

October 18, 2022

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Sub.: Investors Call Q2 FY23- Transcript

Ref.: Regulation 30 read with Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”)

Dear Sir/ Ma’am,

Please find enclosed the Transcript of the Investors Call held on Friday, October 14, 2022 at 11:00 a.m. for the Unaudited Consolidated and Standalone Financial results of the Company for the quarter and half year ended September 30, 2022.

The same is also available on the Company’s website at www.sterlingandwilsonre.com

Request you to take the same on records.

Yours faithfully,
For Sterling and Wilson Renewable Energy Limited

Jagannadha Rao Ch. V.
Company Secretary and Compliance Officer

Encl.: As above



“Sterling & Wilson Renewable Energy Limited Q2 FY2023 Earnings Conference Call”

October 14, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 14th October 2022 will prevail.



**MANAGEMENT: MR. AMIT JAIN - GLOBAL CHIEF EXECUTIVE OFFICER -
STERLING & WILSON RENEWABLE ENERGY LIMITED
MR. BAHADUR DASTOOR – CHIEF FINANCIAL OFFICER
- STERLING & WILSON RENEWABLE ENERGY LIMITED
MR. SANDEEP THOMAS MATHEW – HEAD INVESTOR
RELATIONS - STERLING & WILSON RENEWABLE
ENERGY LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Sterling & Wilson Renewable Energy Limited Q2 FY2023 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. Sandeep Thomas Mathew – Head Investor Relations for his opening remarks. Thank you, and over to you, Sir.

Sandeep Mathew: Very good morning, everyone. I welcome you all to the Q2 FY2023 earnings call. Along with me I have Mr. Amit Jain, our Global CEO, Mr. Bahadur Dastoor, our CFO, and SGA, our IR Advisors. We will start the call with an update on the solar power industry and operational highlights for the quarter by Mr. Amit followed by the financial highlights by Mr. Bahadur, post which we will open the floor for Q&A. Thank you and over to you, Amit.

Amit Jain: Thanks Sandeep and a warm welcome to all the participants on this call. I would like to give a quick update on the solar power industry, other allied renewable businesses and status on our business operations.

Now coming to solar EPC industry and opportunities. The global solar market is growing exponentially. It took around a decade for worldwide solar capacity to reach one terawatt from 100 gigawatt in 2012. In just three years, SolarPower Europe predicts global solar power to more than double to 2.3 terawatts in 2025.

Solar remains the fastest growing renewable energy, representing over half of the 302 gigawatts of renewable capacity installed internationally in 2021. With 168 gigawatt of additions, solar installed over 70 gigawatts more than the next greatest installer - wind - and more than all non-solar renewables combined. The role of solar in the global energy transition is getting more and more prominent, considering that in 2021, solar alone installed more capacity than all other renewable technologies combined. In 2022, global solar is expected to continue the decade-long record-breaking streak, installing more than 200 gigawatt of solar for the first time.

Solar success story over other technology has many reasons, but a key factor is its steep cost reduction curve over the last decade, which has made solar the global cost leader. While the

cost of solar has been lower than fossil fuel generation and nuclear for several years, it is also now lower than wind in many regions around the world.

BloombergNEF's (BNEF) estimates for the global LCOE for utility scale PV stood at \$45 per megawatt hour, in the first half of 2022. Despite losing some ground, this still marks an 86% reduction since 2010 in nominal terms. New build solar projects are now around 40% lower than BNEF's global benchmarks for new coal- and gas-fired power which are at \$74 and \$81 dollars per megawatt hour respectively. The spread with conventional generation technologies is widening, considering that the cost of coal, gas and nuclear went up. Despite the record increase in modules, commodities and freight over the last 24 months, the LCOE for solar plant is still cheaper than the traditional source of energy as well as other renewable sources of energy.

There are strong levers which will drive robust growth globally over the coming years. Stronger policy support from the government in terms of tax incentives, favorable policies for renewable sector coupled with ambitious climate targets announced for COP26 are going to drive demand for solar energy to new records worldwide.

Solar industry is well poised to grow in long-term, as IPP's have huge plans for global capacity additions. The global tariffs have already corrected upwards with the revision in prices and a lot of projects are expected to get finalized in FY2023, especially H2 FY2023.

Indian solar power capacity has surged over 17-fold to 59 gigawatts since Honorable Prime Minister Narendra Modi came to power in 2014. The Indian government has accelerated its plans for clean energy transition, with Prime Minister Narendra Modi pledging to build 500 gigawatts of renewable energy, with 60% of it coming from solar. This is to ensure that half of our energy requirements will come from renewable resources by 2030. Thus, we expect outstanding growth in Indian solar power industry in the years ahead. The public sector has been called upon to join the cause too, with state-run giants such as NTPC, NHPC, SJVN, NLC India limited, Coal Indian limited etc., crafting solar plans and indicating a strong pipeline. The government is also persuading and incentivizing the private sector to shape India's clean energy future and make it a sunrise sector, just like IT Services after 1991 economic reforms. Major Indian conglomerates have announced Investments and commitments towards renewable energy targets - with about 151 gigawatts of renewable energy expected to be added by private clean energy companies alone.

India has also announced a road map to become a hub for the production and export of green hydrogen - made from water and renewable electricity. India has set a 5 million ton green hydrogen production target by 2030 to help boost its geopolitical heft and be a game changer for the country's energy security. With the government promoting the new age,

emission free fuel, Reliance Industries has also shown significant interest in the space. With this development we expect huge increase in the scale of average project size in the Indian solar industry.

Utility scale solar market performance was mixed in the second quarter. A total of 2.7 gigawatts were installed in Q2, just 500 megawatt more than Q1 - constituting a 25% decrease from Q2 2021 and 17% increase from Q1 2022. Through the first half of the year, deployments are at their lowest level since 2019. Supply chain constraints and trade policy issues continued to suppress utility scale solar installations.

The US utility scale segment experienced a volatile period over the last several months. First, the Executive Order delaying new tariffs was released which allowed developers to resume activities as Southeast Asian manufacturers could restart module shipments to US. But then UFLPA (the Uyghur Forced Labor Prevention Act) implementation led to detention of several module shipments, further constraining supply and hindering project construction. Post that, the historic passage of the Inflation Reduction Act (IRA) in August will prove to be a massive growth catalyst for the solar industry. However due to the near-term supply chain constraints, according to Wood Mackenzie report, most (77%) of the effect of IRA will be materialize in utility scale segment after 2024. The lack of equipment availability has led to continuous project delays, thereby decreasing the 2022 forecast by 600 megawatts to 8.1 gigawatts, the lowest annual total since 2018. The industry will continue to navigate the UFLPA requirements during the rest of the year, and supply is expected to return to a steady state at some point in 2023. More than 30 gigawatts of renewable power projects are expected to be permitted on BLM lands between fiscal years 2022 and 2025. The vast majority of the capacity will be solar powered.

In Australia, the torrential rains adversely impacted the solar EPC activity. It is also facing resource shortage of white and blue collar manpower. However, the recent election has been a game changer in terms of the policy support for renewable energy. The new Labor government has plans to unlock the renewable investments, upgrade the grid and bring federal policy more in line with states and territories, many of which have more ambitious climate goals. Labor's main energy policy, 'Rewiring the Nation' includes plan to funnel \$20 billion Australian dollars into new transmission links to accelerate the take of more clean energy. The plan is part of Labor's pledge to cut Australia's 2005-level greenhouse emission 43% by 2030, projecting renewable reach and 82% share (which was earlier 69%) in the national electricity market by then. The government also raised the migration cap in September 2022 to address the issue of skill and labor shortages. GlobalData says in a new report that solar installations in Australia could grow by a factor of 4 by 2030. It estimates that the country will reach the solar capacity of 80.22 gigawatts in 2030, from 17.99 gigawatts in 2020.

In June 2022, the EU energy ministers agreed to increase the share of European energy consumption coming from renewables such as solar or wind power to 40% by 2030. The impact of the Russian war on Ukraine and the accompanying energy security challenges alongside EU climate goals, are driving the continent's renewable transition - with 25 of 27 EU member states to install more solar in 2022 than 2021. As the continent reels from the Russian war of Ukraine, the EU has refocused its attention on the role of renewables in energy security with EU expected to install 39 gigawatt of solar power this year. The real acceleration will happen in the medium-term, with upward of 100 gigawatt of annual installations by 2025 raising the way to 1 terawatt of solar by 2023.

As per the International Energy Agency, by 2026, global renewable electricity capacity is estimated to rise more than 60% from 2020 levels to over 4800 gigawatts - equivalent to the current total global power capacity of fossil fuels 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. Our focus is to grab large share of EPC capacity additions in FY2023 like 23 gigawatt in USA, 16 gigawatt in Europe, three gigawatts in Australia and 16 gigawatt in India.

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

During the recent 45th AGM, Reliance Industries announced plans for starting production of solar cells, battery packs and green hydrogen from the Dhirubhai Green Energy Giga Complex. Reliance plans to commence manufacturing of solar photovoltaic cells and modules by 2024 with an annual capacity of 10 gigawatts. That will be scaled up to 20 gigawatt in a phased manner by 2026. Reliance is already one of the largest producers of grey hydrogen globally and aims to progressively start the transition from grey hydrogen to green hydrogen by 2025. Importantly, Reliance plans to have 25 gigawatts of solar energy generation by 2025 for its own captive needs. We expect to get a meaningful pie of work from Reliance's new energy goals.

I would like to state that with our global reach, strong relationships with customers and lenders as well as the induction of Reliance group as additional promoters of the company, we are well positioned to capitalize on these growth opportunities. Reliance group's investment in company has led to strengthening of company's balance sheet and increased confidence to customers, suppliers, bankers and other stakeholders.

Now I will give you the overview of our solar O&M business. Our solar O&M portfolio as of date is 7.2 gigawatts with third party O&M constituting approximately one third of the

portfolio. While our portfolio has increased vis-à-vis March 2022, we anticipate about 1.8 gigawatt of the portfolio, which is currently under construction/commissioning phase to start contributing to the top line by Q4 FY2023. O&M constituted 5.4% of the revenue in H1 FY2023 and stood at Rs.82 Crores. We are focusing on increasing international O&M portfolio through organic and inorganic growth. With more and more processes and procedures digitized in O&M, we are unlocking the value of predictive maintenance and making increased use of it, which results in improvement in efficiencies and general reduction of our levelized cost of electricity. We aim to further increase our market share in O&M segment by identifying profitable opportunities through global customer mapping. We are also leveraging our strong partnerships with global IPPs.

Now I will present you with the BESS opportunity. With the increase in clean energy capacity in the grid and its subsequent decarbonization, ramping up energy storage has become critical and extreme necessity, moving forward. On a global scale, a 20 times growth is estimated in energy storage by 2030 and till 2040, a 60 times growth has been projected compared to 34 gigawatt of energy storage currently available. According to Vision 2030 report of India Energy Storage Alliance (IESA), at least 160 gigawatt hour of energy storage will be needed by India by 2030 to integrate a targeted 500 gigawatts of non-fossil fuel energy, based on its analysis of India's energy sector and outlining the requirement of energy storage in the country. We recently entered into a MOU for an EPC project which includes battery energy storage system for total installed capacity of 455 megawatt hour in Nigeria.

We have added team of battery experts, sales and execution team to capture this market opportunity and we have bid pipeline of 1.4 gigawatt hours across US, Australia, US and LATAM. We see pretty robust growth in this market and with RTC tenders due from government of India in coming years, we see a robust growth in Indian market as well with respect to battery energy and storage space.

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

Bahadur Dastoor:

Thank you Amit and good morning friends. Speaking about the order book, in August 2022 the company emerged as the L1 bidder for the BOS package comprising four blocks of the solar PV plant of NTPC Renewable Energy Limited at Khavda RE Power Park, Rann of Kutch, Gujarat with an aggregate capacity of 1570 megawatt DC. The total bid value including O&M for three years aggregated to Rs.2212 Crores inclusive of taxes. The contract agreement for the project has been signed between the company and NTPC Renewable Energy in October 2022.

In September 2022, the US step-down subsidiary of the company signed a memorandum of understanding with the government of the Federal Republic of Nigeria along with its consortium partner Sun Africa for the development, design, construction, and commissioning of solar PV power plants aggregating to 961 megawatt at five different locations in Nigeria along with battery energy storage system with total installed capacity of 455 megawatt hour. Financing for these projects is under negotiation between US EXIM, ING, and the Government of Nigeria. The transaction is expected to consummate by Q4 FY2023. Here I would like to add that Sterling and Wilson group has a strong presence in Africa and has an excellent reputation in Nigeria for successfully executing projects in the power sector.

Our unexecuted order book as on September 30th stands at Rs.2,654 Crores with nearly 78% domestic EPC which is executable over the next 12 months. Our order bid pipeline remains robust and we are still awaiting results of approximately 19 gigawatt of bids that are likely to be announced in H2 FY2023. We are on track to achieve and may exceed our earlier given FY2022 guidance of \$1 billion in new orders, other than those of group companies.

The prices of modules, commodities and logistic costs, which had hardened due to geopolitical tension in the first half of the year have begun to moderate. A lower cost curve is likely to help tendering activity gather momentum, which should help result in more order finalizations in the second half of FY2023.

I will now take you through the consolidated financials for the half year ended September 30, 2022. Revenue for H1 has been at Rs.1,520 Crores as compared to Rs.2,630 Crores in H1 FY2022. Revenue and margin trajectory in the EPC business is anticipated to normalize from Q1 of FY2024. O&M constituted 5.4% of total revenue in H1 FY2023. New site additions to O&M portfolio is likely to start contributing to top line from Q4 FY2023.

Company level, the gross margin remains suppressed primarily on account of international EPC projects. In the US, labor costs increased due to shortage of labor supply and in Australia, labor cost, site and site overheads increased due to loss of productivity on account of extreme weather conditions. Further there was a translation loss due to adverse movement in exchange rate between the USD and the INR and the AUD, INR compared to March 2022. O&M margins were impacted by projects where O&M costs were incurred, however revenue recognition has not commenced due to clients delaying final handover. O&M margins were also impacted by non-recurring costs of about Rs.10 Crore during the quarter. While we anticipate revenue to be recognized on a retrospective basis, we have provided for the cost incurred upfront.

Coming to the balance sheet. As on September 30, 2022 the net worth stood at Rs.338 Crores on a consolidated basis and cash and cash equivalence stood at approximately Rs.428 Crores. Our net debt stood at Rs.885 Crores. We expect net debt to decrease with new order inflows and completion of US and Australia projects. Advance and performance bank guarantees encashed by four customers amounted to Rs.588 Crore. With one customer, we have signed the final settlement agreement and the encashed amounts for two projects totaling to Rs.350 Crores have been refunded by the customer. With respect to the balance two customers whose projects are completed, the company is in discussions with them.

As on September 30th, we had negative working capital of Rs.272 Crores as compared to negative working capital of Rs.302 Crores as on March 2022.

Receivables due for more than one year as at September 30th stood at Rs.362 Crores compared to Rs.261 Crores as on June 30th. They comprised related party receivable of Rs.30 Crore which is net of Rs.175 Crore that the company needs to pay back to the related party against advance received for the Waste to Energy project.

With this we can now open the floor to questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abhineet Anand from Emkay Global. Please go ahead.

Abhineet Anand: Thanks for the opportunity. I just wanted to understand on the Nigeria MOU. Can you give some details in terms of the size, in terms of value and our share given that we have probably bid with Sun Africa as a partner.

Amit Jain: To start with the Nigeria opportunity, Sun Africa is a very reputed developer, which is developing projects across multiple geographies including Africa, they are developing projects in Europe, they are developing projects in Africa, and in Africa particularly they are very active in Angola and Nigeria. So, they have developed a portfolio of five projects in Nigeria in which we are cooperating with them and have entered into alliance to develop and carry out EPC activity on those projects. We have signed the MOU with the Ministry of Government of Nigeria for construction of these projects and we are in negotiation to conclude the EPC agreement with them.

Abhineet Anand: Any color on the order value.

Amit Jain: We have given that the values to the tune of like we are expecting, we are still negotiating, but we expect it to be close to \$1.5 billion.

Abhineet Anand: Then that itself as Bahadur did mention that for the current year we are expected to exceed our earlier guidance of \$1 billion of inflows right that self you are saying and this \$1.5 billion that you are saying is our share.

Amit Jain: \$1.5 billion is share for both the parties.

Abhineet Anand: And what is our share in that.

Bahadur Dastoor: Our share would be in excess of about 95% of the total value rest being on account of development, but as Mr. Amit has mentioned this is still under various stages of negotiation, the range though is what is the number that he has mentioned.

Abhineet Anand: So then it takes to the point that probably our guidance looks to be significantly below what we probably might achieve obviously it is in negotiation stage, but if I have to just add here that if we look into a two years perspective rather than just one year that what guidance we have seen what could be a realistic number in terms of inflows that one can have. Two year or three year whatever is suitable to you guys.

Amit Jain: As we are stating in our various conference calls that domestic market is significantly moving up and we have recently bagged 1.5 gigawatt order from NTPC. The value of that order net of tax is approximately 1800 Crore plus and we have stated that Reliance would be carrying about worth of 20 gigawatts and we expect to get a meaningful pie of that work. So that values can be extrapolated from that aspect what kind of inflows can be expected. We are negotiating deal in Nigeria and international, and both domestic markets other than these particular projections continue to be robust. So we expect that the values or the guidance of \$1 billion which was provided earlier we significantly expect to move up and the revenues inflow will grow significantly in next two years.

Bahadur Dastoor: And to add further that could be the kind of target that we are aspiring to work on over the next two to three years of course trying to exceed that as well.

Abhineet Anand: And just on the balance sheet side, if you see your first half basically almost our network has come down from 600 crores to 300 odd crores largely because of the loss that we have incurred. Now we have a bit of cash do you think there will be a need of some either raising your debt or equity infusion that will be needed this year given that inflows will probably happen in H2. So revenues would probably start kicking in 1Q 2024.

Bahadur Dastoor: There would be some amount of funding that would be required to complete the existing projects. The company is also internally having discussions in terms of the network. We will be able to provide guidance on what exactly needs to be done by the time we have the

call for the next quarter, but there will be a certain increase which will happen right now in the funding requirement, which the company has more or less tied up.

Abhineet Anand: Last one from me. Amit did talk about the battery storage part. India is still in the nascent stage and there is a lot of growth opportunities that people feel are there. If you can highlight from your international experience as to the pricing what is in the other parts of the world and what pricing that India is presently having and what can happen. So per unit how will the battery power look like, if we use battery storage today in India and globally what is happening in the pricing front.

Amit Jain: See as far as the battery pricing is concerned, so the major battery supplier still continue to be from international markets. So as the major part of the cost comes from the battery supply part and the EPC portion or the construction portion constitute only 15% to 20% of that part and the cost of that continues to be \$250 per kilowatt hour for the battery supply portion and total EPC part is around \$300 per kilowatt hour. The per unit rate depends upon the usage what kind of usage and what kind of RTC requirements clients have or what kind of grid requirements it would be used for. So, it is extremely variable and various multiple business models are evolving and same will be emulated in India. So, the per unit cost of stored electricity or from the bess model will be varied as per the use on the customer requirements.

Abhineet Anand: Okay Sir thanks for the answer and I will get back in the queue. Thank you.

Moderator: Thank you. Next question is from the line of Faisal Hawa from H. G. Hawa & Co. Please go ahead.

Faisal Hawa: Sir this Nigeria order as well as the new NTPC order, what are the kind of estimations we have made for the gross margin in these two projects and if at all you could also mention about the ultimate EBITDA will be from these projects. My second question is that we are now going for a multi country execution and also in the case of Nigeria there are almost like three counterparties involved the Government of Nigeria, then Sun Power and also US EXIM. So we have these various countries that we operate in and there are various vagaries like you just said that in US the employee cost has risen, in Australia there are some problems of rain, so mathematically how will you see to it that Sterling & Wilson is not affected due to this because one project failing and our EBITDA margins do not really allow for any kind of deviation and there are so many factors which are just beyond our control. So how will we do it because this is like multi-country and then there are multi-risks?

Bahadur Dastoor: I will start out Mr. Hawa and then maybe Amit can pitch in a little later, I will try and answer all your questions one by one. See I would not want to go down to project level margins and say what kind of margins we are obtaining in Nigeria or what kind of margins are there in NTPC. Suffice to say it would be close to what we have been historically doing in a range and that is what we are aspiring to do. That is to answer your first question. Second as far as you know the unseasonalities of rain that have happened as well as in Australia as well as labor costs which have gone up - the company has now strengthened its risk matrices. We earlier used to also take this into account in the case of Nigeria as well as in the case of NTPC most of it is subcontracting, it is not something that is going to be self-performed and therefore all those risks we would as an organization also pass on to the subcontractors. As far as pricing is concerned, yes while there would be a pricing which is there even for modules in the case of the Nigeria job, the NTPC job is without modules. There are firm commitments which are being taken from vendors having learned from all our experiences in the past to ensure that there is no slippage of margins. When we talk of margins, we always talk of gross margin because for us the overheads are basically a total cost across the various entities of this organization. So we do not look at EBITDA level margins for projects that would be at an organizational level. That number is in the range of 400 to 450 Crores and as your turnover increases which you can see from the order book, your operating leverage is obviously going to kick in which gives you a greater EBITDA margin. We will of course need to be more careful in Australia and US, we will be more selective and risk averse in these geographies - though historically in India and Africa we have always made good margins even in the toughest of times. As far as the Nigeria job is concerned it is funded through US EXIM or it is proposed to be funded through US EXIM and most of the suppliers would be US suppliers, contracts there are extremely strong and US EXIM has already done funding of a similar project in Angola of a very large size. If I have missed anything, please just remind me and Amit can pitch in if I have missed anything.

Amit Jain: Bahadur you have summarized it well. You have captured practically all the things. So Mr. Hawa in multi-geography now as Bahadur alluded to the risk matrices are being reviewed and we are changing our risk profile. So we are negotiating the contracts and building contingencies around the inclement weather or labor shortages. So we are bidding selectively and we are taking care of the risk profile we are taking, so that the margins remains intact whichever geography we are working in. And all the geographies wherever we are working we have put in very, very strong teams so that the execution risk is minimum and we pass on the risk through subcontracting model to our subcontractors.

Faisal Hawa: So in any of these two contracts will we have to give some kind of bank guarantees also to the counterparties?

- Bahadur Dastoor:** Yes, of course bank guarantees are always part of every contract.
- Faisal Hawa:** So, at least can you tell me what are the gross margins we have targeted in these two projects because that gains very much importance because we have to as investors also get into our calculations various vagaries that will come through in future. So whatever steps we might take but these vagaries are such that many times even the management cannot budget for them. And we have seen in the past that it is not only the solar modules many times one or two projects have affected our entire year's performance?
- Bahadur Dastoor:** So I would just like to say this much that the mix for gross margins for all new jobs would be low double digits combining all contracts together. I would not want to go into discussing project level margins.
- Faisal Hawa:** What is our realistic target for orders now because we have already achieved the target for the year. So how many more orders will we take so that we do not go too far into the future where prediction of raw material then all may become much more difficult? Or will we just take all the orders and then just make the counter bookings with the suppliers?
- Bahadur Dastoor:** So I will start off by saying that most of the orders that we generally take are having a closure period of between 15 months to two years. So it is not something that we would take and then sit on the order for the next two to three years - that is not how the solar business operates. We have presently - so while it is an MoU you can say that we are looking at exceeding our targets; however, that does not mean that we are shutting shop. We are right now involved in bids as has been mentioned by Amit as well as me for a very large portfolio across the world plus there are a lot of bids coming in India. India has always been our strength; our domestic margins continue to be protected. They were so in March, they are so in June quarter as well as in September quarter as part of our investor presentation and it is something that we are aggressively pursuing so long as our blended margins that we internally have are taken care of.
- Faisal Hawa:** What is our hiring program for engineers for the next two to three years, for the next one year at least?
- Bahadur Dastoor:** So we have mentioned that we are looking at increasing our total team size to take care of all of these new ones, new jobs. We are already looking at increasing our domestic headcount to about 1,500 from the present head count that we had in March of about 467. At the same time there have been some reductions in places like Australia where jobs are coming to an end - that is to of course be very efficient and lean in terms of our operations. But right now also we are looking at increasing our head count for design and engineering by about 195 people, construction 615, project management about 120. You will see that

the corporate head count the backend is just about 40 people, because as a backend we already have enough strength to take care of the projects that we are looking at.

Faisal Hawa: Okay.

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

Siddharth: Thank you for the opportunity. My first question is on the gross margins again. You guided for a low double digit margins. Just wanted to understand the difference between the projects where you have taken with solar modules and the projects where we are not taking with solar modules. If you can just give some bifurcations where we know further whenever we win project what kind of gross margins we will make on those projects?

Bahadur Dastoor: We always get margins even on the modules, though module price is being known to everyone the profit margin on modules is a little lower as compared to if you were to take a BOS margin. When we are giving you this number of low double digit it is considering a blend. Though if you were to look at it purely from a BOS perspective, it would be maybe a slight higher number as compared to the one with modules.

Siddharth: The Reliance projects whenever we win, those projects will be also at similar margins?

Bahadur Dastoor: We hope and expect that they will be because both parties have to come to a conclusion on what the margins will be, but yes that is our aspiration. Just to add that both NTPC as well as Reliance will be all BOS. There are no modules in that.

Siddharth: So that will be at relatively higher margins from percentage terms?

Bahadur Dastoor: Yes, we will try to upgrade our margins.

Siddharth: The current order book as of now which is booked as 2600 Crores. So out of this how much is the legacy orders where there will be still some losses and what can be the extent of these losses which will flow through all P&L in the next two quarters?

Bahadur Dastoor: So let me put in a little bit of perspective. So out of the order book that we have, we have roughly between 550 to 600 Crores of the legacy orders where there is no loss but there is no profit either. They are at more or less a break even because we always account for all the losses up to a point in time. To give you a perspective of this 500, 600 Crores it is only about 6% to 7% of the total order values of all of these legacy orders. So today we are at the fag end of all of this we are hopeful of closing (audio cut).

Siddharth: Are you suggesting that we will not have any further P&L losses or cash outflow on the legacy orders from now or we are mostly provided for all the losses?

Bahadur Dastoor: Losses we have accounted for whatever we had to. And wherever we had any subjectivity we have given that in the notes to the financials. As far as cash outflow is concerned, yes, we would require to do a certain incremental borrowing to complete those existing projects. So right now we have done borrowings of about Rs.700 Crores of which we have about Rs.400 Crores lying as a cash and bank balance. Over and above that there will still be a requirement because one is accounting for the loss and second is paying for those payables to complete the projects. We will be doing that part of our borrowing plan most of it which is already tied up with participating banks.

Siddharth: So how much is the cash outflow which will happen on this legacy projects going forward, a broad range if you can share the estimate?

Bahadur Dastoor: That figure would be in the range of a further Rs.300 to 400 Crores over and above the bank balance that we have.

Siddharth: This is after the indemnity agreement which we had with...

Bahadur Dastoor: It is after the indemnity claim for crystallized items as on September 30, 2022.

Siddharth: Last question from my side. Broadly we have Rs.885 Crores of net debt and customer advances of say Rs.300 Crores negative working capital of Rs.300 crores. So we are in a way around Rs.1,200 Crores of borrowing and further Rs.300 to 400 Crores is the maximum liability which can arise. So by the end of this year when we are done with all the legacy projects we can have Rs.1,500 Crores of liabilities if we exclude the customer advances. Is that broadly correct Sir?

Bahadur Dastoor: Yes, but it also depends on the advances which we will get from the new jobs that we are working on right now, which will go to reduce that. You are looking at it at a gross level. There will always be customer advances from the jobs which will go to bring it down.

Siddharth: Understood, great Sir thank you thanks for the clarification.

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

Anupam Goswami: The NTPC order of Rs.2,200 Crores for 1600 megawatts. So it is coming about 1.3 crore per megawatt. So is it the whole EPC contract that we understand or there is some any clause or conditions in that partially if it is there anything?

Bahadur Dastoor: Rs.2,200 Crores for 1.5 gigawatt includes O&M for three years and includes the taxes. If you exclude all of this out, the value comes closer to about Rs.1.2 Crores per megawatt which is the average BOS price. It is not a full EPC contract. If one were to do EPC it would be upwards of Rs.3 Crores per megawatt.

Anupam Goswami: I understand and how much margin are we commanding on BOS supplies?

Bahadur Dastoor: I already answered that question a little before, that I do not want to go to project level margins, but on an average it is low double digit that we work towards.

Anupam Goswami: My last question on the kind of module prices we are so our EPC contracts domestic if we say what kind of margins do we see going forward do we see any challenges in that to maintain the margins?

Bahadur Dastoor: So modules does not have an impact as far as domestic is concerned because almost all our orders in the domestic front are without modules. So the margin profile that I gave you includes what we do in India as well.

Anupam Goswami: Where are we sourcing mostly for our equipments and modules?

Bahadur Dastoor: Modules worldwide would obviously have China as a great factor. As far as the job that we are working on in Nigeria, since it is US EXIM funded we assume that US EXIM will have a great role to play in determining who are the major vendors for that particular job.

Anupam Goswami: I understand, I will join back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Manoj from Geometric Wealth Advisors. Please go ahead.

Manoj: Congratulations Sir on winning lot of orders and bringing back the company on the order front. My first question is let us assume go forward two, three years when the company balance sheet is more strong and hypothetically if you are getting Rs.30000 Crores of order in a particular year so is there any capacity constraint in terms of labor or in terms of sourcing. How to think of in terms of the capacity of taking order? And similarly how much we are taking orders around \$1.5 billion this year hypothetically, the project schedule is 15 to 24 months, how much we can execute in a particular year? Can you take an NTPC example in that it will be very helpful? Thank you.

Amit Jain: As we explained earlier during the call that we are increasing our capacity, we are increasing our bandwidth to address the increased market size. So this year itself, we are adding people in excess of more than 1,000 people. We are strengthening our engineering

procurement and project execution team to address the increased market size and the increased order book for which we anticipate. So anytime, we are negotiating any particular order book so we have some time in hand and we have a clear visibility in which quarters we are going to book and what would be the execution plan look like. So we start working in advance and start adding capacities. Like NTPC we have time of like execution time is 18 months and we have sufficient bandwidth to execute that order in the particular timeframe. If you see historically, we have achieved the turnover around in excess of Rs.8500 crore in particular year. If you address, that we can easily handle a turnover of Rs.10000 to 12000 Crores without much increase in our overheads and we have that bandwidth. So, we are very, very well placed to handle any increase in the order book and we are very well placed for that and our organization expansion plan based on anticipated order books are well in place.

Manoj: Thank you. So let me take a summary of that for having more order we need more employees for that..

Amit Jain: No, we need the employees for execution, but our backend for the management teams are in place, but wherever we need like most of the works will be carried out through subcontractors and where we have a need to execute in-house - so we are very well positioned for that expansion and we are expanding our engineering teams. And we will be able to cater to that, but it will not be lead to any significant increase in overheads.

Manoj: I understand. Coming back to my question. looks like we are going through a lot of orders from our Reliance group also and you are bidding in more area and that there is a lot of tailwind also in this sector. So if that kind of orders we want if you are getting Rs.25000, 30000 Crores we can increase our capacity for that. Is it possible for organization Sterling?

Amit Jain: Absolutely it is possible to expand the capacity to that. It is absolutely possible and we are working towards that and if we foresee that, that kind of order booking is happening, that will be addressed accordingly.

Manoj: My second question is for the time being we can take a fixed recurring overhead cost as Rs.400 Crores is it my right assumption?

Bahadur Dastoor: Between Rs.400 to 450 Crores over the next two to three years considering inflation or some little addition to backend is the kind of range that we are working towards.

Manoj: My question is in terms of procuring raw material how much dependency still solar industry have on China and how much it is do you think going forward into three years it can be reduced - as a lot of people are putting capacities in India and outside also?

Amit Jain: As far as the module sourcing is concerned, at this point of time there is a major dependence on China because China controls most of the capacity of solar modules, but as you yourself has said there is a lot of capacity addition is happening not only in India but most of the other parts of the world. So I see a lot of capacities coming online in the next couple of years in India and other parts of the world, which would significantly reduce dependency on China. And will be able to source the modules and all other materials from either India or multiple other markets.

Manoj: Thank you. I will join back in the queue for questions.

Moderator: Thank you. Next question is from the line of Shantanu Mantri from Think Investments. Please go ahead.

Shantanu Mantri: Thanks for the opportunity. So I have two questions. My first question is that last couple of years our projects in Australia, US we faced huge losses and now we are coming to kind of fag end of all those orders. The quantum of these losses were massive like we have just eroded almost our entire net worth. Having said that now we stand at a point where we have these big orders coming in from Nigeria and we have the whole Indian domestic story. So coming on to my question what are the few big risks you see in this Nigerian order that can affect us or rather what is the comfort you have that whatever we have seen in the past will not repeat again? If you can just share like how we have changed on our risk analysis will be really helpful?

Amit Jain: As you have started the question with US and Australia I would like to point out that the last two years were exceptional for the whole world because of the pandemic, the breakdown of the entire supply chains and the entry restriction in those two geographies where we cannot supplement the teams with expertise and workers. So they were very, very different circumstances and we are over that and that particular part of the order book is to the fag end and we can see projects are about to be over. As you are aware that we have a strong presence in Africa and we have executed projects successfully we have won more than 10 countries in Africa, we have already have a huge presence in Nigeria. Our group companies have carried out projects in Nigeria. Sterling & Wilson Solar has already executed though on a smaller scale four projects in Nigeria. So as far as the African and Nigerian execution piece is concerned we were very, very confident and we are one of the most successful contractors in Africa. Now coming back to the supplier part - this Nigeria job is funded by EXIM Bank of US and most of the suppliers are going to be from US or the allied countries and it is the sanctity of the contract in those geographies is very, very high. So like it is not the kind of problems which we faced in Australia that the suppliers reneged on their contracts. That is not going to happen on the Nigerian contract. And coupled with our execution experience in Nigeria, most of the construction jobs will be

subcontracted and risk sharing will be done with the subcontractors. So, I feel that as far as the Nigerian piece is concerned, we are very well protected and we have ring-fenced our risks to most of the extent for Nigerian projects.

Shantanu Mantri: Got it, that is really helpful and my second question is more on our balance sheet particularly our debt. So I see right now we have around some Rs.850, 880 odd Crores of net debt. I believe that this will increase by another Rs.300 Crores by end of March. So we will be somewhere around. This is excluding any advances from the NTPC order - I do not want to get into those advances. But on a pure legacy order whatever we executed we will end up somewhere around Rs.1100 or 1200 odd Crores of net debt. Now just if we take this number I wanted to understand based on the indemnity agreement what would be the total number that either our third parties who have to pay us or in case it comes up on the promoters what would be the total number that we can expect obviously this will happen when the liability materializes, but I just wanted to know that what would be the inflow to the company that will knock off against this Rs.1,200 odd Crores net debt probably in the next 12 to 15 months if you can just give some colour on that?

Bahadur Dastoor: Yes, I will try to answer that question. The total indemnity inflows which would come in either from the promoters or the customers or the authorities would be approximately Rs.600 to 650 Crores on account of liquidated damages and perhaps about another Rs.300 to 400 Crores on other items including things like receivables or if you have any of your input stuck with the authority. So we are talking of a ballpark number of items covered in the indemnity to be between about Rs.1000 to 1200 Crores.

Shantanu Mantri: The timeline for this could be in the next 12 to 15 months or much earlier?

Bahadur Dastoor: It cannot be. Because we have to raise indemnity claims only once in a year. So after considering the 300 Crores which had to be borne by the company, the company has already raised an indemnity claim for September 30, 2022. The earliest we can raise the next claim and the number that I am talking about is not what is included in the present claim - it is only going to be September 2023. So it will definitely not be all fructified in 15 months, it can be something fructified in 12 months, 24 months or if there are legal cases then it may take longer to fructify as well.

Shantanu Mantri: Maybe the timelines would be different, but on a number-to-number basis so we have almost Rs.1000 odd Crores that should eventually come into the company and so whatever debt we are generated now...

Bahadur Dastoor: Rs.1000 to 1200 Crores - a pretty significant portion may come in not just from the promoters but even from the customers with whom we will finalize our LD settlement over the next 12 months.

Shantanu Mantri: Any realistic number you would want to give us for next September 2023 or maybe a not a realistic, but a conservative number that this should definitely come in by September 2023?

Bahadur Dastoor: So, if it was already crystallized I would have already taken it in my September 2022 claim. So I do not want to put out any kind of number conservative, realistic, pessimistic. I have given you what is the overall number. We are all striving to see that we recover everything as fast as we can, not necessarily from the promoters but even from the customers or the authorities wherever it is stuck.

Shantanu Mantri: Okay that is it from my end. Thank you so much.

Moderator: Thank you. I now hand the conference over to Mr. Amit Jain for closing comments.

Amit Jain: Thank you. With the robust backing of Reliance Group and Shapoorji Pallonji Group we endeavor to accelerate our growth trajectory by aggressively pursuing large markets globally where we foresee a huge potential of growth. India too has reached an inflection point from where we anticipate the growth of solar power 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 the 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 queries. For any further information kindly get in touch with Sandeep Thomas Mathew or Strategic Growth Advisors our Investor Relationship Advisors. Thank you once again and have a great day. Thank you.

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