"Suzlon Energy Limited Q3FY16 Earnings Conference Call"

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Moderator: Good Day, Ladies and Gentlemen and welcome to the Suzlon Energy Limited Q3FY16 Earnings Conference Call. 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 this 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 R. Tanti – Chairman and Managing Director, Suzlon Energy. Thank you and over to you, sir.

Tulsi R. Tanti: Thank you, Mallika. A Very Good Morning, Good Afternoon and Good Evening. Thank you for joining us. I have with me Mr. Kirti Vagadia – our Group CFO 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 our overall performance and then Kirti will walk us through our nine months financial performance in detail, post which we are happy to take your questions.

First and foremost, I would like to thank you and your continuous faith and confidence in us. FY16 is truly our turnaround year for Suzlon. Q3FY16 is the third consecutive quarter showing a growth and the strong profitability. In the quarter, our volume grown to 256 MW. Our nine months volume is already 50% more than what we did in the full year FY15. Our normalized EBITDA margin continue to remain strong at 18% level. Our year-to-date order intake of 760 MW is more than double of what we have received in the full year FY15. Clearly, there is a huge traction in the market. It is encouraging to see our newest products receiving good response from the market. 68% of the new orders so far this year is for the S97_120 meter tower and S111_90 meter tower. Cumulative order inflow for these product is now more than 800 MW. S111_90 is designed to optimal harness availability of the wind resource by delivering nearly 20% higher energy as compared to over S9X suite, enabling the higher ROI to customers across the geographies. S97_120 meter prototype in Gujarat completed full one year and give us 35% PLF over the 12-months period. This is a significantly higher PLF for the renewable energy technology to achieve in India. In the quarter, we also made our maiden foray into Solar with 210 MW Project in Telangana.

Our main guiding principle for the Solar business are: Leveraging our key competitive edge in the business model of end-to-end solution expertise to leverage for the Solar business is a unique position in market place. The rapid ramp up of the design engineering in the product and technology of the Solar because none of the product is designed and developed for the Indian market, we are aggressively focusing and developing the design, development of the product for the domestic market which is suitable for our grid infrastructures. Also, focus on a good margin in the Solar business. Today is an extremely competitive market environment but still because of the certain competitive edge of the technology and the unique solution we are quite comfortable to generate the margin out of this business. Being an end-to-end solution provider in Wind for the past 20-years, Solar is a natural extension for us. The global renewable trends are truly encouraging. The globally investment in the renewable touched new high in 2015 at US$ 330 billion even as the conventional fuel price is continuously to decline.

So it shows the clear trends towards the Renewable Energy across the world. About 50% of the global power capacity addition in 2015 was from the Wind and Solar. While Wind added 64 GW and Solar added about 57 GW, there is a clear growing preference for the Renewable Energy which is now also driven by the cost competitiveness and it is a great parity cost of energy. Renewables are no longer considered as alternative, now it is a main stream of energy source for the global energy requirement. In Indian market, the government has taken several steps to achieve its target of 250 GW of Renewable Energy by 2030 and 175 GW by 2022.

Some of the key recent ones: The cabinet approval on the new power tariff policy which promotes both the Wind and Solar very aggressively. UDAY scheme to ensure the improvement in the financial health of the Discoms. With our technology, pedigree and comprehensive product portfolio and 15 GW of the global installation, we are extremely well positioned to seize the market opportunities in India and other markets.

I would like to invite Kirti to address the detail aspect of our Financial Performance of the Q3.

Kirti Vagadia: Thank you, Tulsi bhai. Good Evening, Everybody. Q3 show yet another quarter with a sequential growth in volume as well as profitability. Volume in the quarter grew to 256 MW and if you take nine-months basis it is 688 MW, growing 75% on YoY basis. On operating profitability front, we have achieved normalized EBITDA of 18% margin and EBIT margin at 12.5%. Service business continued with its stable performance contributing to quarterly revenue of Rs.378 crores which is 21% of consolidated revenue of the Group. Our reported net loss in the quarter narrowed to Rs. 113 crores and that also after taking into account FOREX losses. If I adjust the special item, then the net loss for the quarter is just Rs.18 crores. The quarter saw our net working capital increase from Rs.546 crores to Rs.1,441 crores as on December 31st. This is primarily due to two reasons – one is we need to build up inventory pipeline for Q4 and next year as well. You must have noticed that in Q3 some of the order we have closed in January. So majority of 300 MW roughly orders we have announced in January. So the advance which would have received in December was technically received in Q4. At the end of Q3, our consolidated gross debt excluding FCCB stood at Rs.9,837 crores. While this is lower by roughly about Rs.5,000 crores on YoY basis, on QoQ basis it has increased by Rs.644 crores. This is primarily due to working capital utilization to cater the growth in volume. The deleveraging initiative taken in the beginning of the year, our demonstrated operational turnaround and the strong macro outlook enabled us to attain investment grade rating reinforcing the confidence of our lender and stakeholder. The incremental sanction of working capital facility of Rs.2,300 crores, primarily non-fund based, in this quarter has provided an additional liquidity booster to cater the large scale volume. We are comfortably placed to take the performance to the next level ahead. Thank you.

Tulsi R. Tanti: Thank you, Kirti. We will now take any questions from you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Bhalchandra Shinde from Centrum Broking. Please go ahead.

Bhalchandra Shinde: Sir, regarding execution and order book would like to know that as you executed 256 MW in third quarter, how much you expect to execute in fourth quarter because as per our guidance we are expecting around 1100 to 1200 MW execution in FY16, do you expect to achieve that or this is slightly lower volumes to get executed? At the end of the year, what kind of order book you see because in Jan we have already received 300 MW, so, is there any possibility of receiving more orders like this or what is your take on it?

Tulsi R. Tanti: Normally, we are not giving the overall guidance of the year basis, but one thing is very clear we are in line with your estimate. Regarding order book, we have quite sufficient order book almost 1200 MW is currently and another pipeline of more than 1000 MW is under negotiation in the different-different stage of the closing.

Bhalchandra Shinde: But how much will we be able to close it out by March if you can give round ballpark number?

Tulsi R. Tanti: Very difficult. We are not giving forward guidance. But you can do the best estimate.

Bhalchandra Shinde: Sir, regarding the margins especially on the FOREX loss also, if the rupee volatility continues, then will our FOREX losses continue and on the operating margins is it largely because of the dependency on service income or our execution is comparatively lower in service income or when the execution improves, our gross margins and other margins will show slightly deterioration?

Kirti Vagadia: Basically on gross margin you are right, that service and SE Forge performance both are having a high margin business on a gross level and the Wind Turbine business volume is higher, there will be some I would say about 1% reduction in the margin level that one can anticipate because the proportion will change. However, you need to remember that in that case we as an organization will be getting operating leverage also because fixed cost is not going to increase that sharply.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Group Portfolio. Please go ahead.

Mayor Gathani: Sir, a couple of questions; With Solar foray, we are looking at becoming a power producer here?

Tulsi R. Tanti: No, our plan is not to become an IPP company, never we are investing, and that is not our business model. As you know that in the Solar we have a unique position because there is no single OEM is providing end-to-end solution in the Solar and we have a competitive edge across India. So we are leveraging our capability for execution of the EPC business side. So we will leverage that for the Solar business, that is our one priority. The second is today whatever the product is available in the market; its majority part is completely coming from the import from the other countries, not actually designed, developed and engineered for the domestic market purpose applications. So we are focusing on that design, engineering and developing the product design and everything and we are providing to the vendors to manufacture as per our specifications, standard and quality documents so that it will be best suitable product for the domestic market. I think that is the key competitive edge we are bringing in the Solar business. So we will build the project, we will sell the project and we continue like that and also we will do some of the bidding process is going on, for them we will do the complete turnkey EPC and then afterward service also we will provide and third there is a quite good, the captive market is there for Wind and Solar which we will continue for the captive energy requirement point of view because we have more than 1,700 customers in domestic market. So we will provide some capacity for the captive energy requirements. These are the overall our business strategy for the Solar, we are not going for the IPP.

Mayor Gathani: So what if we are not able to sell the Solar project?

Tulsi R. Tanti: Whenever we are doing bidding and everything it is direct, indirectly we are doing the strategic tie-up well in advance and based on that we are going ahead. So we are not taking any undue risk tomorrow that as it is not able to sell.

Mayor Gathani: The investments would be around Rs.1200 crores for the Solar project 210 MW that you would be doing?

Tulsi R. Tanti: That is always any roughly 1 MW is Rs.6 crores range is coming. So it is Rs.1200 crores is the investment. But it is partly from equity, partly from debt, at the same time parallely when we are selling so the financial investor is funding the partial project initially and then on COD and then finally when we hand over the project.

Mayor Gathani: If you have done 688 MW execution in the nine months, and if you are looking at 1100-1200, so this next quarter we should be doing around 400-500-600 MW installation or delivery?

Tulsi R. Tanti: We are expecting delivery of somewhere in that volume.

Mayor Gathani: In that case, we would be breaking even this year?

Tulsi R. Tanti: First of all, I am not committing the total volume. So should not go into that question.

Mayor Gathani: But 1100-1200 we should be at a breakeven level, maybe not…?

Tulsi R. Tanti: The answer is yes.

Kirti Vagadia: That is correct and just to re-emphasize that historically in Suzlon we have delivered about 490 MW of a quarterly volume for the last quarter.

Tulsi R. Tanti: Normally, last quarter is a higher volume compared to any other quarters. So the trend is there in the market. So compared to 1,2,3, quarter, fourth quarter is normally higher.

Mayor Gathani: On Solar, do we get the synergy that wherever wind was a base, we can use that place or somewhere adjacent to it for Solar as well, is Telangana project a part of this or is it something different?

Tulsi R. Tanti: We have to understand the biggest constraint for the domestic market is the availability of the power evacuation capacities. So, we are leveraging that wherever our wind projects are there, we can able to use the same grid infrastructure for our Solar project, a); b) wherever we build the Solar project, that infrastructure again we will use for the Wind. So it is a complementary resource we can able to use for the Wind and Solar. That is our main focus area to develop the Wind-Solar Hybrid solutions for more and more projects. Also, we are recommending to the State Government to come out with the new policy under regulatory frameworks for Wind-Solar Hybrid project with the higher PLF.

Mayor Gathani: This Telangana will not be in a hybrid project, right, it will be a standalone Solar project?

Tulsi R. Tanti: No, currently, it is a standalone Solar, but the same surrounding area we are identifying sites in the same area, the same infrastructure we will use and some capacities. Suppose 200 Solar is this, so at least 100 MW we can add Wind.

Moderator: Thank you. The next question is from the line of Amar Kedia from Nomura. Please go ahead.

Amar Kedia: My first question is on the possible impact from GST because from what I understand in MNRE in a recent study they have suggested that post the GST implementation because of the exemptions going away, there could be a potential rise of about 15-20% in terms of cost of wind-based power. First of all, do you agree with that? Two what would that mean for economics in your business?

Kirti Vagadia: First of all, it is too premature to speculate on the impact analysis of GST. There could be multiple scenarios like exemption or zero rate of GST or XYZ rate of GST. The fundamental rule is that our request to the ministry is that the current exemption for wind need to be continued for the growth. Secondly, in case of GST at some minor rate comes, then one need to remember that today, we are not getting the input credit on many things which we are purchasing. So those kind of input credit would be available in a future scenario. So the exact impact what you are talking about 15-20% it may not be that large.

Tulsi R. Tanti: Second, if any GST impacts will come, as a regulatory process point of view in the tariff it will be calculated and it will be pass through?

Amar Kedia: It will be pass through but then it will further widen the gap between renewable based power and the coal-based tariff. So that could be the problem if at all that happens and that was the concern.

Tulsi R. Tanti: We should not worry about Indian economy, will continue to grow, will remain very high on renewable energy only.

Amar Kedia: Second question is on between Suzlon Wind and the consolidated numbers, this incremental loss if I believe is from SE Forge, right?

Kirti Vagadia: That is correct.

Amar Kedia: So from one of the earlier statements I understand that the gross margin in SE Forge is higher than the Wind business. So what is that is leading to losses beyond that level?

Kirti Vagadia: If you compare at a gross margin level, gross margin is increasing. In case of SE Forge, there are two major things – one is interest burden in SE Forge which was there and secondly the depreciation because it is CAPEX heavy industry, so these are the two major cost in case of SE Forge. So up to EBITDA level it will contribute positively and in Q4 we had a certain debt reduction in case of SE Forge as well as the rate of interest is also reduced significantly. So in case of SE Forge, the interest burden will be even half I would say than what is there currently plus SE Forge volume increase will give higher operating leverage and better margin at EBITDA level because there will not be any increase into any fixed cost in SE Forge level.

Moderator: Thank you. The next question is from the line of Deepak Agrawala from Elara Capital. Please go ahead.

Deepak Agrawala: My question is on the Solar. Can you a bit elaborate like I was not able to understand in terms of the equity because money has to be put in today. So, who will put in the equity and debt as we are expecting PPA to be signed this month and going ahead with the construction?

Tulsi R. Tanti: Initially, equity will be put by the Suzlon as per the state government and other compliance point of view. But it should be simultaneously tie up with the next buyer, partly money will come from them, but as a structure point of view, equity goes from Suzlon and debt will come additionally as a project non-recourse financing.

Deepak Agrawala: Most of the Solar plants, the biggest cost is the solar modules and which already you have globally established suppliers who are catering to India as well as China and a lot of other markets and China has 70% of the module manufacturing. So I am not able to understand in terms of when you are saying the design and development is what you are doing and the manufacturer has to do as per your specifications so what exactly are you referring in terms of the module purchases?

Tulsi R. Tanti: So we have to understand very clear about whatever the product is available in the international market it is not designed for the Indian market first of all. Requirement of the so many things are from engineering point of view, and interface of the grid and the certain weather environment point of view, so we have to design technical specification, quality norms and BOM requirement and our quality standards, we will prepare our comprehensive documents. So we are giving to the vendors in the international market and they have to produce as per our standards, as per our specification, as per our quality norms and we will check and inspect accordingly that because we want 25-years of the life of this product, it is extremely important for the Indian market and we know the Indian markets whether environment conditions, then grid infrastructure conditions plus service and maintenance related challenge and other things, so that is there. The way we have done the 1995 we enter in the Wind market, at that time the Turbine was coming from other market and nobody has designed, developed for the domestic market. So we have done that exercise and today because of that our turbine life is more than 20-years to 25-years or 25-years to 30-years. So we are enhancing the life like that. So that we want because otherwise the game of the business is going such a way the reliability of the product is whatever is coming in the domestic market from outside, highest risk of the quality of the infrastructure for our country and being Suzlon supplied, we want to maintain our brand value and quality norms as per our quality standards. So that is the difference we are bringing in Solar.

Deepak Agarwal: But more of the value addition is being done on the module side or you will say that it is more on the electrical BoP and all the other ancillary equipments?

Tulsi R. Tanti: No, it will start from the shell and the system integrations.

Moderator: Thank you. The next question is from the line of Pavan Parakh from HDFC Securities. Please go ahead.

Pavan Parakh: My first question is on the capacity. So we theoretically have an installed capacity of about 3,600 MW and as of now our order book is about 1200 MW. So what is actually the deliverable capacity that we are sitting as of now?

Tulsi R. Tanti: You are absolutely right, the manufacturing of the Turbine capacity is 3,600 MW, there is no concern on that. The real execution capacity on a ground to build the infrastructure pipelines and execute the project and everything, that is in the current financial year we have built our strength for 1,200 MW but going forward, we are increasing very rapidly that capacity.

Pavan Parakh: So maybe in one year timeframe can we say double our capacity?

Tulsi R. Tanti: No, manufacturing capacity we have 3,600 MW. Main is the project execution based on availability of the infrastructure sites and project executions and working capital and other thing.

Pavan Parakh: So if I were to say that land availability is, is that a constraint at your end or…?

Tulsi R. Tanti: No, it is overall execution, not the land, because currently we are working for the 5-years infrastructure. So we are developing so many projects in **pipeline**. But within a year how much we can able to build, execute and deliver? Because it is total system implementations.

Pavan Parakh: So sir in terms of land bank for wind farms, how comfortable are we on that front, are we sitting on say something which can deliver say 5,000 MW or 6,000 MW, something on that number if you can throw some light on?

Tulsi R. Tanti: It is very clear, you can estimate what is the size of the next five years of the India Wind market, we have 40% of the capacity of the infrastructure.

Pavan Parakh: So you mean 40% of the land is acquired and 60% is still to be done or you are well placed to maintain your market share for 40%?

Tulsi R. Tanti: Whatever the domestic market of the next 5-years of the Wind, out of that 40% infrastructure capability and pipeline projects we have.

Pavan Parakh: Secondly, on competition, we understand that a lot of these non-serious players some of them are getting back into setting up manufacturing capacity in the country, So what is your view because given that India installations are expected to increase significantly, so how do you see the competitive scenario panning out say next three years?

Tulsi R. Tanti: My competition is only with the coal energy, all other wind turbine companies are well positioned in the domestic market and if they are bringing really good quality of product and good quality of projects, they have a space to build some good projects in the Indian market.

Pavan Parakh: So that is kind of a threat for us?

Tulsi R. Tanti: I do not see the threat; threat is only from the coal.

Moderator: Thank you. The next question is from the line of Shubankar Ojha from SKS Capital & Research. Please go ahead.

Chintan: This is Chintan here from SKS Capital. I am just referring to your EGM in August wherein you have one clause on security to issue around Rs.5,000 crores. Can you just throw light on it, is it past or we are in future going to raise that fund and for what purpose?

Kirti Vagadia: It is a omnibus resolution which we as a company take almost every year in AGM, not in EGM, there is no plan on any kind of capital raising as of now, this is just an enabling resolution so that in case any opportunity comes, you do not lose that opportunity into procedural formalities, that is just enabler.

Chintan: So we are not contemplating any fund raising for at least a year or two?

Kirti Vagadia: Nothing as of now.

Chintan: On the wind market size, you did mention our capabilities is around 40% of the market and we can continue improving our deliverable from currently 1200 MW per year to achieve whatever the market will provide us for execution. So how India is placed in terms of wind execution and similarly what we expect our share would be, 40% as you mentioned, so any color on that for next year?

Tulsi R. Tanti: I think current year our best estimate of the domestic market on a financial year basis approximately 3,000 MW India will deliver because lot of Wind projects are in the pipeline which is supposed to be completed in Q4. I am expecting the next financial year minimum Indian market will do 20% growth. Suzlon will grow more than the market growth.

Chintan: Any number on it?

Kirti Vagadia: It will result into indirect guidance. So we will probably refrain from giving that.

Chintan: On the service revenue, our quarterly run rate of Rs.380 crores can be sustained for the quarter and it can sustain over the next year?

Kirti Vagadia: That is continuously growing because new megawatts are getting added, so it will continue to grow.

Chintan: Rs.380 crores current quarter can grow at a rate, any number or we can sufficiently take that number and the growth in the core execution adding to the service number it will work out?

Kirti Vagadia: Yes, it will grow between 3 to 5% depending on a number of megawatts added.

Moderator: Thank you. The next question is from the line of Nirav Vasa from B&K Securities India Private Limited. Please go ahead.

Nirav Vasa: Sir, my first question was, out of the order inflow that we have bagged in the first nine months, what was the order inflow that we have received from domestic customers who are more in accelerated depreciation mainly from HNI investors and how big can that market be?

Kirti Vagadia: I think we have already given in our 'Investor Presentation' what is the percentage of IPP and this thing. If you see the Slide #11, 67% of our order intake is from IPP, 15% is from PSU and 18% is from others.

Tulsi R. Tanti: So within 18%, some will be for the captive customer and some is AD related.

Nirav Vasa: But considering the depreciation benefits that are given by the government, how big can the depreciation market be out of this 3,000 MW of market size that you just informed?

Tulsi R. Tanti: We see nearly 10% to 15% size of the market will remain for the accelerated depreciation market.

Nirav Vasa: In the month of Jan, we announced almost 300 MW of order inflows and these were mainly from IPPs and you also informed in the call that around 1200 MW of order inquiries are currently in various bidding stage. So just wanted to check, are there any major lumpy projects which are there in this 1200 MW pipeline which are in the bidding process?

Tulsi R. Tanti: I think you have a little bit misunderstanding; 1200 MW is the current order book and approximately 1000 MW is our order pipeline, different-different stage under negotiation.

Nirav Vasa: That would be mainly IPP?

Tulsi R. Tanti: Majority we can say IPP.

Moderator: Thank you. The next question is from the line of Dipen Seth from HDFC Securities. Please go ahead.

Dipen Seth: Just a quick clarification on this recurring item which seems to take away quite a lot of our profits which is foreign exchange loss/gain. Now, you have in the past specified that these are translational items. But it is a little difficult to understand now with primarily domestic food print of the business I gather there must be some foreign exchange exposure in terms of components imported and so on. But how can this always be a negative impact? I think it should fluctuate into positive territory also from time to time. What is happening here and can you throw some light on how we can get a fix on this item?

Kirti Vagadia: There are two separate topics. First of all whatever is coming from a trade transaction which is sales or purchase transactions that is covered in sales revenue or in COGS. So it does not come under this line item#1. #2, you are aware that in our balance sheet there is FCCB plus this SBLC-backed bond. Both put together are roughly about 900 million and you can imagine the impact of that. From that FCCB is something where one can safely assume that eventually it is likely to get converted.

Dipen Seth: So am I right in interpreting that the entire item booked in the P&L every quarter under foreign exchange gain or loss is only and merely an MTM on your outstanding debt exposures which are foreign currency denominated?

Kirti Vagadia: Yes, that is the major portion barring some due to conversion of my subsidiary-related investment which is internal.

Moderator: Thank you. The next question is from the line of Pallav Shah from Pi Square Investments. Please go ahead.

Pallav Shah: I would like to know on the Solar business like can you explain me how are you looking forward like as you said end-to-end solutions, right, are we moving from engineering, designing, are we doing any sort of backward integration on the project like taking up small some investments on this side?

Tulsi R. Tanti: Backward integration we are not doing any investment or we are not going for any manufacturing or anything. We are fixing our Technical Specification, Engineering and Design Requirement and our Quality Standards and our BOM. We have developed our own standards to protect the 25 years of the life of the modules. Second, we are doing system integrations because front ending whatever the energy products is coming from the Solar, when we have to go to utility scale we required a system design. That is we are doing. Third is Wind and Solar Hybrid projects. So we are using the common infrastructure, means the grid is common and we have used both the energy and by doing that we are increasing the Plant Load Factor in the grid utilizations. These are the types of Engineering and Technological and Quality Systems and Health and Safety-related and System Designs we are doing. Then we are giving to any vendor domestic or international. They have to produce the modules for our purchase and our design standards and our quality norms so that we are protecting the performance and we are protecting the life of the modules.

Pallav Shah: So if we take on the comparative basis Wind and Solar, would the margins be better for Wind like as we are doing end-to-end solutions in Solar, if you can put a little bit…?

Tulsi R. Tanti: Naturally, Wind will be higher because we are a fully vertical integrated and fully end-to-end solution. So it is a total product we are manufacturing, designing and technology. So naturally because of that. Where in Solar we are outsourcing the product and also we will only do the leveraging of our EPC capability and infrastructure and other things. That is there. So naturally margin will remain lower but the beauty is that we are increasing our quite good top line and without any extra expenses of OPEX and manpower cost, it will be a good improvement in a bottom line.

Pallav Shah: We do not have any backward integration plans right now next FY17 and anything?

Tulsi R. Tanti: No any CAPEX investment plan.

Pallav Shah: Is there any Hybrid projects underway as you said with the Solar combined we have an order book on that?

Tulsi R. Tanti: Currently, we do not have an order, but Infrastructure we are developing mainly in Rajasthan, Gujarat and Andhra Pradesh, we are developing new projects which is a common grid infrastructure and based on that we can go utility scale of the projects of the Wind and Solar.

Moderator: Thank you. The next question is from the line of Ruchir Khare from Kotak Securities. Please go ahead.

Ruchir Khare: Sir, my question is on the government talking about like Renewable Generation Obligations RGO), so would this mean that India would do away with the RPO market which is considered as more of a failure or a moderate failure at least?

Tulsi R. Tanti: Both have a different use, so both will continue, I do not think it will replace each other.

Ruchir Khare: Sir, your thoughts on RGO like what kind of opportunities would it actually provide a kicker to the industry as a whole or is it more farfetched?

Tulsi R. Tanti: It is very clear, if you are a generating company then you have clear obligations either to purchase REC or you have to invest in Renewable Energy. So it is an additional market will grow through RGO.

Ruchir Khare: On the land acquisition, I believe the various respective state governments, so they acquire land which is further allotted to the wind generators like ourselves or Inox Wind. Is the understanding correct or do you need to acquire land?

Tulsi R. Tanti: I am not aware about such thing in the Wind industry.

Kirti Vagadia: In Wind all the cases, we provide the site or in certain cases customer provides the site.

Ruchir Khare: You receive site from the state governments?

Tulsi R. Tanti: There are 3-4 different sites are there in the market place; every site the OEM has to acquire or developer has to acquire.

Ruchir Khare: So this is primarily on bidding basis?

Tulsi R. Tanti: You have to understand more in detail, it is not just simple bidding and everything. First of all, you have to ask the government for the installation of the mast, the wind mattering equipments and after installation and everything on that area once you identify then you have to apply for that, whether it is a forest land, whether it is a revenue land, whether it is a tribal land, whether it is a private land. Based on that you have to invest upfront one or two years before and you have to acquire all these things and you put the grid infrastructure, then it is available for the sales and then go to the market and offer the projects to the customers. To offer any project today, we have to start investing five years before is the minimum cycle.

Moderator: Thank you. The next question is from the line of Tanuj Mukhija from Bank of America. Please go ahead.

Tanuj Mukhija: Sir, given that Solar tariff have fallen sharply to as lowest Rs.4.34/unit. What are the steps taken by your company to reduce the installation cost of Wind per megawatt?

Tulsi R. Tanti: We are focusing on Wind to enhance the Plant Load Factor. As you know, currently, our product has delivered 35% Plant Load Factor and maybe the next our product of S-111 will go up to 40% Plant Load Factor. We are enhancing through technology our Plant Load Factor. As you know per megawatt approximately cost is more the same for Wind and Solar and the energy productions will be almost double in the Wind. So economics point of view Wind will be well positioned compared to the Solar.

Tanuj Mukhija: Can you just provide a brief color on the competition intensity for Wind Projects in India?

Tulsi R. Tanti: Demand is much more there. I do not see that much competition constraint. Whatever the capacity and quality projects we can able to build, there is a market and demand. The challenge on execution part is much more rather than sales side.

Moderator: Thank you. The next question is from the line of Abhishek Bansal from Deutsche Bank. Please go ahead.

Abhishek Bansal: Sir, a very small house-keeping question. When you mention order book at 1195 MW, does it include 210 MW of Solar or is it only the Wind? On the related note, I just wanted to understand two things here; one, our order book has largely remained constant over the last 1-1.5-years despite such a strong increase in execution. So do we see any kind of concerns here? Second, on the IPP side, as you mentioned, a lot of your order book is now IPP, do we see a shift in the trend earlier I believe a lot of it used to be because of the accelerated depreciation, everything, so are we seeing any kind of very stable business here with IPPs coming in and **requiring** government policy support?

Tulsi R. Tanti: The first is the 1195 MW order is only for the Wind, it is not included in Solar. The second is the consistency of the order in last 2-3-4 quarters is mainly we have to understand we have three different levels of the order book position: First is the Framework Agreement. We have some of the large IPP that is a framework agreement is there, which is not part of this order book, which is we separately deal with each customer wise the framework order book. The second order book is where we have almost closed or concluded the order with the customers, but yet we have not received sufficient advance money. We are not transferring those order into the order book. We are following a very conservative and rigorous process. As and when we are achieving good advance money in each order wise after that that order is transferred into the order book and that is why it looks like but once we put in order book it has to be executed within the next 12-months.

Abhishek Bansal: This is the additional 1,000 MW you were referring to earlier, right?

Tulsi R. Tanti: That is our pipeline is there in a different-different stage, but once we received out of any this 1000 MW pipeline any order we get the advance, we immediately convert into our order book.

Abhishek Bansal: Second question is related to IPP stuff. So we are seeing a lot more IPP here. So are we seeing much more stable business which requires lesser government support like AD or GBI stuff to survive?

Tulsi R. Tanti: GBI support is most required for the IPP business because state regulators are deciding the tariff based on the GBI. If tomorrow, suppose, GBI is not there, the tariff will change based on that but AD is mainly for the captive and there for the depreciation perspective. So that market will remain going forward also 10% to 15% but majority growth is increasing more and more IPP side, which is a more stable business is growing.

Kirti Vagadia: Just to add on Mr. Tanti said, if you see my current asset detail and advance received from customers you can see that how healthy advance is compared to MW we are reporting. My estimate is it is roughly about 15%.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Portfolio. Please go ahead.

Mayur Gathani: From 1200 going to 3600 MW capacity, we have the manufacturing capacity apart from the necessaries that we need like land or infrastructure, what is the CAPEX that we may need to increase this from 1200 to 3600 MW, is there any CAPEX that you need?

Tulsi R. Tanti: There are two different things. One is the infrastructure related land, power and other things. It is continuously we have to invest in that to increase the infrastructure so that it is not we are treating as CAPEX first of all, it is part of working capital requirement. That is why sometime every quarter-by-quarter some working capital will increase. Hence we are building some more pipelines for the projects. The main CAPEX is the manufacturing capacity. We have sufficient manufacturing capacity and as you know we are currently adding three new products and facilities -- one in Rajasthan, one in Andhra Pradesh and one in Madhya Pradesh -- mainly for the Rotor Blade to reduce our logistic cost drastically and closer to the sites and other things. That is the only small CAPEX investment we are adding, but going forward there is no need of any extra CAPEX.

Mayur Gathani: So for the next 1 or 2-years, we will not see any major CAPEX and the small CAPEX would refer to what amount?

Kirti Vagadia: This is Rs.150 to 200 crores which comprises two things -- one is R&D CAPEX as well, this Rs.150 to Rs.200 crores what we are talking about is maintenance CAPEX plus R&D CAPEX.

Tulsi R. Tanti: And plus preproduction facility.

Mayur Gathani: For FY17, FY18 I can assume this number as CAPEX?

Tulsi R. Tanti: This is coming in partly current year and partly next year.

Mayur Gathani: What should be taken as peak working capital – is it around 10-12%?

Tulsi R. Tanti: Every quarter sometimes there is fluctuating volumes and simultaneously we are building more pipeline for the future also. So it will remain between ideally 10% to 15% peak level.

Mayur Gathani: Because the way it works that is why it is 15% or there is any other reason that there is a delay in the payments?

Tulsi R. Tanti: No, if you do not have a quality order then it can go higher also, but sometime your project is stuck up or anything, then it will shoot up any direction. We have a stage gate process and control and risk assessment is very strict and stringent. We are controlling very good and without that we are not putting any money on the ground. If you do not have a visibility this project cannot be completed and commissioned within next 12-months, we are not investing any money. This is the way it is there and our internal target is 10% but some quarters it will go 15% because next quarter if you want to deliver more volume, so it is required, then again it will come down to 10%. So it will range between 10 to 15%

Kirti Vagadia: This what we are talking is annual average rather than any specific date.

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

Mohit Kumar: My question pertains to the Wind market in US. So what kind of volume we are targeting and is this something order which we have received, in a sense there is some enquiry from the US?

Tulsi R. Tanti: As you know, the second largest market for Suzlon is the US. So we are seriously working on that. The best part is that the US government has come out with the five years long term policy first time in last 10 years. So it is a good direction and good commitment from the US and we are well positioned in the US market. In 22 states our Turbine is running and very good customer relationship and supports are there. We are developing one of the new products specifically for the US market also and the current product of S-111 is good suitable product for the US market. So we have started offering to the current and new products portfolio in the marketplace. So we are expecting some order intakes will start in the next financial year.

Moderator: Thank you. Ladies and gentlemen due to paucity of time that was the last question. I now hand the conference over to the management for their closing comments.

Tulsi Tanti: Thank you very much for your time and support to us. The efforts put in by us have started to bear the fruits. The renewable industry is positioned for the accelerated growth and specifically in our focus markets. This positive business outlook combined with our technology strengths, service capability, customer relationships, and 20-years' track record in the market place give us the immense confidence to deliver on our goal. So once again thanks for joining us today. Thanks a lot.

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