"Sterling & Wilson Solar Limited Q1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Sterling & Wilson Solar Limited Q1 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 date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Jain, Head of Investor Relations from Sterling & Wilson Solar Limited. Thank you and over to you Mr. Jain!

Vishal Jain: Good morning everyone. Welcome you all to Q1 FY2022 earnings call. Along with me, I have Mr. Amit Jain - Global CEO, Mr. Bahadur Dastoor - CFO and Strategy Growth Advisors, our Investor Relation Advisors. We will start the call with an update on the Solar Power Industry and operational highlights for the quarter by Amit followed by financial highlights by Bahadur, post which we will open the floor for Q&A. Thank you and over to you Amit.

Amit Jain: Thanks Vishal and warm welcome to all the participants on this call. I would like to give a quick update on Solar Power Industry and status of our business operations.

The global solar industry has been adversely affected in last nine months due to an unprecedented increase in price of modules, commodity prices and freight cost that have pushed up the prices of our projects. In last one month or so, the module and commodity prices have been stable, but we continue to see an upswing in the freight prices. The freight charges have been on continuous uptrend, caused by various things including shortage of containers, the congestion at ports and closure of ports in different countries because of the COVID related reasons. The increase in freight cost has severely impacted the transport cost of solar modules and other raw materials. The shipping rates have increased by five to seven times over the last nine months and this has been a significant cost input. Just to give an example how it has impacted - before the last quarter of FY2021 the freight cost from China to Chile was around $2,000 for a 40-feet container. It has now increased to $13,500 in July. This is approximately six to seven times cost increase.

Given the situation many solar developers have delayed the finalization of orders. Consequently, the order finalization in international markets for FY2022 has seen a lull till date and has been postponed to H2 FY2022. We expect around 80% of the orders for FY2022 to be finalized in H2 FY2022. Our pipeline continues to remain robust, and we expect about 15 gigawatts of orders to be finalized this year, as compared to 13 gigawatts that we finalized in FY2021. We expect to maintain strike rate of 14% to 15% for this year in line with our past performance.

Our unexecuted order book as on August 14, 2021, stands at Rs. 8,731 Crores which is to be executed over a period of next 12 to 15 months. This includes order amounting to Rs. 2,030 Crores, which may now be unviable for developers considering increased module and community costs, for which we are in discussion with our customers.

On the growth market and opportunity over medium term, we continue to see a lot of traction in key markets especially US, Australia, and Europe. Currently we have limited presence in the two markets that is North America and Europe and we will be targeting to increase our market share in these markets. As per IHS Markit, the overall market is expected to see a growth of 15% over the next three to five years. Our global presence provides us lot of flexibility in selecting projects globally. Most of our clients are looking at significant capacity additions and we continue to remain confident of the opportunities going ahead.

Our O&M portfolio as of date is 8.7 gigawatts and 40% of these are third party EPC contracts. We expect O&M portfolio to grow by 40% during the year to 11.5 to 12 gigawatts by end of FY2022. We are focusing on increasing international O&M portfolio by pursuing projects where EPC has been done by third party. We expect O&M margins to remain robust at 35% during the year.

With an aim to expand our renewable offerings we have decided to pursue EPC business for hybrid energy, power plant, battery energy storage, and waste to energy subject to shareholder approval. Hybrid energy market is expected to grow at 8% CAGR $3.7 billion by 2025; whereas battery energy storage system is expected to grow two times in the next four years to $12 billion annually. Australia and US, where we already have sizeable presence are the large markets in battery energy storage systems and we continue to see the trend of even the standalone projects being coupled by battery energy storage systems. Further as battery prices are coming down, we are seeing a lot of traction and expect share of customers looking to combine solutions in terms of solar plus hybrid energy to increase. And we will quickly be able to ramp up our battery storage business by adding a team of battery experts. Our sales execution and design and engineering teams will be common for the businesses. We see a lot of opportunity to grow this business as most of the clients was large IPP players with whom we have strong relationships.

With ever increasing generation of municipal waste globally and requirement of government to stop reduce landfills, the market for converting waste to energy continues to grow. Waste to energy market is expected to grow annually by $5.25 billion over the next six to seven years with addition of 70 new plants annually. UK and Europe constitutes more than 40% of the global market, which will be our key focus market in initial years.

With carbon emission reduction becoming a global consensus there are enormous opportunities in these emerging fields of hybrid energy power plant, energy storage solution and biomass waste to energy. We can leverage our existing relationship with clients, further our technical expertise and maximize the inherent benefits of our hub and spoke business model thereby becoming a diversified renewables company into a rapidly growing ESG space.

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

Bahadur Dastoor: Thank you Amit and good morning friends. I will take you through the consolidated financials for the quarter ended June 30, 2021. Before we run through the financials, I would like to reiterate that being an EPC company the revenue, order inflow and gross margins could be lumpy due to geographical mix and stage of execution of the 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 representative of the full year.

Before commenting on our financial performance I would like to update you on the recent event of resignation of our statutory auditors. Pursuant to the COVID-19 situation and its impact on the operations of the company, there has been a sharp focus to reduce overheads across the organization. From time-to-time, we have been in discussion with BSR & Co. LLP, our statutory auditors for a substantial reduction in audit fees. However, as we could not reach a common ground, BSR & Co. LLP resigned as our statutory auditor. We would like to thank BSR & Co for all the cooperation they have extended to us during the various audits to date. On the recommendation of the audit committee we have appointed Mrs. Kalyaniwalla & Mistry LLP as the statutory auditors of the company to fill the casual vacancy caused by the aforesaid resignation from August 15, 2021, till the ensuing fourth AGM and to further appoint them for a period of five years subject to approval of the shareholders of the company at the ensuing AGM.

Revenue for Q1 FY2022 grew by 12% to Rs. 1,195 Crores as project execution was impacted in Q1 last year due to COVID. Region wise revenue breakup for EPC is as follows, Australia contributed about 64.3%, and America contributed 25.3% followed by India, which contributed 8.7% and the balance contribution by MENA region and Africa. Our O&M revenue stood at Rs. 61 Crores in Q1 FY2022 and constituted 5.1% of revenue in Q1 FY2022. O&M margins in Q1 FY2022 have been 35%. Due to the impact caused by the increase in module and commodity prices, adjusted gross margins in Q1 FY2022 continue to remain suppressed for ongoing projects and stood at 2.3%. The orders booked in the current year has come at a historic margin of 10% to 11%. The recurring overheads on absolute terms remained at the same level as in the corresponding previous quarter, despite the previous quarter having lower salary and travel cost due to COVID-19. Our recurring overheads as a percentage of revenue reduced from 7.5% in Q1 FY2021 to 6.9% in Q1 FY2022. EBITDA losses for Q1 FY2022 stood at Rs. 93 Crores due to lower gross margins and accelerated mark to market on cancellation of forward cover contracts. Accelerated MTM represents loss of Rs. 49 Crores on account of cancellation and rebooking of our contracts on expiry related to ongoing projects, which resulted in accelerated accounting of losses, which has been explained in detail in note 11 of the Q1 results. The same has been flushed out from effective portion of cash flow hedge of other comprehensive income, resulting in negligible impact on shareholder funds.

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 August 14, 2021, is Rs. 64 Crores. Decrease in borrowing is on account of repayment of ICDs and cash flow from operations. Since listing, we have repaid a total of Rs. 2,447 Crores through internal accruals and money received from group companies on collection of intercorporate deposits. Repayment schedule of term debt in Q2 FY2022 and Q3 FY2022 involves payment of Rs. 24 Crores and Rs. 40 Crores respectively. We have cash and cash equivalent of approximately Rs. 336 Crores and a net worth of Rs. 651 Crores as on June 30, 2021. As of June we had a negative working capital of Rs. 571 Crores as compared to negative working capital of Rs. 530 Crores as on March 2021.

Negative working capital is driven by a combination of higher collection, efficient management of working capital and advance from customers. There do exist; however, delay in payment to certain vendors. Of the receivables due for more than one year, it stood at Rs. 445 Crores as on June 30, 2021. They comprise of related party receivables of Rs. 136 Crores, which include receivables of Rs, 102 Crores against which the company had received unconditional assurance of proceeds from sale of plant. We have been able to collect and settle old receivables of Rs. 18 Crores during the year to date and are confident of recovering most of the balance overdue. The total intercorporate deposits repaid till date from April 1, 2021, was Rs. 172 Crores.

As on August 14, 2021, ICDs stood at Rs. 741 Crores including interest accrued. On the cash flow front, during the quarter we had a negative operating cash flow from operations due to payment towards MTM losses on cancellation and rebooking of forward contracts as explained above. Cash flow from investing activity was positive in Q1 FY2022 due to receipt against ICDs and interest thereon.

Here I would also like to add that in accordance with the Sterling and Wilson Solar Limited Employee Stock Option Plan, the nomination and remuneration committee had its meeting held on August 14, 2021, has approved the grant of 13,01,213 out of a total of 16,03,600 employee stock options which were approved by the shareholders to eligible employees exercisable into not more than 13,01,213 equity shares of a face value of Rs. 1 each fully paid at an exercise price of Rs. 238 per share.

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. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Mr. Vivek Gupta an Individual Investor. Please go ahead.

Vivek Gupta: Good morning. Thanks for the opportunity for asking the question. Sir being an individual investor I have been invested in Sterling and Wilson on account of considering it as a global EPC player, but the numbers which are coming quarter after quarter is not giving me any confidence and on top of it I have been seeing that management is attributing these losses to COVID. But I have seen that there are companies which are performing and we should not just attribute this to COVID. And on top of it like post listing we have been seeing that diversion of funds was there and we have been like committed for ICDs repayment. What is pushing management to settle these ICDs at the last leg of the committed date because being an investor I am losing my confidence in Sterling and Wilson totally, How you are going to assure me that Sterling and Wilson is in the right path of development and how you can reassure that confidence? Thank you.

Bahadur Dastoor: I will address your question, I believe there were three parts to it, and the first part which you said is we should not attribute everything to COVID. Mr. Gupta COVID is a reality, it has been there for the last 18 months, we have faced the impact, we were one of the first companies to mention that COVID is going to impact us in March 2020 and it did, COVID has impacted all organizations during this year and there has been a substantial increase in module and commodity prices, this is also a reality. This is something that has affected the solar entities all across the world, amongst other businesses and Sterling and Wilson Solar has been no exception. So we have attributed where it needed to be attributed. Coming to the question of the ICD repayment, as we have mentioned there has been a lot of ICD repayment in the previous financial year as well as almost Rs. 172 Crores of ICD repayment from the start of this financial year. The figure is now down to 741 Crores. In the last Board meeting the promoters have given confidence to the Board of meeting their objectives of taking of all the ICDs by the appointed date of September 30, 2021, and we are hopeful and confident that they will do the same. That is all the information that I have, which is based on the confidence given by the promoters to the Board.

Vivek Gupta: So it means like we can be rest assured that these ICD payments would not be delayed further, I have seen that we have attributed some Rs. 850 or 805 Crores of securities in case as a part of this ICDs repayment, but the only thing is like these ICDs are big overhang on Sterling and Wilson, the IPO price which came was somewhere around 770-790 and post listing it has eroded shareholders wealth to a great extent and till date I do not know about others, but I am not at all comfortable in booking losses and on top it being a part of the Sterling and Wilson shareholder. So at least as a request and sincere request from my side that management or promoters they should be transparent enough to make this trust to regain the trust of investors it would be good. Thank you.

Bahadur Dastoor: Mr. Gupta thank you for your confidence and as I said the promoters have given this assurance to the Board and that is what we are transparently projecting to you. I once again thank you for remaining invested and thank you for the confidence.

Vivek Gupta: Thank you.

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

Ankit Gupta: What is the status of our negotiation with our Chinese vendors regarding solar modules pricing, like in the last call we discussed that we are negotiating with them. Is there any progress on that front?

Amit Jain: As we discussed in our last call that going forward whatever new orders we are going to negotiate with our Chinese module suppliers, we are going to ask for higher amount of bank guarantees. So it is on the same lines so whatever new orders we are going to take and if it is not passed through to the customers in that case we are going to seek higher amount of bank guarantees as compared to what we are taking earlier to safeguard against all the risks arising from the module price uncertainty in the market.

Ankit Gupta: Are we seeing this solar module prices to again normalize? What in our view is causing the prices to significantly increase? What

Amit Jain: In the past one month or so we have seen a trend that module prices are stabilizing and we are hearing from the market reports that lot of capacity addition is happening in China both for the module manufacturing as well as the upstream raw materials of polysilicon and the glass. Though that is happening, we hope prices continue to be stable, but it is very difficult to say as to how it will pan out in the next coming quarters, but certainly last one month or so we have seen prices getting stabilized.

Ankit Gupta: Got it and out of Rs. 8,700 Crores of order book, around few thousand Crores of order book might be unviable, what was that number?

Amit Jain: So that number is around Rs. 2000 Crores where we see that it may not be viable for developers, but we continue with the negotiations. Discussions are ongoing with the customers and we will get more clarity how it pans out in the coming quarters.

Ankit Gupta: For the remaining Rs. 6000 Crores odd of order book, our gross margin could be negative or there would be like 2%, 3%? What can be our approximate gross margin number for the remaining order book?

Amit Jain: I will request Bahadur to give you guidance on that.

Bahadur Dastoor: The gross margins obviously would be suppressed and they would not be the historical gross margins that we have. But I would just like to add that the gross margins which we have seen in this particular quarter also bear the effect of projects which were in the negative and for which all the losses were taken in March 2021. So however in the current quarter, you do have revenue and cost equal to revenue because all the losses have to be front ended and this has suppressed in percentage terms the margin. So if we were to remove out the impact of such zero margin jobs which are ongoing, our margins actually would have been slightly higher than 5% in this quarter. And going forward we do believe that the margins will be much higher than 5% by the end of the year.

Ankit Gupta: Why other expenses also continues to be higher? Is it because of the freight cost?

Bahadur Dastoor: When you are looking at other expenses, it does not include freight cost because all costs which are attributable to the projects go up before the gross margin. What you are seeing as overhead, which is about Rs. 80 Crores is comparable with Rs. 80 Crores last year where also the salary costs as well as traveling was much lower due to a higher impact of COVID. In spite of that it has been maintained. Though the management is looking at reducing cost overheads all across the board and that is what we are working on to bring it down much lower than what it was in the previous year - the number being Rs. 324 Crores in the previous year.

Ankit Gupta: We are aspiring for that number for full year in FY2022?

Bahadur Dastoor: To come down much below that number. The number which I gave you was for FY2021. We are trying to bring down the costs as much as possible, which is why efforts are ongoing across the board.

Ankit Gupta: Sir, you told about new businesses for energy storage and hybrid. On our capability front how are we hiring our team for that and how much of our costs will be increasing because of that, because those costs will have to be front ended before we bid for any projects - we must have some capability in our team?

Bahadur Dastoor: So let me start of with this and then Mr. Amit can add. The business pipeline that we are looking at for this kind of projects are between USD 800 million to about a billion. So at that point in time we would require to build up your business development team and there would be cost incurred for that. Now if that is the kind of pipeline that we are looking at we would be seeing some kind of overheads in the range of about Rs. 25 Crores to 30 Crores which is normal to build up the size - that is of course assuming that there are no orders which come in. The group has evaluated its capabilities in doing this; there are certain pre-qualifications which would require the involvement of partners which will be taken up appropriately from time to time. If Amit has anything which you would like to add you may go ahead.

Amit Jain: I would like to add that our geographical presence across the globe and existing teams and existing clients will help us in leveraging the overheads, despite adding a new business, and would be minimal and we will be achieving a lot of synergies which will give us a lot of cost advantages even in the new lines of businesses by keeping our overheads low.

Bahadur Dastoor: Just one more point that I would like to add is that this line of business has long term orders, so it is not like solar orders which get executed between 12 to 15 months. This take anywhere between 24 to 36 months, so we will also be having not only long term order book visibility but also revenue visibility.

Ankit Gupta: Got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Kunal Koladiya from Anova Capital. Please go ahead.

Kunal Koladiya: Sir I have two questions, first one is like given the commodity impact would you consider bidding for EPC contracts excluding the module procurement for shorter duration contracts as well?

Amit Jain: Yes, that is what we are considering - that we have like in our existing big markets US and India already we are bidding for projects without modules and even in the geographies we are bidding with modules, we are now adopting a strategy of passing the risk onto the customers. So that is very much on board. So we are considering both the options. We are bidding without modules and where we are bidding with modules, we are looking to pass on the cost to the customers.

Bahadur Dastoor: It is also important to further add that unlike in India where ex-modules your price of BOP is much lower, it is almost two to two-and-a-half times that in the international market. So it is not that if we were to bid ex-modules or modules as a complete pass through, there would be a very heavy shrinkage in revenue because the two BOS markets - the India and the international - are not comparable..

Kunal Koladiya: That is helpful Sir and secondly what is our current status of project execution or you may say operating efficiency in Australia in the light of COVID-19 lockdowns?

Amit Jain: In Australia so far COVID-19 lockdowns have not impacted our project execution. However, there have been some delays on account of delay in module supply, but the project execution remains unimpacted on account of COVID.

Kunal Koladiya: Thank you.

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

V. P. Rajesh: My first question is just trying to understand this price impact that we got hit by, and I apologize in advance some of these questions are repetitive, but just trying to understand how much did you book in the last year and the losses on the current order book and in the current order book what percentage is still going to be impacted by the price escalations?

Bahadur Dastoor: I will start off on that. As you would have in our investor presentation for March 2021, the one-offs which had an impact on that quarter were about Rs. 374 Crores. This included the cost of subcontractor going bankrupt due to COVID, this also included the cost escalation due to elongation of time due to such contractor having gone bankrupt, it included the module, freight and commodity price increases and it also included certain provisions for liquidated damages, which the management prudently felt should be made on account of extension of time due to COVID. So the impact that was there was about Rs. 374 Crores odd. Now in the current quarter we have taken the margins which were there for March 2021 and continued that further. There has been no further losses on those projects except in case of one where a particular module supplier had asked for an increase in price and that was to a significant extent; also agreed to be compensated to us by the customer. That has been mentioned in our investor presentation for this quarter where we have put it as price variation. So other than that there has been no other major impact in this current quarter, whatever had to be taken was taken in the last quarter. Margins continue to remain suppressed because the impact of that will continue over the execution and lifecycle of the project.

V. P. Rajesh: Right, so out of the Rs. 370 Crores figure last quarter how much was due to non-recurring things like bankruptcy, etc., if we remove all that pertaining to price escalation, freight cost and module prices what was that portion of 370 Crores?

Bahadur Dastoor: That amount was about Rs. 102 Crores for approximately for the subcontractor going bankrupt, roughly about Rs. 100 Crores to 105 Crores on modules and freight and about Rs. 110 Crores if I remember correctly on other extension of time due to COVID-19.

V. P. Rajesh: The impact of the price escalations and freight was around Rs. 100 Crores to 105 Crores?

Bahadur Dastoor: To the extent it pertains to the last quarter. You have to understand that as project progresses - so unless there is a loss only that loss would be booked front ended but if there is anything which the project remains positive that suppressed profit would continue over the lifecycle of the project.

V. P. Rajesh: Understood, coming to this year out of the order book of Rs. 6,000 Crores, which you think is viable, how much is the price hit we are taking because of which our margins are going to be suppressed?

Bahadur Dastoor: The price hit that had to be taken has already been taken. The margins that are there in the particular quarter in this one we have said that it is also impacted by no margin coming where the loss has been booked in the previous year. As I mentioned if that was to be eliminated the margins would be in the region of 5%. Orders that we have booked in the current quarter have come at our historical margins, so we believe that we should have a much more than 5% margin at the end of the year. We will be in a position to give a correct margin guidance by the time we come to the next quarter call.

V. P. Rajesh: Just lastly one question on this topic, so how should we think about it that out of this Rs. 6,000 Crores that you have order book what percentage is where you are not able to pass through price escalations and therefore that is on a lower margin trajectory. I understand that because it is not negative you cannot hit the losses upfront, but we know that over the next few quarters your margins are going to be subdued. So I am just trying to get a sense what percentage of the book in that particular bucket?

Bahadur Dastoor: About 40% to 45%.

V. P. Rajesh: Understood, my question on the new business initiatives that you have talked about in the presentation, are you also planning to get into the data centers as well or any thinking on that side?

Amit Jain: No, we will not be getting into data centers.

V. P. Rajesh: Alright, thank you. I will get back in the queue if I have more questions.

Moderator: Thank you. The next question is from the line of Subhadip Mitra from JM Financial Services. Please go ahead.

Subhadip Mitra: Good morning and thank you for the opportunity. Just wanted to get a sense of how do you see the Indian solar market, because we have seen a lot of entrants and a lot of existing utilities were coming up with big plans and how do you see the EPC market here evolving in India, I am sorry if you have already answered this question I joined the call little late?

Amit Jain: No, thanks for the question. As you yourself said that there is a lot of plans and lot of announcements are happening - so we continue to see a lot of uptrend in the solar market both domestic and international. So in India this year itself we see a bid pipeline of more than 6 gigawatts, which is coming in and globally (including India) we expect a bid pipeline of more than 15 gigawatts to be finalized this year. So for the EPC industry the cost has remained strong and the market will continue to grow at the rate of 15% per annum for the next three to four years.

Subhadip Mitra: Understood, so within this let us say the pipeline of 6 gigawatts in India, would there be any target market share that you are looking to get or likely over the period of the next maybe three to five years what is the target market share within India and international if you could just throw some light on that?

Amit Jain: Our target hit rate usually has been 15% of the targeted pipeline, so we expect in India this year to be going somewhere around 1.5 to 2 gigawatts and depends upon the project closure which are going to happen in coming years, so we will continue to maintain our market leadership position.

Bahadur Dastoor: Also if you see our investor presentation we have won about 623 megawatts already in India from April onwards.

Subhadip Mitra: Understood and how are these projects typically, are these also tend to be fixed price contracts or they tend to be more on variable costs where you can pass on the module risk to the consumers?

Amit Jain: No, as far as the Indian market is concerned the module risk is on developers. So we are bidding in Indian markets without any module risk.

Subhadip Mitra: Understood and in terms of the international market the 10-gigawatt market size as we talked about there again you would be targeting about 14 to 15% market share?

Amit Jain: Yes, that is correct, our historical strike rate has been 14% to 15% and we will maintain that as well in international markets, but that can vary across geographies, but consolidated strike rate would be 14% to 15%.

Subhadip Mitra: I understood, so would the international contracts there will be more of these fixed price contracts?

Amit Jain: No, as we have elaborated in our earlier question, that US is a market where we bid without modules and in all other markets where we have to bid EPC with modules, we will pass on the price risks on to our customers.

Subhadip Mitra: Understood, thank you so much for answering the question.

Moderator: Thank you. The next question is from the line of Priyanka Singh from Atidhan Securities. Please go ahead.

Priyanka Singh: Good morning, Sir. I have a couple of questions, first of all what is the global market size of the new business verticals that we are targeting and what would be the industry margin profile over here?

Amit Jain: We expect the hybrid energy market to be close to $3.5 billion to $4 billion by 2025 and energy storage system to grow in the next three to four years up to $12 billion. So that is a significant market size and more of the clients in these markets are our existing clients. And when we come to waste to energy market, that is going to be in excess of $5 billion market annually in the next few years. So there we see the market is pretty big and we expect to maintain our historical strike rate, which we have for our existing business and margin profile of the industry is 10% to 15% where the markets are currently and we will be also maintaining margins in that particular bracket.

Priyanka Singh: What kind of synergy benefits we expect to get from these new verticals?

Amit Jain: So, there will be significant synergies because we are in the same line of business as far as hybrid and energy storage is concerned, the client profiles are same, clients are same and geographies are same and majority of the businesses is expected to come from Australia, Europe, and USA where we have significant presence now. So we will just be adding going forward, as far as the hybrid and battery storage systems, only the project execution team and we will be taking the advantage of our existing BD, engineering, project execution teams in those geographies. So synergies are going to be significant in these markets. As far as waste to energy is concerned, we look forward to order booking from these two new verticals in excess of $500 million to $1 billion in next two to three years and there will be Rs. 25 Crores to 30 Crores of overheads annually on this account in coming years on new verticals.

Priyanka Singh: Got it, that was helpful. Thank you.

Moderator: Thank you. The next question is from the line of Amit Shah from Ace Securities. Please go ahead.

Amit Shah: Good morning Sir. Sir I have one question, can you indicate the expected margin for FY2022 and FY2023 based on the current commodity prices and freight cost? Do we foresee any further provisions due to current prices?

Amit Jain: Yes, as we had mentioned, for the current year's margins while we will give a better clarity when we come to the second quarter call, right now it is about 5% and are expected to grow over this year. As far as a FY2023 is concerned, that will also be something we will try and put out as the year goes by. The new orders though, as we have mentioned comes at our historical margins of between 10% and 11%.

Amit Shah: Sir do we see any further provisions?

Amit Jain: At this stage we do not see any further provisions that are required.

Amit Shah: Okay Sir, thank you.

Moderator: Thank you. The next question is from the line of Faizal Hawa from HG Hawa & Company. Please go ahead.

Faizal Hawa: To me this is like a business which has a very good tailwind because of continuously the world shifting towards the solar power, but somehow I feel that our place in it as an EPC player has very low margins and these low margins probably make us deal with not the very top end of suppliers of solar panels, etc., and that is why when we deal with the most agile suppliers they are not able to fulfill their commitments or they go bankrupt. So we are actually from one small disaster to another the promoter also is having his own problems. This is looking like that one storm is over and another comes in after six months. So can you just comment because it is looking more structural rather than any kind of management problem?

Bahadur Dastoor: Mr. Faizal two points, first of all we take solar panels only from the Tier-I solar manufacturers, we do not work with Tier-II and below solar manufacturers at all. So the ones who have reneged are not the small and fragile - they are the ones who have the largest capacities in the market and out of that a couple of them are the ones who have reneged on their contract. It is an industry wide issue, it is not something which is related to Sterling and Wilson Solar alone. Secondly as far as the customers and developers are concerned, we also deal only with the top tier customers and developers and therefore it is not a question of our margins getting affected because we deal with fragile vendors and customers.

Faizal Hawa: Thank you.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Thanks for the opportunity. My first question is related to this current order book. You mentioned that out of the current order book, around Rs. 2,000 Crores order book is currently not viable. So by when do you see the negotiation of higher prices will be over and we can start executing that order as well?

Amit Jain: We are in discussion with our customers and I hope by the time we get on to the next earning call we would have concluded and get some sense of direction where we are with respect to those particular orders. So the discussions are on and we will get to know in the next few weeks where we are with respect to those orders.

Dixit Doshi: Secondly the remaining order book of Rs. 6,000 Crores approximately that entire will be executed their year?

Amit Jain: Yes, most of it will be executed this year, as we have said that we will be finishing the entire order book in the next 12 to 15 months, but majority of it will be executed this year.

Bahadur Dastoor: To that of course you would add orders that you have booked in the current year or book and bill as we call it. So a part of that could also get executed in the current year, which would add to the revenue.

Dixit Doshi: Last question. Can you give guidance on what kind of order inflow you expect for this year. You mentioned that we expect a strong inflow in H2. So in terms of amount if you can give a broad range, because you did mention in terms of how much gigawatts. But sometimes it varies a lot, because in India the per megawatt order book is much different than per megawatt in Australia?

Amit Jain: So, as we said the bid pipeline which we see and which we likely to see will get concluded in an excess of 15 gigawatt and we will maintain our strike range of 14% to 15%. At this point of time it is difficult to give geography wise breakup because this pipeline is spread across geographies and what could be the conversion rate across various geographies. So we will be able to answer after the next one quarter where we are with respect to that, but we will maintain our historic hit rate of 14% to 15% on a pipeline of more than 15 gigawatt across the globe.

Dixit Doshi: So, just broadly I do not hold you, but broadly Rs. 6,000 Crores to Rs. 8,000 Crores of order inflow is a fair range?

Bahadur Dastoor: Let us not put a number, it can of course be calculated because like you yourself said it is different across different geographies. But yes we are expecting it to be larger than last year and as such the corresponding order book.

Dixit Doshi: Thanks.

Moderator: Thank you. The next question is from the line of Shantanu Mantri from MK Ventures. Please go ahead.

Shantanu Mantri: Good morning, Sir. I just wanted to get this correct. These new lines of business that we are talking about where we have an existing client already there, one is the hybrid energy and the other is waste to energy. So can you throw some more light that what exactly we have been doing and I also heard you say that our order books what we are trying to get is somewhere around $500 million to $1 billion is that right?

Amit Jain: As far as hybrid and battery energy storage systems are concerned, we are looking at standalone projects in these markets and the projects which are coupled with our existing solar portfolio - so we will be providing these services where our clients are coming up with both solar and storage solution or they want some other additional renewable power generation sources coupled with solar. So that will be provided to our existing clients and we will see a lot of these kind of projects coming up with our existing clients and existing geographies. As far as the order pipeline which we are talking about, that we will be building up gradually in years to come. So after getting our shareholders approval, in years to come we will building up the order book from these new business segments.

Shantanu Mantri: Alright and Sir say let us just skip FY2022 for now with all that has happened and major part of order book will be facing suppressed margin, but if I am to go ahead in FY2023-FY2024, what normalized EBITDA margins can we consider for Solar EPC or will there be a new normal - just wanted to get your sense there?

Bahadur Dastoor: No, we do not believe the present is the new normal. We believe that FY2023 onwards we should be back to our historical margins of between 10% to 11%. Now when I say historical margins I am talking about the gross margin. Of course as the revenue size increases and overheads are in control, we will have operating leverage because the overheads would come down percentage points below what it is right now thereby giving us an increase in the EBITDA. So we are looking at 10% to 11% and if everything falls into place overheads of between 3% to 3.5% - that is our target.

Shantanu Mantri: For the new lines of hybrid and waste to energy, what I heard was that around Rs. 25 Crores to 30 Crores will be spent as overheads other than that any capital expenditure we would have to incur?

Bahadur Dastoor: First of all this Rs. 25 to 30 crore is not going to be a day one expenditure, it will be a gradual build up seeing how orders are there, new markets, business development team, engineering team, etc. As Mr. Amit mentioned there is a significant amount of synergy. What we have given you is what we believe would be an estimate in case no orders come in. Also what Mr. Amit mentioned was this is something should be built up because these are long gestation projects unlike solar. So I mentioned this can take between 24 to 36 months. It will give us an a long-term order view as well as a long-term revenue view, which right now has been missing in so far as the standalone solar EPC business is concerned.

Shantanu Mantri: Alright, thank you and all the best.

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

Danesh Mistry: Good morning and thank you for taking my question. I had a couple of questions. The first one is on the receivables piece. So whilst you touched upon the IL&FS receivables, if you could give us some sense on the time period for its recovery of the receivables of Rs. 102 Crores from the related party as well as some status update on Argentina, that was question number one then I just have two more?

Bahadur Dastoor: As we have mentioned in our investor presentation that the matter as far as Argentina is concerned it is under arbitration. This is something that will happen in the US. In the US generally arbitration takes about a year and we are hopeful of getting a response by that time. There have been claims and counter claims by both parties. We believe our claims are extremely strong and we have a legal opinion to substantiate that. So matter will be resolved in that period of time. As far as the related party receivables against the sale of plant is concerned, we believe that the plant is just in the final stages of commissioning. We believe that we should be able to have this somewhere towards the end of this year.

Danesh Mistry: Got it and this is plant of the related party itself, right?

Bahadur Dastoor: Yes, the plant that we are making.

Danesh Mistry: Understood, so essentially hopefully by March 2022 is when we get recovery of these Rs. 102 Crores?

Bahadur Dastoor: That is right.

Danesh Mistry: In your commentary as well as in your presentation you touched upon the negative working capital, which it is excellent, but you did touch upon some delay in payment to vendors. So was this on a contractual basis or was this for any other reason?

Bahadur Dastoor: It was a mix of contractual as well as cash flow issues. Right now the overdue vendors would be in the region of about Rs. 200 Crores to 250 Crores and even after that you would see that the working capital would still continue to be negative.

Danesh Mistry: Got it, but we paid off the overdue vendors now or do we continue with the cycle?

Bahadur Dastoor: We paid off about Rs. 50 Crores of those vendors in the previous month and we are looking at liquidating them as soon as possible.

Danesh Mistry: Interesting and one more question was on our term loans. So we have brought it down very strongly and we have about Rs. 64 Crores - you mentioned Rs. 24 Crores in Q2 and Rs. 40 Crores Q3. Do we plan to refinance these or just pay them off and be zero term loans?

Bahadur Dastoor: So it depends on a combination of how soon the promoter inflows come in - the last date of which is September 30, 2021, or whether we have operational cash flows to take care of it. In the absence of which of course there could be ways and means to do a bridge refinance, till such time it is completely closed.

Danesh Mistry: In the solar module slide you mentioned that this has resulted in overall increase in an estimated cost of projects by $21 million. So is that the margin hit that we expect to flow through by the end of this year this $21 million?

Bahadur Dastoor: A major part of it has already been taken in the previous year and the balance is what has suppressed the margin over the existing contracts. Of course as we said we have received a substantial amount of variation also from the customer to compensate us for this.

Danesh Mistry: Got it, so broadly can we say about two thirds was booked last year and one third this year?

Bahadur Dastoor: No, not really. It would be closer to half and half.

Danesh Mistry: Alright, got it, great. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen that would be the last question for today. I will now hand the conference over to Mr. Amit Jain for closing comments.

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

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