"Suzlon Energy Limited Q3 FY15 Earnings Conference Call"

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Moderator Ladies and Gentlemen, good day and welcome to the Q3 FY15 Earnings Conference Call of Suzlon Energy Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tulsi Tanti – Chairman and Managing Director of Suzlon Energy Limited. Thank you. And over to you, sir.

Tulsi Tanti Thank you. A Very Good Morning, Good Afternoon and Good Evening. Thank you for making the time to join us. I am joined today by Amit Agarwal — Suzlon CFO; Kirti Vagadia; and our Investor Relations team. I hope you had a chance to go through our investor presentation on our website. First, I would like to share some details on the various strategic initiatives that we have taken in the quarter, and then Amit will walk through our financial performance in the greater detail, then we would be very happy to take any questions from you.

I am pleased to announce investment by Dilipbhai Shanghvi family and Associates as a financial investor into the Suzlon. DSA will be investing Rs.1,800 crores in a new equity of the Suzlon for 23% stake, while existing promoters will be holding 24%. DSA in a joint venture with the Suzlon will also develop 450 MW size of the Wind Farm. They will also be providing the working capital facility to Suzlon specifically for execution of the said project. Additionally, DSA will facilitate incremental working capital funding to Suzlon through credit enhancement to cater to the existing and the new order for the two years. All this facility will be over and above our normal banking working capital facilities from our lender groups.

In addition to the above, in January 2015, we also announced the disinvestment of Senvion to Centerbridge Partners LP for amount of Rs.7,200 crores plus offshore technology license.

These strategic initiatives are extremely crucial and will pave the way for our future growth. It will help us to significantly reduce our debt, interest obligation and adequately capitalize our business to ramp up the volumes rapidly. With these strategic initiatives, our focus is now is shifted from liability management to the business and to the marketplace. Now, our clear key priority will be to ramp up the volumes and to increase the margin.

Indian renewable industry offers immense potential and opportunity. Besides the strong fundamentals, the government's clear thrust on clean energy and energy security are clearly driving the demand. Further Make in India the campaign is a boost to the capital goods sector and will make India an export-oriented economy.

With our market leadership, technology strength, the successful project execution, and best-in-class service, Suzlon is the best place to capitalize on this opportunity. Our strong order book position, positive business outlook and conducive policy framework give us the immense confidence to drive our goals into the domestic market and all emerging markets where Suzlon presence is there.

Now, I would like to invite Amit to address the detailed aspect of our Financial Performance. Amit, hand over to you.

Amit Agarwal Thank you, Tulsi bhai. Good Afternoon and Good Evening, everyone. I am happy to share that our efforts for improving operational performance have shown good development. This of course is reflected in our results which have achieved a positive EBITDA at a consolidated level for the fourth consecutive quarter.

Speaking of broad numbers, in third quarter fiscal ‘15 on a consolidated basis we recorded revenues of Rs.4,954 crores, EBITDA margin increased to 6% from an EBITDA negative margin of 2.7% year-on-year on almost flat revenue. EBITDA increased to Rs.295 crores from an EBITDA loss of Rs.137 crores year-on-year.

At Suzlon Wind, liquidity constraint resulted in significant reduction in volumes to just 34 MW in this quarter. Despite this, we have been able to substantially reduce losses on the back of improved profitability and controlled fixed expenses. We reported an EBITDA loss of Rs.100 crores in this third quarter of fiscal ‘15 against a loss of Rs.436 crores reported year-on-year in the last year. Suzlon Wind OMS vertical is fast becoming a sizable high margin business with nine months revenue touching close to Rs.1,100 crores.

Our consolidated after tax loss before exceptional item in third quarter fiscal is Rs.548 crores against a loss of Rs.814 crores year-on-year. In this quarter, due to Senvion sale binding agreement the group booked a one time impairment charge of Rs.5,900 crores resulting in consolidated net loss after exceptional of Rs.6,539 crores.

However, much of the concerns relating to high debt level and constant liquidity will now be addressed with concrete strategic initiatives being taken by us. Market conditions especially in India are buoyant, our product offering is competitive, and our complete focus now would be on the volume ramp up. We are now confident of improving our performance in fiscal '16 and beyond.

Moderator Thank you, sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.

Ketan Gandhi: Just a simple question, why Dilipbhai Shanghvi Family and Associates are making open offer? Since acquisition is below 25% and if they are only the financial investors then I do not think so as per the regulation they are required to make the open offer.

Kirti Vagadia: Yes, you are right that anybody who is exceeding 25% of the share holding or voting right need to make the open offer. Here, our internal agreement between both the shareholders is such that Dilipbhai and family will be voting along with Mr. Tanti, and that is covered by voting pooling arrangement, and this voting pooling arrangement is the trigger for open offer. That is the main reason for making open offer.

Ketan Gandhi: So it means that they are person acting in concert and they are in joint control of the company?

Kirti Vagadia: No, that it is not a joint control, it is PAC. Control continue to remain with Mr. Tanti and family.

Moderator Thank you. Our next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: My question is on the debt restructuring. With both Senvion sale as well as the new capital infusing that is happening, where do you think our rupee debt which is currently Rs.8,900 crores will come down post this transaction? I assume some portion of that you want to keep it for working capital. So where do you want to bring your rupee debt by the end of this year assuming the transactions go through?

Kirti Vagadia: Let me take you through total debt of Suzlon; first of all our consolidated debt position is roughly at about Rs.16,500 crores, of which we are likely to pay about Rs.6,000 crores out of Senvion Sale. So we will be left with Rs.10,500 crores. Rs.10,500 crores include FCCB which is Rs.2,500 crores where you can classify it as a quasi-equity which can be converted at the pace at which it got converted in the past, 140 million got converted in the last five months. Then we are left with about Rs.8,000 crores and Rs.8,000 crores is equally distributed between rupee and dollar loan. Dollar loan is this SBLC-backed facility which you are aware that falling due for maturity in FY19 and balance will be mainly working capital facilities in rupee.

Madan Gopal: With this Rs.1,800 crores that is coming into the company?

Kirti Vagadia: That will be primarily used for growth of the business, because we are looking at investment into a business where business was mainly suffering due to liquidity issue, so now we will be funding it primarily for business purpose.

Madan Gopal: Sir, correct me if I am wrong, Senvion should be carrying you somewhere close to Rs.7,200 crores and you want to keep this Rs.1,800 crores also with you, with Senvion you want to use only Rs.6,000 crores out of it. So, net-net, you are left with Rs.3,000 crores of money for your liquidity or working capital support for future growth, am I right that is what you are looking at? So Rs.3,000 crores for what sort of volume of funding can help us? That looks a big amount. So how much in terms of volume in MW can this Rs.3,000 crores can support us?

Kirti Vagadia: Let me first of all clarify the puzzle that it is not that I am going to keep that money idle immediately, it will initially be paid in a working capital but working capital is something which you can draw gradually when business needs. That will be the arrangement in which it will go. So far as business volume is concerned, I am not going to give you guidance on a volume number, but you might have seen the order backlog of Suzlon plus the momentum which Suzlon has potential from various announcements which India is making or Prime Minister is making in India. So there is a potential and we have already delivered something close to about 2,800 MW in past which we have seen on our Slide #27.

Madan Gopal: My question was slightly different; it is not a requirement of guidance for the next year or year after it, my question was very specific like if I understand you, you want to take this Rs.3,000 crores and pay off the immediate working capital and then later on draw the working capital, that is how you are looking at?

Kirti Vagadia: Exactly, it will be like that.

Madan Gopal: So I will rephrase my question, what sort of working capital should I assume for my numbers in the future like if assuming you do 1,000 MW or something, what sort of incremental working capital you will require as a percentage to sales you can tell us?

Kirti Vagadia: On a working capital our cycle time is generally ranging between six to nine months and that is broken between fund base and non-fund base limit, so we have been hovering between six to nine months depending on the volume what we do in a particular year, ideally we should be closer to above six months but initially when we are in a ramp up pace we will be taking little longer.

Madan Gopal: You would have probably not bid for many projects because the balance sheet restructuring has been happening, now, if you can slightly give a view on what sort of pipeline we can look at over the next say 1-year in terms of how big is the market looking like, what is the management thought on it?

Kirti Vagadia: I think on the market we have already given our projections about India market in our investor presentation India is looking at in FY16 about 3600 MW and if you look at our order backlog we are roughly at about 1150 MW that is also given on Slide #16.

Moderator Thank you. Our next question is from the line of Balchandra Shinde from Batlivala & Karani Securities. Please go ahead.

Balchandra Shinde: Sir, this equity infusion, will it be helpful for us in this Solar EPC projects also or it will be only utilized in the Wind-related orders only?

Tulsi Tanti: No, here the way we are doing the Wind business which is a total turnkey solution, we have a huge complementary strength to build the Solar also, but the majority focus is hybrid solutions. Farm area we will put Wind also and Solar also, one-third will be Solar and two-third will be Wind and we utilize the common infrastructure of the grid and sites and other infrastructure will be remain common and service is common, so this will go that way. And for that, required working capital is also available for the business.

Balchandra Shinde: Solar EPC, what kind of competitive advantage we see in ourselves than any other player because I think that market is somewhat now very competitive, so why we will get the orders in Solar EPC and what kind of pipeline you see in next 2-3 years?

Tulsi Tanti: It is a huge strategic position for us within the Renewable Energy sector in India. If you are doing only Wind and if you are doing only Solar compared to that if you are doing hybrid, there is the three big advantages is there — #1 is consolidated cost between both the combine, so there is total project cost savings will be somewhere 7% to 8% is the advantage of the total cost savings because we are using complementary infrastructure. The second is we are working in most of the states, and all these states government has drive to build the Solar also simultaneously. So it is a good. Third, utility is very much happy, because if I am feeding in utility and if I am only Solar then I am treating 20% energy into the grid, and most of the time grid is sitting idle. If I feed only Wind then I am feeding in only 30%, if in Wind and Solar it is 50%. So utility love is type of solution which is very good. The third area is that if it is a Solar then it is more on park and a bidding process is there, but when we are going in hybrid is there, the state government is giving (FIT) Feed-in Tariff, Uttar Pradesh recently yesterday announce in RE Investor Conference this hybrid policy. So it is really good complementary strength for Suzlon.

Balchandra Shinde: So Feed-in Tariff will be only available for the hybrid technology, not for individual Solar or Wind

Tulsi Tanti: No, FIT is available for Wind, FIT is available for hybrid, but not available for the Solar.

Balchandra Shinde: So that kind of advantage we see. But we are looking only to target hybrid technology or we are trying to get into even a pure Solar EPC?

Tulsi Tanti: Hybrid means it is one location, there is a Solar farm is there and Wind farm is there but grid is common, that is called hybrid, but if it is a Solar standalone technology wise, it is a same identical technology which normal other Solar Park are using, but we are going mainly for hybrid only.

Balchandra Shinde: I do not want target wise, what I wanted like how much percentage contribution you see through Solar EPC and what kind of realizations are actually experienced in Solar EPC?

Tulsi Tanti: Till now we have not built, we have done only one hybrid small project as a pilot project point of view in Gujarat two years before, so that is for research study, analysis and everything and it is quite positive. So now we are going almost whatever Wind we can do, it will be like one-third, two-third; so one-third will be Solar and two-third will be Wind.

Balchandra Shinde: By next year, we may see additional Solar EPC project also?

Tulsi Tanti: Yes, next financial year some projects will start and after that it will be good momentum.

Balchandra Shinde: Through Dilip Shanghvi, do you expect any more additional equity infusion or like working capital will be limited? I did not get the sentence – it will also provide project specific non-fund based working capital facility.

Tulsi Tanti: The first one, there is no further equity plan but Kirti will explain you again that the additional working capital support which is available for next two years.

Kirti Vagadia: Yes, for the next two years, we require mainly non-fund base facility and there are two types of support available — one, as I mentioned that we are having 450 MW joint venture development for Wind Power project and we need about certain working capital for that purpose. So that working capital will be provided by bank with the help of additional security support from that group, which is called Credit Enhancement given by them. The second thing which you might see on our Slide #7 where we are in need of certain additional working capital facilities for meeting our growth-related requirements to meet our existing orders as well as certain new orders which we are discussing as a pipeline business. For meeting both the requirements, we need certain additional working capital facilities, which they have agreed to provide on same principle which you can see on Slide #7.

Balchandra Shinde: Interest cost wise…?

Kirti Vagadia: It will be kind of whatever you get from any other third-party in a commercial arrangement. So it is arm's length arrangement.

Moderator Thank you. We have the next question from the line of Parikshit Shah from QVT. Please go ahead.

Prabhjot: This is Prabhjot from QVT. Firstly I must congratulate you on the steps that you have taken, they were obviously not very easy but needed to be taken. I just had a quick question, obviously, the execution in Q3 was very poor, obviously, as you mentioned because of the liquidity constraints and I know the person before me or I think a couple of questions before me someone asked you the question on how much volumes you will now be able to do because at the end of the day that is the most critical and I know your reluctance to give a volume guidance, for example, let us say that the Senvion transaction closes March 31st, how much time will it take you to pay down the banks, when will this money come in from the preferential allotment to Dilip Shanghvi, how long will it take you to scale up to levels that you have done in the past, because IPP projects are longer execution, retail is smaller execution, so can we just get some idea as to timeline as things fall into place when we should be expecting Suzlon will start operating at peak capacity or much enhanced capacity for the way you guys have been operating?

Kirti Vagadia: Prabhjot, basically you are absolutely right that any such business which we are project based business will take little longer for ramping up on a faster scale basis. Though we have manufacturing facility which is sufficient to manufacture about 3600 MW in India, we do not expect that we will be able to do 3600 MW so quickly. So let us bifurcate the question into three different parts — #1, whether do we have a manufacturing capacity to manufacture and how quickly we can scale it up. So answer on that is definitely 3600 MW is the manufacturing facility which is available. How quickly it can be scaled up? I would say that based on what I have discussed even today with my manufacturing team that up to 2000 MW scaling up does not require very-very long time so far as manufacturing part is concerned. The second thing is on a customer order. As you might you have seen our order backlog of 1147 MW and entire order backlog we need to execute by March '16. So you can take guidance from that we are already booked for about 1200 MW for next financial year and whatever new order we can book and execute for next financial year would be a bonus, but we would be reluctant to give you any specific guidance so far as next financial year is concerned. In 1147 MW we have not included the volume which can come out of this Wind farm joint venture.

Prabhjot: So the way I think is you have 1200 MW that needs to be executed by March '16, this additional 450 MW depending on how quickly this scales up, plus kind of the incremental order flows that should come through on the retail side which usually comes in Q3, Q4 every year, right?

Kirti Vagadia: The only one correction I will make that 1147 MW includes something which I will be executing in March '15 as well. And definitely we don't want to give any volume guidance, so you need to make your own estimate on the basis of these numbers.

Prabhjot: I have also been attending this renewable conference last couple of days, obviously, it is very evident at least to me that the clear focus seems to be on the Solar side much more so than any other formal renewable, Mr. Tanti to give us his views on whether he shares my view as well that the focus seems to be in a number of panels on Solar and if that is the reason why Suzlon is also kind of little bit moving in that direction because even though Wind will continue to expand and expand rapidly, I think the government is also putting extraordinary focus on Solar. So just some thoughts from Mr. Tanti on that would be helpful.

Tulsi Tanti: I do not agree Solar is the only government focus, second, because of the government focus in Solar that is why Suzlon is going, I do not agree both first of all. We have to see in Suzlon interest what is the best, and a complementary strength if adding value or creating a margin, my stakeholder is only important for me. If you see what the government is communicating, we should understand very well; 100 GW Solar is there, within that 40 GW is the rooftop is there, not a Grid Solar, so grid Solar is 60 GW is there, and same time is the 60 GW is the Wind is there, that will go grid. And where this Suzlon business is there with any energy is going into the grid is important for us. So equal target is there we can say. Second thing that Wind industry are fully mature and it enter into industrialization phase, and already certain incentives program, GBI, AD, other interest benefit everything is established in the Wind. Now what should be done in Solar? So that is why government is pushing more effort and bringing more momentum in the Solar when industry will become mature then may be industry can drive the Solar very well. So that is very clear, the drive for both the sector is there. Why Suzlon is going? It is very simple, we are working on a nine states, and we have built 9 GW of the Wind Projects. Now the Solar potentiality increasing. If you see within the Solar not a single company end-to-end solution provider is there and not a company is also taking care of the long-term service and everything. So it is a quite fragmented business at this moment is growing in the Wind segment. We found the opportunity for Suzlon to bring the unique business model and that is the hybrid model. Hybrid is Wind and Solar. We are not going to build standalone Solar Park or Solar Farm thing. Wherever sites we are building our Wind projects, we do one-third Solar and two-third Wind, and use the common infrastructure, and feed into the grid so that give a quite good total project cost saving of 7% to 8%, it has become a complementary strength and 20-years we have to operate this asset and my service team can take care of both the assets very well. So it is a good value addition in a service business, and in execution part also it is a good complementary, plus the relationship with the nine states with the state government and other part, it will add value, and that is why we are going on Solar to leverage our complementary strength in this area, because I can able to achieve in a Wind may be 50% market share, then what should be my growth area in Indian market to go with this hybrid solutions, it add lot of capacity indirectly in the Solar which is good for the grid because if I have a Solar Park then I am feeding only 20% in the grid, if I have a Wind Farm then 30%, if I have both in common grid, then I am feeding 50% which utility love 50% stability of the grid. So that is a technical reason and interest of the utility and it is a complementary strength for us to do this, but we are not interested to go to the Solar module or manufacturing any activities, we just outsource, build the project and sell the project.

Moderator: Thank you. Our next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: I have a few questions: The first question is how do you see the breakeven point for Suzlon at EBITDA level?

Amit Agarwal: That is at 450 MW at EBITDA level.

Rajesh Kothari: Once you put Solar into the thing there is a hybrid model. Mr. Tanti, do you think this breakeven point can reduce because your value addition can be very high?

Tulsi Tanti: The breakeven will reduce naturally, with combined 450 MW it is enough.

Rajesh Kothari: No, what I am trying to say is that do you think this 450 MW breakeven point right now can it reduce to significantly once you have the hybrid model in place?

Tulsi Tanti: No, the point is, if I do standalone 450 MW Wind, or if I do hybrid Wind and Solar both, assuming 150 MW is Solar, and 300 MW Wind, it will give the same benefit.

Rajesh Kothari: So basically you are trying to say that the EBITDA margin in both we will do Wind or Solar is at par?

Tulsi Tanti: Yes, benefit is on volume side. Assuming I am doing 1000 MW Wind Projects, I get by very less effort, additional 500 MW of Solar simultaneously.

Kirti Vagadia: Tulsi bhai, let me answer that question slightly differently; first of all the incremental cost will not increase so naturally EBITDA breakeven will come down; however, the detailed analysis of that cost is something whether it will come down by 50 MW, 100 MW is something we are yet to do.

Rajesh Kothari: My second question is what kind of potential do you see over next 3-5 years in terms of the hybrid market opportunity both Wind and Solar put together?

Tulsi Tanti: It will remain for the next seven years, because whatever the target of government is 2022, and that is a total 170 GW capacity building in Wind and Solar, out of that rooftop I can remove 40 MW, so it is nearly 130 GW, the new capacity will come in Wind and Solar. Against that the last two days, RE Invest Conference is going in Delhi, I am also in Delhi, the commitment came from the global and domestic investors to the MNRE, it is nearly 270 GW they would like to invest in India. So the potentiality is also high, Government is targeting 170 GW or minus 40 GW means

130 GW, and the demand from the investors side is also very high. Next seven years the Wind and Solar both will remain in a high growth market, and if we see today what is the capacity, it is hardly 500 to 700 MW of Solar is coming and 2,300 MW Wind is coming. So all put together just 3 GW is coming. Now target of 130 GW in seven years almost per year 20 GW target is there. So enormous target is coming from the government side. The government is trying and understanding, if you want to achieve what are the constraints and barriers are there, that should be removed. So the government is working on that direction to make this happen, because once they are also committing, they are also serious about their performance, so they are also pushing us and tell us what are the constraints and how we can support to make it happen. So it is a good opportunity for a company like Suzlon, because for the last 20 years we have a huge capability and competency and this strength on a real ground we have, so we can leverage very fast to make this happen.

Rajesh Kothari: In terms of the scope of work, what Suzlon will be doing as you rightly say from end-to-end perspective, how much do you think per MW of Solar what is roughly scope of work which you think Suzlon can deliver?

Tulsi Tanti: We will buy the modules and other things, but effectively cost is roughly Rs.7 crores per MW, it is more or less close to the Wind, which is there today.

Rajesh Kothari: So out of Rs.7 crores per MW, bought-out kind of a component will be close to about Rs.4.5-5 crores kind of thing?

Tulsi Tanti: Roughly it will be there, because BOP cost and everything will be done by us, and only we are buying module, rest we are doing.

Rajesh Kothari: So just a ballpark number of CAPEX over next 5-7 years, any idea?

Tulsi Tanti: Do not require, because it is a BOP cost and everything will be on the site.

Moderator: Thank you. We have the next question from the line of Aman Batra from Goldman Sachs. Please go ahead.

Aman Batra: Just trying to understand the fixed cost structure for the company. There is roughly around Rs.200 crores of employee expenses on the Suzlon Wind side on a per quarter basis, but the other expenses have been fluctuating quite a lot. If you can give an understanding of what is the fixed cost that you have to incur irrespective of what kind of wind mills you install in a quarter?

Amit Agarwal: Around Rs.1500 crores annually we have the fixed cost, which is divided into the operating expenses as well as the employee cost.

Kirti Vagadia: And just to clarify that, line item of other expenses which you are looking at, which is fluctuating quarter-by-quarter is primarily on account of inclusion of some of the variable cost also in the line item of other expenses.

Aman Batra: The second question is that if we look at Suzlon Wind and if we look at the consol numbers, I understand one big difference is Senvion and are there any other components that fall between Suzlon Wind and the consol numbers?

Amit Agarwal: There is no major other difference, other than the Senvion between consolidated and Suzlon Wind.

Aman Batra: If we were to look at, we provide end-to-end solutions turnkey delivery of the wind mill and solutions, so what kind of readiness we have on the land and infrastructure side, how much we can deliver for the next 1 or 2 years?

Tulsi Tanti: The building, the pipeline is ongoing, and also we have to understand, 1) we have clarity about the land and grid permission and other things, then and then customer places the order, so today, whatever 1200 MW order on hands, those capacities are available first of all for the next year immediately. Other is, we have a pipeline to build continuous basis, it is not just two years, we work on a five-years basis plan, and that is the development ongoing, now the constraint was there last two years for the liquidity, so we have not invested much more, but now availability of the liquidity again will be the highest priority goes to ramp up the capacity so that we can be able to build the Wind and Solar hybrid project at faster volumes and that momentum will start after nine months.

Moderator: Thank you. Our next question is from the line of Abhinav Sharma from HDFC Securities. Please go ahead.

Abhinav Sharma: I have a couple of questions: First of all if you can tell us what is the rationale for the JV which we have formed with DSA for 450 MW of Wind Farm?

Tulsi Tanti: It is a business strategy for Suzlon, we are developing the new business model, which is need of the financial investor, particularly, the large fund, or maybe the pension fund or insurance funds. They are very much interested to come in a big way to invest in India, but they are not interested to take a project risk, or financing risk, or PPA risk, all these things. So what we are planning is this JV we have formed to build 50-50 Megawatt SPV. We build the SPV including the PPA project, finance, everything, which anyway we are managing on behalf of our customers, everything we are managing this, but we will build like this. Then we can sell this 50 MW or 100 MW, or 200 MW or whatever the blocks is required for the ready capacity in the market, good premium is there. Second is, the existing financial investors, they are investing in Wind Power Project. They have a certain target in a timeline to achieve certain capacity. So sometimes they are not achieving, to complete their target they need 100 to 200 MW ready asset from the market, which can be the opportunity for us. So we will roll over this 450 MW, we build and we sell, but at one moment, 450 MW will remain in our pipeline. The second opportunity for us in a 12-month cycle, sometimes some order is coming late, sometimes the infrastructure is late, whenever the lull period is there in the 12-month cycle I have opportunity to park my cost and everything for my SPV, so that I can maintain certain volume stability, and I can utilize all my costs in that. So it will add more value rather than draining the cost. So this is the new business model we are developing to the market. If you see recently, one of the IPP investors has sold certain capacity and they have got really good valuations of the equity market. So here it is to build the 50 MW SPV and sell of equity, so it can give us. And if you are not selling, it will remain in our asset, we can get very good cash flow from that sale. Second is, we are going innovative finance model in this SPV model, which currently the financial investors are not getting or not taking. We are going innovative models of the financing which is quite low equity structure and debt is longer period of almost 20 years. And the third is cash outflow will be such a way, the very first year, we are generating the free cash flow from these assets. So it will be innovating the financial model because of that also we get the value of the project. So it is more value added sales of the project. And that is why this 450 MW is a buffer in that area. As you know we are in CDR, we cannot be able to do directly at this moment. With this model, it is allowed to do like this.

Abhinav Sharma: If I understood correctly, at one point of time, we do not intend to build more than 450 MW as long as we are able to sell it. So if we are not able to sell, then we will not build more than 450 MW?

Tulsi Tanti: Yes, that is our plan, maybe we will not exceed more than 500 MW, I can say, because whatever the capital we are injecting, we currently plan 10 SPV, so 500 MW will be in the rotation, more we can say it is a working capital cycle of 500 MW, we sell 2 SPV, and we build new 2 SPV, at one moment, it should not exceed more than 10 SPV.

Abhinav Sharma: What will be the equity contribution from our side for this?

Tulsi Tanti: Rs.400 crores from our side and Rs.400 crores from the partner.

Abhinav Sharma: On the working capital, when we look at our presentation, our working capital is negative. So then why do we need so much money for working capital Rs.3,000 crores?

Tulsi Tanti: Because I want to ramp up my business more aggressively; I have a production capacity of over 3000 MW, infrastructure capability have large, all technical product, expertise, and everything is there, demand market is enormous. So if I want to ramp up in my pipeline of the infrastructure, project pipeline, then I have to ramp up my inventories, and that area, production capacities ramp up, I have to invest some Rs.100 crores in technology, I am investing Rs.100 crores for the CAPEX for the three Rotor Blade production capacity in Madhya Pradesh, Andhra Pradesh, and Rajasthan to reduce my logistics cost drastically, and the next-generation Rotor size is 54 meters, which is very difficult to do the logistics from Gujarat and Maharashtra to Andhra Pradesh, Madhya Pradesh and Rajasthan, and reduce the cycle time of three-projects, building some project inventory and other things, enhance the margins, enhance the volumes, all these things, whatever the working capital is available, market demand is available in the market.

Abhinav Sharma: So is it like our working capital is negative mainly because our volumes are low so when the volumes pick up maybe our working capital requirements will also go up?

Kirti Vagadia: Yes, that is one and secondly please remember one fact that the majority of our working capital requirement is in the nature of non-fund base, which Letter of Credit and Bank Guarantees.

Abhinav Sharma: Can you give us the breakup of your order book between say retail customers and the large institutional customers

Amit Agarwal: Generally we do not give, but on a broad term basis, we have between 75% to 80% is the large IPP, and 20 to 25% is on the retail side.

Tulsi Tanti: Retail is slowly increasing, because now the clarity and everything last September has come from government for AD, and now so many companies are planning, so next financial year we see more volume increase, because Make in India initiatives are also driving aggressively from government side, to put more and more capacity in captive energy so that they can hedge their power cost and make the competitive situations, to make manufacturing more and more viable. So next year I see more volumes increase in a retail front.

Amit Agarwal: The project execution for retail customers, cycle is smaller.

Abhinav Sharma: So in our sales, it will be a higher proportion possibly?

Tulsi Tanti: Yes.

Moderator: Thank you. The next question is from the line of Ruchit Mehta from SBI Fund Management. Please go ahead.

Ruchit Mehta: Just a small clarification: You get about Rs.7,200 crores for the Senvion sale and you said Rs.6,000 crores will go towards debt reduction. So Rs.1200 crores plus 1800 crores from the equity infusion Rs.3,000 crores, could you give us the broad split of how much will go towards working capital funding, how much will be towards CAPEX and how much will further go towards debt reduction?

Amit Agarwal: As Tulsi bhai mentioned, that Rs.200 crores is broadly in terms of the CAPEX and the technology, and the balance will be primarily used for the ramping up of the volumes and seeing the good growth in the business for the next year.

Ruchit Mehta: On a normalized basis, I just wanted to clarify, what is your working capital as a percentage of turnover, with this order book of Rs.7,200 crores that you mentioned and let us say in a full year you execute that, so how much working capital needs to book Rs.7,200 crores of sales?

Amit Agarwal: So roughly between 8 to 10% would be our working capital net requirement.

Kirti Vagadia: And just to add on a deployment, Rs.400 crores will go as our contribution for joint venture.

Tulsi Tanti: But Amit, once we fill up the ramp up speed, if you are seeing normally, if it is higher, I believe it will be somewhere 30% required, because we have to put certain money for the project pipeline.

Moderator: Thank you. We have the next question from the line of Lokesh Garg from Credit Suisse. Please go ahead.

Lokesh Garg: Sir, just wanted to ask you basically on this working capital question only, I have not understood clearly in spite of the two questions on this already, as to why it is negative today – is it because of unsteadiness of business it is negative and which number is making that unsteadiness out here as in is it on the current asset side, current liability side, what it is basically?

Amit Agarwal: Basically, as we have talked about earlier as well, that primarily if you look at it, our sundry creditors because of the liquidity challenges, there has been an increase in the sundry creditors, which would get normalized as we ramp up our volumes, as well as there has been the increase in the provisions and other liabilities, which would also be normalized when we increase our volumes, and that is why this negative would not be remaining as a negative working capital, it would normalize to 8% to 10%.

Lokesh Garg: As Mr. Tanti is saying, some scale up during the scale up phase of the business itself?

Amit Agarwal: Yes.

Lokesh Garg: I just wanted to ask you basically in the order book of 1145 MW, what is the overseas and domestic mix as of now?

Amit Agarwal: Primarily it is Indian order book.

Lokesh Garg: In the next few let us say quarters, would we want to scale up our international presence as well because obviously we used to have a very large presence in the past overseas as well as Suzlon and obviously then we build some acquisitions as well?

Tulsi Tanti: No, our global strategy is also very clear; the first two years I can say, will be the very high focus to do as much as possible to ramp up the volume and deliver the maximum projects in domestic market, because which is I see certain our backlog and certain is very low hanging fruits and projects. Simultaneously, we are very focused on only in the five global markets. We have presence in 30 countries, but we do not want to go at this moment. We are targeting some of the markets which is in a growth phase, and also which is a profitable market, some market is giving good volumes, so that gives mix of the business very well. That market, after India, it is USA, China, Brazil, Mexico, and Turkey. So these are the markets we are targeting with a three-year perspective. So next financial year, majority business, effort and everything will be in India to ramp up the capacity, and to build more projects and to deliver. Simultaneously, next financial year we will bring the new orders from those markets and the delivery will not be required in the next year, but it should be in 2016-17 year it will go. So we will build the order book. Because now we have visibility of the good working capital availability, so we can now take the order, earlier it was not the case. So we have reduced order intake globally. And global order book cycle is normally 24-month cycle, where India is a 12-month cycle. So the next financial year we will build the order book and we will deliver after one year. So that the second year we have larger domestic and global volumes both.

Lokesh Garg: Is there any tax implication on Senvion sale proceed?

Kirti Vagadia: There is no tax implication at all.

Lokesh Garg: So basically entire 72 billion is realizable by Suzlon in domestic money, right?

Kirti Vagadia: That is correct.

Lokesh Garg: A broader question that I wanted to ask you basically last time when obviously, Suzlon India used to deliver something like 3,000 MW of business annually. Since then at least basically it is a very land-intensive business and probably acquisition of land has got tougher and in spite of this ordinance and all that I think it still remains tougher because these projects will not qualify to the sort of free of consent requirements and all that. In which case do you see that as a constraint continue to build up and be very binding constraint or you feel that you can manage that?

Tulsi Tanti: No, I do not think the constraint, because so many years of experience, and we have lots of grip on ground, it is more challenging, rather than constraint. And current bottleneck was just liquidity, I can say, so now liquidity is flowing, so we can ramp up that capacity within 6-months fast, that is not a problem.

Lokesh Garg: On the cost efficiency part, you said that fixed cost structure above the EBITDA line of something like Rs.1500 crores, is there a scope to reduce that further from here?

Tulsi Tanti: It is always a continuous process, answer is yes, and we are planning to reduce at least maximum 5% not much more, because already we have trimmed very well the fixed cost. Second thing, simultaneously, I am going to ramp up quite good volumes, so we will take precautions not to increase, but if there is any chance for the reduction, we will do.

Kirti Vagadia: Just to add on what Tulsibhai mentioned that fixed cost include the fixed cost relating to our 14 to 15 Gigawatt operation and maintenance-related cost as well.

Moderator: Thank you. We will take the next question from the line of Abhishek Bansal from Deutsche Bank. Please go ahead.

Abhishek Bansal: The first question I had was more of a clarificatory nature is basically when you mentioned your EBITDA breakeven is 450 MW. Just wanted to understand you mean that 450 MW plus all the OMS margins or you just mean that you do 450 MW of new sales and you have done for your breakeven of EBITDA?

Amit Agarwal: Yes, it includes both.

Abhishek Bansal: OMS is mostly the fixed cost, right, if I understand it correctly, so anything you do just directly goes to the EBITDA level more or less maybe some 20-25% discount to that, right?

Amit Agarwal: There are certain direct costs for maintaining those equipments.

Tulsi Tanti: That is the spare parts cost, other consumables cost, COGS cost is there.

Abhishek Bansal: So basically if I can understand EBITDA margin on OMS could be in the range of around 30-35% roughly?

Amit Agarwal: Yes, around that.

Abhishek Bansal: On the gross margin, assuming the variable cost on the new sales how much does it generally turn out to be? The COGS is probably 65-70% you mentioned in the financials, but as you mentioned there are certain variable expenses in the other expenses as well. What is more logical number – is it like 25% gross margin?

Amit Agarwal: On a gross margin, on a normalized basis, it is in the range of 30% to 35% blended basis.

Abhishek Bansal: By blended you mean, including both OMS as well as the normal.

Amit Agarwal: Yes.

Abhishek Bansal: Just to clarify one more thing, if I understand you are trying to replicate pretty much a wind model where you provide end-to-end solution and you give the complete solution to the customer wherein you will put the park and then he will directly come to you just by certain megawatts of plant from you. Just wanted to understand in terms of technology where do you stand or how do you expect to really compete with particularly technology part given that there are players who are good at making the panels and everything, how do you see yourself competing with those guys?

Tulsi Tanti: First of all, just to correct, I am not going to manufacture module or panel. So I have an opportunity to see who are the best in technology, four to five good players in the marketplace, and I have to buy those panels, and the rest of the work I will do, complete BOP, and turnkey at the same time to operate for the next 25 years asset. So this is there. So approximately we can say whatever the project cost, 50% is the module and other things outsource, and 50% we will do the value addition project cost and BOP cost.

Abhishek Bansal: Basically, you are really establishing the projects rather than manufacturing here, right?

Tulsi Tanti: Currently, that is the highest bottleneck in the Solar is there, panel manufacturing capacity is 5 to 7times in our country, where the project execution is very-very low. There is no end-to-end solution provider in Solar from the OEM side, because so many OEMs are there. So the IPP company is buying infrastructure and everything and that is not their core competency area. So that is why the project cost we have observed is going high in Solar to some extent. So it is a very unique opportunity for us, not only that, we will blend the infrastructure on the same location, Wind and Solar, we are going hybrid, it adds a lot of value and I cannot comment on margins, but it is a good margin for us because utilizing common infrastructure can add value. Second, whatever the Wind site is there, it is based on the site and based on the availability grid, but there is surrounding, so much land is available, which we are not able to utilize for the Wind, or we cannot able to utilize because the grid capacity is not there, but if we add additional one-third capacity of Solar, that land is available at throwaway price plus we do not require extra grid for that. So it adds real good value technically and commercially, and it is a new business model and customers like that, and at the same time the state government is interested to give hybrid Feed-in Tariff.

Abhishek Bansal: Two very simple questions: If you could give me some hint on like what was the order intake in Q3 particularly? I could not find this in the last presentation. And second, what is the cash level at Suzlon Wind level right now or maybe 31st December, just to understand the liquidity position right now?

Amit Agarwal: Basically you can take these details from Ashish, our IR team.

Moderator: Thank you. We have the next question from the line of Vishal Biria from Antique Stock Broking, please go ahead.

Vishal Biria: Could you touch upon the RPO targets and adherence of the states? #2, key element, service income in your business, which can actually be the icing on the cake, so on these two elements?

Tulsi Tanti: Regarding RPO it is still an open issue, even yesterday also we discussed with the government for the RPO implementations and also the strict target, checks and balance, but still it is not there, but beyond that, now all the state governments have committed lots of developments for the Wind and Solar, so it is a very positive movement is there, now central government targets are very huge and investment, the commitment also comes to almost 270 GW. So it looks overall positive, but still we have to work, RPO should be mandatory.

Vishal Biria: On the service income, can you give some guidance, do you see a spurt in service income now that there have been a lot of installations?

Amit Agarwal: Service income is directly dependent on the installations which we do, and as we continue to ramp up volume in the next year, we expect obviously the service income to increase as the installations keep on going up.

Moderator: Thank you. The next question is from the line of Jatin Karani from Enam Holdings, please go ahead.

Jatin Karani: I had a very simple question on the offshore piece of the business. I know we have got the technology from Senvion to sell those offshore turbines in India. If you can give us some thoughts on what is the potential of offshore and what are the timelines for the first project, I thought could come in Gujarat?

Tulsi Tanti: The total potentiality in our country as per the preliminary assessment is 100 GW, it can go higher based on the next product and technology. Regarding offshore, the government is working in a comprehensive policy for the offshore, it may take another 6 to 9 months and after that policy will come out. The third is, as far as our Group, as you know, part of the deal we have taken the license for Indian market, so that we can build the capacity more faster. Fourth, we are working on the ground last three years, doing all assessment, study, techno-commercial feasibility assessment in some of the cost areas, so that we can identify some of the sites where we can be able to build the project. As far as the first project, our plan is to build the first pilot project with the proven technology what we have in Senvion, at least 100 turbine is 600 MW, but it may take from now at least another three to four years, after that, the first project will come and that will be the good potentiality, after that it will unlock for Suzlon, because very less or we can say nil level of competition in that segment is there.

Moderator: Participants, due to time constraints we will take the last question from the line of Ruchir Khare from Kotak Securities, please go ahead.

Ruchir Khare: Industry-specific question, other than being land specific in current environment, what could be the risks that could actually spoil the show going ahead, the risk that we should keep in mind for the industry wide thing that you would want to point out because I understand liquidity was a concern more of with Suzlon?

Tulsi Tanti: Industry wise, the number one is, strong alignment is required state and central government. So that is very important. I have found that at least five states there is good alignment, we do not see, but another three states still some alignment is important. Second risk I can see how fast certain grid infrastructure with central government and state government has to build to unlock some of the sites potentiality. Maybe we have a site, but some of the infrastructure they have to build, and after that we can build up to the pooling stations, the grid infrastructure we have to build. We can build our site, but for the state government or central side, it takes time, so then the capacity can be delayed. The third area is I can see is the financing, because when the volumes are bigger, not Suzlon financing, but my customer financing areas, how fast the bank can be able to give debt and mobilize the disbursement faster, that speed is important, maybe availability I do not see much constraints, but taking time and delivering that will slow down our cycle also. But yesterday, State Bank of India has committed that they will finance 15,000 MW projects in the next five years. So it is quite a good commitment and based on that maybe some other banks will also follow. So these are the banking side areas. Third is, some of the states have the Feed-in Tariff, which is called PPA rates have some time lines, some of the states like March, some of the states after one year it will expire, then regulator has to give a new tariff and other things, a) is the delay or b) is the tariff in such a way, that the project is not viable, so those are the uncertainties, will remain in our country, but overall the target and drive of the central government is so high, so any such issues if you can take it to the Central Government, maybe they will act faster to resolve that. So that is there. Business side, within the organization, strictly I do not see, because we have capacity, manufacturing capability, project execution, now resources are available also, so that is not affecting much, only some of the new states which we are entering, particularly in Andhra Pradesh, Madhya Pradesh, where we have to build up some of the project management, people capability, and local vendors development for the project execution. So those are some of the challenges, but it cannot break, but there may be a delay something, so that is the overall situation of the risk assessment.

Ruchir Khare: Land acquisition you do not perceive as a risk especially with respect to the Wind Energy?

Tulsi Tanti: For Suzlon, no. I am not saying wind industry.

Kirti Vagadia: We have a huge capability across all the states, purely local strength in all the states for that area, and we as an organization developed huge expertise and capabilities in those areas.

Tulsi Tanti: Because last two years we have low input, three years before our group was acquiring every year 30,000 acres of land which is the highest in our country, nobody can acquire like this.

Moderator: Thank you. I now hand the floor back to Mr. Tulsi Tanti for any closing comments. Thank you. And over to you, sir.

Tulsi Tanti: Thank you very much. I would like to conclude by saying that the road ahead is very clear. We have enormous growth potentiality in the domestic market and global market is quite stable. This infusion of the liquidity and the steps taken to permanently correct our balance sheet will enable us to focus on ramping up of our volume and increase our business efficiency across the board. With this resurging Indian Wind industry market, given the government's thrust on clean energy and energy securities, and favorable conditions in place, we are confident that we will play a significant role in India's mission for the clean and affordable energy and also government is driving Make in India, will be the excellent move for our industries to provide captive energy for SME companies and to generate more business volumes for the retail segment also on and above the IPP customers. And the third new business model which we are developing, build the SPV, and sell the equity of the 450 to 500 MW capacity will help us to enhance our margins and volumes. And by adding hybrid Solar Solutions, we will be very comfortable to increase our volumes and to increase our margins in project business plus margins after the Solar service also will give very good long-term 25 years annuity income business consistently for the longer period. I am confident to bring more stable and sustainable business for Suzlon going forward. Thank you for joining us, thanks for your time and cooperation.

Moderator: Thank you, sir. Ladies and Gentlemen, with that we conclude this conference call. Thank you for joining us. You may now disconnect your lines.