“Sterling and Wilson Solar Limited Q4 FY’20 Earnings Conference Call”

June 26, 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 and Wilson Solar Limited Q4 FY'20 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks 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 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. Vishal Jain -- Head of IR, Sterling and Wilson Solar Limited. Thank you and over to you, sir.

Vishal Jain: Good Morning. I welcome you all to Q4 & FY20 Earnings Call. Along with me, I have Mr. Khurshed Daruvala -- our Chairman; Mr. Bikesh Ogra -- Director and Global CEO; Mr. Bahadur Dastoor -- CFO and Strategic Growth Advisors, our Investor Relations Advisors.

We will start the call with the "Operational Highlights for the Quarter and the Year by Bikesh" followed by "Financial Highlights by Bahadur" and an "Address by Khurshed Daruvala", 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 wish you a very healthy and safe time in this tough and challenging environment.

As all of you know COVID-19 was declared a global pandemic by the WHO, I would like to give you a perspective of the impact for the solar industry and more specifically our operations.

I would also like to add some color on our market reach and the order book position. Our project execution was impacted due to COVID-19 since the beginning of Q4 FY20 as the supply chain and execution was disrupted due to lockdown imposed by various governments. However, lately, we have been witnessing gradual resumption of supply chain and execution activities in various countries from middle of May 2020. This has enabled us therefore to accelerate the project activities at majority of our international projects which includes countries like Australia, Chile and Oman purely in compliance with the directives issued by the respective governments. The project execution in other countries like India, Kenya and Jordan were also impacted due to logistical challenges and movement of material and manpower; however, of late we have seen gradual resumption of works in these countries as well.

We have promptly circulated force majeure conditions to our customers on account of this pandemic. So, we do not expect any liquidity damages or claims related to the delay on the project execution. As explained earlier, with the partial easing of lockdown restriction in various countries, we have resumed the project execution in those locations and are currently focusing on ramping up the execution pace.

Having said that our most important objective and priority in the current situation is the safety and wellbeing of our employees, vendors, partners and other stakeholders in the value chain. We have taken additional health and safety measures in line with the guidelines to mitigate the COVID impact. Also, as a derisking strategy we are developing alternate sources of equipment procurement which will reduce our dependence on any one country.

Even during this difficult time, we have been able to secure orders from geography like Australia, US and Latin America which strengthens our presence in these markets. As you must have read recently, we have signed an EPC contract of approximately AUD525 million which equates to around Rs. 2,600-odd crore as well as the operational and maintenance contract of around Rs. 450 crore which is our largest order in Australia till date. This order cements our leadership position in Australia. Also, in the middle of the nationwide lockdown in India, we were able to sign two projects with leading global IPPs, adding up to a value of Rs. 620 crore.

I am immensely happy and very pleased now that just yesterday night we have signed our largest contract in US worth around $99 million, that is around Rs. 750 crores. With this order, we are well on course to be a relevant EPC player in that market as well. Our order flow for the financial year '20 have been Rs. 9,048 crore, which is an increase of around 15% year-on-year over FY19.

The "Key Orders received during FY20" are as follows.

- Australia two projects worth Rs. 1,750 crore.
- Middle East two projects around Rs. 4,620 crore
- India aggregated projects totaling to around Rs. 1,894 crore
- Americas (including Latin America) two projects around Rs. 784 crore.

With an order inflow of 2,900 MW in the financial year '20, our portfolio has reached 10,134 MW as compared to 6,732 MW as of March 2019. Our UOV as of 31st March 2020 is Rs. 11,396 crore compared to Rs. 7,740 crore as of 31st March 2019 which is a very robust growth of around 47%.

We have further added around 1 GW order in our portfolio approximating to around Rs. 3,650 crore including the order received from the US yesterday. The orders received post March 31, 2020, is approximately 40% of the overall previous year order inflow in terms of the order bagged. We have a visibility on the project pipeline and expect to bid for 22 GW in FY'21 which are well diversified across geographies including India. This would be approximately 30% growth in comparison to 17 GW we bid in FY20. Of the 22 GW project, the results have been announced for 4 GW and the conversion rate has been far better than our expectations. We expect to bid 4 GW in Q2, 7 GW in Q3 and balance 7 GW in the last quarter of the year. This of course is assuming that the reemergence of COVID-19 situation does not defer or delay the bidding of these projects.

Our O&M business also continues to see strong traction as well. As of March 31, 2020, our contracted O&M portfolio is 7,468 MW which grew by around 34% as compared to 5,558 MW as of March 31, 2019. O&M portfolio has grown to 7,797 MW as of date. Of the 7,797 MW of the O&M portfolio, 47% are third-party O&M contracts, that are the projects which are not constructed by us, but we are providing O&M services for these projects. During the year, we have recorded an O&M revenue of Rs. 183 crore as compared to Rs. 94 crore which was a growth of around 96% from last year. O&M is a very high margin business with EBIT margin upwards of 35% to 40% and we continue to focus on increasing our O&M portfolio as it provides a very steady cash flow with the profitability. We are confident of relatively better performance in FY21 in comparison to the previous year, provided COVID-19 situation does not re-escalate in our target markets. We are consistently evaluating the situation and should be able to give more informed guidance during the earnings call for the first quarter of FY21.

I would also like to highlight the fact that even during the current testing time there have been no changes in the commitment by the Government of India, global IPPs towards the investment in renewable energy projects and specifically the solar power projects. Their commitments are driven by long-term sustainability of the solar power plants and the cost of producing each unit of electricity over the project life i.e. the levelized cost of energy has become competitive in comparison to coal and gas power projects. We continue to see a strong inclination of these IPP and utilities towards the solar power projects.

Lastly, would like to thank all of you to have reposed your faith in us and we assure you that we would work very diligently towards creating further value for all the stakeholders.

With this I will ask Mr. Bahadur, our CFO to take you through the consolidated financial highlights and thank you very much.

Bahadur Dastoor: Thank you, Bikesh and good morning. I will take you through the consolidated financials for the year-ended March 31st 2020. Before we run through the financials, I would like to reiterate that being an EPC company, the revenue, order inflows and gross margins could be lumpy due to geographical mix and stage of execution of the project in any particular quarter. Hence, comparison with corresponding previous period will not be a true reflection of the performance either for a quarter or for the full year. Revenue for FY20 has been at Rs. 5,575 crore, slightly in excess of the guidance given in the earnings call for the third quarter. The region wise revenue break up is as follows. India and Americas contributed about 27% each, followed by the MENA region which contributed 24%, Southeast Asia with 11%, Australia with 6% and balance 5% by Africa. As Bikesh mentioned earlier, our O&M revenue has almost doubled to Rs. 184 crore in FY20 compared to Rs. 94 crore in FY19 with a gross margin upwards of 40% for FY20 as compared to 36% in FY19. The contribution of the O&M business to total revenue grew to 3.3% in FY20 as compared to 1.1% in FY19. At the company level, the gross margins have improved to 12.8% in FY20 as compared to 11.9% in FY19, which is a result of execution of projects in emerging geographies having higher margin and efficient procurement strategies. Overheads increase was due to setting up of offices and strengthening management teams in new geographies which have now started providing the results. The EBITDA margin for FY20 came in at 6.9% and the PAT margin at 5.5%.

Coming to the "Balance Sheet" the net worth of the company grew from Rs. 837 crore as at March '19 to Rs. 1,072 crore as at March '20. The increase is attributable to the profit for the year, as offset by dividend distribution of Rs. 96 crore and corresponding dividend distribution tax of Rs. 20 crore. Borrowings reduced from Rs. 2,228 crore as on March 31, 2019 to Rs.1,224 crore as at March 31, 2020. The net debt position as at March '20 was Rs. 725 crore giving a net debt-to-equity ratio of 0.67x. The receivable balance however has gone up from Rs. 1,900 crore at March '19 to Rs. 2,030 crore as at March '20. Receivables include balances of Rs. 454 crore that are due for more than one year, including Rs. 92.5 crore due from a customer which is under NCLT. The company has already made an expected credit loss provision of Rs.21 crores on discount. Of the balance Rs. 382 crore, the company has already recovered Rs.117 crores post 31st March '20 and is on course for recovery of the balance. Due to reduction in turnover in FY20 as compared to FY'19, the receivable days have gone up from 82-days to 128-days. However, the net core working capital days have gone up only marginally from 8-days to 12-days.

The promoters have facilitated repayment of the intercorporate deposits of Rs. 1,500 crore since the date of listing and the ICDs outstanding as on March 31, 2020 now stand at Rs. 1,217 crore which comprise of principal Rs. 1,105 crore and interest of Rs. 112 crore. The promoters will be making a statement on the balance outstanding as a part of this earnings call. We have cash and cash equivalents of Rs. 499 crore as at March '20 which is comparable to the Rs. 454 crore as at March '19.

During the year, we have generated strong cash flow from operations of Rs. 338 crore as compared to negative cash flow of Rs. 720 crore in FY19. Cash flows from operations coupled with recovery of ICDs have gone towards reducing the borrowings of the company.

Considering the present COVID situation and the need to conserve capital, the board did not think it is feasible to declare any further dividend for the previous year FY20.

We would also like to inform you that the company is diligently focusing on the cost optimization program in the current year. With this I will ask Mr. Daruvala, our Chairman to address us. Thank you very much.

Khurshed Daruvala: Thank you Bahadur. Good morning, ladies and gentlemen. As you are aware that I am both chairman of the board as well as promoter of our company along with Shapoorji Pallonji. I would like to give you an update on the status of the repayment of the loan of Rs. 2,563 crore which was owed by Sterling & Wilson to our company on the listing date. Our earlier request to the board to reschedule the loan payment was accepted and accordingly the mutually agreed dates were Rs. 1,000 crore by December '19, Rs. 500 crore by March '20, Rs. 500 crore by June '20 and the balance by September '20. As on date, as promoters, we facilitated Sterling and Wilson to repay Rs. 1,500 crore.

At this juncture, I would like to bring to your attention about the fact that in February and March the world was struck by the COVID pandemic throwing the global financial markets into chaos. While a number of companies are seeking a moratorium due to genuine issues being faced by all of us, we were able to facilitate repayment of Rs. 500 crore on schedule by 31st March. Even though the group is in the most challenging sectors of real estate and EPC, this clearly shows the intention of the promoters to honor their commitment in these very challenging times.

Over the past few months, even though there have been few challenges in the banking and financial markets, we have been able to tie up a significant level of funding. Had it not been for the COVID issue, we would have easily met the June 30th deadline of Rs. 500 crore. However, because of the COVID situation, there have been delays on the transactional side of our fundraising exercise, due to which the June repayment is likely to spill over by a few weeks. Although all the efforts are still on to meet the June 2020 deadline, we could get delayed by a few weeks to make the payment to the company. Both the promoters are committed to facilitate Sterling and Wilson to clear 100% of the outstanding loans by September 30th, 2020. We would appreciate your support and understanding in these very-very difficult times. In fact, Bikesh, Bahadur and the entire solar team have done a wonderful job of managing the cash flows of the company. I do look forward to September 30th when we can all achieve our dream of being a debt-free company. Thank you very much and we now open the call for question-answer secession which we look forward to be very interactive. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Chetan Shah from Jeet Capital. Please go ahead.

Chetan Shah: Sir, one quick question more on broader terms. A lot of government and companies across the globe are talking about increasing their solar presence. Even in today's newspaper, NTPC is also talking about helping few of the countries in other emerging markets like Africa etc. to help them to include their solar presence while quoting a couple of ongoing projects. So could you just give us some flavor and sense in terms of opportunity in this area? You explained about USA and Australia in opening remarks. But in terms of ongoing opportunities, what is the size and scale which is possible in next three to five years and exactly where we stand now on account of our executed projects and our experience compared to other competitors in the world., that would be very helpful for as a shareholder?

Bikesh Ogra: So, thanks for the question. I think what I mentioned in my speech was that the solar power plants are coming up in a big way all across the globe. There are a couple of reasons for that -- one is obviously the sustainability and the friendliness on the environment. And the fact that it has become very competitive with respect to your conventional sources of energy like coal and gas and that has given it a lot of fillip in terms of proliferating those capacities all across the globe. And to give you a small example in Middle East in the recent bids, the cost of the solar power energy is around Rs. 1.20 which has been recently discovered and if you take a comparison of the coal power plants which have been constructed in the same region, it is in excess of around Rs. 2. So it is a no brainer that the governments would want to adopt this policy, one is, because it is cleaner and the second it is more sustainable commercially. And when you talk about the outlook of how it is panning out over the next four to five years, like I said, we would be participating in around 22 GW of bids in this year at Sterling & Wilson Solar which is all across the globe. And globally, I think the business of solar has been growing at a steady pace of around 20% CAGR and we expect this to be definitely growing at the same rate, if not more, for the next five to ten-years and that is how the business is positioned. As far as we are concerned, we are in a very sweet spot. The reason being that with our presence in around 26 countries, we are able to address each and every opportunity that exist in these markets and now since we have started gaining a very dominant position in most of these solar markets, so we see ourselves very relevant in this phase for the years to come.

Chetan Shah: This is very specific to O&M opportunity. You explained about our current capability in terms of O&M and also the size of the portfolio. But sir if I just want to fast forward, just being as a thumb rule, what do you think this opportunity can lead to only because of understanding the cash flow what it generates and how this can actually bring down our working capital and balance sheet stress if one fast forwards to five years, can you give some broad picture on that, that will be very helpful to me.

Bikesh Ogra: That is a very valid question I think in terms of the perpetuity of the cash flows for the business. And as you must have heard in my speech that around 47% of our O&M portfolio is a third-party portfolio and that has been a very target and a focused approach that we want to lay not, only for our own built plant but also for the third-party EPC player. As I mentioned, we have a portfolio of around 7,900 GW under the O&M fleet and we are definitely wanting not only to scale this up with our own constructed plants, but also with the O&M for third-party plants. That target is definitely in our mind. The unfortunate part being, that we were wanting to expand in these last few months in markets like Australia, US and Europe, but this has got slightly derailed because of the COVID situation. And now since the COVID situation is easing out, I think we should be now focusing around getting this portfolio scaled up further. and we see ourselves as it is we are among the top two O&M players in the globe today, now we see ourselves as the largest O&M player in the coming years.

Moderator: Thank you. The next question is from the line of Anupam Gupta from IIFL. Please go ahead.

Anupam Gupta: A few questions: First, on the existing operations which you have. So of the Rs.14,000 crore order book if I include the order inflow which has happened post FY20, what proportion right now is under execution? So has the Saudi order started yet or is it only COVID which is delaying it or is there any other factor? Similarly, a few orders like Montenegro where you are expecting to start, what is the status there? So what proportion of order book is right now in execution? And whatever you have won after FY'20, when do you expect that to start execution for that?

Bikesh Ogra: I will answer the questions on the post March '20 orders that we have won as to when they will go into execution and I will let Bahadur answer the question around how many the total orders are under execution. So post March '20, we have bagged order from Australia which is the large order. So the Australia order is already under construction, the site mobilization is on and we should start full construction activities in a month's time. In India, the couple of orders that we have won, both of those orders are currently under the execution stage. Unfortunately, there is not the kind of buzzing activities happening, because of the lockdowns not being fully removed, but the construction activities have already started. In terms of the Saudi Arabian order commencement, I think unfortunately because of last four to five months of the situation that we have all been facing, there has been that lull in terms of the contract signing between the offtaker and the IPP. We are hoping that in the next couple of months there may be movement in terms of the PPA signing between the offtaker and the IPP and post that we would see a financial closure of the project happening and mostly by beginning of next calendar year, there should be a construction commencement on the project. And on the Montenegro, the land activities are going on and we are hoping that by September we should receive a limited notice to proceed on that project. So Bahadur, can you just give a perspective of the orders that are currently under execution?

Bahadur Dastoor: So, the total orders under execution of approximately Rs. 14,000 crore and now we have of course added Rs. 750 crore in the US just yesterday. Approximately Rs. 4,000 crore are under execution and for the remaining about Rs. 10,750 crore, the execution is about to commence.

Anupam Gupta: So Rs. 10,750 crores also include the Saudi and Montenegro orders, right?

Bikesh Ogra: Yes, it includes Saudi as well as Montenegro orders. And for Saudi Arabia project, we already mentioned this in our presentation which we had uploaded, that it is because of COVID and delayed PPA signing.

Anupam Gupta: So right now it is at the stage of limited notice to proceed, right?

Bikesh Ogra: That is correct.

Anupam Gupta: Secondly, for the US order, has the sourcing of panels from China being sorted or how is that being handled?

Bikesh Ogra: Yeah, the order that we got in the United States yesterday, we signed the contract, sourcing of the panels is getting facilitated by the owner itself. So, we are not responsible for the sourcing of the panels and whatever has been the discussion is a discussion direct between the PV panel supplier and the owner.

Anupam Gupta: And in general, given the animosity towards China globally and everywhere, do you expect disruptions in sourcing for the balance order book for yourself as well?

Bikesh Ogra: No, I did mention about we are being on the lookout for alternate countries for our sourcing of critical equipments like PV panels, but currently I think we do not see really a major disruption happening in terms of the PV modules coming in from China. That being said, I think we are seeing a lot of traction in countries like Vietnam, Taiwan, Malaysia, Thailand in terms of the module capacities getting added up. Even in India we have seen a large extent of… you must have read recently that there are people who are putting up the PV module factories. So all of these countries are coming up to counter the excess supply that we were reliant on China for supplies. So we see the traction happening in the other countries for the PV modules manufacturing.

Bahadur Dastoor: And just add to what Bikesh has said, since most of our orders are outside India, so that would obviously not play a role. And as far as India is concerned, most of our orders are on balance of supply basis, so the panels are the responsibility of the customer.

Anupam Gupta: So the few weeks delay is ideally we should read it how, it should be weeks or will it extend beyond, let us say July?

Khurshed Daruvala: Our internal target would be let us say four to six weeks, is what we are looking at. In fact, we are still not 100% sure that we would not meet this deadline. See, what has happened is that there has been a larger fund raising which we have been expecting and that has got delayed because of COVID. And right now we are trying to bridge the larger fund raising. So we are just hoping this still can get done by the end of the month, but if it does not happen the larger fund raising is definitely expected within July.

Moderator: Thank you. The next question is from the line of Abhinav Bhandari from Nippon India Mutual Fund. Please go ahead.

Abhinav Bhandari: So we appreciate that you cannot give a revenue guidance at this point of time, but just to understand on the orders which were bidded last year and those are under execution. Is there any advantage of lower module prices now, because of the correction that we have seen and consequently if you could give any guidance on gross margins for FY21?

Bikesh Ogra: No, I think like I mentioned we are taking a very clear assessment of how situations pan out in the coming months and we should be definitely wanting to give you a very informed guidance once we have a full perspectives of the situation emerging in the coming months. So, when you talk about the advantage in terms of the module pricing, it will be definitely important for us to note that as Bahadur also mentioned that most of our module prices and negotiations are happening by the IPPs. Obviously, we take the turnkey margins on this, other than US and India and it safeguards us for any module upside and downside movement. So effectively we do not see much of an advantage coming in from the module barring a couple of projects wherein the module has been negotiated by us. So effectively I would say that module risk and reward lies with the customer and therefore we do not face any issues on the module front, in terms of the pricing variation.

Bahadur Dastoor: Abhinav if I may just add to what Bikesh has said, we are pretty confident of a better performance in FY21, even without Saudi Arabia project, of course provided COVID-19 situation does not escalate in any of our target markets.

Abhinav Bhandari: The second one was on given the situation any fixed cost saving measures that we are taking or that we have already taken for this year? And just to understand, you may not provide exact numbers, as to how has been the working capital in the first two and a half months of this fiscal? Just trying to understand if there has been a more delay on the receivables side from the clients in this scenario?

Bahadur Dastoor: So I had already mentioned that the company is focusing on a cost optimization program in the current year. So we are definitely working on it. I have already said that we have done recoveries of amounts which are more than a year old. I would not want to give anything on the working capital because that would be forward looking at this stage. Let me just say that things are the same as what they were, in fact slightly better, but I would not want to give out any number.

Abhinav Bhandari: On this O&M revenue trajectory, so now you have almost reached Rs. 51-52 crore a quarter if I am not wrong on the number, so is that maintainable kind of a number and specifically for FY20 the EBITDA margin seem to be very high for this segment, so is there any one-off in that?

Bahadur Dastoor: I am just answering on the gross margin. So there were a few emerging economy O&M orders which is why the gross margin was very high. We still believe that in the long run it will be between 35% to 40%. Bikesh will answer the question on O&M growth.

Bikesh Ogra: So like I mentioned earlier, we see the O&M business as a very-very lucrative business for us in terms of the scale that we can achieve - one is because of our presence in almost all the emerging market and the markets which have got solar historically built. And the fact that we have a very-very good relationship with almost all global IPPs and the fact that most of the plants which were contracted are coming to the end of the O&M period with the existing EPCs. So it gives us a huge advantage in terms of scaling this business up in those markets. And as you can see that, we have already got around 47% of our O&M portfolio from the third-party contracts.

Abhinav Bhandari: Bikesh, specifically what I was trying to understand is this 7 GW which you have under O&M portfolio now is about Rs. 200-250 crore annually in terms of potential is what I am trying to understand?

Bikesh Ogra: Last year we did around Rs. 183-odd crore and which is going to get scaled up, one is because of the third-party getting deployed on this portfolio, and the second is, our EPC projects which will get completed which also fall into the O&M category. So just to give you a small perspective, our Australia project, has got a 20-year contract for O&M which was signed along with the EPC contract and that contract value is around Rs. 415-odd crore. So once the project gets completed next year, the O&M will automatically fall into the stream of revenues. So this is how the project fall into the stream of revenues for the O&M. So to answer your question, I think we should be targeting from 7.7 GW to around 10 to 11 GW for FY21 in terms of the total O&M portfolios.

Moderator: Thank you. The next question is from the line of Avinash Nahata from Aditya Birla Capital. Please go ahead.

Avinash Nahata: I have a couple of questions. During our past interaction, we have spoken about Chinese service providers being active in Middle East market. So if there were to be a backlash against the Chinese service providers, does this reduce the competitive intensity in those markets wherever they are present? Secondly, you have said that 22 GW is what you are targeting as far as participation is considered. So just give us a sense that in FY19 and FY20, what was the participation and what was the conversion success rate? Thirdly, as we move into newer and larger markets like Australia and as we stabilize our operations, there would be lesser of mobilization expenses, etc. So how would EBITDA margin and gross margin grow in these markets and stabilize? And lastly, on receivables of Rs. 300 crore pending for more than 12-months. Can you just talk about it, what is this specific customer? These are the four questions.

Bikesh Ogra: In terms of your question which is around the Chinese competition and the backlash that we having currently for the Chinese as a sentiment. So what we have seen in the Middle East is that Chinese have participated with some very ridiculously low prices and obviously as a strategy we definitely want to maintain a particular threshold for specific geographies and we definitely realize that it is not feasible for us to really get into those price levels and therefore we have just let those jobs go. And that being said, I think what has also happened for us fortunately is that Middle East being a 5 to 6 GW market, we have opened avenues in countries like US and Latin America. And US is a 12 GW market year-on-year which has given us that edge in terms of the Middle East market. And also the fact in Middle East, the cost per megawatt is much more competitive than the cost per megawatt in the US and therefore the returns in the US markets are much more in comparison to the Middle East. To your second question, I can give you a sense of FY20 in terms of our conversion rate. So we had participated in around 17 GW worth of opportunities and our conversion rate was around 14%-odd. And for this year we would be participating in around 22 GW and we have already bagged around 2.9 GW of orders in the first three months of this year. For FY19, I would not be very certain, since at that point in time we had Abu Dhabi project and Middle East projects which were running, so the conversion rate was a bit skewed on the higher side. But year-on-year as a steady growth and a conversion rate we feel between 14% to 17% would be the right number which we will be targeting as a conversion rate.

Avinash Nahata: My last two questions were one, regarding the newer markets, larger markets, US, Australia, so how would we see the gross margin and EBITDA margin improving as we stabilize the operations and some of the mobilization expenses, etc., reduce with stabilization of business there?

Bikesh Ogra: See, I will give you a perspective of Australian market. Australian market has seen a lot of churn in terms of the EPCs coming in, they are quoting very-very low prices and then burning their fingers and even shutting down their businesses. So what we have done is, we have used a wait and watch approach in those markets like Australia. And a couple of them went burst and you must have read them also, it opened a space for us and also opened a space for us to get a better return in terms of the margin profile. And the project that we are executing in Australia, are far better in terms of the margin profile that we are getting because of a limited competition that we have. In terms of the US also, as I mentioned, the cost per megawatt and the return per megawatt are far, far higher than if you take a Middle East market wherein it is almost 50-60% higher in terms of the cost per megawatt and the returns per megawatt. So our margin profile is definitely going to be whatever we have guided in terms of the range of 10-11%, that we have guided. We are very sure of and confident of retaining those margin band going forward as well.

Avinash Nahata: So, when you are talking about EPC providers in Australia, you are talking about local competition?

Bikesh Ogra: It is mostly local competition and there are a couple of Spanish companies who are also present in those markets and who had quoted certain price, who have not understood the landscape properly and they had to wind up the business subsequently.

Avinash Nahata: Just a split, for us the Rs. 300 crore outstanding for more than 12-months?

Bahadur Dastoor: So, as I have said, of the Rs. 382 crore, we have already recovered about Rs. 117 crore post 31st March. It is essentially made up of four or five customers, two of them have been completely liquidated and of the three which are there, also we have recovered a substantial amount of money. We are very confident of recovering the same in the time to come, mostly in the current year.

Avinash Nahata: Mr. Bahadur, just a small follow up. Is this due to change in scope of work or LD I mean, mostly like it is what?

Bahadur Dastoor: Some of it is on scope of work. Some of which is on settlement of LDs. We have already signed a lot of settlement agreements. We are working expeditiously to close that in the few months which will follow.

Avinash Nahata: Just if you can give us in FY19 and FY20, both the years respectively, how much amount you have written off against all of this. I mean what has been the trend in absolute numbers?

Bahadur Dastoor: I will tell you in absolute. So we have provided Rs. 17 crore as an expected credit loss in FY19 for the customer which is in NCLT. We have provided a further Rs. 5 crore against the same customer in the current year. As against the other customers, we have totally provided for on best management estimates, liquidated damages of about Rs. 46 crore in FY19 and we have added another Rs. 15 crore in that in the current year, bringing the liquidated damages provisions to about Rs. 65 to 67 crore. All of this is already netted off in the numbers that we are talking to you here.

Moderator: Thank you. The next question is from the line of Narottam Garg from CWC Advisors. Please go ahead.

Narottam Garg: One question is just on the BoS contracts because that is going to be larger part. What is the margin profile vis-à-vis the full contracts that we have?

Bikesh Ogra: Are you referring to the contract in the US specifically or…?

Narottam Garg: The one which do not involve us buying the panels and making a margin on that.

Bikesh Ogra: Yeah, so the margin profiles on those particular projects, if we talk about specifically, they are in the double digit percentages and in the US also like as a strategy we have also entered into a US contract and there also the same double-digit margin.

Narottam Garg: Just one more question for Mr. Bahadur. In terms of liquidated damages, in a scenario wherein there is a delay in a project or some kind of deficiency from our end, right?

Bahadur Dastoor: Yes, so it could be on account of time delay or any scope changes which could have been there. So it is on account of those things only.

Narottam Garg: And the liquidated damages which we provided in FY19, we have written back in FY20 or not?

Bahadur Dastoor: No, we have not, because those projects, the settlement agreements were dragged on. We have got the substantial completion works done, and settlement agreements have been signed or in the final stages of signing. So all of that will be knocked off in the current year.

Narottam Garg: It will be written back, right?

Bahadur Dastoor: No, it will be adjusted against the receivables. So, it is already provided there. So there will be no further impact. The provisions have been made on best management estimate as to what is the liability that will finally hit the P&L.

Moderator: Thank you. The next question is from the line of Mayank Bhandari from B&K Securities. Please go ahead.

Mayank Bhandari: I wanted to understand about your overhead cost. It has increased YoY and the reason for the same is highlighted as increased ramp up in different countries. So can you just give us some sense on like how many countries we are still left to ramp up or how should we treat this going forward? Because that will probably lead to a significant increase in our EBITDA margin going forward. if that is a stable right now?

Bahadur Dastoor: So I will answer the question on what are the overhead increases. . So, as we mentioned in Australia and the US, we had partial costs last year and we have a full period cost in FY20, leading to an increase in overheads. Also, at the same time, our team in the United States was strengthened. This has transpired as you can see in large orders in Australia as well as one of a large order which we have just signed off yesterday in US of almost Rs. 750 crore. At the same time, we are looking at a cost optimization drive to bring down our overheads. These overheads do include things like expected credit loss provisions. It also includes a certain one-off provision which come in, for example mark-to-market losses. These are all figures which hit the overheads. But at the same time we are looking at bringing down our overheads substantially and with the higher turnover and the reduction in overheads, we are definitely looking at slightly larger EBITDA in the current year as compared to what we achieved in the previous year.

Bikesh Ogra: To respond to your latter half of the question, in terms of the growth potential that we are seeing I think we did in Australia and the United States and Latin America. Now the next target market for us is the European markets. I think Europe has picked up pace from last year after being dormant for almost six to seven years in terms of the solar capacity. And we were supposed to be setting up a larger base and larger structured organization in Europe more specifically in Spain during March of this year. Unfortunately, we all know that things have got slightly derailed. But we see now things getting restored to almost normalcy in those parts of the globe and we will now start setting up the organization there and which will give us a slight bit of an increase in overheads but I think we also clearly see a lot of business opportunities with our existing customers who want us to set up our offices in those parts, so that we can get the business. So we do not see the kind of overhead increase, as much as we did in the US, to set up the management team there, because we already have an existing relationship with the IPPs there and they just want us to come there so that the business can be acquired.

Mayank Bhandari: So eventually after Europe you may look for more geographies because I think that would be the end of your expansion spree or like what do you see there?

Bikesh Ogra: No, I think if suppose we had something going above besides the globe, we would have surely gone there. For us China definitely is not the target market. To answer your question more specifically, the next target market, although that market is not very large is the South Korean market. It is a very lucrative market with very limited EPC players there. And there too, our focus was to set up our bases. But again that has got a bit deferred, because of the COVID situation. So South Korea would be the market that we would be addressing in the near future, besides the European market. I think if you leave Japan and China, we would be now present in globally all the markets that has the solar energy programs or teams running around it.

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

Subham Agarwal: My question is related to the European markets specifically. So, we have not seen any execution in last year in the European market. And we have also not received any orders from that market.

So what is your outlook and out of the 22 GW bid pipeline, have we put in any bid in that specific market if you can give some details?

Bikesh Ogra: Like I said, the 22 GW would be the orders that we would bid for. Had it not been the situation that we are currently in, we would have started bidding the projects in the European market as well. But now, like I mentioned, it has got slightly deferred. We should be bidding for around 750-odd MW in Q4FY21 in the European market. And we hope to see the construction to commence in the Q2 of the next calendar year. To answer your question, we have bagged one job in Montenegro that has got deferred the construction. But we hope that the construction would be starting by September or October of this year in that particular site.

Khurshed Daruvala: To add to what Bikesh has said, the European market was the BoS market, but now we are also focused there because BoS values are quite large.

Subham Agarwal: Secondly, any other order that we have either renegotiated or canceled in the last three to four months?

Bikesh Ogra: No, we don't have any order that has been renegotiated or that has got cancelled. Yes, there is one order in Chile which has got deferred because of the COVID situation by a couple of months.

Subham Agarwal: Will the imposition of Basic Custom Duty (BCD) on solar cells and other equipments by the government, impact your Indian business?

Bikesh Ogra: So our business model in India is the balance of plant model. Modules are being supplied and issued to us for the plants. So anything related to the custom duties or anti-dumping duties, we are unaffected by that change because for us the business model in India is the balance of plants. Whilst in other parts of the globe other than the US, it is a complete turnkey and they do not have any policy in terms of anti-dumping. If at all there is a change in law, that all is covered under the contract as a change in law provision in those countries.

Khurshed Daruvala: And we recognize orders only after order signing now. So, a possibility for renegotiation is highly remote.

Subham Agarwal: My last question was regarding the Saudi Arabia contract. So you said on the call that barring this contract also, we will see a very good revenue this year. So when do you actually expect this contract to start working or the execution to start looking?

Bikesh Ogra: Like we mentioned I think what has been happening is that the offtaker affiliated to the Saudi government has been taking a lot of time since the government had other priorities and this issue has gone on the backburner. Now, we are hoping that you may see some amount of traction happening on the Saudi order in terms of the PPA discussions and negotiations starting in a couple of months. And once those PPA discussions and negotiations start, it may take maybe four to five months for the financial closure. So effectively if all goes well, we might see the commencement of the Saudi order early next year which is Q1FY22.

Khurshed Daruvala: Just one area that I would like to just come in on the Saudi order. See, I think one of the challenges is that our client has not yet signed up the PPA contract with the Saudi government. And I think this is an area where over the last six months the tariffs have gone down significantly in Saudi Arabia. So, we are still waiting now, as to how the client and the government there will now react and then how the client will come back to us. So, I think to your point on renegotiating of a contract - now all contracts that we have signed, we do not see any ramification, apart from this particular contract because the tariffs have come down. If they sign up at the old tariff, I do not see a problem at all. But if they sign up at the new tariffs, I think that they will be under pressure and they will come back to us on pressure because it is a LoI and a notice to proceed and it is not a finally signed contract. So, I think that this is one contract where we will need to be a little cognizant. as we go forward.

Moderator: Thank you. The next question is from the line of Ritika from Equitas. Please go ahead.

Ritika: I wanted to know now that you are moving into the more developed markets like 30% of our current order book is from Australia and US also contributes around 20% to 25%. Do we see the gross margins being a little lower?

Bikesh Ogra: On the contrary, like I mentioned, Australia with very limited EPC players being there, we are seeing good margin profile. In the US market also, like I mentioned, we would be clocking in a low double-digit numbers on the BoS packages that we would be bidding there. And the margin profile is far better than as compared to that in the Middle East, wherein you get margins in single digit numbers ranging between 6% to 7%. So therefore we are seeing a better margin profile in those markets in comparison to the Middle East market.

Ritika: I have some bookkeeping question. So on the standalone, we have a dividend income received of Rs. 78 crore. What is that?

Bahadur Dastoor: So that is the dividend which we received from our subsidiary, which in turn we added onto it and we passed on to our shareholders here.

Ritika: Which subsidiary is this -- is this the Middle East one?

Bahadur Dastoor: That is correct.

Ritika: And a loss from partnership firm of Rs. 15 crore?

Bahadur Dastoor: That is on a standalone basis. That is for one of our projects which we have done through a partnership firm because it required Shapoorji, Sterling and Wilson as well as the module supplier to be in a partnership. On an overall basis it has no impact on the consolidated financial statements, because those results are anyway taken. However, on a standalone basis, it is a requirement of the accounting standard to show that loss as a separate line item. You will see that it is not there in the consolidated financials.

Ritika: And could you give us a breakup of the subsidiaries performance for this year?

Bahadur Dastoor: It is uploaded on our website. If it is not, we will just ensure that it is done.

Moderator: Thank you. The next question is from the line of Gautam Gupta from Nine Rivers Capital. Please go ahead.

Gautam Gupta: The customs duty which has now come on the solar panels, I understand that it does not really impact us because of BoS and the legal mechanisms pass-through. But do you see any impact on second order in terms of solar CAPEX in India, now that the projects have become a little more expensive?

Bikesh Ogra: We have been seeing an uptick on the solar CAPEX in terms of tariffs that are being quoted. We used to see a tariff before of Rs. 2.5 which had gone up to around Rs. 2.6 to2.7 and I think that is a sustainable number which would be built by the IPPs. We clearly are seeing an uptick in those numbers. And that being said, we are unrelated to the tariff change, because for us it is a BoS package and we have always participated in the balance of plant packages with IPP.

Gautam Gupta: But you do not see that dampening the solar CAPEX plans or sentiments, there is enough headroom in the tariffs to absorb those?

Bikesh Ogra: Absolutely, I think like I mentioned even during the absolute lockdown for the last three months, there was around 1.2 GW worth of orders that got finalized and we won projects of around 600-odd MW even in the lockdown. So Government of India is laying a lot of trust in terms of proliferating the solar capacities in the country. We do not see any dampening happening on this.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Bikesh Ogra for his closing comments.

Bikesh Ogra: We would like to again thank everyone for joining this call and your continual support all the while. I hope we have been able to address all your queries. For any further information, kindly get in touch with Mr. Vishal Jain or Strategic Growth Advisors, our Investor Relations Advisors. And thank you once again and have a great day.

Bahadur Dastoor: Thank you.

Khurshed Daruvala: Thank you, everyone.

Moderator: Thank you. Ladies and gentlemen, on behalf of Sterling and Wilson Solar Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.