# "Sterling & Wilson Solar Limited Q3 and 9M FY20 Earnings Conference Call"

**February 13, 2020**

**MANAGEMENT:** **MR. KHURSHED DARUVALA – CHAIRMAN, STERLING & WILSON SOLAR LIMITED**
**MR. BIKESH OGRA - DIRECTOR AND GLOBAL CEO, STERLING & WILSON SOLAR LIMITED**
**MR. BAHADUR DASTOOR - CFO, STERLING & WILSON SOLAR LIMITED**
**MR. VISHAL JAIN – HEAD, INVESTOR RELATIONS, STERLING & WILSON SOLAR LIMITED**

**Moderator:** Good Morning Ladies and Gentlemen, Welcome to the Sterling & Wilson Solar Limited Q3 and 9M FY '20 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantee of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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. Vishal Jain, Head, Investor Relations, for his opening remarks. Thank you and over to you, Sir.

**Vishal Jain:** Good Morning, I Welcome you all to Q3 and 9M FY20 earnings call. Along with me I have Mr. Khurshed Daruvala – Chairman; Mr. Bikesh Ogra – Director and Global CEO; Mr. Bahadur Dastoor – CFO, and Strategic Growth Advisors, our Investor Relation Advisors. We will start the call with the operational highlights for the quarter by Bikesh followed by financial highlights by Bahadur, post which we will open the floor for Q&A. Thank you and over to you, Bikesh.

**Bikesh Ogra:** Thanks Vishal and a warm welcome to all the participants on this call., I would like to give a quick update on our market reach, order book position followed by the recent turn of unfortunate events and its probable consequences. We have seen a very strong traction in the Australian market with two large back-to-back orders. This has given us enough confidence that our strategy to pursue that market in spite of initial hiccups has paid off. We are also looking at a couple of promising opportunities in the near-term for this market. Further, we have started making inroads in the US and Latin American markets and have already completed a couple of projects there. We are also currently executing around 522 Megawatts of projects spread across four locations in Latin America and US. With all this, we continue to expand and strengthen our reach in Europe, Middle East, North Africa, and Southeast Asian markets. Order flow from April 2019 till February 12th has been Rs. 8,550 crore and the key orders received during this financial year has been as follows –

- In Middle East we have received orders worth Rs. 4,500 crore,
- In Australia we have received orders around Rs. 1,750 crore
- In Chile we have received orders worth Rs. 672 crore.

With this our cumulative portfolio has grown from 6,870 Megawatts as of March 2019 to around 9,250 Megawatts as of date. Our UOV as of February 12, 2020, stood at Rs. 12,900 crore, which was around Rs. 7,700 crore as of March 2019, which is a very robust 67% growth and is also well diversified with 90% of the UOV coming from international geographies. Of this UOV, MENA which is Middle East and North Africa constitutes 39%, Americas forms 18%, Europe and Australia constitute 13% each and followed by India 10% and 7% from Africa.

Our O&M business continues to see strong traction as well. Our portfolio on the O&M side has increased from 5,550 Megawatts as of March 31, 2019, to around 7,468 Megawatts as of January

31, 2020. Third-party O&M contracts constitute around 40% of our O&M portfolio, and O&M revenue has more than doubled to around Rs. 132 crore in the nine months FY20 compared to Rs. 59 crore during the similar period in the FY19. We continue to focus on increasing our O&M portfolio as it provides steady cash flow with better profitability margins.

While all of this is being said, would also like to update on the recent unfortunate events on account of coronavirus. China which has always been our major procurement hub for majority of our projects is dramatically impacted by the spread of this epidemic. We are constantly evaluating the situation and the probable impact of the same in the near-term. We have started receiving force majeure notices from some of our vendors about production losses. We are keeping a close tab on the developments and shall keep you all posted about the situation. Whilst we clearly see a sluggishness in revenue recognition in the near-term and a tepidness in orders getting finalized, what is very reassuring is that all of our contracts are fully safeguarded for these force majeure conditions and we do not see any liquidated damages being imposed by our clients.

Lastly, talking about India which continues to be a key market for us. Our Honorable Finance Minister during her budget speech has put special emphasis on power and renewable sector, which should help to boost the solar power generation in the country. These measures besides various things also include increasing the share of solar power in the railway energy mix. The Government has proposed to use the land owned by Railways near the railway tracks for installation of solar power projects, which will address one of the key hurdle that is the land availability for any power project. With this, I will ask Mr. Bahadur, our CFO, to take you through the consolidated financial highlights for the quarter and nine months. Thank you very much.

**Bahadur Dastoor:** Thank you, Bikesh and Good Morning friends. I will take you through the consolidated financials for the nine months ended December 31, 2019. Before we run through the financials, I would like to reiterate that being an EPC company, the revenue, order inflow, and gross margins could be lumpy due to geographical mix and stage of execution of the projects in any particular quarter. Hence comparison on year-on-year or quarter-on-quarter basis would be inappropriate as well as the performance for a quarter may not be representative for the full year.

Revenue for 9M FY20 has been at Rs. 3,514 crore, the revenue in 9MFY20 has been lower compared to 9MFY19 due to delay in commencement of a large new project in the MENA region, coupled with the fact that the 1.2 Gigawatts in the MENA region was at the peak of execution during the corresponding period in the previous year. We expect revenue for to be in the range of Rs. 1,500 to 2,000 crore in the last quarter of FY20, which is lower than the previous year due to module supply issues on account of coronavirus and delay in commencement of a large new project.

In terms of geographical breakup of the nine months revenue, the MENA region and India contributed about 32% each followed by Southeast Asia with 18%, America with 15%, and the balance by Australia and Africa. As mentioned by Bikesh earlier, our O&M revenue has more than doubled to Rs. 131 crore in 9MFY20 compared to Rs. 59 crore during the similar period in FY19. The O&M business now constitutes 3.7% of 9M FY20 compared to 1% in 9M FY19. Gross margin percentage were higher at 13.1% compared to 9.3% in 9M FY19. Improvement in gross margin percentage is on account of mix of execution of projects in emerging geographies having higher margin and our efficient procurement policy. Here, I would like to state that historically we have had annual gross margins in the range of 11% to 13% and we expect gross margins for FY20 to be in the range of about 12%. Overheads are higher in nine months FY20 on account of full period cost in certain countries like US and Australia, again partial period cost in FY19. Overheads as a percentage of sales were higher at 8.4% in 9M FY20 due to lower revenues. We believe that the team has been built in those geographies and cost increase going forward would be nominal. Despite higher overheads, EBITDA margin percentage improved from 5.9% in 9M FY19 to 6.7% in 9M FY20 on account of higher gross margins. PAT for 9M FY20 stood at Rs. 175 crore and PAT margins were at 5%.

Coming to the balance sheet as at 31$^{st}$ December 2019, the networking capital has remained stable. The networking capital stood at Rs. 251 crore compared to Rs. 240 crore on 30$^{th}$ September 2019 and Rs. 234 crore on March 31, 2019. Our cash flow from operations for 9M FY20 stood at Rs. 119 crore positive compared to negative cash flow from operation of Rs. 767 crore during the same period in the previous year. I would also like to highlight that as per the amended Articles of Association, the company cannot give loans to promoters or their affiliates post listing. Further, the promoters have repaid Rs. 1,000 crore since listing and consequently the inter-corporate deposits and loans to the group companies have reduced to Rs. 1,650 crore as at December 31, 2019. Further, based on the recommendation of the audit committee and the Board of Directors in their meeting held on December 31, 2019, the following payment schedule has been approved for the balance ICDs and loans –

- Rs. 500 crore on or before 31$^{st}$ March 2020,
- Rs. 500 crore on or before 30$^{th}$ June 2020
- And the balance amount on or before September 30, 2020

Our external debt post listing reduced by Rs. 1,340 crore and stood at Rs. 1,477 crore as at 31$^{st}$ December 2019. Reduction in debt has been due to collection from the group companies of the inter-corporate deposits as well as utilization of internal accruals. The term debt outstanding today is Rs. 1,349 crore of which Rs. 480 crore is payable in Q4FY20, Rs. 588 crore in Q1FY21, and the balance amount of Rs. 281 crore is payable in Q2FY21. These loans will be paid off or refinanced depending upon the projected cash flow. Cash and bank balance as at December 31, 2019, stood at Rs. 209 crore. Our networth as on 31$^{st}$ December 2019 is Rs. 1,025 crore.

Lastly, we are happy to report that the Board of Directors has approved and declared an interim dividend of Rs. 6 per share on face value of Rs. 1 per share for the Financial Year 2019-20.

With this, we will now open the floor for questions and answers.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

**Renjith Sivaram:** Sir, you told the Q4 target, so what is the full-year revenue target ?

**Bahadur Dastoor:** Since we are saying that we will be doing about Rs. 1,500 to 2,000 crore in Q4FY20 and we have done Rs. 3500 crores in the first nine months. So will close the year between Rs. 5,000 to 5,500 crore essentially due to the impact of the coronavirus outbreak.

**Renjith Sivaram:** Sir, is there any other alternate arrangement we have in case this prolongs?

**Bikesh Ogra:** Most of our procurement is out of China and what has also incidentally happened if this continues in the long run, they have diversified their operations in Malaysia, Vietnam and Taiwan. So if this continues to hamper the production in China, I think we will have an option to get the production done in those markets., So that is not the near-term solution. But we are looking at it. In case it continues to affect the production, then we should look at those markets for an alternate.

**Renjith Sivaram:** Because of this you hinted that you are seeing a delay in terms of order finalization also, is that correct?

**Bikesh Ogra:** That is correct. What is happening is that for a customer, we are not able to commit the timelines on the project, which are very critical for the project for our business. Likewise, we are also not in turn getting a firm fix on the pricing from the vendors. So therefore, it is becoming difficult and uncertain for us to really accept orders. Customers may want us to accept orders at a particular price and a particular timeline, but at the backend we are not very clear about the timeline and the pricing. So therefore that is becoming a bit uncertain for us, to really also accept those orders.

**Renjith Sivaram:** Is there any foresight in terms of how this is going to pan out and when do you see things will normalize? Are we just waiting for things to normalize?

**Bikesh Ogra:** We are only praying that this gets contained as rapidly as it can, so that we can do our business as we have been doing. So it is only a wish that we want that this particular epidemic gets contained as soon as possible. Unfortunately, it is a global issue, the WHO has termed as an epidemic, which obviously it is anybody's guess as to how it will pan out.

**Moderator:** Thank you. The next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

**Abhishek Puri:** My question is on the force majeure part. If we understand correctly, the contracts are safeguarded for the delays in terms of timeline. So would the cost overruns or delays due to the extended site work will also be compensated under the contracts?

**Bikesh Ogra:** Most of the contracts as I mentioned are covered under the force majeure for the time extension. What is also incidentally happening on the fixed project management cost on the projects, for us fortunately is that the increase in costs are very minimalistic. They vary between 1% to 1.5% of project cost during the tenure of the project. Although we would be definitely asking for an additional cost on account of this force majeure extension of time conditions, but even in the worst case scenario even if no cost overruns gets paid to us, the impact would be around 1% to 1.5% of project cost during the project tenure and therefore it would be proportionate cost for the impacted period.

**Abhishek Puri:** Secondly, in terms of the competitive scenario, how is this Coronavirus impacting the competition especially in the Middle East where you are seeing a lot of Chinese companies coming in ?

**Bikesh Ogra:** I think it will be too early for us to comment because all the projects really have not taken off in the Middle East wherein we have seen Chinese competition coming in. So we are just keeping our fingers crossed as to how this will pan out, especially in the Middle East region, once the projects take off.

**Abhishek Puri:** It is glad to see order book increasing in the current year by almost 2,000 odd megawatts and Rs. 8,500 crore is the accretion. However, when we look at the advances data from the customers, it looks to be pretty minimal, about Rs. 220 odd crore or so, accounting for only 2.5% of contract value. So have the advances gone away in the new contracts or are they lower in some of the contracts or we have not received it yet?

**Bahadur Dastoor:** The largest contributor in the order book is Saudi Arabia, where the contract is in the final stages of being discussed. And only once that is done that the advance bank guarantees would be issued and the advances would come in. So to answer your question in a pointed manner, all contracts have advance payment clause and all advances have been coming in as targeted. So for some of our projects in Chile they are expected now. And whatever had to come in till December has come in. There is not a single contract without an advance.

**Abhishek Puri:** Lastly, if you can just quickly touch upon some of the recent opportunities that are coming up for bidding, especially some of the large projects which were pending out of the Middle East markets?

**Bikesh Ogra:** If I give you a broad perspective for the next two months, projects worth $ 2.2 billion, which is around Rs. 15,000 crore, are lined up for bidding and this is primarily spread across Australia, US, Middle East, and Africa., so that is how the spread is in the next two months, I would say in March and we-We hope that going by our historic rate of conversion, we should to be clocking around 17% to 20% of this overall order bid pipeline in March. So that is the near-term vision on the order booking. Obviously, there is sluggishness for the closure, there is tepidness in the market. So, if everything goes on as planned, we will have this kind of a closure happening till March.

**Abhishek Puri:** In terms of entire 2020 and FY21, what is the kind of opportunities that you are seeing? Will the total market be bigger than what we have seen in 2020, or lower than that?

**Bikesh Ogra:** In 2018 we had around 100 Gigawatts getting built and out of which around 40% to 45% odd percent came in from China. Now, there has been a dramatic slowdown in the Chinese market. If you take 2019, around 115 Gigawatts got built and out of which China constituted only 25 to 30 Gigawatts. So although there is a slowdown in Chinese market, there is a spur in the other markets. That being said, now since there is a paucity of work in China, Chinese companies have started vying for markets, especially in Middle East, where a lot of Chinese EPCs are participating in opportunities. We do not see a slowness in the growth of the market, considering the fact that last year without China, around 75 to 80 Gigawatts was built. The market would be growing at around 15% to 20% as we had anticipated, and for us fortunately now, we are present in almost all the markets other than China, so therefore, we would be able to ride on a substantial amount of this growth into our order book.

**Moderator:** Thank you. The next question is from the line of Bharat from Quest Investment Advisors. Please go ahead.

**Bharat:** Sir, just to understand from business perspective. Till September results, we were very hopeful about Q3 and that time even Corona virus was also not an issue. But why all of a sudden there is a slowdown in the revenue billing. I am just trying to guess in future how really we have to look?

**Bahadur Dastoor:** Mr. Bharat we have always maintained an annual revenue guidance. When we were talking about December quarter, December quarter also is something which is a function of the ongoing projects. We as management always knew that the turnover for this quarter would be lower because the new projects are all happening only in the last quarter of January to March ’20. So for this quarter the guidance, which we had internally, was between Rs. 1,000 to 1,200 crore and that is exactly what it has come up to - because the old projects are all coming to an end and we are taking up new projects except for Chile and Australia, in January to March ‘20.

**Bharat:** Is it fair to assume that the balance revenue which we are talking of Q4FY20 of around Rs. 15 to 20 billion otherwise would have been in the range of Rs. 35 to 40 billion, if we had not been impacted because of Corona virus?

**Bahadur Dastoor:** Absolutely right, so we would have had an internal target of close to Rs. 7,000 crore to accomplish as a revenue, so that would mean Rs. 3,500 crore in Q4FY20, as you have rightly said. We will be doing only about Rs. 1,500 to 2,000 crore revenue in Q4FY20, as there is an impact of almost Rs. 1,500 crore on account of the Corona virus.

**Bharat:** In our presentation there is unexecuted order contract in progress which is around Rs. 5,100 crore. I am trying to get what this Rs. 5,100 crore is representing and when do we expect that to be billed?

**Bahadur Dastoor:** If this Corona virus had not impacted, a sizeable portion of this Rs. 5,000 crore would have happened in Q4FY20, i.e. roughly about Rs. 3,000-3,500 crore plus some of the new jobs which are to commence. Now, because this issue has happened, this Rs. 5,000 crore is actually getting spilled over into the Q1 FY21 or maybe Q2 FY21.

**Bharat:** Till this Corona virus issue do not resolve, is that fair understanding?

**Bahadur Dastoor:** Yes.

**Bharat:** In this particular quarter, our other income has shot up to Rs. 50 crore other than interest income. So what exactly it represents because in Q3 FY19 it was around Rs. 20 crore and in 9M FY20 it is about Rs. 66 crore.

**Bahadur Dastoor:** Most of it will be the FOREX gain which under the accounting standards we need to show either as other income or overheads, So it is the movement in the Dollar versus the Rupee from September to December '19. Now, for us internally in our MIS, we always take it as part of project cost, but the accounting standard requires that all FOREX gain or losses should be shown either as income or as overhead.

**Bharat:** On balance sheet side, roughly around Rs. 500 crore is due in Q4 FY20 and Rs. 600 crore in Q1 FY21. So in case, if what we have been expecting to receive from the promoters, does not happen, then what is our strategy to meet our obligations?

**Bikesh Ogra:** We are very confident of receiving from the promoters. They have fulfilled their commitment on 31st December and in our regular interactions with them, they have reassured us several times that they will be bringing in this money as has been planned. And I will just ask Mr. Khurshed Daruvala to add a little on that.

**Khurshed Daruvala:** We have had our discussions with Shapoorji Pallonji and we are confident of meeting the timeline. So internally whatever arrangements are required at the promoter level are being done and this timelines will definitely be met.

**Bharat:** You said that overheads that have already been build in, as we already have teams is in place in markets like Australia and USA. So in that case can we expect gross margin to be sustainable? And is there a room to improve the EBITDA margin if our top line starts growing?

**Bikesh Ogra:** Obviously, we have done some cash burn for the last couple of years in the US and Australian markets. We can clearly see now the sprouting of results coming in specifically in Australia. Like I said we have already done some acquisition and now we are executing around 1750 crores worth of orders. We are looking at couple of very promising opportunities in Australia. In the US also, in one and half years, we have been burning cash and there we have built up a substantial Management team, which is now bidding in for around 2 Gigawatts of projects there. We are hoping that they will get converted very soon, and therefore, the operating leverage on the overheads will substantially come down, as we get the revenues from those markets.

**Moderator:** Thank you. The next question is from the line of Subham Agarwal from Aequitas Investments. Please go ahead.

**Subham Agarwal:** Sir, my question was regarding the outlook from India. So what kind of orders do we expect from India given the announcement in budget. And in the fourth quarter of this year we have received some Rs. 670 crore order from India - what is this order from, if you can throw some light on this?

**Bikesh Ogra:** In terms of the outlook for India, we have been always very bullish on this market in terms of our base being here. We see a steady state growth of the projects coming in from the Indian market and we will continue to stay focused around this market. In the last quarter, the orders that have been received from the Indian market are worth around Rs. 670 crore.

**Subham Agarwal:** Where have you got this order from?

**Bahadur Dastoor:** We have got them from few customers in India and at this point in time, we would not like to name those customers. They are part of our regular profile and portfolio, we get them from time to time. These are repeat orders.

**Subham Agarwal:** Sir, second question was on the O&M revenue. So we have booked around Rs. 54 crore in December quarter, but the margins have fallen from 66% in Q3 FY19 to 24%. Why has the margin decreased and what do we forecast the margin on a sustained basis for O&M business?

**Bahadur Dastoor:** The sustainable margins for O&M are generally about 30%-35% in India and about 40% internationally. So it depends on the mix of where we have had more O&M in that particular quarter. There are also certain invoicing which needs to be done now, retrospectively once we have received the substantial completion certificate from the customers. So that will level the things by the year-end. But overall margins for O&M on an average basis would be in the region of about 35% to 40% on blended basis.

**Moderator:** Thank you. The next question is from the line of Riddesh Gandhi from Discovery Capital. Please go ahead.

**Riddesh Gandhi:** In case this Corona virus ends up taking a little bit longer than we anticipate, then do we have a Plan B or do you expect people to actually pushback their plans with regard to putting up their plants?

**Bikesh Ogra:** As I mentioned earlier, people are taking a very cautious view of how the corona virus epidemic will pan out. There are $ 2.2 billion worth of projects that are in the pipeline that are just about to get concluded. Had this epidemic not out broken we would have had closures of around $ 1 billion by now. But since there is an uncertainty on the timelines and there is an uncertainty on the backend production line, people are taking a cautious view about it. And if the issues get solved in the next month to month-and-a-half, we clearly see a fast traction in terms of the closure of the orders. So when you talk about a Plan B, that is in case this gets affected on a long-term basis, there are production places in countries like Malaysia, Vietnam, and Taiwan., We are also exploring and seeing that if those countries can be explored into and ploughed into our supply chain requirements. So, we are just keeping our fingers crossed to see how it pan outs over the next 15 to 30 days.

**Riddesh Gandhi:** We appreciate that you have been speaking to the promoter group with regard to recovery of loan amount and that they have given you high degree of confidence. But obviously you need to understand our degree of skepticism. Just wanted to understand a couple of things on this - is there any plan of action in case any of these deadlines are missed. And the other question is given this is effectively like an unsecured loan, is it not the rate of interest that we are charging materially less than effectively the rate at which the promoter would be borrowing even on secured basis right now in the market. So is this actually an arms-length deal?

**Bahadur Dastoor:** First of all, these were all inter-corporate deposits which were signed off prior to the date of listing. They were built at a 50 basis points differential between the effective borrowing of the company and the lending which was done. This was in keeping with the group practice. Post November 14th that differential has moved up to 1%. So as far as the company is concerned it is not losing any money. Secondly, from a debt equity ratio of about 2.3x in September, the net debt equity ratio has come down to about 1.23x, which has given banks a lot of confidence and has also helped us in refinancing or rolling over some of the term debt. So we are anyway in discussions with our banking partners for an alternative which we hope will not be exercised. But nonetheless we are anyway positioned partially from cash flow and partially from rollovers to take care of this, were it not to happen, which we do not expect.

**Riddesh Gandhi:** Again, what we are saying is we are not going to take any action on the promoters. We just are internally prepared with how to handle it, in case the cash does not come back?

**Bahadur Dastoor:** We will certainly take action on the promoters. We are right now preparing for an eventuality because action is one thing and safeguarding the company's interest is another. So right now we are taking care of that element. But we are in regular discussions as recently as even yesterday, when the promoters have reassured us that the money will come. And they have fulfilled their commitment on 31st December when they brought in Rs.1,000 crore.

**Riddesh Gandhi:** The only other thing I will add is that the loan given is 100 BPS over our cost of capital. I do not think the rate at which we will lend out on an unsecured basis should be linked to what our cost of capital is, it should be the linked to the borrower's cost of capital and the rate at which he is borrowing. And what we have heard is that rate is a materially higher rate than what is here?

**Bahadur Dastoor:** Yes, but the point is that these were all done prior to listing. There is no change in terms except for what the audit committee and the Board declared on November 14th. So anyway we are not in the business of lending anything further to the promoter or the promoter group. We are barred from doing that under the Articles of Association. Going forward, it would be a different matter to a non-related party; obviously, it would be at market price prevailing at that point in time. These were on the rate of borrowing which we did previous to the IPO.

**Moderator:** Thank you. The next question is from the line of Lokesh Garg from Credit Suisse. Please go ahead.

**Lokesh Garg:** My question relates to Saudi Arabia order. Basically we announced in early November and it is almost three months now, and the order has not yet received a full go ahead. In fact you seem to suggest that there are some contract terms being negotiated by which you have not even opened the advance guarantees from your end itself. Was this delay expected and in worst case in your average case scenario, when is this order likely to get fully discussed, sorted and then started?

**Bikesh Ogra:** If you recollect last time also, we had said there is a visible delay on this particular order basis because of which we had missed our revenue targets for this year. Now the project is really moving slightly in an accelerated fashion in terms of the power purchase agreement getting signed between ACWA Power and the Government of Saudi Arabia. So in the next couple of months, we would see this project hitting the ground and going all out into the construction activities.

**Lokesh Garg:** Okay, but is it not that development which is negative surprise related to even on November announcement of limited notice to proceed?

**Bikesh Ogra:** The limited notice to proceed is already there. We are already working on the engineering and we are working on the geotechnical survey of the projects. So all of that is in place. It is only that the full notice to proceed will only come in once they have the power purchase agreement being signed and that is currently under advanced stage of discussion with the Government.

**Lokesh Garg:** I also wanted to check with you that the net working capital seems fine which is roughly Rs. 250 crore range. But both receivable and payable individually are elevated, so it is a net debt that we are seeing. But if you see gross number, both of these are roughly Rs. 2,200 crores range. What is driving such large receivables, given your nine month revenue line is only Rs. 3,500 crore?

**Bahadur Dastoor:** Receivables are not just a function of revenue, it depends on when you have built it. So a lot of the billing did happen and that is why it is Rs. 2,200 crore. If you have seen March the figure was Rs. 1,900 crore at that point in time. There are certain receivables from parties which are under discussion and negotiations for the final handover and substantial completion. Once that is done, we are expecting this to come down. Of course, there is an amount of Rs. 150 crore which is due from IL&FS for which we are already in the NCLT.

**Lokesh Garg:** Both billing and receivables should happen on a proportionate basis. But are you suggesting that there is a large component which happens on a substantial completion time event?

**Bahadur Dastoor:** It depends on when the materials have gone, because when the material goes up, the billing goes up which is an event which happens at a particular point in time. Having said that, I said because we have got IL&FS and a couple of other parties - that is why the receivables are at this position. We are in discussions with those customers to bring it down, and of course, IL&FS is in NCLT.

**Lokesh Garg:** Could you share more details on this couple of other parties from where receivables are pending for longer than expected?

**Bahadur Dastoor:** We will take it off-line and we would not like to do it on this call at the moment.

**Lokesh Garg:** You also sort of on the positive side seem to attribute that there is margin traction which is better than expected from emerging geographies - is that referring to Australia?

**Bahadur Dastoor:** No, that was referring to Southeast Asia which was the high margin geography and what we will be having going forward is more from Latin America.

**Lokesh Garg:** Similar profile although as we knew probably that Southeast Asia contracts are sort of getting towards the end, right, which is primarily Vietnam contract?

**Bahadur Dastoor:** Correct, so those are for the results in the nine months, Latin America is for what will happen going forward.

**Lokesh Garg:** Also given the force majeure type situation in China does that provide an excuse for any contract cancellation from the supplier end and in such a case are you adequately protected?

**Bikesh Ogra:** Fortunately for us, all of our contracts that are ongoing, we have already opened the letter of credit for our suppliers and there are some supplies which have already happened which is under transit also, so therefore we do not foresee any cancellation of orders. Yes, there have been notices which have been received for the deferment of the supplies which we have received in the last week to 10 days, but we are not really exposed to any cancellation of contracts or escalation in prices, because all of these are contracted and supplies are obviously being covered.

**Moderator:** Thank you. The next question is from the line of Mahantesh Marilinga from Finquest Securities. Please go ahead.

**Mahantesh Marilinga:** Sir, just wanted to know the reason behind the higher margins in Q3 FY19, was it because of any particular order??

**Bahadur Dastoor:** Margins are on the basis of orders being executed in a quarter, so that is why we continuously say do not look at quarter-on-quarter. But to answer your question, yes, there were jobs which were at stage of closure and new jobs which were being done in Southeast Asia at that point in time and that is why the margins for that quarter were higher. On an average, of course you saw that at the end of the year, it fell to 11% to 12%, which is also what we are saying for the current year also.

**Mahantesh Marilinga:** On steady state basis, like in the normal course of business, annually what would be the normal Gross margins?

**Bikesh Ogra:** On an annualized basis we had forecasted that Gross margins would be in the band of 10% to 11%.

**Mahantesh Marilinga:** What about EBITDA margin? Would it be in the 6.5% range?

**Bikesh Ogra:** That is right. This is for FY21.

**Moderator:** Thank you. The next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

**Siddharth Rajpurohit:** Sir, are our contracts having escalation clause?

**Bikesh Ogra:** If there is an extension of time because of customers issues, then we are getting paid for escalation of costs. But in case of force majeure it does not entail any escalation of costs although it does entail an extension of time.

**Siddharth Rajpurohit:** Sir, I understand there will be a cost differential if you go to a Plan B and source from other countries?

**Bikesh Ogra:** If there is a cost differential, if we source from other countries and if the project has to be delivered in the timeline that are stipulated by the customer, the customer will have to pay for that delta that would be incurred by sourcing from any other countries as compared to sourcing it from China

**Siddharth Rajpurohit:** So, we will get that much amount of escalation?

**Bikesh Ogra:** It is not specifically covered, but going by our experience if the customer insists because he has to maintain those timelines, then we are entitled to ask him for an escalation of costs because of the delta that would result on account of sourcing it from other locations as compared to China.

**Siddharth Rajpurohit:** That will be based on negotiation, it could be solved, or it could not be solved?

**Bikesh Ogra:** Yes.

**Siddharth Rajpurohit:** Sir, is it possible for you to guide for the next year, what would be our revenue and margins?

**Bahadur Dastoor:** It is too early. We will be doing a lot of work on this especially considering what is happening right now. So we will give the guidance at the appropriate time but not at this stage.

**Siddharth Rajpurohit:** What is the fund and non-fund based limit, Sir?

**Bahadur Dastoor:** Our fund-based limits from the consortium of bankers is Rs. 300 crore. As of right now the utilization is Rs. 87 crore. The non-fund based limit is Rs. 8,800 crore, out of which our utilization is in the region of Rs. 7,300 crore.

**Moderator:** Thank you. The next question is from the line of Chirag Patel, an Individual Investor. Please go ahead.

**Chirag Patel:** Sir, my question is on the liability side. For contracts that we execute for our client, in that case whatever material we import from China, does the guarantee or warranty lies with us or that particular company which is manufacturing that particular component?

**Bikesh Ogra:** For the contracts that we execute, the guarantee of the components would lie with us for a period of two years, post which all the guarantees and warranties for the next 25 years would get assigned to the customers and it will be carrying on those obligations.

**Bahadur Dastoor:** For these two years as well, it is back-to-back from the module manufacturer, the inverter manufacturer etc. So it passes through us for first two years. Going forward after two years, it gets assigned directly from the manufacturer to the customer.

**Chirag Patel:** In operation and maintenance order book, whatever O&M activity we do for clients - is this the same case with that part also or this differs on that?

**Bikesh Ogra:** For us, the operation and maintenance contract, our liability is restricted to the value of the O&M contract, it does not really get affected on the EPC side. So we are restricted on terms of our liabilities to the O&M contract.

**Chirag Patel:** There is no period like two years?

**Bikesh Ogra:** It depends on the duration of the O&M contract. There are contracts which we are executing for five years, there are contracts for 10 years. So for that particular period, it will be restricted to the value of the O&M contract.

**Chirag Patel:** As you mentioned that in Q4FY20, we might get impacted for turnover due to this Corona virus impact and shutdown is prevailing in China. So is there an alternative source of supply?

**Bikesh Ogra:** We have alternative sources of supplies which is from Malaysia, Taiwan, Vietnam and all, but those markets primarily are addressing the US requirements. And now if they have to ramp up their supply or their production line basis the Chinese slowdown, it I think it will take some period of time before they really start ramping up. We do not see that happening in the next one or two months. But to your point, yes, there is a Plan B available, but that will involve cost escalation. Obviously if the customer insists that we go to a Plan B, then we will be asking for that cost delta from our customers.

**Moderator:** Thank you. The next question is from the line of Kushal Borlikar, an Individual Investor. Please go ahead.

**Kushal Borlikar:** I have two questions, my first question is on the hedging policy. If you could take us through your hedging policy for the revenues from other geographies as well as your supplies?

**Bahadur Dastoor:** Generally, we hedge on a net basis after looking at the inflow and the outflow. So to the extent of the margins essentially is what is hedged unless there is a timing difference. If there is a timing difference even that is hedged. That also forms part of whatever revenue we have earned which we are showing as part of the Rs. 49 crore in Q3 FY20.

**Kushal Borlikar:** So, you would say all of the net which is not naturally hedged, is hedged by you?

**Bahadur Dastoor:** That is correct.

**Kushal Borlikar:** My second question is on at a global level if you could take us through the approximate manufacturing capacity for your components and supplies in say China and the other alternative countries which you mentioned Malaysia, Vietnam, Taiwan, may be somewhat in India or any other geographies?

**Bikesh Ogra:** If you look at the solar value chain, I think substantial amount of that value chain comes in from China which includes PV modules, which includes a large portion of steel which is used for the mounting of the modules. Then there are inverters cables and other switchgears which come from China. But that being said, I think other than modules, we would have a Plan B available for the other geographies like in Europe we have inverter manufacturers, we have switchgear manufacturers in India. We have got lot of these cable, switchgear and inverter manufacturers, but primarily modules which forms almost 35% to 40% of the overall contribution on the value chain is primarily coming in from China. So there is a Plan B available but that comes with a delta.

**Kushal Borlikar:** Any approximate percentages wise on modules for other countries?

**Bikesh Ogra:** If I am buying say from China at Rs. X per watts, it will come at around 20% to 25% more from the other locations.

**Kushal Borlikar:** I mean percentage wise capacity?

**Bikesh Ogra:** If you take the capacity overall, roughly around 65% to 67% of the capacity is being manufactured in China. Out of the balance capacity, almost 7 to 8 Gigawatts is actually marked for the US markets. But because of the fact that there is a heavy anti-dumping duties in the US market, so therefore they take it from the other markets. So effectively we are left with hardly 20% to 25% and that addresses the European market and the markets in far East.

**Moderator:** Thank you. The next question is from the line of Sanjay Dam from Old Bridge Capital Management. Please go ahead.

**Sanjay Dam:** Sir, wanted to understand whether the intensity of ordering can get delayed by few quarters or so, because almost all of Middle East, Africa and related geographies depend on China for modules and other components?

**Bikesh Ogra:** Whilst we would hope that it does not get affected in the near and long term. We hope that it is contained and arrested very soon, it is anybody's guess as to how long this epidemic will pan out and right now it is a global phenomenon. I do not think we are in a position to really comment as to what exactly would be the timelines in which it would get arrested.

**Sanjay Dam:** Putting it the other way round, if the cost on the modules front really from sources, other than China cost 25% more, would it be a right conclusion that closure of such projects may wait till China normalizes?

**Bikesh Ogra:** I would assume so. That being said I think it is also important to note in case the customer is hard bound on the timelines and he has to finish the project by a particular time and the China situation does not improve, so therefore he may have to resort to Plan B which is getting in from other countries. And obviously if we are working with the customer, we will have to ask for an additional costs claim from him.

**Sanjay Dam:** Going by the way we source our components, would it be fair to say that vis-a-vis other major executors of these projects in Middle East, Africa and Europe, we are not that in any particular competitive disadvantage?

**Bikesh Ogra:** Absolutely not. We do not seem to be in any competitive disadvantage because like us all other EPCs are dependent on the Chinese supply chain for executing their projects, which includes the EPCs from Europe, Latin America, Australia etc. So most of them are dependent on the Chinese. So there is no competitive disadvantage that we see in terms of the disruption happening in China.

**Sanjay Dam:** Basically, the order bid pipeline would get delayed, but that's about it. So basically when you said that in the next two months $ 2.2 billion of order should get closed and we should be able to bag 17% to 20% of it, so basically even if this get delayed, you expect share of ours to be maintained?

**Bikesh Ogra:** Yes, absolutely, we are definitely going to maintain the share whatever I mentioned., It is only as to when exactly the orders would get concluded. So it may get delayed by maybe two to three months basis if China's situation does not improve. But otherwise the market share will continue to stay at what we have been maintaining in the historical past.

**Sanjay Dam:** You also mentioned that EBITDA margin could see some impact of 1%-1.5%. So that is vis-a-vis the 6.7% that we did for 9M FY20. Is that correct?

**Bahadur Dastoor:** The site cost are 1%-1.5%, obviously that is on the total life-cycle of the contract and not for a period of extension. So if it is going to be just one month or two months, it would be a proportion of that.

**Moderator:** Thank you. The next question is from the line of Ashok Shah, an Individual Investor. Please go ahead.

**Ashok Shah:** You said something is outstanding also from other concerns also. So is this amount very big or is it a very small amount, can you quantify it?

**Bahadur Dastoor:** We were talking about the receivables which are the trade receivables in the normal course of the business.

**Ashok Shah:** So, it is not outstanding for longer time?

**Bahadur Dastoor:** No and we make provisions if we feel that there is something which needs to be provided for.

**Ashok Shah:** Secondly, in regarding this norm, we are charging very less percentage of interest at 9% on loan given to promoters and again due to their defaulting as per the time given during the IPO. Also the company stock price and valuation has gone down. So are we putting some extra claim on the promoters to compensate the investors?

**Bahadur Dastoor:** The weighted average cost of borrowing versus the weighted average cost of the inter-corporate deposits and loans has a 1% differential which is being charged as per what the Board of Directors and what the inter-corporate deposit terms had mentioned. As I have said before, there is no real loss to the company because we are getting compensated for the all in costs that had been incurred by us for these loans as well as whenever they get renewed, whatever are the additional charges, we get compensated for it. Since all of these were prior to the IPO and these are ICDs, there is no change which is now being envisaged in making any of them, especially since the promoters have brought in Rs. 1,000 crore which they had committed and are committed to bringing in the balance on the due dates.

**Ashok Shah:** But due to the promoter not repaying loan in time, valuation of the company has gone down. Can a class action suit can be filed? As a manager of the company are you planning to file a case on the promoters?

**Bahadur Dastoor:** We are not in a position to answer this question at this stage because the promoters have fulfilled their revised commitments and the Board has accepted the same.

**Ashok Shah:** Also on the similar line is is no penalty is to be imposed when they default or was there no agreement on this point?

**Bahadur Dastoor:** You mean the default?

**Ashok Shah:** Yes, the promoter has defaulted to repay the loan on time as it was decided as per the IPO prospectus. So are there any clause included that extra penalty will be imposed besides the interest charges?

**Bahadur Dastoor:** The extra interest was imposed when they did not bring in the money on the due date. However, the underlying documents are all inter-corporate deposits none of which are due as such. They are all actually getting paid well in time. So as far as the company is concerned, we are receiving the money on schedule. Company has also not received any money as part of this IPO proceeds, so there is really nothing much that the company can do in this matter. The Board has taken a decision to charge an additional 1% interest on bringing in the Rs. 1,000 crore and the balance on schedule, which is what is envisaged to be.

**Ashok Shah:** Was there any objection from the independent Director on this matter during the Board meeting?

**Bahadur Dastoor:** This has been well discussed and debated by the Independent Directors and they had also taken opinions, on the basis of which they came to this particular conclusion.

**Ashok Shah:** It is a strange thing; this is happening with a very large group of India and investor is at a loss in major way due to default by a larger group of India. I am sorry to say this. Thank you Sir.

**Moderator:** Thank you. Ladies and Gentlemen, due to time constraints that was our last question. I now hand the conference over to the Management for their closing comments.

**Bikesh Ogra:** I would like to take this opportunity to thank everybody for joining the call. I hope we have been able to address all of your queries. For any further information, kindly get in touch with Vishal Jain or Strategic Growth Advisors, our Investor Relation advisors. Thank you once again and have a great day.

**Moderator:** Thank you. Ladies and Gentlemen, on behalf of Sterling & Wilson Solar Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.