you are going to take.

Vikas Rathee:

What I can tell you is, getting the CDR finalized is obviously an important step, not only for us as a company, all our stakeholders, the customers, the suppliers, and obviously the lenders, also it is an important event from the FCCB holders perspective, because it kind of provides the support for the long term viability and the growth of the business. As we mentioned earlier as well in our presentation that we put on the website, we are in conversations with a pretty significant majority of the bond holders to facilitate in the process there is a committee of bond holders that was formed, legal as well as financial advisors have been hired, we have been working diligently with their team the course of Christmas, December, January. I think we are making some pretty good progress on that side. As of now I can't really go into the specifics because we are still in the middle of the discussions, which involves us a company and the other key stakeholders being the bond holders themselves and the banks. We believe we are going to make significant progress between now and the end of the fiscal year, and we will obviously keep you all informed. What I can tell you is, significant amount of work has been done both from our side as well the bondholders perspective and we continue to have a constructive kind of progress on the CB side.

Prashant Sawant:

On the business side, globally all the companies which are involved in the renewable energy do suffer from the high cost in terms of the components. My question is, have you done anything specific or are you planning to do anything specific which would make sure that erode income high cost in terms of actually procuring the components and installation cost to set up wind farms.

Tulsi Tanti:

Regarding the component cost, two different things are there. Some of the existing model and turbine, that component price is not much of a effect. The new product and new turbines, which volume is not yet established, initially always 5 to 6% is the higher component prices, but overall component capacity is in surplus in the global market itself. In 2012, there was pressure because of the US market demand had shut by 2011 levels but now in 2013 we don't see a very high demand market of the US, but the component price is not going in a upward side particularly in all the component area, so we are very confident particularly our sourcing is mainly from the domestic market, means Indian market, and some steel capacity we are buying from China and very few percentage we are buying from the US. So overall we are not affected itself, but component market overall is stable, it is not increasing, only the new model, initially 5 to 6% is higher.

Prashant Sawant:

I was just doing some basic analysis, and I think you know the current wind energy which is available globally, Suzlon is about 8% of that. What is your break even order book, how much wind farm, how much MW of wind farm you will have to under your control to breakeven.

Tulsi Tanti:

As you know our cost particularly the interest cost is higher itself, and that is fully interest cost is loaded in the Suzlon side, so including that cost level in the current financial year it is somewhere 1800 MW is the breakeven level, but the next financial year based on some of our downsizing of the organization, some overhaul going on quite an efficient business model approach and at the same time reduction in the interest cost because of the CDR, all these

initiatives put together approximately 1500 megawatt will be breakeven for the next financial year.

Kirti Vagadia: Just wanted to add that this only for Suzlon Wind portion, it does not include REpower.

Moderator: The next question is from the line of Rosita Dsouza from Elara Capital. Please go ahead

Rosita Dsouza: Just wanted to ask a question on how do you see the outlook in the US market given there is no government change over there. Do you think that is going to be a market that will become lucrative for you in the coming years?

Tulsi Tanti: US market, after President has taken the charge, first they have announced for the renewable is the production tax credit and ITC, and ITC is a 30% cash grant, both have been extended with certain conditions compliance. The first year, by December 2013, 5% of the project cost should be invested then the project commissioning should be possible up to December 2015. So on that basis there are three different market scenarios we are predicting for 2013, 2014, and 2015. The minimum size of the market till December is 15,000 MW, and maximum size will be 25,000 MW, because that is technically feasible, and that is the potential till demand is not the constraint based on this policy input. It is a challenge how much execution. So based on the break down of 2013, now almost half year is passing through, we don't see the forecast more than 3000 to 4000 MW in the year 2013, but 2014 it will be 10 to 12,000 MW and the balance in 2015 will be 8,000 to 10,000 MW. So it is a good positive move and it will give a good benefit to the whole industries and as you know we have at least **10%** market share in the US market and we have a strong base and we will continue in the US.

Rosita Dsouza: Yes, I have another question on REpower. We are seeing very healthy growth on the top line, if you could give us some color as to how the margins are panning out at REpower that will really help.

Tulsi Tanti: The details may be difficult, but I can tell you that compared to the whole global wind industries market, none of the wind companies at EBIT level is profitable. Most of the wind companies the profit level is negative. The best part is that at the EBIT level, it is very positive performance of the REpower, and may be Kirti can give the exact details.

Kirti Vagadia: Normally we don't segregate the numbers between Suzlon and REpower at a group level, after it became a 100% subsidiary, but I can tell you just as a guidance that it is about north of 5% at EBIT level.

Rosita Dsouza: The other question I had is if you could give some breakup on fixed and variable cost for the current quarter that will help.

Dhaval: Rosita, I can give that to you offline, is that fine?

- Moderator:** The next question is from the line of Balachandra Shinde from B&K Securities, please go ahead
- Balachandra Shinde:** I would like to know these recent orders which we have actually procured. The execution cycle, has it increased from considering comparing to FY12 or FY11 numbers or has it remained in the same range.
- Kirti Vagadia:** Basically you mean the execution cycle for orders in India, right?
- Balachandra Shinde:** No, I am talking about the overall Suzlon Group. It is like, what we were actually having execution cycle like in FY11, and what is it currently right now.
- Kirti Vagadia:** It has remained the same. The question is that in the current year we have extraordinary situation primarily due to liquidity constraints. So, if the liquidity remains the same as it was available in FY11 and FY12, then the time period is even I would say that we can improve it slightly as compared to previous years.
- Balachandra Shinde:** How much is the average execution cycle, broadly would do?
- Kirti Vagadia:** Depending on the size of the project, it is ranging between 3 to 9 months, depending on the size of the orders.
- Balachandra Shinde:** Regarding the REpower orders, whatever we are getting, can we bifurcate how much is the offshore and onshore. How exactly you see the outlook on the big industries, offshore and onshore especially in Germany and European countries.
- Dhaval Vakil:** We have given the order book breakup in terms of offshore and the onshore orders in our presentation.
- Balachandra Shinde:** About the outlook, how do you see regarding offshore and onshore.
- Tulsi Tanti:** Outlook for the overall market in a global perspective, the offshore market is approximately 10 to 15%, where 85% is the onshore business. This majority of the offshore is concentrated in the European market and UK. Within that market when we are talking about Europe, it includes UK, we are expecting the forecast perfectly because the European Union is very positively and aggressively pushing more of the renewables in the European market so approximately 10% growth overall will come, but majority of this growth is coming in the offshore and offshore growth for the next 5 years will continue approximately at 30% level and that is a good pipeline is growing in the offshore direction. The number of players are also not much, hardly one or two players are doing these things, and the majority is Siemens and REpower. So 30% growth will remain in offshore and onshore is European market is approximately 10% growth.

- Balachandra Shinde:** Regarding the restructuring, since we have also restructured our working capital facility, so now we can see that from this quarter onwards we might not face that kind of working capital constraints for further executions and if we remove out the external challenging conditions we can actually execute in line what we were executing earlier. Can we see that way or we might keep on increasing the working capital burden?
- Kirti Vagadia:** I don't know whether what time you have joined, but this question was initially asked and I responded that definitely there is some improvement in Q4, as compared to the rest of the year, but normal operations would start in Q1 next financial year.
- Moderator:** As there are no further questions, I would now like to hand over the floor back to Mr. Tulsi Tanti for closing comments.
- Tulsi Tanti:** Yes, let me conclude by saying that this has been a disappointing quarter for us for the reason I set out earlier, however, we do now believe that the enhanced working capital allow us to focus on execution. We are confident that the business will continue to normalize as we prepare to enter into a new financial year, and industry's outlook is also long-term, and medium term is very good, because continuously in the industry cost of energy is going down and other fossil fuels energy cost is increasing, so that is giving a lot of good headroom for medium and long term point of view, but in short term the industry will remain challenged and we have to see the Indian market, if the government will back the positive frameworks and regulatory initiatives will happen, we feel the next financial year in Indian market again will be back, otherwise this financial year is quite negative and also our performance is badly affected because of the liquidity constraints, but now liability management year is over in this financial year and next financial we will see that the company will again be stabilized and will continue to focus on stabilizing all our operations and all stakeholders hope will increase. So once again thank you very much, thanks for your cooperation, support, listening to us and giving us opportunity to talk with you. Thanks a lot.
- Moderator:** On behalf of Suzlon Energy Limited that concludes this conference. Thank you for joining us.