"Sterling and Wilson Solar Limited Q2 FY2021 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, good day and welcome to the Sterling & Wilson Solar Limited Q2 FY2021 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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 Investor Relations at Sterling & Wilson Solar Limited. Thank you and over to you Sir!

Vishal Jain: Good Morning, I Welcome you all to Q2 FY2021 & H1 FY2021 earnings call. Along with me, I have Mr. Bikesh Ogra, Director and Global CEO; Mr. Bahadur Dastoor, CFO, and Strategic Growth Advisors, our Investor Relation advisors. We will start the call with the operational highlights for the quarter by Bikesh followed by financial highlights by Bahadur post which we will open the floor for Q&A. Thank you and over to you Bikesh!

Bikesh Ogra: Thanks Vishal and a warm welcome and good morning to all the participants on this call. I hope and wish that you continue to stay safe and healthy during these challenging times. I would like to give you a quick update on our operations across geographies, besides I will also add some insights on our market reach and the order book position.

As I had mentioned in our earlier call, our project execution which had got impacted due to COVID-19 in earlier part of this year has now picked up significantly across all geographies. Furthermore, we have also commenced construction at most of the project sites, which we have recently won. Our current operating efficiency has improved substantially and now stands in excess of 90%. We expect to reach to pre-COVID efficiency levels in Q4 of this year, subject to no further lockdowns in geographies where our projects are on the execution. We must mention again that besides our efficient project execution strategy, our objective and priority is the safety and wellbeing of our employees, vendors, partners and all stakeholders in the value chain. We continue to therefore take utmost safety measures, which are in strict compliance and in accordance with the guidelines laid by the respective countries.

As also stated earlier we have been seeing very positive traction in terms of significant order inflows from newer geographies like Australia and America. We have established ourselves as one of the leading solar EPC players in these geographies and are executing projects for some of the leading global independent power producers. Our strategy to expand our operations in these markets continues to bear fruits and which is visible in the form of strong order inflows. 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 the newer markets, where we recently won the projects like America and Australia, the margin profiles are far better in comparison to the Middle East market.

Europe has been one of the promising markets for the solar PV installation. The European market, after a hiatus of 4 to 5 years is now showing promising signs for solar power and is expected to witness a surge in addition of approximately 7 gigawatt annually in the capacity addition. According to the SolarPower Europe EU Market Outlook, Spain was Europe's largest solar market in 2019, adding around 4.7 gigawatt of capacity followed by Germany, the Netherlands, France and Poland. To capitalize on these large market opportunities, we have reinforced our management teams over the last few months and recently set up a new office in Spain. With most of our marquee global clients also based out of Europe, we are well poised to deliver a positive outcome in this market as well.

Solar projects along with energy storage and floating solar are also poised to grow substantially in the near future. We have a very strong team and technical partnerships to take up a leading role in this emerging field as well. On this note, we have recently emerged as L1 in one of the very large floating solar projects in India.

Moving on to our market reach and order book position. During these challenging times as well, we have been able to secure lager orders and strengthened our order book. We have signed approximately 1.4 gigawatt EPC contract amounting to around Rs. 5,696 Crores in H1 FY2021, which has already surpassed the whole of FY2020 restated order book, which obviously excludes the non-contracted EPC projects like Saudi and Phase II of Montenegro. All these projects have a timeline of around 14 to 18 months from the contract signing to commercial operations. Post September we have signed 86 megawatt in Chile for around Rs. 420 Crores, which takes our order book in excess of Rs. 6,100 Crores until November 12, 2020, which is around 133% of the restated FY2020 order book. With this order inflow of around 1.4 gigawatt year-to-date, our portfolio size has reached an impressive 10.5 gigawatt scale.

Besides the above orders, we are under contract signing process of a couple of large projects in Middle East and US. We will announce them separately once all the contracts are signed. Our UOV as of November 12, 2020 stands at Rs. 9,564 Crores versus the restated UOV of Rs. 5,756 Crores at the same time last year. Our O&M business also continues to see strong traction. As of November 12, 2020, our contracted O&M portfolio stood at around 8 gigawatt and our O&M revenue in H1 FY2021 grew to around Rs. 121

Crores compared to Rs. 77 Crores as of H1 FY2020, that is an approximate growth of around 57%. Third party O&M also comprises 51% of our total O&M portfolio as of September 30, 2020. We plan to keep growing the O&M business both in domestic as well as international market for not only the in-house EPC, but also for the third party customers, by leveraging our O&M strength and the relationship with the leading IPP developers. Thank you 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 half year ended September 30, 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. And hence comparison on corresponding previous period will not be a true reflection and performance for a quarter may not be a representative for the full year.

Revenue for H1 FY2021 has been at Rs. 2,405 Crores and was marginally lower compared to H1 FY2020. Now there is a significant pickup in execution of projects. The region wise revenue breakup is as follows: Australia contributed about 50%; America has contributed 26% followed by India, which contributed 12%, MENA region with 10% and balance 2% by Africa. As Bikesh mentioned earlier, our O&M revenue has increased by 57% to Rs. 121 Crores in H1 FY2021 compared to Rs. 77 Crores in H1 FY2020 with an EBIT margin of 38.4%. The contribution of O&M business to total revenue grew by 180 basis points to 5% in H1 FY2021 as compared to 3.2% in H1 FY2020. At a company level, the gross margin stood at 9.6% in H1 FY2021.

The gross margins were higher in H1 FY2020 due to higher margin projects closure in MENA and the South East Asia region. We expect the gross margins for the year FY2021 to be in the range of 10% to 11% as guided in our Q1 earnings call.

Overheads in H1 FY2021 reduced by Rs. 44 Crores to Rs.163 Crores due to cost efficiency measures undertaken. Our overheads as a percentage of revenue reduced from 8.5% in H1 FY2020 to 6.7% in H1 FY2021. Additionally, there has been forex and MTM loss amounting to Rs. 47 Crores in H1 FY2021 primarily comprising of Rs. 24 Crores reinstatement loss on loans given to overseas subsidiary and branch, which is in the nature of equity contribution and Rs. 12 Crores on account of MTM loss on forward contracts relating to projects yet to commence. Consequently, EBITDA for H1 FY2021 stood at Rs. 26 Crores due to lower margins and forex and MTM loss. PAT for H1 FY2021 stood at Rs. 32 Crores.

Coming to 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 other comprehensive income having a mark-to-market loss on a notional basis of Rs. 63 Crores. On utilization of forward contracts on the date of maturity, the effective portion of the cash flow hedge results previously recognized in other comprehensive income will recycle into profit or loss account, which would be offset by increase in revenue for restatement of receivables and payables.

Now coming to the balance sheet. I would again like to 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 September 30, 2020 is Rs. 580 Crores. Since listing last year, we have repaid a total of Rs. 1,931 Crores through internal accruals and money received from group companies on collection of intercorporate deposits. The total repayment of external debt over the next two quarters is Rs. 580 Crores, with Rs. 485 Crores to be paid in Q3 for which we are in discussion with banks and balance Rs. 95 Crores payable in Q4. We have a cash and cash equivalent of approximately Rs. 517 Crores and a net worth of Rs. 1,042 Crores as on September 30, 2020. Our net debt to equity as on September 30, 2020 is 0.4x. As on September, we had a negative net working capital of Rs. 72 Crores as compared to a positive networking capital of Rs. 178 Crores as on March 2020. Improvement in working capital was driven by combination of higher collections, efficient management of working capital and advance from customers. The total intercorporate deposits and loans stood at 1,617 Crores as a debt including interest accrued up to September, which as mentioned by the promoters will now be paid latest by September 30, 2021.

On the cash flow front, during the quarter we had a net operating cash flow from operations of Rs. 242 Crores as compared to Rs. 165 Crores for H1 FY2020 and Rs. 338 Crores for FY2020. Cash flow from operations was higher on account of higher collections coupled with efficient management of working capital despite lower profitability. Cash flow from operations and investing activities has been used to repay borrowing and interest thereon. 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 Rohan Soares, an Individual Investor. Please go ahead.

Rohan Soares: Congratulations on a very good balance sheet performance in the first half. I just wanted to know on the receivables side, what is the more than one year vintage receivables now?

Bahadur Dastoor: The total more than one year receivables is slightly in excess of Rs. 500 Crores, which when offset against provisions and liquidated damages, which are accounted there against is about Rs. 97 Crores which is a reduction, so Rs. 445 Crores is the net receivables for a period exceeding one year.

Rohan Soares: Rs. 445 crores and that includes about again Rs. 93 crores from IL&FS?

Bahadur Dastoor: Yes, that includes Rs. 70 crores from IL&FS because I said Rs. 445 crores are receivables after provisions. IL&FS, where outstanding is Rs. 93 crore has a provision of Rs. 21.5 crores against it., so Rs. 70 crores in the Rs. 445 70 Crores receivables pertains to IL&FS.

Rohan Soares: Thanks.

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

Narottam Garg: Congratulations on the recovery and reaching high efficiency levels. My question was on just to understand the accounting of the MTM. Will it flow through the P&L or Balance Sheet??

Bahadur Dastoor: The mark-to-market losses, which are lying in other comprehensive income will move to the P&L. At the same time we will have a receivable, which is at a higher value, because the Australian dollar has increased. This mark-to-market loss which has gone into the P&L is also slightly on account of the advance, which we had received. Advances we do not restate and that is why in the P&L we had a one-sided effect. Were it to have been a revenue, because for our Neon project we had no revenue up to September, we would have had our revenue as well as receivables being restated offsetting the mark-to-market, which would then flush out through the P&L.

Narottam Garg: You actually booked the revenue. The impact of the gain of the derivative will come through the P&L only right and to that extent will have to get it?

Bahadur Dastoor: Yes, so there will be a debit to the P&L, offset by an increase in forex gain on account of the receivables being recorded at a higher value.

Narottam Garg: One more question again on the receivable side. What was the collection total on those accounts during this quarter?

Bahadur Dastoor: So for the amounts of receivables, which were more than one year as of March, we have collected Rs. 136 Crores against those. And it is only because of addition of new amounts, which have come in which are more than one year, that the total amount has gone up. So, it is not entirely sticky, as about Rs. 136 Crores was collected in the first half.

Narottam Garg: Sure that is it from my side. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Anuj Jain from Globe Capital Market Limited. Please go ahead.

Anuj Jain: Congratulations for decent set of numbers. My question is regarding only one item in the P&L account that is direct project cost, which comes at Rs. 461 Crores vis-à-vis Rs. 257 Crores on Y-on-Y last year. So can you please explain because this is not in line with the increase in revenue?

Bahadur Dastoor: The margin which is now 9.6% as against the margin, which was much higher in the H1 is obviously offset due to the increase in the direct project cost. The direct project cost is summation of the materials as well as the installation cost. One has to see both these items put together the purchase - the direct project cost and the cost of construction material stores and spare parts. That is because in some quarter you may have larger amount of materials, which go into a project, at some other quarter you may have the installation of those materials that is happening. So one has to always look at both of them together and then take it to arrive at the gross margin.

Anuj Jain: So, we can say in this particular quarter we have booked some cost, but we have not accounted for the revenue, which might come in the latter half of the year?

Bahadur Dastoor: No, not at all. Revenue is accounted as a top up, on both the cost of materials as well as the direct project cost - both of these components is what goes to make the cost of the project. The total project cost is broken into two parts, material and installation. Installation works is what is shown as direct project cost and cost of materials is shown under cost of construction material, stores and spare parts. So it is a combination of both which has to be utilized. You should not look at just one.

Anuj Jain: So this quarter our cost had gone up?

Bahadur Dastoor: You have to also see that the cost of construction materials in stores and spare parts has gone down. So as I said in one quarter you may have higher value of installation, in another quarter you may have a higher value of materials, which are being supplied. We need to combine both of them and that is how you arrive at a gross margin, which we are guiding to be between 10% to 11% in FY21. It is 9.6% for the half year. That means 90% odd is the total project cost made up of two components - cost of material and the direct project cost.

Anuj Jain: That is it from my side.

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

Mayur Gathani: Sir on the net receivables which are more than a year old - can you tell me what period it is like more than one year, two years or two-and-a-half years old? Can you throw some more light on that?

Bahadur Dastoor: It is slightly over one year old.

Mayur Gathani: So probably the maximum period is 18 months?

Bahadur Dastoor: 12 to 15 months

Mayur Gathani: So is this our usual figure and will remain so in the normal course of business that we will always have - because 12, 15 months is not much of a time?

Bahadur Dastoor: So, see let me break it up into at least two major components. So you have IL&FS, which is about Rs. 93 Crores gross and Rs. 71 Crores net of provision, which is under NCLT. The other major party that is there is the Argentina project, which is about Rs. 116 Crores. That same number was about Rs. 133 Crores in March. We have recovered some money from Argentina project in the half year gone by and we are also under discussion with the customer. There was an LD, which was levied on the customer by the offtaker. That LD has now been completely waived by the offtaker and we are in discussions with the customer to recover our money.

Mayur Gathani: Tell us something more on the O&M business., What percentage of the total O&M business comes to you from third-party contracts? And percentage of the O&M business that you would have probably got because you were executing the project?

Bahadur Dastoor: I will let Bikesh take that question from a business perspective

Bikesh Ogra: Normally more than 90% of the EPC solar projects get translated into the O&M business for us. It is only 10% of our EPC business where the customers have an existing conventional power plant they undertake the O&M themselves. In terms of the third-party O&M business, I think it has been growing at a very fast rate for us in the domestic market that is in India. And for international markets, because of the COVID we could not scale it up the way we wanted, but we have really started now looking a lot of our international customers who are working with us on the EPC side. As a third party business also we hope that this business in the next 12 months will also grow substantially.

Mayur Gathani: So what you are saying is the third party business mostly comes from India as of now and you are working on exploring this abroad as well?

Bahadur Dastoor: About 51% of our total O&M portfolio is from third party projects. As Bikesh was explaining, we have almost all of our own EPC projects under O&M, unless the customer is a large enough energy giant who does its own O&M. It is a good annuity business with better margins.

Mayur Gathani: On the purchase Sir, on all the orders do you end up purchasing or is it supplied by the…

Bahadur Dastoor: By the customer you mean?

Mayur Gathani: Yes.

Bahadur Dastoor: So there are certain regions where we do what is called BOS (balance of supply). Majorly in the US and in India the modules are procured by the customer and we do only the balance of supply.

Moderator: Thank you. The next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Just wanted to understand two questions, one is some more color on the outlook for your order book and second would be on escalation clauses given that module prices are going up. How well protected are we on that in terms of the contracts?

Bikesh Ogra: In terms of the outlook, I will combine the second half of FY21. So, put together we would be pitching in for around 9 to 9.5 gigawatt worth of opportunities, which we will get won or lost in these two quarters. And going by our historical conversion rate we would be clocking in around 14% of conversion rate for these orders. And these orders have spread across geographies - Australia, Europe, Middle East, North America, South America, Asia and Africa as well as India. So this 9.5 gigawatt is spread across all of these geographies. In terms of the escalation in terms of module pricing, as I had mentioned earlier also, in most of the long gestation contracts, the module prices are being finalized by our customers and any upside or downside movement is to the customer’s account. So any volatility on the module prices is to the customer’s account for the longer gestation of the projects. For shorter gestation projects, wherein the modules are required within a period of three to six months, we have a back-to-back contract with the module suppliers and we get hedged against any volatility with these contracts. So therefore any escalation on the module prices is being securitized through these two means.

Mayur Gathani: Thank you Sir I will come back later in the queue for more questions.

Moderator: Thank you. The next question is from the line of Shivan Sarvaiya from JHP Securities. Please go ahead.

Shivan Sarvaiya: Sir on the gross profit margin you said that about 10% to 11% that is what you are looking at. I just wanted to ask considering we are having a order book, which is 76% from Australia and the US market, and considering that they are much higher margin projects compared to the MENA region, (and our base was much higher last year in the MENA region projects) do you think that this can be bettered in terms of the gross profit margins?

Bahadur Dastoor: So yes the attempt is always there to improve as much as we can, but as of right now from what we foresee in the next six months that is the annual guidance that we are giving. At the same time, if you see historically, then in FY2019, gross profit margin for first nine months were at 9.32%, but the year-end we closed at 11.94%. And also if you see the gross profit margins in FY2018, for first nine months we were at 11.8%, but we closed the year at 10.94%. So management makes an estimate on the basis of what are the profits and revenues which are there for the entire year and on this basis as of right now we are guiding the gross profit margin to be between 10% to 11%.

Shivan Sarvaiya: Sir but the understanding is correct right that the margins in Australia and America are far better than the MENA region - that holds true right?

Bikesh Ogra: Yes, you are right, there is an intense pressure on the margins in the Middle East region in comparison to geographies like Latin America and Australia where the margin profile is much higher.

Shivan Sarvaiya: If I go back to my notes of the previous concall, you have stated that you are confident of a better performance in FY2021 compared to FY2020. So, if you could give a broad sense, considering we did about Rs. 5,500 Crores of topline last year, would it be near to the Rs. 6,000 - 6,500 crores mark for this year?

Bikesh Ogra: So, as we had mentioned in our last call and we reiterate that this year, there will be low double digit growth in comparison to the last year's revenue figures.

Shivan Sarvaiya: You mentioned in your opening remarks that the efficiency levels have reached 90%. Was that correctly heard?

Bikesh Ogra: That was correctly heard. Yes, we have projects running in almost all the geographies now as we are talking. And we hope that they will reach to 100% efficiency levels by Q4 of this year.

Moderator: Thank you. The next question is from the line of Piyush Chheda from Serendip. Please go ahead.

Piyush Chheda: Congratulations for good set of numbers. On the sticky receivables just wanted to know what is our process to make sure that we do not get more of these in future?

Bahadur Dastoor: The receivables are on the basis of various projects, which are undertaken. There are always certain discussions with customers, which happens more towards the end of the project. And if there are some liquidated damages, etc., which are levied by the customers, they are generally discussed, and the decision taken towards the end of the project. And that is why sometimes the amounts go up to almost a year. As I had explained, if you see the total amount of revenue of Rs. 2,400 Crores the real ones which are there in the last one year, which were there are Argentina and the IL&FS, other than that the amounts are smaller in nature and are in the process of getting settled. Generally this happens in the case when you enter a geography for the first time where you may not be fully aware of what is required in that. However, the management team takes care of all of that towards the end of the project., Bikesh you can add anything in case I have missed out.

Bikesh Ogra: I think what you said, I just want to reiterate. I think what happens is obviously our intent and endeavor is always to enter into projects, which are financially closed with these IPPs and therefore the stickiness on these payments gets mitigated to a very large extent. But then if there are certain delays, which are attributable to a customer or not attributable to Sterling & Wilson Solar, there are discussions which pan out for a period of almost six to eight months and because of this the payment gets stuck. And that is the only specific reason why these payments are stuck up for this period of time. But over a period of time these gets liquidated. And there maybe new projects that may have the same process or the same problem, but over a period of time these keeps on getting liquidated and the cash getting collected.

Piyush Chheda: Second question in general terms what are you seeing in terms of the margin profile for incremental bidding. Does it match up to where it was two years ago or have margins gotten squeezed over the last 24 months?

Bikesh Ogra: So it all depends on which geography you are talking about. If you talk about Middle East yes the margins have got squeezed somewhat they were two years back. But in terms of our expansion into other geographies, the margin profiles have relatively gone up. Like I mentioned earlier in geographies like Latin America, Australia and Europe also we would see definitely relatively better margins than what it is in the Middle East.

Piyush Chheda: Thank you.

Moderator: Thank you. The next question is from the line of Dhruv Shah from Ambika Fincap. Please go ahead.

Dhruv Shah: I have two questions, first is you said that we convert almost 14% of the orders we submit. So how much of these orders would be coming from China if you can just give us a broad sense. And are you seeing any anti-China wave around Australia and Europe?

Bikesh Ogra: See I think we have mentioned this in the past also that China is not our addressable market. We have not taken any order from China. In US surely there is an anti-China wave. If you have a look at the concentration of Chinese EPCs around the projects, wherever there are large capacity projects in excess of 300 plus megawatt we see a lot of Chinese EPCs giving in a lot of focus around there. But in Europe the project sizes varies between 50 and 100 megawatt. Therefore we do not really see a lot of Chinese influx coming into the European markets as such.

Dhruv Shah: But in Middle East you might be seeing lot of competition right from Chinese?

Bikesh Ogra: Yes, Middle East there has been a lot of competition wherein projects have been picked up at ridiculously low pricing levels by these Chinese EPCs. Now what has happened is that we have executed the world's largest plant in Abu Dhabi. The work on projects which Chinese EPC companies have won has just started and we will have to see how the projects evolve, how the project execution pans out with the Chinese EPC companies. And incidentally on this note, the phase II of the project which was won by a particular Chinese EPC was cancelled even before the beginning of the project and it has been awarded to the next Chinese EPC player. So effectively, we will have to see how it pans out - because the proof of execution is still not there with these companies in the Middle East region.

Bahadur Dastoor: To answer your other question, generally our strike rate is between 14% and 17%.

Dhruv Shah: But, our competition would not be Chinese that is what you meant right

Bikesh Ogra: See sporadically we have faced the Chinese competition. Like in Middle East there is a lot of Chinese competition. I have mentioned in my speech, that there is one project, which we are in the process of contract signing in the Middle East (i.e. Egypt) that was against Chinese competition but we won against them. So on and off we do face Chinese competition in certain regions. In Latin America we do come across Chinese companies in one or two projects that we bid in there. But mostly the Chinese competition that we encounter is in the Middle East and in the South East Asia.

Dhruv Shah: My second question is on the margins on the O&M front. What kind of margins are sustainable because we have seen a huge drop. I know that you have mentioned that margins would be around 38% to 40% for the whole year, but is there any guidance in the O&M business you want to guide Sir?

Bahadur Dastoor: The 35% to 40% guidance was for the O&M business. And O&M unlike a project goes on the basis of the difference between revenue and cost. So if there is a lesser amount of cost the margin is higher. But on an overall O&M contract basis, we feel that the gross margins are between 35% to 40%. That is the guidance we have given before as well.

Dhruv Shah: Okay thank you.

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

Mayank Bhandari: Sir can you please repeat like what are the numbers you had told that you would be pitching in terms of the order in the next two quarters?

Bikesh Ogra: It would be approximately 9.5 gigawatts.

Mayank Bhandari: The conversion you are expecting?

Bikesh Ogra: In terms of percentage, as Bahadur just mentioned, it would be 14% to 17%.

Mayank Bhandari: Particularly how is the opportunity from the Indian market? If you can mention geography wise?

Bikesh Ogra: If I break this geography wise, India market would constitute approximately 3 to 3.5 gigawatt out of this total 9.5 gigawatt pipeline that we have be pitched. The balance would be a mix of all other geographies like Australia, Europe, Middle East, North America, South America, rest of Asia and Africa.

Mayank Bhandari: Have we got all the financial closure for all the projects. And is there any issue we are expecting with the execution in any large project?

Bikesh Ogra: As a policy change like we mentioned last time, we are only declaring the projects which have achieved financial closure and the contract signing is done. So as of this moment we do not see any projects other than Saudi and Montenegro, which we have mentioned earlier would be restated. Other than those two projects, there are no projects that have any threat of being suspended. All the projects that we have mentioned till date are having a financial closure and the contracts have been already signed. And incidentally, just to add we have got certain LNTP for a couple of projects in Middle East and US. But we have not declared them since we have still not signed the contract. And as I mentioned in my remarks earlier, the projects are under contract signing and we will declare them once the contracts are signed in those particular geographies.

Mayank Bhandari: If you can tell us something about the cost rationalization in terms of you had undertaken in last quarter and the impact of that?

Bahadur Dastoor: I will start off and then Bikesh may add further to that. So a lot of rationalization has taken place in terms of manpower restructuring, excess travel, which was anyway no longer a possibility thanks to COVID and also combining our offices in the world, combining departments to see that there is less of overheads. We have done all that and that is what has brought down the overheads by about Rs. 42 Crores in this half as compared to the previous half. Of course that is not a benchmark. It is not necessary, that for the whole year, that it will be the same multiplied by two. But yes there is a significant reduction in overheads and we are continuously striving to do that even as we speak. Bikesh can add further if you have anything I may have missed.

Bikesh Ogra: No Bahadur I think you have said it all. The only thing that I would like to mention and an expansion of what you said is the fact that when you talk about the manpower rationalization there has been a blend, which we have created in terms of some of the international and the domestic operations that we have merged together. And whatever is the excess in terms of back end project management teams, they have got rationalized and which has brought down the cost. This is one of the reasons which has enabled us to bring down the cost, besides of the various other reasons that Bahadur mentioned.

Mayank Bhandari: Sir the employee benefit expense has also gone down to about Rs. 53 to 54 Crores from Rs. 56 Crores. So this manpower rationalization would be part of this only right? So I should assume that this will be sustainable going forward?

Bikesh Ogra: First of all one has to keep in mind that the employee cost is also determined by what was the full year cost. So last year we had invested in certain teams in Australia and US, which have borne fruit and given us the orders that we have received in the current year. At the same time yes there has been rationalization and that is what has brought down the overall employee cost. We hope to continue this rationalization even in the future to keep the cost on a tight leash.

Mayank Bhandari: Thank you very much.

Moderator: Thank you. The next question is from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

Karthi Keyan: Couple of things. One, can you talk a bit about the floating solar project in terms of what is the experience there and what external support to be required there in terms of execution?

Bikesh Ogra: So, on the floating solar project we have got a past experience, although not of the same scale as for the project have we are currently on L1. There would not be any external support that would be required, other than the partnerships on the floater side in terms of the technology association.

Karthi Keyan: How different is the capital cost compared to as say conventional solar?

Bikesh Ogra: I would say around 15% to 20% more than the conventional ground mounted solar.

Karthi Keyan: And efficiency, if you can highlight?

Bikesh Ogra: So, efficiency also depends on which area you are talking about, the weather condition. Anywhere between 15% and 17%.

Karthi Keyan: So, it is cost neutral technically?

Bikesh Ogra: If you take a look at how we have been suffering on account of the land acquisition in India and with this readily available reservoirs and still water bodies, I think this has given a phenomenal boost. There will be a phenomenal boost in terms of the floating solar projects coming up in India and that is one of the major pluses that we have in terms of executing these projects, without having to really bother much about the land acquisitions and stuff related to that.

Karthi Keyan: The other question was related to your Indian contracts. Earlier you mentioned in the past sometime that incremental O&M revenue per megawatt is higher. So can you talk a bit about the trend from that side?

Bikesh Ogra: When you talk about incremental O&M revenue, what exactly do you mean by that?

Karthi Keyan: Yes, I remember the average is used to be Rs. 4 to 5 lakhs per megawatt and that is increasing something to that effect. So I am just trying to understand what the trends are currently for the newer orders within India and outside and how do you see that evolving?

Bikesh Ogra: I think it is not linear Rs. 4 to 5 lakh. Within the geographies it varies. Today in India it is at around Rs. 1.5 to 2 lakhs and it goes up to almost Rs. 5 to 6 lakhs. With our geographies like in Australia the orders are at Rs. 5 to 5.5 lakh and in Middle East it is around Rs. 3.5 to 4 lakhs. So it is not a linear margin profile across geographies and it all depends on which country you are talking about. And if we aggregate it all, put together the margins comes to the 35% to 40% is that Bahadur spoke about.

Karthi Keyan: Interesting great, thanks for the answers.

Moderator: Thank you. The next question is from the line of Avinash Wadhwa from M3 Investments. Please go ahead.

Avinash Wadhwa: Just taking the thing on this floating solar little forward. Of the projects installed every year, what proportion would floating solar power be? And is there something changing in the landscape - that the trend towards floating solar would be more pronounced going forward?

Bikesh Ogra: Yes, I think one is on the efficiency side, which obviously is relatively higher than the ground mounted that is one. And as I mentioned it will become more and more pronounced. And in India there is a visibility of around 10 gigawatt of floating solar power to be installed over the period like five to ten years. And the fact that the land acquisition which is a major frustrating factor out here would get mitigated to a large extent and therefore there will be pronounced capacity which will come on the floating solar.

Avinash Wadhwa: Bikesh I would imagine that the acquisition of land have always been a constraint in the installation of solar power. So if that is the case, floating solar should have come in much earlier. Is there something related to the technology because of which floating solar is coming into installation later in the game?

Bikesh Ogra: Absolutely you are right. So we have recently seen technology getting evolved wherein the floating solar floaters and the tankering system has just come into prominence off late only.

It has not been really very prevalent over the last three to four years. We have seen this technology now coming up very prominently not only in India, but we have seen lot of these installations happening in China and South East Asia. Therefore we see a lot of pronounced installations coming up as the technology advances and gets more and more commercially viable.

Avinash Wadhwa: You also touched upon the storage technology. I would imagine you have cost of batteries at the back of your mind. Are you witnessing any trend with respect to that. And if the battery cost were to fall, as it is now anticipated, what would be the implications of that for your business?

Bikesh Ogra: That implication would be phenomenal once the battery prices start coming down and we anticipate that to happen in the next three to four years' time. And you would have already seen and noticed that there are some tenders, which are around the clock dispatchability power tenders, which have come out not only in Indian solar space, but also globally. There are lot of tenders happening around that. So once these storage prices or the battery prices come down to a level wherein, we are able to create around the clock dispatchability mechanism, I think there will be a huge disruption in the solar addition. And the fact that there are lot of coal plants and gas plants, which are getting retired, they will get replaced with these round the clock battery backed solar storage based system.

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

VP Rajesh: You have said you will be paying off the debt by Q4. Are you planning to replace it by working capital or should we assume by the end of this year all the debt maybe repaid?

Bahadur Dastoor: So, the repayment of debt, as I explained, is still in discussion with banks. The amount which is payable in this quarter is also under discussion. It may be up to March, it may be beyond March. It will also be largely dependent on the inflows from the group companies for the intercorporate deposits. But to answer your question, if we remain working capital negative and if we receive the money as it is planned to be, we should be debt free at that point in time.

VP Rajesh: Regarding your accounts receivable beyond 12 months. I am sorry I missed the point - whether your expectation is that incrementally it will start coming down or you think because there will be new projects which will have that kind of payment terms it may continue to be at Rs. 500 Crores levels which is due beyond 12 months?

Bahadur Dastoor: It should not be. We expect it to come down. These are on account of a few large projects where there are large receivables. It is nothing to do with the payment terms, because the payment terms are standard as they have always been. This is more on account of LDs on account of time overruns, which were between the offtaker and the customer. As I had explained the customer has got his LD completely waived. We are in discussions to get that out. Of course there is one item which is in NCLT, which we will see how that progresses. But as a business model we do not see it reaching these levels once these matters are resolved.

VP Rajesh: Just one final clarification on this amount. I know it is difficult to s perhaps comment on this. Do you foresee more provisioning coming on this by the end of this year actually with IL&FS and some of these projects?

Bahadur Dastoor: So, it is something we will be having ongoing discussions with the auditors. But see yes it is quite probable, that if IL&FS does not progress we can expect further provisions to be made on that count.

VP Rajesh: Thank you so much.

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

Ritika Garg: Sir I wanted to know which part of this cost rationalization is actually sustainable I understand that the overheads have come down from 8.5% to 6.7% for the H1, but what percentage is sustainable?

Bahadur Dastoor: I will start off a bit over here. Just because we have reduced overheads by about Rs. 40 odd Crores as compared to the previous first half, does not mean for the second half we will be reducing Rs. 40 odd Crores. So it is something which is reaching where it should. There is still room for improvement. Management is seriously having discussions even now to see what further rationalization can be taken. But I do not want you to consider Rs. 40 Crores reduction as a benchmark on half year basis. It is very important to note that, there will be further reductions which is what we are aiming for, but it will not necessarily be in that magnitude. Bikesh can add anything if he wishes to.

Bikesh Ogra: On a sustainable long-term basis, what we aspire this figure to be as a percentage of revenue is around 3% and 3.5%.

Ritika Garg: Alright. Thank you.

Moderator: Thank you. The next question is from the line of Shivan Sarvaiya JHP Securities. Please go ahead.

Shivan Sarvaiya: Sir we had a very good run in the MENA region, where we bagged some large orders with extremely high margins. Over the last one year we have seen a tremendous pressure out there. And in retaliation to that we have started going into newer geographies to try and get better margins and better project visibility. What is the medium to long-term perspective that the Chinese players would start coming in those markets also and our margins would start getting eroded. So I just wanted your understanding from a medium to long-term perspective on that front. How would you guard your margins if that is were to happen?

Bikesh Ogra: If you take a comparison in terms of Middle East market. Middle East market has always served the capacities which are very large in term of numbers, you talk about 500 megawatt, 1 gigawatt, 2 gigawatt project. And what we have seen historically that there is a lot of concentrated focus by the Chinese EPCs around these projects. Now in the other parts of the globe, we do not see this kind of large projects, other than US obviously. And in US, you know the kind of affiliation they have for China. So other than US, we see all other geographies having a project mix of around 50, 100, 150, 200 odd megawatts; wherein the Chinese really do not see any value in terms of participation. It is only if the project sizes are in excess of 500 megawatts, we see a lot of Chinese pressure there and that is primarily related to Middle East region. Secondly, the market potential and the size is so large, that even if we have the Chinese competition coming in some of these areas subsequently and participate in the lower scale projects, we will still have space for ourselves to really participate and grow the way we aspire to grow.

Shivan Sarvaiya: Sir just a follow-up on that. Is there a difference in the margin profile or the execution profile when a power project is in the 100 to to 200 megawatt range and when you are executing something which is 1 gigawatt, etc. Is there a change in the margin profile? Would not those bigger projects have much better margins, much better cost structure?

Bikesh Ogra: On the contrary it is the reverse. As we have seen, we did a large project in Middle East, where we got decent margins. But having understood the complete cost structure of the region, when we saw in comparison to what the course all of these EPCs were coming in, it was an absolutely ridiculous low EPC prices, which was not sustainable for us. We have customer relationship in place, we know all of these IPPs. We always use to get a first right of refusal on these projects, but we have always said no to them because it was not commercially viable for us to participate in these projects. So on these large size projects, and for very strange reasons I think these EPCs have picked up the projects on a ridiculously low level of margins in comparison to smaller projects which is 50, 100 and

150 megawatts - wherein in certain geographies we have picked projects at 16% margin and 20% margin also.

Shivan Sarvaiya: Okay Sir. Thank you very much.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. Bikesh Ogra for closing comments.

Bikesh Ogra: Thank you. With our deep routed client relationship, global presence and ability to provide customized solutions and a strong track record of executing complex and large scale projects with a very low gearing we are confident of navigating current tough times and emerge much stronger. Further on repayment of the loans by the promoter companies during this fiscal and the coming fiscal, we anticipate our company will become net cash company. I would like to take this opportunity to wish everyone happy and safe Diwali and a prosperous New Year. I hope we have been able to address your queries. For any further information kindly get in touch with Vishal Jain or Strategic Growth Advisors, our investor relationship 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.