"Sterling & Wilson Renewable Energy Limited Q3 and 9M FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Sterling & Wilson Renewable Energy Limited Q3 and nine months FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Jain - Head Investor Relations for his opening remarks. Thank you and over to you, Sir!

Vishal Jain: Thank you Rutuja. Good morning everyone. I welcome you all to Q3 FY2022 earnings call. Along with me, I have Mr. Amit Jain – Global CEO, Mr. Bahadur Dastoor, CFO, and Strategic Growth Advisors our Investor Relations Advisors. We will start the call with an update on the solar industry and operational highlights for the quarter by Amit followed by financial highlights by Mr. Bahadur post this we will open the floor of Q&A. Thank you and over to you, Amit!

Amit Jain: Thanks Vishal and a warm welcome to all the participants on this call. I would like to give a quick update on the stake acquisition by Reliance Industries, Solar Power Industry and other allied renewable businesses and status on our business operations.

So, I will start by giving update on acquisition of 40% stake by Reliance New Energy Limited (RNEL), a wholly owned subsidiary of Reliance Industries Limited. RNEL has completed acquisition of 40% stake in Sterling & Wilson Renewable Energy Limited via combination of primary investments, secondary purchase and open offer. In December 2021, Reliance Group invested Rs.1,100 Crores through preferential issue representing 15.46% of post preferential issue equity share capital of the company. This cash flow has strengthened the balance sheet and improved the financial profile of our company and have made it net debt free. Post this, in January 2022, under tranche 1, Reliance Group acquired additional 9.70% stake from Shapoorji Pallonji and Company Private Limited after which they came out with open offer. In the open offer Reliance Group acquired 4.47% of stake in the company at Rs.375 per share. In February 2022, under tranche 2, Reliance Group acquired 1.97 Crores shares from SP Group and Mr. Khurshed Daruvala (KYD Group) at Rs.375 per share representing 10.37% of equity share capital. Post tranche 2 completion, Reliance Group now holds 40% of the total paid up equity share capital of Sterling & Wilson Renewable Energy Limited, while SP Group and KYD Group holding 25.71% and 12.85% respectively. Reliance Group also has been classified as a promoter of Sterling &

Wilson Renewable Energy Limited along with the existing promoter and promoter group. The board will be reconstituted to include two directors from Reliance Group and additional independent directors. Mr. Khurshed Daruvala will continue to be the chairman of the board and lead the next phase of growth of Sterling & Wilson Renewable Energy Limited.

Reliance is committed to make India a global leader in green energy based on the latest and most competitive technology and development capabilities. SWREL, with its engineering talent, deep domain knowledge, global presence, and experience in executing some of the most complex project globally, will become an important part of solar value chain of Reliance Group. SWREL will immensely benefit from Reliance Group's integrated new energy vision which will further strengthen our position as a leading EPC and O&M player globally. This will provide us with great opportunity to accelerate over revenue growth over medium to long term.

Now coming to solar EPC industry and opportunities. There are strong levers which will drive robust growth globally over coming years. Stronger policy support from the government in terms of tax incentives, favorable policies for renewable sectors coupled with ambitious climate targets announced for COP26 are going to drive demand for solar energy to new records worldwide. As per the International Energy Agency, by 2026, global renewable electricity capacity is estimated to rise more than 60% from 2020 level to over 4,800 giga watt - equivalent to the current global power capacity of fossil fuel and nuclear combined. Renewables are set to account for almost 95% of the increase in global power capacity through 2026, with solar PV alone providing more than half.

With the Indian government accelerating its plans for clear energy transition, with our Honorable Prime Minister Narendra Modi pledging to build 500 giga watts of renewable energy and ensure that half of our energy requirements will come from renewable resources from 2030, we expect outstanding growth is Indian solar power industry in the years ahead.

Despite the record increase in module commodities and freight over the last 15 months, the LCOE for solar plant is still cheaper than the traditional source of energy as well as renewable sources of energy.

It is estimated that solar PV utility scale market, excluding China, is expected to grow at 15% CAGR over the next few years, with growth led by developed markets like US, Europe, Australia as well as the Indian market.

I would like to state that with our global reach, strong relationship with customers and lenders as well as induction of Reliance Group as additional promoters of the company we are well positioned to capitalize on these growth opportunities.

Now one of the other strong core area of O&M. Our solar O&M portfolio as of date is 6.2 giga watt with third party O&M constituting approximately one third of the portfolio. Reduction in O&M portfolio during Q3 FY2022 is primarily on account of sale of plants by clients to customers having their own O&M teams. We are focusing on increasing international O&M portfolio through organic and inorganic route. Our enhanced value to customer through O&M differentiators like drone thermography, strong analytics and predictions, IV curve tracers, underground cable fault finders etc will help us to expand our O&M portfolio.

I will give you some updates on battery energy, and storage business. The battery, energy, and storage business (BESS) and energy storage system (ESS) is expected to grow by two times in next four years to $12 billion annually. UK and Europe will be the next big consolidated market with UK, Germany, France, Italy, and Spain being top five countries. We have added team of battery experts, sales and execution team to capture this market opportunity and have bid order pipeline of 1.5 giga watt across US, Australia, Europe and LATAM.

Coming to the order book. As we have mentioned in our earlier investor call, there has been significant delay in finalization of orders in FY2022 due to unprecedented increase in modules, commodities, and freight cost resulting in order finalization getting pushed to FY2023. Module prices and logistics cost have softened slightly from January 2022 onwards and we anticipate them to normalize by September 2022 which will propel the developers to move forward towards order finalization. We expect to bag major solar PV, EPC projects in our addressable markets in coming quarters.

Our unexecuted order book as on February 15, 2021, before adjusting for revenue post December 31, 2021, stands at Rs.5,559 Crores which is executable over next 12 months. This excludes solar EPC order amounting to Rs.2030 Crores which may now be unviable for developers considering increased module and commodity cost for which we are in discussion with our customers.

It is important to note that module price risk is limited only to pending partial supply for one project aggregating to 322 mega watt amounting to Rs.760 Crores.

However, unexecuted order value includes an order amounting to Rs.1,500 Crores relating to waste to energy project in UK. Post the primary infusion in the company, our focus has shifted to scaling of solar business to meet the huge demand which will be generated due to the strategic investment. The Board of directors have taken a decision not to pursue this contract at this point of time and focus our energies on our core business. The same shall be excluded from the unexecuted order value on completion of various formalities including novation of the contract. With this I will ask Mr. Bahadur, our CFO, to take you through consolidated financial highlights. Thank you very much.

Bahadur Dastoor: Thank you, Amit and good morning. I will take you through the consolidated financials for nine months ended December 31, 2021. Revenue for nine months as increased by 11% to Rs.4,128 Crores as compared to Rs.3,716 Crores in nine months FY2021. O&M constituted 4.2% of total revenue in nine months FY2022.

The region wise revenue breakup is as follows: Australia contributed 59.64%, Americas contributed 30.50% followed by India, which contributed 8.77% and the balance 1.09% by MENA Africa region and the rest of the world.

At a company level, the gross margins were impacted significantly in nine months FY2022 on back of increase in module prices and accounting for liquidated damages cost based on settlements done / ongoing with customers.

If we were to eliminate these unprecedented price increases and related costs, then normalized gross margin for nine month FY2022 would have been 0.7%. The normalized margins for nine month FY2022 continue to remain lower on an account of carry forward impacts of items, which had affected FY2021.

As part of the transaction with the Reliance Group the company has signed an indemnity agreement with the SP Group, KYD Group, and Reliance Group on December 29, 2021. According to this agreement the SP and KYD Group would indemnify and reimburse the company and its subsidiaries for a net amount if it exceeds Rs.300 Crores on settlement of liquidated damages pertaining to certain past and existing projects, old receivables, direct and indirect tax litigation as well as certain legal and regulatory matters. These amounts would be settled on September 30 of each succeeding year, on the basis of the final settlement amounts with customers, suppliers, and other authorities. SP and KYD group are consequently entitled to net of the amounts payable, with specified counter claims levied and recovered by the company and its subsidiaries on its customers and vendors relating to these matters. As at December 31, 2021, the company and its subsidiaries have made provision equivalent to Rs.300 Crores, including Rs.158 Crores towards liquidated damages during the quarter ended December 31, 2021. There will be no further impact on the results of the company beyond December 31, 2021 on settlement of liquidated damages, old receivables, direct and indirect tax litigation as well as legal and regulatory matters in accordance with the indemnity agreement.

Recurring overheads for nine months increased by 10% to Rs.261 Crores. In nine months, we have accounted for accelerated mark to market loss of 21 Crores on account of cancellation and re-booking of forward contract on expiry relating to ongoing projects which resulted in accelerated accounting of losses. The same has been flushed out from effective portion of cash flow hedge of the OCI resulting in negligible impact on shareholder's funds. The same would be reversed in the coming quarters and would be recorded as gains.

Now, coming to the balance sheet. As on December 31, 2021, net worth stood at Rs.1,062 Crores. The increase in net worth was mainly on account of the preferential issue to Reliance Group amounting to Rs.1,100 Crores. The same was partially offset against loss for the period.

As of December 31, cash and cash equivalent stood at approximately Rs.858 Crores. The borrowings from bank stood at Rs.280 Crores on account of repayment from proceeds and against collection of ICDs and preferential issue made to the Reliance Group. Our company is net debt free as on December 31, 2021 with net bank balances of Rs.578 Crores.

Advance and performance bank guarantees encashed by four customers amounted to Rs.588 Crores including Rs.184 Crores banks guarantee encashed in December 2021. With one customer we have signed the final settlement agreement and the encashed amount of Rs.176 Crores has been refunded by the customer in January 2022. We are in discussion for similar settlement agreement with another customer of the same group on another project which is 84% completed and is expected to be concluded in the near future. With respect to balance two customers whose projects are virtually completed, the company is in advanced stage of discussion and is confident of recovering the amount in the coming quarters.

As on December 31 we had a negative working capital of Rs.637 Crores as compared to negative working capital of Rs.530 Crores as on March 2021.

Receivables due for more than one year as at December 31, 2021, stood at Rs.403 Crores compared to Rs.412 Crores due for more than one year as at September 30, 2021. They comprise of related party receivable of Rs.166 Crores, which includes receivable of Rs.113 Crores against which the company has received unconditional assurance of proceeds from sale of plant. The same is expected to be realized by March 2022.

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 Abhineet from Emkay Global. Please go ahead.

Abhineet: Yes good morning everyone and thanks for the opportunity. So on this waste to energy project that you said which we will be not doing as per the board of directors decision - so is there any negative impact of that that we will have to take in our books in the coming quarters?

Bahadur Dastoor: There will be no impact of this in the coming quarters. The project is in the process of getting novated with the joint EPC contractors. The company will be having no impact of this at all.

Abhineet: Okay and secondly our unexecuted order book stands at Rs.5,500 Crores and if we exclude this Rs.1,500 crore and we are at Rs.4,000 crore which looks like the lowest order book we have had probably in last few years. So just if you can comment how do you see the coming years in terms of revenue because at Rs.4,000 crore, the quarterly run rate that we have is around Rs.1,500 crore. So if you can throw some light on what could be the order visibility where we have bided or something of that sort.

Amit Jain: As we have explained in our previous investors calls, that because of the uncertainty in the market and volatility in module and commodity prices, the decision has been shifting and all the major order decision is getting moved to FY2023. So the order bid pipeline remains robust and we expect that in FY2023 it will come back to levels it was previously and the strike rate and the order book position will be normalized if we do not see same uncertainty and volatilities in the market.

Abhineet: If you can just spend some time on the geographical pipeline - what is the pipeline for US, Middle East, Australia? How is it placed today?

Amit Jain: It is around 2.5 giga watt for USA, around 3 giga watt for Europe and Lat Am, Australia is 2 giga watt, for Middle East, South East Asia, CIS, it is 5 giga watt, in India it is around 6 giga watt. The total pipeline is around 20 giga watt of the market which we cater to.

Bahadur Dastoor: We may also want to add that generally if you look at the past, our strike rate in India has been high at roughly about 25% and for the rest of the world it has been around 14 to 15%. Keeping that in mind as well as the fact of the order book pipeline that Mr. Amit has just mentioned it gives a good indication of where we should be in 2023, once the market again opens. If you were to look at the orders that have been finalized in the nine months to now, it is barely 2.5 giga watts this year as compared to 12 giga watts in the previous year - that itself shows that the market has shrunk to almost 20% to 25% of what it was. With the market again slated to go back to a 15% CAGR compared to the previous year, not this one. We can again come back to where we were.

Abhineet: This 2 giga watt that you are saying is ex of India Sir.

Bahadur Dastoor: 2.5 giga watt is ex of India yes.

Abhineet: Any comments on the Indian markets with BCD coming in and etc. Do you see significant ramp up in upcoming period where a huge amount of capacity buildup is expected in the next few years? India has been adding maybe anywhere between 6 to 10 giga watt. So any significant ramp up from here on the solar side?

Amit Jain: You have rightly said there is going to be significant capacity addition in India and our strike rate has conventionally been very high in India at 25%. For the market like we cater, we expect a significant ramp up in coming quarters and years in India.

Abhineet: Thanks Sir. Those were my question. Thanks a lot.

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

Puneet: Yes thank you so much for the opportunity. My first question is in the terms of the nature of contract that you are signing on the EPC side. Are you saying that you are no longer taking any module price risk?

Bahadur Dastoor: We have explained in our calls before. We continue to be risk averse in terms of the module price risk. We are not taking those risks, as well as passing back risks to our module manufacturers to the extent that it is possible - either in the form of bank guarantees or moving module manufacturers to joint EPC contractors - those thoughts continue. We are in the market. There are certain market dynamics that have to be followed. But as of right now the organization continues to push to not take module risk.

Puneet: Yes Sir if you can add, what do you mean by bank guarantees and joint EPC?

Bahadur Dastoor: So in terms of bank guarantees, we are asking for higher bank guarantees than what we were asking in the past - thereby protecting ourselves for module price hikes. At the same time, if the contract requires that modules needs to be part of the EPC contract and if it is built along with the joint EPC contractor - then in that case we do not take the module as part of our scope but keep it as part of the scope for joint EPC contractor thereby protecting ourselves. That is what I meant by bank guarantees and joint EPC.

Puneet: Any thoughts of how you see module prices correcting or going up end of this year.

Amit Jain: We have already started witnessing correction in module pricing. So they have come down by almost 10% from the levels which they went in December. So we expect going forward till September 2022, the normalization of pricing i.e. price correction in modules - that will give impetus to all the developers for contract finalization and that will see an upswing in the market.

Puneet: So are you seeing that developers are actually waiting for those prices to fall before they give out contracts to you.

Amit Jain: Actually there were lot of orders were decided through bidding routes and earlier the module prices were considered at a lower level. So at those pricing the IRR are coming down, the decisions have been pushed out – that we have witnessed globally. And with this correction in module prices, it will prompt developers to take decision and I see the orders getting decided in coming quarters.

Puneet: My second question is on your battery business. What kind of offtake are you expecting going into future and how are those contracts different from what you signed at solar EPC level. Is there any material risk or pricing risk that you are taking there?

Amit Jain: In those contracts also, the normal EPC risk would be there. The kind of volatility we have seen in the market last year - so we will be taking similar precautions as we are taking with the module manufacturers. But the normal EPC risk would remain - but from risks of any kind of major volatility or major component, we will protect ourselves.

Puneet: What is the rough pricing for these new battery projects both in terms of mega watt and may be rupees per mega watt.

Amit Jain: That depends upon the geography - so that varies a lot as to where we are executing the project and what kind of technology and what kind of usage we are putting to - so that is highly variable and depends upon the geography and usage which we are projecting. So as and when various market models are developing, this cost will keep on varying because battery sizes and battery technology is also upgrading and the cost profile is also changing. So that I cannot give you any exact figures on that account as of now.

Puneet: Okay understood that is helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Alchemy Capital. Please go ahead.

Ankit Gupta: Hi Sir. Just for better clarity, you said around Rs.5,500 Crores of order book out of which Rs.1,500 will be reduced, so around Rs.4,000 Crores of solar EPC order book and then Mr. Amit mentioned that around Rs.760 Crores of order book will be having module price risk. For the remaining Rs.3,200 to 3,300 crores of order book we can assume gross margins which were earlier because we have taken some losses or the gross margins will be 0.9% or 1% which we have mentioned for the past nine months?

Bahadur Dastoor: Yes gross margins have dipped significantly. For the remaining UOV, we expect the gross margin to be at low single digit for the rest of the order book, considering all the losses that we have already taken.

Ankit Gupta: Despite the losses we have taken, then also our gross margin will be in the low single digit.

Bahadur Dastoor: Yes because the margins have been suppressed due to the various module hits that we have taken. So whilst the rest of the order hits have been taken, we will have the carry over effect of the suppressed margins and hence while the losses have been taken, the order margins will continue to remain suppressed in low single digit.

Ankit Gupta: And just to understand you were telling about indemnity agreement. Can you just explain it slightly more what it is.

Bahadur Dastoor: Could you just repeat that question please.

Ankit Gupta: Mr. Amit was explaining some agreement, that there will be no more losses from post December quarter post Rs.300 Crores of losses. He was telling something I have missed that.

Bahadur Dastoor: There is an indemnity agreement which has been signed between the company and the promoters - old and new. On the basis of that for certain categories of items - namely liquidated damages, receivables of old projects, certain legal and regulatory matters as well as direct and indirect taxation, for a net amount in excess of Rs.300 Crores, once the final settlement has been crystalized, the existing promoters which means erstwhile promoters prior to Reliance coming in (the SP and KYD group) will reimburse the company on 30th September of each year for whatever is the amount which is crystallized over and above Rs.300 Crores. The company has already made provisions up to Rs.300 Crores and therefore anything further on these matters will not impact the results of the company.

Ankit Gupta: Understood and last question from my end. The O&M order book has also reduced from around 8.7 to 6.2 giga watt and you said that it is because the clients are selling the projects. But the O&M agreement must remain with us only even as the clients are selling it to someone else. So what is the catch here?

Bahadur Dastoor: It is not necessary that once it is sold, the O&M agreement will continue because the new developer if he is having an O&M team within himself he can choose to do that on his own. Therefore there is a reduction from 8 giga watt to 6 odd giga watt on sales of certain plants to new ones.

Ankit Gupta: And Sir do we see this risk in the remaining list also.

Bahadur Dastoor: In fact, we will see the O&M order book slightly rising as we complete more of our in house plants. At the present we do not see this risk.

Ankit Gupta: Understood and last question from my side, we have seen gross margin dip in O&M also. They were consistent around 35%. This quarter we have seen a significant dip in O&M also. So why have the margins declined in O&M.

Bahadur Dastoor: O&M is not going on percentage of completion. It is revenue less cost. In the case of O&M for this particular quarter, there are certain costs which have been incurred but the O&M revenue will come in the next quarter. Also, there are certain small settlements done on closure of these existing jobs, which have impacted us. This has effectively given a Rs.12 Crores impact on the O&M margin. Where we to add the Rs.12 Crores back to the 5 Crores margin it would be about Rs.17 Crores or 35.79% which is your normalized O&M margin.

Ankit Gupta: Got it. Thank you Sir.

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

Anupam Gupta: Good morning Sir I have three questions, firstly just to clarify so once you exclude the WTE order, effectively we have zero order book in Europe - that is the right way to look at it?

Bahadur Dastoor: Yes you are right.

Anupam Gupta: Okay second question is on the LDs which you have settled and you have received some amount in January and expect further receipts from the balance three projects.

Bahadur Dastoor: That is bank guarantee Anupam, not LD.

Anupam Gupta: Sorry bank guarantee, so do you expect to reverse certain provisioning which you have done for those projects and it can help your gross margin in fourth quarter or first quarter of next year.

Bahadur Dastoor: That depends. The bank guarantee amount would be completely recovered. If there are any further LDs which have to be provide on those projects, those would, as we have explained not impact the company because it would be covered under the indemnity agreement.

Anupam Gupta: What I wanted to understand, let us say you have very large impact of gross margin in the nine months. What portion of that can get reversed because your settlement will be done from these four customers?

Bahadur Dastoor: That will depend on the settlement amount, which is presently under negotiation. We have not provided for any bank guarantees. We have provided for LDs. LDs are separate. So since this entire bank guarantee is also in a way covered under the indemnity agreement because it has been recovered against liquidated damages - there will be no further provisioning. It will only be a reversal in terms of cash.

Anupam Gupta: Understand and lastly on indemnity agreement does it only cover the related party transaction of the SP Group or does it cover every contract which you have entered in the past when SP Group and Mr. Daruvala were driving the operations.

Bahadur Dastoor: So, it is not every contract which was done in the past. There were certain existing contracts on the day these agreements were drawn up which were identified (it is for that) as well as identified old receivables (more than one year old) also IL&FS. In fact that is a reason why there will be no further impact on the company in terms of IL&FS and that is why the auditor also dropped the qualification which they had put erstwhile for IL&FS. So all of those items will get covered. Nothing beyond Rs.300 Crores will hit the company. In this quarter, the provisioning has reached Rs.300 crore therefore we believe no further impact.

Anupam Gupta: Okay so basically the amount which you have provided in this quarter, include those contracts also which are indemnified.

Bahadur Dastoor: Yes.

Anupam Gupta: Anything beyond Rs.300 Crores covers all the four items which you have mentioned, will not impact you and this will be met by SP Group and KYD Group - to understand it better?

Bahadur Dastoor: Yes it will be met by the SP and KYD group.

Anupam Gupta: Understand okay. As you mentioned on the order book you only have about Rs.4000 Crores and given the execution time line, so do we expect at least for the next few quarters you will definitely see sort of weakness in the revenue?

Bahadur Dastoor: That depends on order inflow. As Mr. Amit has explained, we are looking at order inflows coming in the next financial year. Domestically we have signed about Rs.600 Crores worth of orders. In the domestic market we continue to maintain about 25% strike rate. On the basis of order inflows, yes there would be a gross margin which we are getting right now and minus the running rate of overheads. But it depends on when it will come, so maybe the next quarter or two would be considering the gross margins of the existing projects and the overheads, so revenue will be weak at least in the first half of the next year, post which on the basis of order inflow we will see it rise.

Anupam Gupta: Understand and the new orders which you are wining will those be similar in terms of gross margins of 10% which you were doing earlier or it will be significantly lower than that.

Bahadur Dastoor: As of right now what we have booked is in our median of margins.

Anupam Gupta: Okay. Understand that is all from my side.

Moderator: Thank you. The next question is from the line of from Danesh Mistry from Investor First Advisors. Please go ahead.

Danesh Mistry: Hello hi good morning. I had a couple of questions. The first one is that these liquidated damages that are there - are they from anyone particular geography and what is the reason behind these liquidated damages.

Bahadur Dastoor: Liquidated damages can be for a variety of reasons, including majorly for delay in completion of the project. What we have provided is not in any single geography, but in various geographies across the world where we felt the provision is necessary.

Amit Jain: As Mr. Bahadur has stated these are reasons for the delay in projects and not limited to any particular geography.

Danesh Mistry: Got it. But are these linked to essentially the solar panel issue. Are they linked to the same problem which is the solar panel prices went up and supply was short and that is why there were delays or what is some other reason behind it?

Amit Jain: There were multiple reasons. In last couple of year because of the COVID, there were severe bottlenecks and restrictions. The work forces could not be deployed. Whole industry faced severe logistical challenges and the module manufacturing of course got delayed - that was for everybody, but there was host of other factors beside that which led to these situations.

Danesh Mistry: And in Australia I remember last quarter we had a situation where one of the vendors went bankrupt and we had to quickly handle the situation. Are things now settled in Australia which is one of our major geography.

Amit Jain: Yes, we are settled in Australia and the project execution is happening. Beside the challenges which were there and the impact created by them, we are trying to minimize the impact. But the operations are streamlined and we are on course to complete all our projects.

Danesh Mistry: Got it and while we talk on the solar pipeline but we have also indentified other business avenues for our company. So when do we see any pipeline in those avenues fructifying for us?

Amit Jain: The other areas which we have addressed is battery energy storage system (BESS) and energy storage system (ESS) which we see a core growth area for us. There is going to be robust pipeline for those businesses also. And in the next quarter we will provide the size of pipeline and targets given in those particular sectors as well.

Danesh Mistry: And just one last thing. Now that Reliance has come in - generally they are quite operator. So do you see some improvements or some changes in the cost structure of the company.

Amit Jain: Right now, the transaction has got just completed and various discussions are happening.

Danesh Mistry: Essentially generally cost structure can be mainly on the fixed cost right, do you see anything that can change on that end?

Bahadur Dastoor: So that is something we are doing on our own anyway, to try and minimize and optimize the overheads as much as possible. So I am talking about the fixed cost structure. As far as procurement is concerned, we are very sure the scale of procurement will only also help us in our project procurements.

Danesh Mistry: Okay thank you Bahadur and thank you Amit and wish you the very best of luck. Thank you very much.

Moderator: Thank you. The next question is from the line of Mohit from DAM Capital. Please go ahead.

Mohit: When you say EPC for solar battery storage system, does it include hydrogen also or it is not under consideration?

Amit Jain: As we have stated, that battery energy storage and solar is getting to be our core area. When working with the solar project associated with green hydrogen, for now we have not decided whether to move to this green hydrogen space.

Mohit: But are you participating IOCL's green hydrogen tender?

Amit Jain: No, we are not participating in that. We are working only the solar renewable part associated with the green hydrogen, but per se will not be associated with hardcore green hydrogen implementation.

Mohit: Understood Sir. Is it possible to enter into domestic contracts without module pass through. I understand most of the PSUs who give out the contracts are based on your fixed price contract? Is the nature of the contract changing because of industry pressure or can you throw some light?

Amit Jain: First of all, as we have stated that we are not taking the module risks and wherever the module risk is there, either we pass on to our supplier or otherwise we will not address that particular segment of the market. But definitely, in discussions not only in India but also international market we see a trend, the flexibility and an approach of risk sharing is coming in - whether it is the government or the private player - as far as the modules are concerned. And discussions are happening on various forums on how to mitigate that risk and various risks sharing mechanism can be developed. And under domestic market as of now for us is mainly BOS, module is a pass through and we are not taking any module risk in the Indian market.

Mohit: Given the new change in strategy, can we expect a different profile in terms of order book in the sense your India order book will grow significantly over the tine and other geographies will diminish - is that a fair assumption?

Amit Jain: The kind of growth ramp up which we foresee in India, definitely we are seeing an uptake in the order book in India. India ramp up would be significant, but that will not come at cost of other geographies. So our strategy and approach is the same. As we have stated, our pipeline in various geographies remain robust and next year we see a significant movement in the contract closures and order booking. So we are not cross cannibalizing market. We are not growing one market at the cost of the other. So India will grow, but at the same time other international markets will continue to grow - our focus will remain the same.

Mohit: So how is the Middle East behaving at this point of time. Are you seeing more orders from Middle East?

Amit Jain: As we have already informed that Middle East continues to be our market. Middle east pipeline is strong, but in last couple of years we have witnessed very strong competition from Chinese players in middle east market. But what we have seen during the price volatility and module price challenges, a lot of smaller players are suffering huge losses. And companies who have booked projects have suffered massive losses. So we see lot of players getting out of that space and Chinese also taking rational decisions - so we see an opportunity for us in that market. Going forward, the strong players who have delivered on projects like us and have demonstrated their commitment to their clients will also get a major opportunity and boost for their operations in Middle East and African markets.

Mohit: Sir is your new expected EBITDA margin in the new orders which you are booking.

Bahadur Dastoor: Let us talk about gross margin. So, in our new orders the blended gross margin we intend to keep it the same as what we have given in the past that is between 10% to 11%, which is what we are seeing so far.

Mohit: Understood Sir. Thanks and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Sushil Choksey from Indus Equity Advisor. Please go ahead.

Sushil Choksey: I would like to know what kind of synergy Reliance brings to Sterling and Wilson, with growth outlook for next two to three years - besides procurement which you have highlighted.

Amit Jain: I would like to state that deal has just got completed, discussions are happening on various aspects - so it will be too early to give any specific details on that count. But having Reliance as a promoter will bring significant advantages. Economies of scale and procurement bargaining power which we already have will come in, but it is too early to give any specific details on this aspect.

Sushil Choksey: The synergy on procurement is a small part of the business.

Amit Jain: And we will update you in next quarter, the specific details.

Sushil Choksey: Can you give an outlook what kind of size of EPC on a global basis and on India would be implemented per year over next five to six years?.

Amit Jain: Globally there will be significant additions, but as we told you that our pipeline continues to be robust – about 19 to 20 giga watt for FY2023.. Over the long term view we see the market growing at the rate of 15% CAGR, so we see a robust growth in all the markets including India. In India we see 6 to 8 giga watts per year over next two to three years and then we see an addition of 10 giga watts per year - because the latest targets which has been announced by government of India that calls for 40 watt of additions over next few years.

Sushil Choksey: Are we being conservative on the domestic front or is it being practical.

Amit Jain: Conservative in what sense.

Sushil Choksey: The estimates of manufacturing. If you hear Borocil Renewable or any other manufacturer.

Amit Jain: We are being conservative.

Sushil Choksey: And who would you qualify as your nearest competitor in domestic and global basis, the top two, three globally.

Amit Jain: Globally and domestic there are multiple players. And various markets have various challenges like Middle East, Africa, Chinese. In Europe there are Spanish companies, so as a company we cannot qualify that there is one single company which is a significant challenger to us. So it varies from market to market and it is pretty diverse.

Sushil Choksey: Thanks a lot. I will await your answer in the next quarter con call.

Moderator: Thank you. The next question is from the line of Sanjay Kumar from ithought PMS. Please go ahead.

Sanjay Kumar: Hi Sir thank you for the opportunity. All my questions have been answered. Just one confirmation, given this jump in capacity addition in India - will the basic custom duty have any effect on us? Where have been procuring for our Indian EPC orders - will that change going forward? Any thoughts on the BCD? That is it.

Amit Jain: For us it is BOS market, so the impact of BCD on module prices will not impact us as far as our contracts are concerned. And there are various arrangements which various developer are working. So I think project pipeline will also remain strong in India and there will be no impact on us for that.

Sanjay Kumar: Okay Sir thank you.

Moderator: Thank you. The next question is from the line of Kaushal Dedhia from Axis Bank. Please go ahead.

Kaushal Dedhia: So thank you for the opportunity. Most of my questions have been answered. I just wanted to ask on this indemnity agreement that has been signed for this Rs.300 Crores amount. So as I understand, this will be settled in September and then every year going forward - is that right?

Bahadur Dastoor: Yes the first settlement will be in September 2022. It will be settled on the basis of a settlement with the customer or authority concerned and not on the basis of provision. The company has finished making provisions, so there will be no further impact.

Kaushal Dedhia: Understood so Sir how long this will continue. Is there an end date for this?

Bahadur Dastoor: This will continue for the next, may be 5 to 6 years.

Kaushal Dedhia: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of from Danesh Mistry from Investor First Advisors. Please go ahead.

Danesh Mistry: Yes thank you taking my question again. Any changes on the Argentina receivables issue? I believe we were talking to the client there for quite sometime.

Bahadur Dastoor: The Argentina matter is under abirritation. It is also an item that is covered in the indemnity agreement. The matter is still at the initial stages of arbitration. So the global settlement which we were attempting to do has not worked out. We are right now proceeding with the arbitration.

Danesh Mistry: Alright thank you Bahadur.

Moderator: Thank you. The next question is from the line of Shashwat Tandan from Shashwat Textiles Pvt. Ltd. Please go ahead.

Shashwat Tandan: Can we expect any local procurement of modules from Borocil Renewables or from Reliance New Energy instead of Chinese modules?

Bahadur Dastoor: Are we talking of the domestic market or the international market.

Shashwat Tandan: For Sterling & Wilson, as a procurement model - because I believe we also suffered from logistics cost of supplying from China to Australia when logistics cost went through the roof. So as a strategy can we think about getting those procured from Jamnagar (Reliance New Energy Limited) for plants or Borocil Renewables for global supply?

Bahadur Dastoor: Procurement from Reliance would be a natural progression of what has happened with the organization. So I do not really think I need to answer that question. This is given. Now that will obviously give us much more dependable supplier who is also our investor. The point about the domestic market - we do not procure modules domestically. As far as international markets are concerned, we need economies of scale and someone like Reliance of course is totally a different thing. But erstwhile Indian suppliers are not able to compete with the Chinese in terms of scale, forcing us to buy from Chinese. As procurement from India will increase on the basis of supply in India, yes then that is a completely different question.

Amit Jain: That is correct Bahadur because that total depends upon the capacity addition in coming years in India. We are witnessing movement towards that. That will take sometime and till that time we have to work on the international procurement model which is already in place..

Shashwat Tandan: Okay thank you.

Moderator: Thank you. The next question is from the line of Niraj Dewan an individual investor. Please go ahead.

Niraj Dewan: Good morning and thank you for this opportunity. My question is with respect to slide #4 strategy point #2 you mentioned that you will diversify into project development. So does it mean that you will be bidding for projects in the future in those geographies. What is exactly the thinking behind this? Thank you.

Amit Jain: Actually what we have seen the trend in EPC market is to improve upon the margins. All the EPC players are opting to develop. So this can be with or without option. In some of the markets like US, Australia you can develop the project without going for bidding for it. But some of the markets in Europe you have to go for capacity allocation and after the allocation of capacities only you can develop the project. So both the models will be there – with bidding and without bidding. And as of now which we have indicated and we are starting that model in Europe, it will be started with capacity allocation bidding, but there is no tariffs fixed for that. It is just getting the bids for getting the capacity. And having said that I would like to clarify that we continue to operate on our asset light model and this is just to secure exclusive EPC right and driving our margins and this development right will be flipped to the ultimate owner before start of the construction. We are not looking at becoming investors in any stage in that.

Niraj Dewan: So you said before start of construction, you we will be flipping into the eventual investor.

Amit Jain: Yes, we will be flipping - because our job is to get the capacity, develop the project, bring it to implementation stage and ultimately yes we will be flipping it to the ultimate investor.

Niraj Dewan: So this would not entail large amount of capital commitment in that case.

Amit Jain: It will not entail that kind of capital commitment. It will entail commitment but not capital funds.

Niraj Dewan: Thank you very much.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to Mr. Amit Jain for closing comments.

Amit Jain: Thank you everyone for being on call today with us. With the robust backing of Reliance Group and Shapoorji Pallonji Group, we endeavor to accelerate our growth trajectory by aggressively pursuing large markets i.e. US and Europe where we foresee a huge potential of growth. India has reached an inflation point from where we anticipate the growth of solar industry to garner further pace and momentum.

With our deep rooted client relationships, global presence, ability to provide customized solutions, strong track record of executing complex and large scale projects supported by robust balance sheet and strong parentage of Reliance Group and Shapoorji Pallonji Group, we are confident of regaining our leadership position.

I would like to thank everybody for joining the call. I hope we have been able to address all your query for any further information kindly get in touch with Mr. Vishal Jain or Strategic Group Advisors, our Investor Relationship Advisors. Thank you once again and have a great day. Thank you.

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