



“Suzlon Energy Limited Q2 FY13 Results Conference Call”

November 9, 2012



MANAGEMENT: MR. TULSI TANTI
MR. KIRTI VAGADIA
MR. VIKAS RATHEE
MR. ROHIT MODI

Moderator: Ladies and gentlemen good day and welcome to the Q2 FY'13 Earnings Conference Call of Suzlon Energy Limited. As a reminder for the duration of this conference all participant lines are 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 call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand over the floor to Mr. Tulsi Tanti for opening comments. Thank you sir. Please go ahead.

Tulsi Tanti: A very good evening to everyone. Thank you for taking the time to join us. As usual, I am joined today by Mr. Kirti Vagadia, our group CFO and our investor relationship team. We are also joined today by Mr. Rohit Modi, our CEO of India and Emerging Economy market. I remind you that our comprehensive investor presentation is available on our website Suzlon.com. I would first like to say some of the key aspect of our H1 result and then we will be happy to take any question you might have. I want to be clear from the outset this has been a disappointing H1. The macroeconomic environment and policy uncertainty in key market continues to impact us negatively as is the working capital constraints and our liability management requirement which resulted in a suboptimal capital allocation to the business. Our performance was further impacted by adverse market mix and the high interest cost. As you know we have filed our corporate debt restructuring, the CDR as we and our senior secure lenders believe that it will remove uncertainties for the key stakeholders as well provide the liquidity headroom we require to first stabilize and then improve our business as usual. In parallel, we continue to do constructive ongoing engagement with our bondholders and all parties are focused on determining the value and reaching the consensual long-term solutions. Our key priorities remain securing and enhancing the working capital facilities, strengthening our balance sheet, optimizing the working capital, driving project transformation to reduce OpEx and manpower cost. However it is important to appreciate that despite these various challenges our core business fundamentals remain sound. REpower continues to grow and make significant contribution to our group. The firm order book stands at almost \$7 billion giving us good visibility for the next 18 months. The group revenue year-on-year is up by about 11%. Wind turbine availability remains the best in the class across the world. Our comprehensive product portfolio has something to suit every customer's requirement in every wind region, however this has been a disappointing performance and we are now executing our change programs to turn this situation around. Now we would be happy to take any questions that you might have. Please go ahead.

Moderator: We got our first question from the line of Rosita Dsouza from Elara Capital; please go ahead.

Rosita Dsouza: Thanks a lot for taking my question. My first question is on your order book. How do you see that given the situation that you are currently in on account of the FCCB default? Are you seeing any impact on new order inflows and also are you seeing any cancellations in orders because of the event that has happened?

Kirti Vagadia: There are some queries from customers due to FCCB default as to how it will impact our business continuity. It has increased our engagement with our customers and our customers'

lender so far as business is concerned but however I am pleased to say that it has not impacted our order inflow or business momentum. Our customers are happy with our product profile and OMS that we are giving and we are getting order momentum as usual, so business is as usual. It has increased some process time for customer to get clarity from us as well as from our secure lenders. They are also engaging with our customers and giving them clarification that they are backing the business.

Rosita Dsouza: On the India business because there has not been any extension of the tax sops for the wind energy segment are you seeing difficulty in getting orders and is there any update on whether there will be reinstatement of tax sops?

Tulsi Tanti: Indian market is currently in quite a good pressure because of the AD and GBI incentives are no more available from April 1. So the first half, in the Indian market, nearly 40% the overall installation has gone down. But as far as the order intake point of view, based on our pipelines we are continuously getting the orders that mainly focus on IPP customers areas and some of the frame agreement, as you know we have a long term frame agreements, part of that frame agreement, some of the quantity is converted in to the firm contracts. So we have good visibility of our delivery for the next 12 months. But overall market is in pressure. As far as the GBI and AD, there is a good moment of progress in administration at government level and we are expecting in Q4 it will be reinstated subject to certain process completion of the GBI and AD.

Kirti Vagadia: Just to add to what Mr. Tanti said we are also seeing traction from government PSU and few other retail customers who are captive consumer in wind power sector.

Rosita Dsouza: On your gross margins they seem to be little tepid; it was the same in Q1 as well and what we were given to understand is that because execution happened in low margin markets the gross margin is slightly on the lower side, is that the similar kind of reason for this quarter as well?

Kirti Vagadia: Yes, it is adverse market mix. As you rightly pointed out that larger revenue came from low margin market and lower revenue came from higher margin market.

Rosita Dsouza: Could you give us a split of what was the volume that you did in the domestic market this particular quarter?

Dhaval Vakil: We did about 30 Megawatts in India this quarter.

Moderator: The next question is from the line of Charanjeet Singh from HSBC; please go ahead.

Charanjeet Singh: Thank you very much sir for taking my questions, couple of questions here. If you can kindly provide some update on the Edison Mission receivable and also by what time are you expecting the proceeds of the China facility sale?

Kirti Vagadia: Just to come on addition, as you are aware that the matter is sub judice so it is unfair on my part to comment on timing of the Edison receivable, you are aware that according to our records we

have already complied with mandatory payment conditions and payments should come by February 2013 and long stop date is October 2014. And so far as China facility is concerned it is taking little longer time and we also started exploring certain options. We will update you in due course of time. Right now, I would state that it is taking slightly longer time that what was originally anticipated by us.

- Charanjeet Singh:** Is there any other asset sale in progress because you have guided for \$100 million in assets?
- Kirti Vagadia:** We are working on a couple of assets as of now but since things have not yet reached maturity stage we would not be able to be specific on this call for those.
- Charanjeet Singh:** My second question is if you are giving any revised guidance now?
- Kirti Vagadia:** No, we suspended our guidance and we would prefer not to give guidance for this particular year.
- Charanjeet Singh:** What is your expectations on the timeframe for the debt restructuring proposal, when do you expect this proposal to be finalized and especially the discussions with the bondholders, any sort of agreement on that aspect?
- Kirti Vagadia:** We believe that in next quarter which is Q4 of this financial year both things we are hopeful to conclude both things in the next quarter.
- Moderator:** Next question is from the line of Sunil Krishna from Make Consultancy, please go ahead.
- Sunil Krishna:** Thank you again for the opportunity. My question was answered by Mr. Tulsi but I would still like to ask if in Suzlon's opinion they are expecting both the policy incentives for India that is the AD and GBI to be reinstated and how likely are these?
- Tulsi Tanti:** The Ministry of Renewable Energy has already proposed and recommended to the administration, the steps are one, the Planning Commission and then Finance Ministry and after that it will go back to the MNRE and then it will be released for public. So the file is taking care of the both to re-establish, the process is going on, it is very difficult to comment on a result but tentative is next quarter in Q4, there must be a positive result on this.
- Sunil Krishna:** Thank you, I have one more question which is regarding the Brazilian market. I just wanted to know if you have any updates with regards to BNDES compliance and plans for Brazil in General.
- Tulsi Tanti:** The Brazil business completely as usual is there. Three large projects are under construction and every month we are dispatching some of the material and in some of the projects work is continuously going on, these are the three projects which we will be executing in the current financial year. So on the business front no impact is there. Even delay of the new auctions, quite delay is there, that is from new order intake point of view. During the auctions only we will be able to get but the delay is there. Regarding the BNDES process it is very clear three-step process

is there. Step number one is important for them to do the visit and due diligence of all the products and facilities and the localization and industrialization plans, and the analyses, whether it is 60% we are achieving or not. As per our calculations more than 60% is there because we are securing our rotor blades locally 100% and we are not supplying any rotor blades from here. The tower whether it is concrete, whether it is steel we are procuring locally and also we have established the production facility for our hub assembly and control systems. The production facility is in operation. So they have visited all the facilities and everything and now the step number three is based on their assessment and everything, by doing all the due diligence part of theirs, they will release their reports to us for the final confirmation but same time we have given our plan for three years, the plan of next phase of the steps on industrialization for local, some of the supply chain development. As per us, we are achieving all the compliance and government requirement of the BNDES and we are quite confident based on the last visit on that but the result may come may be in next one month or two months.

Moderator: Next question is from the line of Ankush Mahajan from K.R. Choksey; please go ahead.

Ankush Mahajan: My question is regarding other expenses that have gone up to 1100 crs; could you give me the break up and second one is in the initial speech you had mentioned that there are some steps to turn around in the business? Would you throw some light on this statement Sir?

Tulsi Tanti: For turnaround of the business, the number one and topmost priority is to improve our liquidity. Two approaches are there, one is some enhancement of the working capital facilities which we are discussing with our senior lender, the second is to reduce our working capital cycle and to extract some liquidity from the working capital and the third is to reduce our fixed cost, continuous ongoing process is there for the last six months. By these three ways we will improve the liquidity part and bring liquidity much more in the business to execute the project and to deliver the performance and project execution for the customer. The second area we are optimizing the number of production facilities which we are consolidating. We are consolidating based on the requirement of the domestic market and international market point of view and some of the manufacturing facility will be not useful, it can be sold out because in some of the locations the real estate values are quite good and maybe in some other geography like Rajasthan from a logistic perspective one rotor blade production facility can be established, so it optimizes the production capacity portfolio. Same on the receivable and inventory side, we have initiatives to bring down the overall level of inventory and receivables by changing certain business processes. Earlier we built inventory and sold to some retailers, now project based inventory planning and execution planning and that can give lot of headroom for liquidity improvement and reduction in working capital cycles. So these are the key initiatives. On top of that is the overall debt restructuring planning, the corporate debt restructuring, overall strategic growth level optimization and same times to taking care of the bondholders.

Kirti Vagadia: On your question about other expense break up basically variable expense in Q1 was 317 which has increased to 537 in Q2 mainly because of freight for international business and fixed expense

has increased from 528 to 560, so almost I would say it is flat, the major increase is on variable cost.

- Ankush Mahajan:** So freight rate is the major part.
- Kirti Vagadia:** It is not freight rate, mainly because there is a business delivery to United States and all international market, freight is the higher cost in Q2 itself.
- Tulsi Tanti:** It depends on the geography delivery; if it is domestic delivery then freight is lower, if it is international market delivery whether it is from Suzlon or REpower, then freight cost can go higher based on the international volume.
- Ankush Mahajan:** In case in future if we have to send more deliveries for international market then what would be the freight cost?
- Kirti Vagadia:** It is a function of megawatt but detailed break up regarding item wise fixed cost and variable cost will be given by our IR department offline later.
- Moderator:** The next question is from the line of Prashant Sawant from KNG Securities; please go ahead.
- Prashant Sawant:** With regards to FCCB default I wanted to understand are there any legal suits against the company, is company liable to any immediate payment because there has not been any coupon payment on the 2016 bond as well, could you give us more clarity on what is the plan on obligating the terms?
- Vikas Rathee:** What I can tell you is there has been no notice that has been served in the company in relation to the exercising of the default. We do have a payment default on the October 2012 maturity. In relation to the other bonds you mentioned those matters are still to be decided,. We are in active dialogue with all our bondholders and I think with the filing of the CDR mechanism as well we are speaking with everybody to provide more clarity and in relation to that we will be making more announcements going forward. It would unfair of me to kind of give you any more in relation to what the solutions might look like, it is constructive dialogue, it is moving in the right direction I think, the filing of the CDR and moving forward also are steps in the right direction. This is what we can comment on at this point in time.
- Prashant Sawant:** In the presentation you mentioned about the key terms of restructuring being requested, these are the terms requested by the company? Is that right? like two year moratorium on term interest, 10 year door to door maturity profile?
- Vikas Rathee:** This is some of the salient features of the proposal that is part of the CDR cell. This is directional at this point in time but the salient features of the package we are in discussions with our secure lenders.

- Prashant Sawant:** The Company is proposing basically to have a two-year's moratorium on term interest and debt repayment.
- Kirti Vagadia:** Correct, that is what company has proposed and it is in consultation with senior secure lender.
- Prashant Sawant:** I understand CDR mechanism does not include FCCB holders, so you are having separate dialogue with FCCB holders.
- Vikas Rathee:** That is correct.
- Prashant Sawant:** Are you still working on, because in the past you have been mentioning about you had plans, to sell your non-core asset, I just realized that China sale is taking time but there was some assets in South of India, a power component facility, which you were trying to sell, can you update on that how it is going?
- Kirti Vagadia:** As I mentioned to you that other things are work in progress, it has not reached up to the level which we can inform to the market because it will adversely impact our ability to have commercial dialogue with prospective buyers.
- Prashant Sawant:** On these high-yield bonds issue is it on hold right now, will it happen only after CDR or you can do it simultaneously?
- Kirti Vagadia:** I don't think I can do it simultaneously, so we need to wait probably. In this financial year it is off the table now.
- Prashant Sawant:** Just to understand, as you mentioned the markets are weak etc., at any point of time are you exploring to gain cash from REpower or get more refinancing or lending from German banks?
- Tulsi Tanti:** There is no plan to extract cash from REpower at this moment, as you know REpower has taken the facilities from the local banks or German banks and ring fencing is there. So we will not be able to do it at this moment.
- Kirti Vagadia:** REpower is on a very, very high growth momentum as of now and we are funding growth by cash right now.
- Prashant Sawant:** But if REpower is on a high growth momentum do you think how much cash or profit from that you could be able to utilize to redeem some of the Suzlon bonds?
- Kirti Vagadia:** There are certain dividends which is an annual event.
- Vikas Rathee:** There are lots of things under discussion, I think at this current point in time to give you any more clarity in a public forum is going to be difficult.
- Moderator:** Next question is from the line of Charanjeet Singh from Axis Capital; please go ahead.

- Charanjeet Singh:** Can you please give us the numbers for gross margins for REpower and Suzlon Wind?
- Kirti Vagadia:** As you are aware we now give details of group level things only, unfortunately we will not be able to give you separate numbers on those items.
- Charanjeet Singh:** What is the domestic cost of debt right now?
- Kirti Vagadia:** Right now it is in the range of 13 to 14%.
- Moderator:** Next question is from the line of Balachandra Shinde from Batlivala & Karani Securities; please go ahead.
- Balachandra Shinde:** Just wanted to know regarding the FCCB holders, in this debt restructuring I understand that only the debt will be restructured but FCCB holders how they will get paid, are we going to plan to include those bond holders converting in to debt or we are planning something else for redeeming those bonds?
- Vikas Rathee:** Again what you should look at is there have been quite a few successful restructuring and financing of convertible bonds maturities in the Indian market over the last several months, so I think that should give you some sense of some of the conversations that we are having with the bond holders. I think everybody recognizes, all stakeholders, the secured lenders, bond holders the company, our customers and vendors, that at this point in time it is absolutely critical and it is the first priority of the company to allocate capital resources towards the business which we have, as Tulsi Bhai mentioned earlier, we have compromised over the last couple of quarters. The aim and priorities are to be towards the business side and I think in context of those alignment in terms of how the business needs to go forward, we are working with the bond holders with those concepts in mind. So the secured lenders working on a moratorium for two years, providing up to 10 year of capital and at the same time the bond holders are across capital structures, well across multiple securities and maturities, so we are working towards that. I think it is too premature right now before we launch any kind of a process publicly on that to be able to comment anymore. What I can suggest to you is there is strong alignment amongst all stakeholders to maximize this value.
- Balachandra Shinde:** Just wanted to know regarding Edison Mission receivables. By chance in the court this case gets delayed is the Edison Mission liable to pay till October 2014 or repayment on that date is also an issue?
- Kirti Vagadia:** Your question is basically if there is no court case what are the payment conditions?
- Balachandra Shinde:** No, if the court case gets delayed by some reason are they really liable to pay, if the case keeps on delaying, is the final due date October 2014?
- Kirti Vagadia:** Our understanding is very clear that long stop date is October 2014 and February 2013 was a mandatory payment date on compliance of four conditions.

- Balachandra Shinde:** So if the case does not give any result, still Edison Mission has to pay you by October 2014?
- Kirti Vagadia:** That is correct understanding.
- Moderator:** As there are no further questions from the participants I would now like to hand the floor to Mr. Tulsi Tanti for closing comments. Over to you Sir.
- Tulsi Tanti:** I would like to underline what I set out at the start of this call. This is a clearly disappointing result and we fully acknowledge that. As I said earlier despite these internal challenges our business fundamentals remain strong. We are confident that the CDR process will give us the liquidity head rooms we require and remove uncertainties for our key stakeholders including customers and vendors. We thank you for your time today and your ongoing support with our organization. We wish you a very, very Happy Diwali to all of you and your family members. Thanks a lot and good bye.
- Moderator:** Thank you. On behalf o Suzlon Energy Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.