"Sterling & Wilson Solar Limited Q1 FY '21 Earnings Conference Call"

September 17, 2020

MANAGEMENT: **MR. KHURSHED DARUVALA – CHAIRMAN AND CO-PROMOTER, 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 -INVESTORS RELATIONS, STERLING & WILSON SOLAR LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Sterling & Wilson Solar Limited Q1 FY '21 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 date of this call. The statements are not guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participants' 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 '*' 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 of Investors Relations from Sterling & Wilson Solar Limited. Thank you and over to you, Sir.

Vishal Jain: Good Morning, I Welcome you all to Q1 FY '21 earnings call. Along with me, I have Mr. Khurshed Daruvala, Chairman and Co-Promoter; 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 an update by Khurshed followed by the operational highlights for the quarter by Bikesh and financial highlights by Bahadur, post which we will open the floor for Q&A. Thank you and over to you, Khurshed.

Khurshed Daruvala: Good Morning, Ladies and Gentlemen, so before Bikesh and Bahadur take you into the business presentation, I would like to update you on the status of the repayment of the balance amount of loans due to the company from Sterling & Wilson. As of June 30th, there was a total amount of Rs. 1,251 crores of loans outstanding including interest out of which Rs. 500 crores was to be paid by June 30th and the balance was to paid by September 30th. From the June installment of Rs. 500 crores, Sterling & Wilson Private Limited has been able to pay back a total of Rs. 103 crores till date. As you must have read in the media reports, my co-promoters, Shapoorji Pallonji has made definitive plans to arrange funding at the promoter level to facilitate the balance loan repayment. The proposed financing arrangement was actually signed on September 4th with a very strong lender, however, because of legal actions taken against the group immediately thereafter, the proposed funding plans have now been frustrated. While the SP Group is confident that they have a very strong legal case, every day's delayed in the fundraising is causing undue distress at the group level and hence making the September 30th timeline is not going to be possible even with the best possible efforts we put in over the past few months. However, to show our clear intent to facilitate this repayment within a very short period of us getting to know, we completed the securities of about Rs. 460 crores and are in the process of perfecting securities of an additional Rs. 740 crores, making a total security package of Rs. 1200 crores, which would cover the entire amount of the outstanding loan.

However, due to various uncertainties the group is facing in its construction and real estate business due to the COVID pandemic, the promoters have sought an extension of one year to facilitate the repayment of the loan. The promoters have also agreed to an interest rate spread of 4% over and above the average borrowing rate of Sterling & Wilson Solar at an additional penalty, and this is in spite of complete securitization of the outstanding loan. I would like to take this opportunity to thank the Board and the Independent Directors for understanding our difficulties and the circumstances and having agreed to this partial extension. While the timelines of one year is agreed, we will make all possible efforts to facilitate the payment at the earliest possible. I would now like to hand it over to Bikesh for the business presentation and I am happy to take questions at the end of the session. Thank you.

Bikesh Ogra: Thanks Khurshed and a very warm Welcome to all the participants on this call. I wish you all a very healthy and safe times in these tough and challenging environment, so I would like to give you an update on the impact of COVID to start off with on our operations and the business, besides I will also add some color on our market reach and the order book position.

So our project execution pace was definitely impacted due to the COVID-19 in Q1 of this year as execution activities at the project sites were stopped due to worldwide disruptions, due to lockdowns imposed. The construction activities have recently commenced at majority of these projects and we are now operating at efficiencies of around 80% to 85%, which would be gradually ramped up to 100% in due course. Having said that, our most important objective and priority in the current situation is the safety and well-being of our employees, vendors, partners, and all stakeholders in the value chain. We have, therefore, taken at most safety measures which are in strict compliance and within the guidelines laid by the respective countries in order to mitigate the impact.

As you must be all aware about the ongoing geopolitical tensions surrounding the Sino-Indian relations, we have not faced any major supply chain disruptions owing to these escalations neither do we anticipate any hurdles going forward. Additionally, as a hedge and a de-risking strategy, we have already developed alternate countries for equipment procurement, which will reduce our dependence on any single country going forward as well. Over the past two to three years, we have been trying to make inroads into newer markets like Australia, United States, and South America. Our go-to market strategies have now started seeing very positive traction in terms of significant order inflows coming in from these geographies. These developments spell a very promising trajectory for the company especially at a time when the Middle East market has been experiencing intense competitive pressure on the margins. In these newer markets, which we recently won the projects like Australia and US, the profile of the margins are far better in comparison to the Middle East market. Also, in past couple of years, the European market has seen substantial growth and offers immense potential for us as well, so we are considerably reinforcing our management teams in Spain, which will help us cater to this promising market.

Now moving onto our market region order book position, in spite of these challenging times, we have been able to secure orders and strengthen our order book position. In Quarter-1 of this year, we have got significant breakthrough in securing our largest orders in markets like Australia and the US. We signed an EPC contract of approximately Rs. 2,600 crores as well as an operation and maintenance contract of approximately Rs. 400 crores in the Australian market. Also, we signed an EPC contract approximately Rs. 747 crores in the first quarter of this year. Amidst the lockdown in India during June quarter, we were able to sign two projects with leading global

IPPs in India adding up to a value of Rs. 680 crores. Post June 30th, we signed orders worth Rs. 1600 crores in Australia for construction of two large-scale solar projects, which aggregates to an installed capacity of around 300 Megawatts. Additionally, I am also very happy to announce that during this week itself, we have also signed an order in Chile worth around about Rs. 460 crores. Therefore, to summarize our order inflow for the first quarter of this financial year has been around Rs. 3,633 crores and we have received orders worth Rs. 2,064 crores post June 30th till date, resulting in a total order inflow of Rs. 5,696 crores compared to a mere Rs. 828 crore order book which was booked during the same period last year. All of these projects that have been booked in this quarter have a timeline of completion around 14 to 18 months from the time we sign the contract to its commercial operation date. With this order inflow of around 1.4 Gigawatts year-to-date, our portfolio size has reached a very impressive 10.5 Gigawatts plus scale.

In terms of the geographical spread of the UOV as on September 15, 2020, Australia constitutes around 50%, America is around 22%, India is 13%, Africa 7%, and the balance 6% is from the MENA and European region. I would also like to share that during this quarter, we have reached a major landmark of being the first Indian company to commission a solar PV project in Oman for 125 Megawatts which is the biggest single unit solar power in the region to use bifacial modules.

Our operation and maintenance business continues to see a very strong traction as well. As of June 30, 2020, our contracted O&M portfolio is around 7.8 Gigawatts, which comprises around 47% of third-party operations and maintenance portfolio. It is a very high margin business with EBIT margin upward of 30%. We plan to keep growing this business with a focus on third-party operation and maintenance contracts in newer geographies by leveraging our relationships with our customers.

Lastly, I would like to highlight the fact that there might be a slight deferment on timelines owing to the current testing times on this pandemic. There has been absolutely no change in the commitment by the global IPPs, developers, lenders, etc. towards investment in the renewable energy project and specifically in the solar PV power projects. Solar PV is becoming increasingly attractive as the levelized cost of electricity in comparison not only with the other fossil fuels, but also with other renewable sources of energy is becoming very, very competitive. The outlook for solar power PV market is increasingly looking robust and is likely to witness compounded annual growth rate of around 15% to 20% for the next five years. We are, therefore, very well poised to follow this growth trajectory. With our track record, our market reach, and an established pedigree in this business complimented by strong relationship with global IPPs, developers, and lenders, there is a considerable scope to outgrow this market. Thank you very much and with this I will ask Bahadur, our CFO, to take you through the consolidated financial highlights. Over to you, Bahadur.

Bahadur Dastoor: Thank you, Bikesh, and Good Morning friends. I will take you through the consolidated financials for the quarter ended June 30, 2020. Before we run through the financials, I would like to reiterate that being an EPC company, the revenue, order flows, and gross margins could be lumpy due to geographical mix and stage of execution of the project in any particular quarter and hence comparison on corresponding previous period will not be a true reflection of the performance for a quarter and the performance for a quarter may not be represented for a full-year. Revenue for Quarter-1 FY '21 has been Rs. 1,068 crores as compared to Rs. 1,245 crores in Quarter-1 FY '20. The revenue was lower on account of higher revenue in the previous corresponding period on completion of projects in the MENA and Southeast Asia region, which were high margin coupled with COVID-19 pandemic having an impact on our domestic operations. The region wise revenue breakup of Quarter-1 FY '21 is as follows; Australia contributed 72% of revenue followed by the Americas at 20% and the balance 8% from India. As mentioned by Bikesh earlier, the operation in certain parts of the world like Kenya, Jordan, and India were suspended due to lockdown, which are slowly getting normalized. Also as mentioned by Bikesh, our O&M revenue has increased by 77% to Rs. 63 crores in Quarter-1 FY '21 compared to Rs. 36 crores in Quarter-1 FY '20. O&M now constitutes 5.9% of revenue in Q1 FY '21 compared to 2.88% in Q1 FY '20.

Overall gross margins were at 10.7% in the current quarter compared to 14.7% in the corresponding previous quarter as I mentioned due to high margin projects being undertaken in the previous first quarter. We expect the gross margins for the year FY '21 to be in the range of 10% to 11%. EBITDA for the quarter stood at 18 crores and EBITDA margin at 1.7%. The EBITDA margins were lower on account of lower revenue coupled with lower gross margins and restatement of loan given to an overseas branch by about Rs. 17 crores. Overheads reduced year-on-year by Rs. 19 crores to Rs. 98 crores due to cost efficiency measures undertaken and reduction in travelling cost due to COVID-19. PAT for the quarter stood at Rs. 17 crores. The other comprehensive income, the group had taken forward contracts including cross currency hedges to hedge the exposure of currency fluctuation in respect of receivable from customers, trade payables, and letters of credit. The Australian Dollar-INR derivative contracts were taken for receivables from customers and Australian Dollar to US Dollar, and US Dollar to INR derivative contracts were taken for trade payables and letters of credit payments. The strengthening of the Australian Dollar has resulted in the other comprehensive income having a mark-to-market loss on a notional basis of about Rs. 51 crores. On utilization of forward contracts on the date of maturity, the effective portion of the cash flow hedge reserves previously now recognized in other comprehensive income would be recycled into the profit and loss account, which would be offset by increase in revenue for restatement of receivables and payables.

Now, coming to the balance sheet, I would like to again reiterate that as per the amended Articles of Association, the company cannot give loans to promoters or their affiliates post listing. The external term debt outstanding as on date is Rs. 653 crores. Since listing last year, we have repaid a total of Rs. 1,858 crores through internal accruals and money received from promoter group companies on collection of the inter-corporate deposits. The total repayment of external term debt over the next two quarters is Rs. 653 crores with Rs. 205 crores to be paid in Quarter-2 for which we are in discussion with banks and balance Rs. 448 crores payable in Quarter-3. We have cash and cash equivalent of approximately Rs. 184 crores and with the net worth of Rs. 1,039 crores as on June 30th, our net debt to equity ratio is 0.98x. Our net working capital as on June 30th increased to Rs. 383 crores as compared to Rs. 178 crores as on March 31st primarily on account of higher unbilled receivables, net working capital days stood at 32 days as at June compared to 12 days as at March.

Receivables due for more than one year as at June '20 stood at Rs. 409 crores compared to Rs. 454 crores due for more than one year as at March '20. Receivables due for more than one year includes Rs. 72 crores net of provision for ECL pertaining to a customer against whom the company has approached the NCLT. The company has recovered Rs. 110 crores from the amounts due for more than one year in March '20. The company is confident of recovering most of the overdue balances in the current financial year.

The total inter-corporate deposits, loans stand at Rs. 1,148 crores as at date including interest accrued up to June, which as mentioned by the promoters will now be paid in tranches over a period of one year. With this, we can now open the floor to questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Avinash from Aditya Birla Capital. Please go ahead.

Avinash: Good Morning to all, couple of questions to start with, the first question is with respect to the repayment agreed by the Board of Directors, so my first question to Mr. Daruvala, is there any schedule for repayment or we are saying that the outer date is September 21 that is first, and from the Management team additional 400 bps means what in the current context, just give us a sense in an absolute number what is in the current scheme of things that interest will accrue at what percentage?

Khurshed Daruvala: On the repayment schedule, while we have asked for one year, obviously we will want to pay much earlier than that in tranches. Now, because this entire issue is actually just one week old and so we are working out an interim plan, discussions etc. and then we will be informing the Board of how the moneys will flow over what period of time, so that is our internal plan too because also having a 14%, as of right now I think the average borrowing cost must be a little over 10% or about 11%, so adding about 4% onto that it comes to about 15%, so I think it is in everybody's interest within Sterling & Wilson also and at the promoter level to pay it as fast as possible.

Avinash: Okay, so what I understand is in due course of time whenever there is visibility, the promoters will provide a schedule, is this correct?

Khurshed Daruvala: We will not be giving the schedule, as written committed schedule of every two months or three months or four months, but clearly there is going to be identifiable receivables where we already know because it is a huge receivable within Sterling & Wilson and other flows that we have, so there are two-three options with which this can entirely get paid out, two-three options will be explained to the Board and we will be putting down how this money will be going. We will not be now going into let us say quarterly written commitments etc., we will be making our best efforts to pay it as soon as possible and we will be giving a complete guideline of where it will come from and how it will get paid.

Avinash: Thanks Mr. Daruvala, I have two more questions for the Management team, number one, Bikesh, is there any project which is stranded as of now, stranded means the project got commissioned and it has been pulled on hold by the customer during the last six months?

Bikesh Ogra: Avinash, Good Morning, I do not know whether you gone through the presentation that we have uploaded yesterday, the investor presentation…

Avinash: I have gone through the presentation, apart from LOIs which two projects you have adjusted for, I am asking any projects which got stranded after it got commissioned and during the last six months, this pandemic time, customer has said to put on hold, is there any project like that?

Bikesh Ogra: Barring those two projects which are mentioned in the presentation, there has been not even a single project which has got stranded or which has been put on hold because of various reasons which includes the pandemic, so there is business as usual that is happening on all of our projects barring the two which has been mentioned as I said earlier and in the same breath I must mention there has been a deferment of timelines in terms of two to three months of deferment on the timelines in terms of receiving the notice to proceed. Barring that, I think there has been no cancellation, no suspension of any of the projects that we are currently executing.

Khurshed Daruvala: Sorry Avinash, Khurshed here again, there is one point I forgot to mention to you that what we have discussed at the Board level is that there is a large receivable in Sterling & Wilson which we plan to escrow to the solar company, so while security is one side, I think the ability to pay and how that will flow through, so there is a large escrow receivable which is coming through, which will be documentation along the company to make sure that whatever receivable comes from that side will get escrowed into the solar company.

Avinash: That is helpful, Mr. Bahadur is the gross margin also impacted because of revenue recognition for this quarter?

Bahadur Dastoor: Gross margin is a function of the revenue recognition, so there has been no reduction of gross margins, it is just that these projects were having an average gross margin of 10.5%-10.7% and that is why the overall gross margin remains in that range. In the corresponding previous quarter, we had got high margin projects in places like Egypt and Southeast Asia and those were on the verge of completion which is why the gross margin was at that point of time 14.7% though towards the end of the financial year, it had come down to 12.8%.

Avinash: One last question, let us say tomorrow hypothetically if there is any embargo on Chinese products for Indian corporate not project specific, but any embargo on Chinese product for

Indian companies, so are we indemnified in the contracts with our customers, let us see the projects we are working in Chile, USA, Australia, so is there any, are we indemnified there?

Bikesh Ogra: So Avinash, I think very clearly there is a change of law provision in the contract, which gives us a clear provision in case there is for an Indian EPC or an Indian organization from a Chinese Government there is an embargo which has been put in, so there is a change in law provision and it gives us a clear relaxation to really adopt that change in law and seek an alternation or provision which will help us to alter the contract to suit requirements there, so effectively we are not really affected by any escalations or tensions that are there currently ongoing and besides of that if you take countries like India, we have primarily working on a balance of plant, so the modules which are the primary source coming in from China, we are not really dependent on those factors in Indian scenario as well as in the US scenario. Whilst, we are talking about modules as a balance of plant factor in India, and US, in other countries what we have mostly seen that although we do take a turnkey job at the margin of the module are also part of our turnkey provision, the modules mostly are getting discussed by the respective IPP and the developer with the module guys directly and it gets passed on to us at a nominated margins , so effectively our reliance on China is very, very minimalistic considering the business model that we adopt in India, US, and most of the other countries.

Avinash: My only question was if tomorrow we have to source the module from an alternate destination in Europe, increased 10%-15% cost because leave China and USA, other parts of the world where we are doing the turnkey projects, it will not come on us that is what I want to understand?

Bikesh Ogra: Absolutely, it is definitely not on us, it is on the client because he negotiates the price. He then gives us the price and then we load our margins as the turnkey package and if there is an upside or downside movement on the modules, it is all to the customer's account.

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

Mayur Gathani: Thank you for the opportunity, what was the interest rate the promoters will be paying for the balance ICDs over the next one year time?

Bahadur Dastoor: The promoters will be paying in India, so what we have said is the interest rate spread is 4% over the average borrowing rate of the respective entities, so in India the borrowing rate is about 11%, so approximately it would be 15% which will be paid in the India loan. As far as the overseas loan is concerned, the average borrowing rate there is about 7%, so there it would be effectively 11%.

Mayur Gathani: Can you break up the amount how much is in India and how much is overseas in that Rs. 1,148 crores?

Bahadur Dastoor: Approximately Rs. 600 odd crores would be overseas and Rs. 500 odd crores would be in India.

Mayur Gathani: Out of the Rs. 409 crores receivables that are due for more than one year, are there anything that is due from the promoter side, I mean promoter group company something of that kind?

Bahadur Dastoor: There is one amount which is on an international project for which the promoter company has also not received it, but that figure is about Rs. 17 crores only, so there is a back-to-back order from a customer to the promoter company and promoter company to us as the customer has not paid the promoter company therefore that is also outstanding, but in our books it shows up as promoter company.

Mayur Gathani: These receivables that are due for more than a year, are these projects completed or they are stranded mid way or why this payment kind of stuck, can you give us a brief on that?

Bahadur Dastoor: Yeah, so some of the projects are for change in the nomination from onshore to offshore, so there is a contract amendment process, which is happening, so that is for a value of about Rs. 36 crores. There is an amount which is from a customer in Africa, which is expected to be collected by end of November, that amount is today at about Rs. 24 crores. The project is complete. There are discussions going on and certain punch points which have to be done. There is an amount which is due in Argentina that is about Rs. 101 crores, it was earlier a Rs. 133 crores, discussions are currently in progress between the owner, lender, and Sterling & Wilson. Sterling & Wilson has made provisions for the best estimates for the liquidated damages as well, so that Rs. 101 crores is the major one, which is under discussion. Along with that, we have the ILFS which is Rs. 92 crores, which is under NCLT for which the company has already made an ECL provision of about Rs. 22 crores, those were the major parties.

Mayur Gathani: On the term debt of around Rs. 653 crores, do we see this increasing or we are very clear that over the next nine months' time, this will practically become zero because the repayment schedule is over next six months?

Bahadur Dastoor: While the repayment schedule today is for the next six months, we are in touch with our bankers who have always been supportive of us even in the last one year to work out ways of short term rollovers to make it match with what is coming in from the promoters and/or whatever are the receivables from our projects which can be used to make payments of this, so if you were to just see on an overall basis when we started out the IPO last year, the term debt was almost Rs. 2,500 crores, so while the promoters have brought in about Rs. 1,600 crores, company has also used its own internal accruals of about Rs. 250 crores for causing a reduction, so it is a combination of both and our bankers have always been supportive. We are hopeful the support will continue even in the near future, but without promoter infusion, it will not go down to zero.

Mayur Gathani: Okay, but is there a possibility because of working capital cycle increasing that we may have to increase this?

Bahadur Dastoor: No, so this when we are talking about, we are talking of the term debt. When there is working, there is always working capital borrowings which does not have a timeline affiliated to it which is represented by cash credits or working capital demand loans or buyer's credits, so those are dependent on the working capital. If the working capital goes up or down, those balances come down, Rs. 653 crores is the term debt against which there was a promoter loan, so that is the number that I was talking about.

Mayur Gathani: My bad, sorry I got that, and that the net working capital is approximately Rs. 383 crores as we speak or in June end?

Bahadur Dastoor: Yes.

Mayur Gathani: Okay, as you said the newer projects that have come in are at a higher margin, so I would see some incremental gross margins coming in from a 10%-11% base?

Bikesh Ogra: Mayur, Good Morning, so what is happening is we have been always guiding for band of the margins that will come in terms of the aggregation of various geographies and we have always maintained that we will be within a band of 10% to 11%, and we like to retain the same band going forward also in terms of the gross margin that will get accrued.

Mayur Gathani: Generally any guidance that you will be able to provide on the EBITDA in the range of 5.5% last year and then was 7% last '19, so what should be, if we do not see a gross margin improvement then are the cost efficiency is going to help us improve our EBITDA or this is a stable range for this company?

Bikesh Ogra: What is happening is there has been a very massive exercise that we have launched in terms of restructuring the costs over the last five to six months and we would see some operating leverages coming in and in terms of the guidance, obviously we are still evaluating the situation as it is panning out in various geographies, I think it would be taking some amount of time for us to really evaluate the actual guidance numbers, but we surely are very confident that in terms of our revenue, we would be going and surpassing our last year revenue by low double-digit number.

Mayur Gathani: Sorry, can you repeat that.

Bikesh Ogra: We would be surpassing our last year revenue by a low double-digit number for sure and it is all dependent on how things pan out. Right now, like the situation is normalizing and we hope that it stays normalized and we are able to be at 100% efficiency on all of the project sites and there is no further lockdown that get imposed in any of the country that we are operating in.

Mayur Gathani: On the term debt and working capital, what is the interest outgo, interest rate?

Khurshed Daruvala: It is as I explained in India it is at an average of 11%, in Middle East which is our other source of borrowing, it is in the region of 7%, this is our weighted average cost of borrowing in these two economies where we have the greatest amount of borrowing. Accordingly, when we will be charging interest on the inter-corporate deposits, in India it would be as of now 15% and in the Middle East it would be 11%, which gives an effective 4% spread, so in case our borrowing rate goes up, obviously it would be again charged back to the group company. Also, the group company will now be, they have committed that they will now be servicing the interest on a quarterly basis.

Moderator: Thank you. The next question is from the line of Chetan Shah from Jeet Capital. Please go ahead.

Chetan Shah: Good Morning Sir, two quick questions, if I see our geographical mix of order outstanding what it is today versus what it was two years back and also the mix of the revenue in terms of the services, OMC revenue versus the pure EPC contracts revenue, which is also taking and our size of OMC revenue keeps increasing, so if one wants to increase the gross margin outlook, three years of that like what we did in last financial year about 14%-15%, so how do we see this margin getting changed in overtime because our understanding that the Middle East region or a MENA region margin is little lower than what we normally make in Australia and in USA markets, so if you can give us some sense on that, that will be very helpful please?

Bikesh Ogra: I would like to reiterate what I said earlier in the call that we have always been guiding that we would be targeting an aggregate in margins between 10% to 11% and that being said, I think what you also mentioned is in the Middle East market, the margins have been extremely very tight, very competitive, and it has become all the more tighter and competitive with the influx of lot of Chinese EPCs, therefore, our focus has always now been to really get into the markets which are offering us higher margin profile, which is the markets like the Australia market, the South American markets, and the US markets, so if you ask me a question in terms of how do we forecast the margin profiles to be three years or five years down the line, we will always want to project it to be in the same band, that being said, I think it is always very understanding, very advisable to note that we would be definitely going forward wanting to get in operating leverages, which will help us really bring up our EBIT margins from what we are currently at. The margins that we are working on the gross levels would be 10% to 11%. In terms of the operation and maintenance margins, we right now are operating at 30% to 35% levels, we would broaden our base and broaden our network in terms of getting in more third-party operations and maintenance in addition to the captive operation maintenance business that we are having, we would definitely see an upside on the margins on the operation and maintenance business.

Chetan Shah: Sir, one more question in terms of our geographical concentration, historically we saw what happened in MENA region which was almost close to 50% of our total order backlog and now Australia is again a very sizeable part of our order backlog, as an organization, as a broad strategy what is the comfort level of a geographical concentration which we would like to maintain and so that any kind of adverse situation happens does not make any business level impact to our in terms of the financial and also in terms of the execution of the orders, so any thought on that, that will be very helpful, Sir?

Bikesh Ogra: I think it is a very apt question and a very valid one, what is happening is I think Middle East like you rightly said was highly concentrated order mix for us in the past and from there we took a cue and we started expanding in geographies like US, Australia, and South America. Now, what has been happening is from being at 40% to 45% revenue mix coming in from a single territory, it is always very, very highly risky for us in terms of the concentration. Now, what is happening is we have expanded like I said into US, Australian, and the South American markets, which will give us an hedge against the concentration and if you take our revenue mix this year, I think it will be a very judicious mix which will come in from Australia, US, South America, and going forward like what we have mentioned in our presentation also Europe has also started picking up quite positively in terms of the Megawatts that is offering, so that will also fall in our pie, and therefore, when you take an aggregated pie going forward, it would be a judicious mix of concentration which would mean US, Australia, India, South America, and Europe, so therefore it would definitely give us a very good mix of projects which will not leave us with any concentration risk.

Bahadur Dastoor: To what Bikesh has said the 40% to 45% was almost from a single customer, Australia we have about four to five customers, so while it may be there from a region, there is no customer concentration as such.

Chetan Shah: Thank you for clarifying that, that was very interesting point. Sir, just one last question from my side, this is on a PV module situation, so Sir if you can just give us some sense due to COVID and too much of thing which is happening in China, what is the current situation on that side and how it actually has been spanning out, I know some part of that actually our customer sources for us and it is not something which is one of our key important botheration, but just to get a sense on the market, if you can give us some idea on that, that will be very helpful?

Bikesh Ogra: Like I mentioned we are very less reliant on the PV modules coming in as I explained for the reasons that I mentioned earlier, but just to give you a broader sense of how the PV modules industry is shaping us, the China has got an immense and a massive production capability, like last year we had around 140 Gigawatts of installed capacity. China in itself has much, much more than that in terms of the production capabilities that they have, so in terms of having a challenge or a concern on the availability of modules, we never see that coming in from China or any other country because it is right now oversupplied that is there in the market, so effectively for us like what I mentioned earlier, we are not really reliant on the PV modules and China as such because the business model that we adopt, but as an industry it is very, very safely hedged because of the overproduction capabilities that lots of manufacturers have developed over the past few years.

Chetan Shah: Thank you so much and wish you all the best for the future.

Bikesh Ogra: Thank you.

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

Anupam Gupta: Morning Sir, so a few questions on the business, firstly if you can highlight the order inflow pipeline which you see at least for the next couple of quarters across geographies you can detail it a bit that would be helpful?

Bikesh Ogra: When you talk about the forecast that we are looking at for Q3-Q4 in terms of the pipeline that we are bidding in for, I think if you talk about Q3 we would be bidding in approximately 4 Gigawatts in various geographies other than India, India would be around 2 Gigawatts, so around 6 Gigawatts, we would be bidding in the Q3 quarter and that would be spread across Australia, Europe, Middle East, North America, South America, Southeast Asia, sub-Sahara, Africa, and countries like that and India obviously and when you talk about Q4, I think we would be again in these geographies including India, we would be bidding in for around 4-4.5 odd Gigawatts, so effectively put together, we would be bidding around 8 to 9 Gigawatts in the next two quarters.

Anupam Gupta: Okay, and historically you have seen close to about 20% success rate, will you look to retain that or do you see competition taking some portion of that away?

Bikesh Ogra: When you talk about the historical conversion rate, we have always maintained that the conversion rate for us has been 13% to 14% and we are very, very confident although in the first two quarters, the conversion rate has been quite high, but we are very confident that we will be definitely in the band that we have been always historically been in terms of the conversion rate which is 13% to 14%.

Anupam Gupta: Okay, understand, secondly on the revenue you have said low double-digit growth rate in FY ’21 over FY ’20, if you see your existing order book the Rs. 10,000 crore or so order book, more than 55% has come in over the last two quarters including the wins in Australia, so at this point of time are almost all the orders having the notice to proceed or you still have a few orders where notice to proceed has to come in and once all these comes in, will that support that Rs. 6,000 crores order of revenue, which we are talking about Rs. 6000+ crores?

Bikesh Ogra: As I had mentioned earlier, now our order book recognition only comes in once we have the notice to proceed and a contract signed, so all of the projects that are currently being discussed in terms of Rs. 10,000 odd crores that has been mentioned have got a clear notice to proceed and we are currently in some of the projects we have already started the construction or in the advance stages of starting the construction, so therefore whatever projects that we undertake or obviously done after the financial closure is done that means the lenders, the IPP is able to raise the debt with the lenders and once the debt is raised, then only we accept the notice to proceed, so effectively all of these projects that we are currently talking about is Rs. 10,000 odd crores, have got a notice to proceed and the financial closure as well.

Anupam Gupta: Okay, and in terms of gross margin when you said 10% to 11% which is basically for the existing order book of 10,000 crores, right?

Bikesh Ogra: Yeah, so it is an aggregated order, like Australia which have slightly higher margins, in the US it may not be as good as Australia, but if you aggregate the overall mix, it will be in the band of 10% to 11%.

Bahadur Dastoor: Also Anupam to add to what Bikesh is saying, we are doing a cost rationalization exercise so with the order book growth, we are hopeful of pushing the EBIT margin to where it is.

Anupam Gupta: Yeah, I was actually coming to that, so if I see FY '20 your overhead which is employee and other expenses apart from the gross margin was somewhere around Rs. 410 411 crores approximately, so is there a possibility of what sort of savings can you see in that overheads coming down by?

Bahadur Dastoor: You can see that in what has happened in the first quarter Anupam and the management is actually working to make sure this continues over the year.

Anupam Gupta: Just one more question for Bikesh and then I will come to you as well, what is the status on the Saudi and the Montenegro order at this point of time, I know it is not there but will it completely get cancelled or is there a chance of coming back to you?

Bikesh Ogra: I will talk about Saudi first, what is happening is that if you take the complete evolution of pricing over the last I would say one year in not only Saudi, but in the overall Middle East market and when we had got the LOI and the LNTP from the customer, at that point in time the tariffs were hovering around $ 2.4 cents and basis which we negotiated the EPC price and sign on the LNTP and the Letter of Intent. Unfortunately because of various reasons and one of them being COVID and the Aramco bid the IPO that happened this got into a back burner and unfortunately during this time there was a discovery of lot of other project pricing and which was almost half of the price, half of the tariffs that is there what was negotiated between the utility in Saudi Arabia and the customer, so what has happened is now we have started getting feelers that these prices may no longer be viable considering the fact that whatever has been discovered in the UAE, in the Oman bids, and also one more bid coming out in Saudi Arabia, so therefore there are feelers and indicators coming in from the utility to the developer and from developer to us that there may be a renegotiation on the pricing which may happen. Now, we have kept a particular margin profile for us in the Middle East market.

Given the fact that we will not want to really go into a suicidal mode on the pricing like what other companies have done, we would definitely want to keep ourselves within the threshold and if it is within the threshold, we would like to, obviously the choice of first right of refusal will lie with us in terms of accepting or not accepting, but given the fact what is happening is also now, and I will just try to give you a perspective of numbers, if there is a 1 Gigawatt order in say Saudi Arabia, it will give me the same returns as a 500 Megawatts project in Australia or in the US in terms of the margins, so I will have to use half of my efforts to deliver the same margins in Australia and US as I do in Middle East, so given the fact that tomorrow even if they come to us with an offer to match the price, we may or may not say yes, because we may have our hands full in other geographies which give us higher margin profile, so therefore it is important for us to be very clear that we will want to focus on high margin projects, which will give us faster returns, that is one.

Second is there have not been many large contracts which are being completed in the Middle East region as of now other than the one which we have finished around 1.2 Gigawatts, so we will see how the situation pans out in future because most of these projects out here, the large projects have been awarded to the Chinese EPCs, so we have noticed in certain regions as to what the customer's affinity towards Chinese EPC having worked with them once, they do not want to really work with them the next time and that has happened in one or two other instances wherein the large project that we bagged in Australia with the customer, he had worked with a Chinese EPC in some other region and does not want to work, so effectively what is happening is we will have to see how things pan out there and the fact that how the margin profiles evolve and that is about the Saudi Arabian thing. The Montenegro thing it is basically project which is between the Government of Montenegro and a very large Finnish IPP, so the land is a part of the overall project profile, wherein the land has to be acquired by the Government and the Finnish IPP, so what is happening is the land acquisition in Montenegro is a bit of a cumbersome process, and therefore, they have kept it for the moment in the backburner. As and when the land gets acquired, the project is going to come and we have also 1% equity stake because the contract mandated so, so as and when the land gets acquired, the project will come on live and we will be the default EPC for that project, so right now since it is only on an LNTP and LOI stage, so therefore we just kept it out of the order book position as we have adopted the policy in this last quarter.

Anupam Gupta: Okay, understand, one question for you Bahadur, so now that Australia and US is a much larger proportion of your order book and of the revenue as well, what should be the tax rate now that Middle East is a lower share there?

Bahadur Dastoor: So let us not forget that most of our sourcing will happen from the Middle East only, our Middle East entity continues to source the modules, the inverters, the trackers for our global operations wherever this is part of our scope, so in US the modules are not but in the rest of the world the sourcing does happen, so the tax rate will still be a mix between a zero rated tax in the Middle East versus tax in Australia or India etc.

Anupam Gupta: So it could be somewhere around 20% or lower than that?

Bahadur Dastoor: No, it will not be lower than 20%, it would be in the range of roughly 20% to 22%.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh: Thanks for the opportunity, I had two questions, first one as we look at your O&M revenues, they are currently 5%, so what do you expect it to be let us say over the next five years is there a natural progression because we are winning so many contracts, likely that you will get O&M of that, if you could just elaborate a little bit more on your strategy around O&M?

Bikesh Ogra: I think to look at it at 5% as a percentage of overall revenue this year, I think it will not be the right way to look at it because this year obviously the revenues were not as we all expected, but given that fact I think we are definitely looking at it, one is the captive acquisition of the business in terms of the EPC that we do and the third party acquisition. When you talk about what would be the outlook as we move forward over the next five years, I think it would start getting marginalized in the range of between 3% to 3.5% of the overall revenues in terms of the top lines on the O&M side and obviously as I mentioned earlier, the business is very lucrative in terms of the gross margin that it offers which is upside of 30%.

VP Rajesh: Okay, that is helpful, and just at the macro level earlier you were talking about the PV module, your comment was that there is a glut out there so if you can just give us a broad overview of what is the production capacity in China and in the rest of the world and where is that imbalance and the pricing built up between China and the rest of the world?

Bikesh Ogra: China, I would say contributes around 65% to 70% of the overall global production and the balance comes in from countries like US, Vietnam, Thailand, Malaysia, Turkey even Middle East to an extent and when you talk about the pricing Delta between Chinese and the other countries, I would like to not really mention US because US is all US centric modules that they are manufactured there and Japan is also mostly Japan centric captive consumption there, I think the Delta between the Chinese and the other markets would range between 1 to 1.5 cents at the most.

VP Rajesh: In terms of percentage, it will be more like 10%-15% or higher?

Bikesh Ogra: It would be in the range of around 5% to 7%, if you talk about today's 20 odd cents module per watt so it may be 21%-21.5% in that range from other countries.

VP Rajesh: Okay, since you are saying you are sourcing materials in your Middle East entity, is it safe to assume that say India or the US or anybody else puts a duty on the PV modules coming out of China, it may not be materially impacting our business because you are going to be directly importing from China into your Middle East entity, is that the right way to think about it or there are some other nuances that are missing in this?

Bahadur Dastoor: So as far as US and India is concerned, we mostly do balance of plants, so the module is not a part of our scope at all. For the rest of the world, we do the sourcing from the Middle East.

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

Kunal Sheth: Thank you for the opportunity Sir, I joined in little late so pardon me if this question is being repeated, but I just wanted to get some clarity on the O&M piece, so on the third party O&M specifically, I just wanted to understand how long are these contracts and what would be the nature of contract like your normal business, do you also guarantee availability even in your O&M piece?

Bikesh Ogra: So the profile of this contract is exactly the same as we have within the EPC contract, obviously the EPC contract we have our performance guarantee link to the EPC pricing for the period of two years and post which it is all linked to the O&M contract, so out here also what happens is there is a very diligent process, which gets done before we really acquire the third party O&M business and once that diligence process is over and once we acquire the business, there is a percentage of total contract price on the O&M side which gets linked to the performance of the plant, which can be varying from anywhere between 10% to 20%, but that percentage is only linked once we have an absolute diligence of the plant and once we do the complete evaluation assessment and basis which we give that linkage between the performance of the plant and the LDs associated with it.

Kunal Sheth: Okay, Sir even for the plants that you have done, you said that first two years, your performance linked guarantee and then it is linked to O&M, so for the life of the module even about back-to-back arrangement with the module supplier as far as the probability is concerned or how does that piece work?

Bikesh Ogra: For modules also, there is a 25 years reinsurance that gets keyed in at the time of the contract signing, which is either by the customer or by us and what happens at the end of the two-year performance period, we assign the guarantees and the warranties to the customer and from onwards of two years, it is the customer's responsibility to invoke any warranty or guarantee clause that is there for the PV module, so we get exempted of any warranties and guarantees after a period of two years on the PV modules.

Kunal Sheth: Okay, so after two years basically the developer can directly invoke the warranties and guarantees on the module supply, you basically are out of the picture?

Bikesh Ogra: Absolutely, we are out of the picture for the module performance and guarantees and warranties.

Kunal Sheth: Even if the O&M is under your scope even in that case you are out of the picture, Sir?

Bikesh Ogra: Our defect liability period and guarantee period is for a period of two years and after that even though the operation and maintenance is under our scope, since the assignment of the guarantees and warranties happens to the customer, so therefore he is only entitled to invoke those warranties.

Kunal Sheth: Okay, so basically the module supplier in that case directly gives warranties and guarantees in the name of developers or it is routed through you?

Bikesh Ogra: For the first two years it is with us and then we assign it, it is an assignable guarantee, but happens to be negotiated assignable guarantee to him, after two years it gets assigned to the developer.

Kunal Sheth: Okay, and Sir in overseas market the procurement of module is in your scope right?

Bikesh Ogra: Most of the procurement or the discussions and negotiations happens by the customer and they route it through us because we give a turnkey wrap because the lenders want it as such, but the price movement, any volatility on the prices all to the customer's account, although we take the margins on the overall turnkey price.

Kunal Sheth: Okay, because that is where because if that is in your scope then does the customer define the module supplier from where you have to procure it because what I understand is one of your strength is also your long-standing relation with few of the module suppliers, and therefore, the developer gets that advantage when he goes through you?

Bikesh Ogra: No, he nominates the supplier to us then it is basis our strength and our relationship with the module supplier as to how we negotiate the terms and conditions with him and we always normally are able to negotiate the terms and conditions which I think favorable to us.

Kunal Sheth: Sure Sir, thank you so much for the clarification.

Bikesh Ogra: Thank you.

Moderator: Thank you. We take the last question from the line of Karthikeyan from Suyash Advisors. Please go ahead.

Karthikeyan: Thanks very much, just one clarification, can you talk a bit about how you think about current implications in your business because you operate in multiple geographies, so could you talk a bit about how you manage the risks if any in terms of billing currency versus the translation currency and so on?

Bahadur Dastoor: Generally what we do is we take two kinds of hedges, one is where it is a project-related hedge, for example, in Australia our entire receivables will be in Australian dollars vis-à-vis the currency in Dubai would be the US Dollar or the Emirati Dirham and in India the Rupee, so we take cross currency hedge over the life-cycle of that contract, so that the pricing is well protected and that is the reason why if you see in the current quarter because the Australian Dollar has strengthened on a mark-to-market basis there is a loss but because it is related to a project and under the relevant accounting standard, it has been kept under other comprehensive income. Of course both the life of the contract that other comprehensive income loss will be nullified and our currency risk is protected. The second is where we have generic letters of credit etc. which we are opening for our imports, we will be taking a hedge which is bucketed across months such that a USD-INR hedge is taken to protect our payables. Similarly, that particular month if we have a receivable in foreign currency, it is netted out because it really does not make sense to take gross hedges, so we net it out and we take it, so generally it is anywhere upwards of 90% that we take hedges to protect our currency.

Karthikeyan: Right, just allow me to extend this, when you look ahead how would cash flows be handled, I think you have multiple entities in US and Australia and they would currently be generating cash flows because the projects are housed there, so how exactly do you think about cash flow movements across entities?

Bikesh Ogra: There can be back orders which are given across entities, for example, even in the Australia order, the India entity the Australian branch are also parties to that contract, so therefore cash flows can flow into India also to meet any obligations that are required to be paid. Similarly, a backorder for module supply would be given to our Dubai entity, so cash flows would move there, so that way we do maintain flow of cash flow to take care of all the outflows which flow up from time to time.

Karthikeyan: Right, you would allow standing of cash flows in local entities, the reason I ask is supposing tomorrow in Europe get a big order and the cash is in Australia, it would be like you are creating multiple?

Bikesh Ogra: No, so there would never be a concentration of cash in one and a strangulation of cash in another, that we do look forward for about six months to see that does not happen.

Moderator: Thank you. I now hand the conference over to Mr. Bikesh Ogra, Director and Global CEO from Sterling & Wilson Solar Limited for closing comments. Over to you, Sir.

Bikesh Ogra: Thanks, so our deep-rooted relationships, global presence, ability to provide customized solutions from track record of executing complex and large-scale projects and supported by a robust balance sheet as enabled us to achieve a large order booking in the current year in comparison to the last financial year despite the impact of COVID-19, we are therefore confident that H2 of this financial year would transform the overall financial outlook for this year leading to an anticipated revenue growth over the last financial year. I would like to thank everybody for joining this call and I hope we have been able to address all your queries. For any further information, kindly get in touch with Vishal Jain or Strategic Growth Advisors, our Investor Relations 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 this conference. Thank you all for joining us and you may now disconnect your lines.