"Suzlon Energy Limited-FY14 Annual Results Conference Call"

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MANAGEMENT: **MR. TULSI TANTI – CHAIRMAN AND MANAGING DIRECTOR, SUZLON ENERGY LIMITED**
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Moderator Ladies and gentlemen, good day and welcome to Suzlon Energy Limited's Q4 FY14 Annual Results Conference Call. We have with us today from Suzlon Energy Limited, Mr. Tulsi Tanti – Chairman and Managing Director, Mr. Kirti Vagadia – Group Head Finance and Mr. Amit Agarwal – Chief Financial Officer. As a reminder for the duration of this conference 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, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tulsi Tanti. Thank you and over to you sir.

Tulsi Tanti Thank you very much. Very good morning and good afternoon and good evening. Thank you for making the time to join us. I am joined today by Kirti Vagadia, our Group Head of Finance, Amit Agarwal, Suzlon CFO and our Investor Relation Team. I hope you had a chance to go through our investor presentation on the website.

First I would like to share some details on overall performance and Amit will walk through our financial performance in a greater detail. Then we would be very happy to take questions from you.

FY14 has been an important year for the Suzlon wherein we achieved the significant progress by improving our business efficiency. Operationally we clocked the highest revenue in the FY14 in our past two years and the return to EBITDA positive after seven quarter.

The FCCB is close to the final resolutions. Our comprehensive liability management program is in the last leg, relieving the stress from our balance sheet, returning normalcy to the operations. The project transformation has delivered the targeted saving and we are now a leaner and more agile organization. With continuing thrust on R&D in FY14 we have updated product portfolio with the launch of 6.2 MW- 152 meter rotor, an offshore wind turbine generating 20% more energy than our turbine of 6.2 MW 126 rotor. S111 2 MW platform or low wind site onshore turbine, expected to garner demand in the US and India, is expected to generate 20% higher energy than S97 2MW platform. 120 meter hybrid tower, a unique tower technology, expected to generate 10% higher energy output for the customer, thus allowing the higher returns of the investment. 3MW platform 122 meter was launched specifically to cater the Canada and Australian market.

Wind energy is already cost competitive with the conventional source and our clear objective is to further reduce the cost of energy. As we have completed operational and financial restructuring both, we are fully geared up to grab the market growth opportunity. With the changed business model, the best suited in the current environment, from build to stock we have transitioned to build to order. From multiple product suits we have moved to the more improved and streamline product portfolio offering. Our employee base and opex cost has now far more rationalized and hence agile. Our order book continues to strengthen with the consolidated group order book at 5.3 GW, approximately Rs. 46,000 crores and $7.6 bn.

Looking ahead we believe the outlook of the wind industry is extremely positive with the global economies bouncing back and improved outlook for the renewable. The global wind industry is in a position to grow 40% this year after 21% decline in the last year. After two years of the reduced market size in India, with the reinstatement of the GBI, increasing of the preferential tariff across all the states, availability of the low cost of funds through the national clean energy fund is expected to grow at least minimum 40% in the current financial year. In FY15 our key priority will be the ramp up volumes, to further improve the business efficiency and rebalance our capital structure and to bring as much as the synergy benefit from both the organizations. I would like to invite Amit to address the detailed aspect of our financial performance of quarter 4 and full year. Amit, I hand over to you.

Amit Agarwal Good evening everyone. I am happy to share that our efforts for improving operational performances have materialized. This of course is reflected in our results which turned positive EBITDA and EBIT after 7 successive quarters. Let me give you brief about the broad numbers of the Quarter 4 of fiscal 2014. We recorded revenues of Rs. 6580 crores, a 54% year on year growth, highest in the last two years. Now the Q4 EBITDA stands at 328 crore which is a significant improvement compared to an EBITDA loss of Rs. 594 crores in the fourth quarter of last year. From a volume perspective we had a significant ramp up in volumes from 250 MW in the last year to 725 MW in this fiscal. For the full year of fiscal 2014 we achieved **a revenue** of Rs. 20,200 crores, an improvement of 8% over the last year. As far as Senvion is concerned, Senvion ended fiscal 2014 with yet another robust performance, increased its profitability by 25% despite a 20% decline in revenue. At Suzlon Wind, after the complete standstill in FY13 we managed to ramp up the volumes by almost 3x in fiscal 2014. Our service vertical continued with its stable growth, performance contributing to more than 2700 crores to the top line. Our profitability was significantly higher in this quarter compared to the last, primarily due to favorable product and market mix and the cost savings realized through operational restructuring efforts. Looking at the project transformation which we had initiated almost 2 years back, we have been able to do a right sizing of head count of about 3200 people since FY12 and the 31% fixed cost OPEX reduction since FY12 in Suzlon wind level. Restructuring goals at Senvion were achieved and savings significantly exceeded target. Net working capital rationalized to around 3.6% against 13.6% last year. However we still have a significant net loss partly due to unfavorable currency fluctuations and one time exceptional cost. Our profitability was also impacted due to execution of legacy orders for old products and orders whose execution was delayed because of liquidity constraint resulting in liquidated damages. However we are happy to note that all such legacy orders have now been executed in full. Our profitability, though higher from last year, cannot be considered as normalized as yet. Now we expect our margins to normalize going forward. Our successful completion of comprehensive liability management program allows us more operational flexibility due to lower repayment in the first four years. With buoyant market conditions our improved cash flow profile and adequate liquidity support from our lenders and group's clear focus on ramping up volumes, we are confident of further improving our performance in fiscal 2015.

Tulsi Tanti We will now take any question you have.

Moderator Thank you very much sir. We will now begin the question and answer session. We have our first question from the line of Niraj Somaiya from Rose Wealth Investment Management. Please go ahead.

Niraj Somaiya **Congratulations on the massive restructuring and turnaround which looked impossible few time back and the great job the team has done.** My first question would be in your domestic India business where you guys had a number of bank restrictions. Has now working capital opened up or what is your outlook on the Indian market with new government and as you have net orders which used to have about 50% of market share. Could you throw some light first on the Indian market and how do you see in the next one or two years?

Tulsi Tanti Indian market outlook for the next five years I can say it looks very positive and robust. Two-three very clear things are there. One is GBI is already established. Second is in the month of March the clean energy fund out of that the interest benefit it is nearly 2.5% reduction in the debt of the project financing for the wind energy is now available. So it is reducing the cost of fund. So that is the biggest central government positive move. What I see the next five year is based on the new government they are very pro and positive for the renewable and very successful Gujarat model I can see the government will bring for the whole India basis, #1. #2, the biggest challenge always has remained on the state level executions, some of the challenge issue and because of the delay of the project, because of the cost over-run and that is why some of the projects viability was not lucrative. Now the environment has changed. The utility of all the states has come out with a positive tariff in the last 2-3 months and they are interested to develop more and more renewable projects. The beauty is that the central government and most of the now states new party government is there. So that will give a good momentum to execute the project on a faster trend. The third area is coming out for industries has bring down the cost of energy substantially down because of that the wind energy in Indian market is competitive, even cheaper than the coal energy. So that is the biggest breakthrough I can see. Institution front, state and the central government framework and the availability of finance in India is quite comfortable and the investment from the – FDI investment in the renewable and particular wind, most of the fund is interested to invest and they have already started investing in India. So India assets are quite lucrative for them to invest. So I see the next five years a quite positive growth will continue. As you know the Suzlon is in a strong position in leadership. Now we have come out from the liability management of the last two years, so we are concentrating heavily for the Indian markets.

Niraj Somaiya Can you go back to your MW? It used to almost have 50% market share of the 1000 MW market, do you think you can go back to those things because you have the size of the bandwidth and you almost came to nil and do you think that can go back to 50%?

Tulsi Tanti Yeah, currently we are targeting to achieve the 35% to 40% market share and the next financial year our clear target to achieve 50% market share.

Niraj Somaiya So the market would be about 1000MW right now or lower?

Tulsi Tanti Current year the last year market size was 2000 MW and current year we are expecting 3000 MW minimum market size and if there is quite a good positive probabilities in the next fiscal budget, if the accelerated depreciation will be reinstated then the size of the market will be further higher, more than 3000 MW.

Niraj Somaiya My second question is based on the RE power or now the Senvion, I mean any view of the management in terms of raising capital there or anything for which m anagement would like to comment on as on today?

Kirti Vagadia Niraj first of all Senvion definitely remains marquee asset for us. It has performed very well even in a difficult period and as you aware that there is a clear opportunity available in international capital market where valuations have gone up significantly, almost 10x of EBITDA is the valuation. So this is one of the options we are exploring. However we have not finalized on any option yet on our capital restructuring or capital rebalancing exercise. So basically this is one of the options we are exploring. As soon as we have decided firmly on any option to rebalance our capital structure we will come back to you and market.

Niraj Somaiya What would be your consolidated debt now and can you just throw some more light on how about business sense in terms of numbers?

Kirti Vagadia On a debt I would bifurcate our debt into two parts. Rupee part is roughly about 9000 crores and foreign currency debt including convertible bonds is about $1.2 bn. Now foreign currency debt you know that half of the debt is having bullet maturity in FY19 and balance half is having bullet maturity in FY20. So far as rupee debt is concerned it is having I would say ballooning repayment structure where initially when our operations are ramping up, our repayment obligation is very-very low. You might have seen our investor presentation that even in this financial year we are paying roughly about 117 crores out of that debt and 350 crores in next financial year and roughly about 466 crores in FY17. So even 466 crores is roughly about 5% of our rupee debt. So you can imagine that it is back-ended.

Niraj Somaiya My next question would be to Mr. Tanti and to all of you, I mean you have gone through the tough days, you have seen the ups and down everything. Now what would be the learning from this and what mistakes or what things would you say in the next bull-run we could just surely poise back? What the management has learned from this and how would the management prevent such things happening again? Would it be inventory management, working capital, taking orders more than – what sort of things would have the management feel that it would not repeat in the next bull cycle which could start? What would be the learnings if you could throw some light?

Tulsi Tanti Industry cycle is always the learning. Sometimes you are in a high growth and sometimes there is a negative growth. For the last 2-3 years the whole global market particularly in wind energy is passing through the negative cycles. It is not generating margin and none of the wind companies are in the profit except our company Senvion. So this is the cycle that has passed through and now the growth phase cycle is again entering this business. Naturally no one can do the same repeat mistake because it is very expensive learning for us. 2-3 points are very-very clear that earlier we built some of the inventory and then we used to take the order and other things. Now based on the only order intake all the inventories and other execution is happening. So it is a transformation of the organizational structure and our project management structure environments we have bumped with order wise be it project wise be it site wise be it country wise. We focus on a profitability cash flow and liquidity management rather than on a company level or geographic level. So now it is more specific. Our approach has changed, so that is more competitive monitoring and controlling has improved. Second is we already have reduced a certain fixed cost structure levels so we are very-very agile and flexible on an operational front. The third is we have heavily invested in last two years in 2MW, 3MW, and 6MW platform. Our objective is clear, our industries cannot run on any type of the subsidy. We have to combat the conventional energy and we are competing gas energy and we are competing oil energy. So now the industries have entered into industrialization phase. So now the scale and volume business will continue to grow for more than decade I can say. So the negative cycle will not come back again because now we are very competitive in power sector. So I think that will help us there, but at the same time we have to concentrate with very strong focus on liquidity front and also to address the timely debt and equity structures properly so that we can manage with the good liquidity environment. Our concern and issues was the unbalanced capital structure mainly. So one part of the word we have a large profit making big investment assets and company has more than 275 mn Euros cash surplus in the company whereas on the other side of the organization we have a debt. So this is the time for us to consolidate the debt and asset in such a manner so that we become a very-very competitive on a capital structure. Operational product and technology fronts, not only in India but globally we are very-very competitive company compared to all top-5 companies. So we have a good opportunity to unlock our strength and now to go back in a very positive way in a competitive environment which is our learning.

Kirti Vagadia I would suggest, we have tried to narrate what was there in last two years and what is current on slide #4 in investor presentation.

Niraj Somaiya I have seen that but I just thought I wanted to hear your view.

Moderator The next question is from the line of Charanjit Singh from HSBC. Please go ahead.

Charanjit Singh I have a couple of questions. If you can highlight what is your conviction on the asset sale program and also if you may kindly clarify that the Rs. 1000 crores generation from asset sale, the number that has been quoted in the press over the past few weeks, whether that excludes that Big Sky receivable which you have already collected now.

Kirti Vagadia First of all Rs. 1000 crores does not include Big Sky and does not include China. So Rs. 1000 crores is on top of Big Sky and China. That is #1. #2, as I mentioned we are fairly confident on realizing this amount in next 12 months from asset sales and the list of asset includes component business, some of our manufacturing asset and some of our office complexes. These are the three category of assets, primarily based out of India would be sold. And one more fact I just wanted to clarify that we are not a distress seller for these assets, so naturally we will try to sell the asset at a right price of that asset.

Charanjit Singh Sir my second question is on Senvion, for the previous year the EBITDA and EBIT margin were 8.1 and 5.6 respectively. However you were busy with the restructuring in the previous year. So now the restructuring is now over, so what do you expect the margin for the current financial year assuming a similar order book and similar delivery?

Kirti Vagadia Let me clarify that EBITDA what we have mentioned is without any impact of a restructuring. The cost relating to restructuring is classified under exceptional cost below EBITDA.

Charanjit Singh Right, but there will be some employee reductions or other cost cutting or fixed cost cuttings, so those costs would have come down by this time. So looking forward would not the numbers change, would not margins change?

Kirti Vagadia Definitely, it will change but it will be a function of many things. As I mentioned that it will be primarily function of a product mix and market mix in which we are operating. I would not be able to guide you for FY15 numbers but I would say that those kind of margins are clearly sustainable with possibility to improve. And you might have noticed that our EBIT is highest in the industry as compared to listed peers.

Charanjit Singh One more question if I may, if you can kindly clarify on your expectations for net working capital to sales ratio going forward and your likely sales volume at Suzlon level? Mr. Tanti has clarified on what could be the sales in India but just trying to figure out what could be the total sales for Suzlon which may include India and other markets also.

Amit Agarwal Our net operating working capital would be in the range of 3% to 5% and we would work towards that. As you have seen that we have achieved that and we will focus to continue to maintain at that level.

Kirti Vagadia And on volume definitely we will not be able to guide you. As a company policy we do not give guidance about revenue and profitability.

Moderator The next question is from the line of Pooja Swami from Span Capital. Please go ahead.

Pooja Swami I had a couple of questions. First is what would be your India breakeven level? Last time as I understand it was around 1100-1200MW, is that right?

Amit Agarwal	See at an EBITDA level we would consider a breakeven point close to 800MW on an yearly basis and an EBIT level close to 1000MW.
Pooja Swami	So assuming that you mentioned that India market would be around 3000MW this year and you would garner around 40% share, would it be safe to assume that FY15 at least will break you even at the EBITDA level in the Suzlon Wind business?
Kirti Vagadia	Yeah, mathematically that is a correct assumption.
Pooja Swami	And secondly to execute this additional whatever MW would you require any additional working capital or the existing lines are good enough for you to go ahead and execute these orders?
Amit Agarwal	I think based on the working capital lines we have today and what we have garnered something in March, we should be having a feasible to achieve these volume levels.
Pooja Swami	And just last one question of Senvion, at any point of time Suzlon would like to have controlling stake in that company, is my understanding right?
Kirti Vagadia	Yeah, that is constantly maintained since acquisition and that is the intent.
Moderator	The next question is from the line of Samarth Narang from QVT Financial. Please go ahead.
Samarth Narang	Couple of questions. One is given your current liquidity and working capital requirements what is the max execution that you can do at India and Senvion levels? So I don't need the guidance per se, I wanted to see potentially what you can execute.
Tulsi Tanti	The manufacturing capacity we have quite lot for domestic and export business from India. It is not a constraint. We can even ramp up also very fast and we do not require additional CAPEX for that. The project capacity also we have is quite good. Pipelines of the land and **PE** is available. The biggest challenge is still there. Whatever the liquidity we are able to increase that much volume we can enhance.
Samarth Narang	In the current situation would you be able to execute 2000 MW at the India level?
Tulsi Tanti	Indian market size currently in this financial year is 3000MW and as you know we are targeting to achieve 35% to 40% market share, so that level we are able to do but we are just waiting for the new government's actions. There are chances that accelerated depreciation will come. If that will come then size of the market will increase immediately, again somewhere may be additional 1000 MW so we are able to further ramp up. So we do not have constraint for the capacity projects and people and technology. All we are equipped.
Samarth Narang	And sir can you tell you gross margins on both the sides of the business in ballpark separately?

Kirti Vagadia Gross margin you mean Senvion and Suzlon, roughly in current year both are equal. There is not much gap on an annual basis in both the companies but let me reconfirm I would say that, Suzlon part of business is roughly about 25% and Senvion part of business is roughly about 28%.

Moderator As there are no further questions I now hand the floor back to Mr. Tulsi Tanti for closing comments. Over to you sir.

Tulsi Tanti Thank you. I would like to conclude by saying that while we have made a real progress but there is much work to be done. With the strong tail wind in the marketplace and the support from the customer, suppliers, lenders we are very confident to accelerate in the recovery. The industry's outlooks are very positive and the global and domestic markets both will continue to grow by 40% in the current financial year. And as a group it is our high priority to ramp up the volume growth, increase again further operational efficiency and to rebalance our debt and capital structure. And our highest priority at the group level is to consolidate as much as possible the synergy benefit between the group so that we can make more and more competitive organization in marketplace and at the same time to address our debt to optimize our capital structure and strengthening to balance sheet so that we will remain sustainable in a long term and also become more competitive in the marketplace. So once again thanks a lot, thanks for your time and we appreciate your presence with us. Thanks a lot.

Moderator Thank you. On behalf of Suzlon Energy Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.