STERLING & WILSON

April 25, 2023

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400 001 **Scrip Code: 542760**	**National Stock Exchange of India Limited** Exchange Plaza Bandra Kurla Complex Bandra (East), Mumbai – 400 051 **Symbol: SWSOLAR**

Sub.: <u>Investors Call Q4 FY 23- Transcript</u>

Ref.: Regulation 30 read with Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

Dear Sir/ Madam,

In continuation to our letters dated April 19, 2023 and April 20, 2023, please find enclosed the Transcript of the Investors Call held on Thursday, April 20, 2023 at 06:00 P.M. for the Audited Standalone and Consolidated Financial results of the Company for the quarter and financial year ended March 31, 2023.

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

Request you to take the same on records.

Thanking you,

Yours faithfully,
For Sterling and Wilson Renewable Energy Limited

Venkata Jagannadha Rao Chunduru
Digitally signed by Venkata Jagannadha Rao Chunduru
Date: 2023.04.25 15:06:54 +05'30'

Jagannadha Rao Ch. V.
Company Secretary and Compliance Officer

Encl.: As above

“Sterling and Wilson Renewable Energy Limited

Q4 FY’23 Earnings Conference Call”

April 20, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 20th April 2023 will prevail.

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

Moderator: Ladies and gentlemen, good day and welcome to the Sterling and Wilson Renewable Energy Limited Q4 FY'23 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star then zero 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. Over to you, sir.

Sandeep Mathew: Good evening, everyone. Welcome to the Q4 FY'23 Earnings Call. Along with me, I have Mr. Amit Jain, our Global CEO, Mr. Bahadur Dastoor, our CFO and SGA, our Investor Relations Advisor. We will start the call with the key operational highlights for the quarter and industry outlook by Mr. Amit, followed by the financial highlight 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 our business operations and outlook on the solar industry.

I am beginning with our order book position. The company announced new orders totalling INR4,387 crores in FY'23 compared to INR719 crores in FY'22, aided by strong ordering momentum seen in India. All the orders announced in FY'23 are from the domestic market. In Q4 FY'23 alone, the company announced new orders for INR2,165 crores, which is the highest quarterly order inflow the company has seen in nearly three years.

We were declared L1 for BOS package of 1,500 megawatt DC at Khavda, Gujarat by NTPC in March 2023. In addition, we also received two new domestic orders, one from Serentica for a 260-megawatt project located in Bikaner, Rajasthan, and second being a 60-megawatt project from Sembcorp, which is located in Karnataka. Our un-executed order book, as on March 31, 2023, stands at INR4,913 crores, with nearly 90% of the order book comprising domestic EPC projects, which are executable over the next 12-18 months.

With the inclusion of Nigeria MOU that was announced in September 2022, our order pipeline will enhance significantly with the project value alone expected to exceed USD 1.5 billion. We are working with authorities to finalise the D&EPC agreement for the project by Q1/Q2 FY'24. We hope to continue our order book momentum in FY'24 and are seeing steady growth in our order bid pipeline. We expect to bid for projects constituting nearly 23 gigawatt over the next 12 months, with India having the highest share at 62.7%, followed by Middle East and Africa at 27.1%.

Our confidence in the bid pipeline is further aided by the limited notice to proceed agreements we have received from projects in Australia, South Africa and the US, which provides more visibility on order inflow prospects. We believe the company is well positioned to target orders in excess of USD 1 billion in FY'24, over and above the already announced Nigerian project MOU, and any other group company's business.

As stated in earlier calls, we reiterate that lumpiness in order flow is to be expected with EPC company-like ours, and the timelines for achieving project closure could vary depending upon a host of factors, including finalisation of contractual terms, financial closure, etc. Structurally, however, the underlying trend of the stronger companies expected to take a larger portion of the market in the future and lower-level players moving out is beginning to take shape.

In terms of execution, while we had a good momentum in the order booking in FY'23, we had some unforeseen issues in execution of a few international EPC projects. Our domestic EPC business remained largely unscathed, however, and we delivered a positive performance there. On the international EPC front, we had to deal with issues ranging from unpredictable weather conditions in Australia to manpower and subcontractor availability issues in the US, which affected project costs adversely. O&M segment was largely impacted by some projects where costs were incurred but revenue recognition had not commenced. With the last two of our legacy international projects almost complete, we are confident of returning to the path of profitability in FY'24.

In terms of the market outlook, we continue to see positive momentum in the market with continued decline in the solar module prices and favourable regulatory landscape. Indian market appears to be in a bright spot with a lot of ordering momentum gaining pace. Government's recent decision to exempt ongoing solar projects from the mandatory rule of procuring photovoltaic modules from the Approved List of Models and Manufacturers (ALMM), for one year was issued on 10th March 2023. This should help ease constraints with local module availability and provide a fillip to project execution on the ground. The move is significant as India's aim is to install 280-gigawatt solar power capacity by 2030 and we need a strong pickup in execution pace to reach the target. There is a strong pipeline from both private IPPs and PSUs in India currently. PSUs alone have indicated a pipeline of more than 30 gigawatt in FY'24 of which NTPC is likely to be a key contributor.

On our O&M business, our solar O&M portfolio as of date is approximately 7 gigawatt. Our O&M portfolio has a tailwind of strong EPC orders and we are also targeting third-party contracts. O&M is moving faster toward AI-based maintenance, monitoring and digitization. It is increasingly important for developers to have direct control on their power generation assets as IRRs are dependent on it. Due to domain expertise of the O&M contractors, customers are increasingly preferring such third-party service providers who are knowledgeable and accountable. In our case, we have the global experience and we are also bringing the learning of EPC. So between developing the knowledge in-house and going with an outside expert, we think the case is increasingly getting stronger for the latter which should benefit us in bagging more O&M projects. 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 evening friends. Now I will take you through the consolidated financials for the year ended March 31st, 2023.

Reported revenue for Q4 was INR88 crores and significantly lower both year-on-year and quarter-on-quarter. Revenue was impacted during the quarter due to cost increase on account of certain cost provisions made which impacted the percentage of completion and led to a revenue reversal in ongoing EPC projects. Proforma results excluding the impact of provisions would show revenue of INR278 crores, gross loss of INR4 crores and PAT loss of approximately INR150 crores for Q4 FY'23.

Provisions made in Q4 FY'23 were on account of three reasons. Firstly, four international projects which are now virtually completed faced cost overruns due to punch point and handover costs amounting to INR61.43 crores which have been fully provided for.

Secondly, one of the international projects currently under commissioning is facing challenges in achieving the desired plant output. After detailed evaluation, the company has decided to carry out replacement of material and ancillary items which are causing the impediment. The cost of re-installation is multi-fold as compared to the cost of the material itself. The group has reserved its rights with respect to recovery of the cost overrun on account of such replacement from the material supplier and applicable insurance. Consequently, the group has on a conservative basis decided to increase the cost to completion amounting to INR165.78 crores to carry out the said replacement and reinstallation so as to achieve the desired output which has resulted in reduction of revenue and recognition of foreseeable loss for an equivalent amount.

Thirdly, the group had commissioned an international project at three sites for a customer. At one of the sites, certain rectification work had to be carried out which whilst not affecting the output of the plant was necessary from a contractual standpoint. The management is in discussion with the customer to finalize the defect liability quantum. The group has provided for an amount of INR45.19 crores on a best estimate basis towards maximum cost of rectification and charged the same to direct project cost.

With the above provisions, we believe we have adequately provided for all major currently foreseeable losses related to the international projects.

Looking ahead, our FY'24 revenues are largely going to be driven by our current unexecuted order book of INR4,913 crores of which 90% are domestic EPC orders which have historically generated good margins as Amit earlier alluded to. We anticipate that consolidated EBITDA should turn green by Q2 FY'24 and the company should revert to normal domestic EPC business margins in FY'24. We are also optimizing our overhead costs and the company has identified 15% to 20% savings which should get reflected in the coming quarters.

Now coming to the balance sheet. As on March 31, 2023, our net worth stood at negative INR240 crores on account of the losses incurred in the fourth quarter. Our net debt now stands at INR1,967 crores and cash and cash equivalents stood at approximately INR48 crores. As on March 31st, we had a positive core working capital of INR38 crores as compared to negative core working capital of INR140 crores as on December 31st, 2022. However, investors should note that the net working capital given above would stand at negative INR445 crores as of March 23, were the indemnity receivables to be excluded.

Our process of deleveraging is likely to commence from the second quarter of FY'24 and we are targeting to significantly reduce debt by Q4 FY'24 aided by receivables recovery, indemnity inflows and negative working capital cycle of the new projects. With this, we can now open the floor to questions and answers.

Moderator: Thank you very much. The first question is from the line of Abhineet Anand from Emkay Global Financial Service. Please go ahead.

Abhineet Anand: Yes, thanks for the opportunity. Just wanted to first understand out of this INR5,000 crores of order bid, how much is totally clean without any issues that we had currently?

Bahadur Dastoor: Abhineet, out of the INR5,000 crores, INR500 crores are old legacy orders which are essentially revenue equals cost going forward since we have already provided for all the losses. INR4,500 crores are clean orders which will be executed majorly in FY'24.

Abhineet Anand: And I am assuming those things should get completed by 1H of this year or will it prolong further?

Bahadur Dastoor: Which one? Sorry, could you repeat?

Abhineet Anand: This INR500 crores, what could be the completion schedule for that?

Bahadur Dastoor: Most of it will get done in the first quarter of FY'24 with a little part of it going into the second quarter.

Abhineet Anand: Okay. And secondly, if you can highlight from the parent any plan as to, if not in numbers, at least in gigawatts, what are their plans in terms of ordering and all? I'm talking about Reliance?

Amit Jain: So, Reliance plans are available in public domain and we are actively discussing the rollout plans but they are still under discussion and the rollout dates have not been finalized yet. So as we are discussing the plan, the rollout is going to be in gigawatt scale size, multiples of gigawatts but dates are not final yet.

Abhineet Anand: And last one was from me, the Nigerian project, when can we expect the concrete or the firm order coming up?

Amit Jain: Discussions are undergoing and we expect to conclude either in Q1 or early Q2.

Abhineet Anand: And I think in your opening remarks you said that apart from this, which is basically upwards of $1.5 billion, you are expecting another billion dollar of order into in '24?

Amit Jain: That's absolutely correct. That's what we are expecting.

Abhineet Anand: So if I could just, you know, break down in terms of one is the Nigerian order, second, there would be three more parts, right? One is anything in international, where you are working in Australia, USA. Second would be a lot of projects in India, you have the NTPC and third would be your parent. So if you can break down in what's your expectation from these three over a medium term.

Amit Jain: So in India we are expecting close to INR4,200 crores in this financial year. And besides that we are targeting three other major markets, South Africa, Australia and other regions which is also close to INR5,000 crores. So that's what is our estimate put together and we have a very high visibility for all these orders because as we have alluded to in my investor speech, that in Indian markets we are very close to closing the orders which are expected in Q1 and Q2 itself. And in South Africa and Australia and US, we have been shortlisted by our three clients and on three projects we have been issued limited notice to proceed, which is an early phase of the project. So all the projects we have very high visibility and we are pretty confident of booking in excess of billion dollar over and above Nigeria and RIL projects.

Abhineet Anand: Thanks a lot and all the best.

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

Manoj: Okay. So my first question is, whatever order you won in the last year, how was the competition you faced during that, especially NTPC order? What kind of competition was there?

Amit Jain: So I would say NTPC, the Tier 1 contractors were there and it was a reverse auction. So we were declared winner of the reverse auction. So we'll get to know, like we don't know what the other competitors were in the action. So, but we are declared L1 in all the eight packages for two NTPC bids we were there.

Manoj: Okay. And how do you see USA as a market for Sterling in the current year or maybe future?

Amit Jain: USA is a good market, but we are being very, very selective and redefining our risk profile with respect to USA and all other international markets. So though we are selectively bidding for the projects in all the markets, but we are looking at margins and risk profile of the projects very cautiously.

Manoj: Okay. Any figure we have determined as of now, how much promoter has to give it to the company according to the agreement as of now?

Bahadur Dastoor: I will talk about what is the cash flow situation. So roughly as of today, the company has INR1,200 to INR1,300 crores of indemnity assets where the cash has been blocked. Discussions keep happening with the customers, with the authorities and the promoters to see how to settle it as judiciously as possible. Recourse on the promoter is of course the last resort. The idea here is to bring it down and get our cash flows in as fast as possible.

Manoj: Okay. And my last question is now INR500 crores of foreign order which is left. So as an investor we are not that much in a danger part, but now we see the reversal of sales also happening. Is this more possible in the current year also in terms of reversal of sale?

Bahadur Dastoor: No, no. Let me explain that because we had to make this provision in the cost to complete for one of our projects which was not entirely completed, there was a reversal of sale which we have tried to explain in the proforma sheet of our investor presentation. We do not expect any other reversal of sale to happen from now onwards.

Manoj: Okay. Can I ask one more question?

Amit Jain: Yes, please. Go ahead.

Manoj: Okay. You said you are going for 15% to 20% of cost reduction you have identified and you have given 10% to 11% gross margin indication as a profit. Are we including that cost cutting in this current gross margin guidance?

Bahadur Dastoor: The cost cutting is for overheads which is after the gross margin. What we are looking at is definitely to reduce these overheads even beyond what we are presently targeting. However, the entire impact of this will take a couple of quarters in this year to fructify. But from that point in time the overheads will be exactly lean in keeping with the revised requirements of the organization.

Manoj: Okay. And best of luck.

Management: Thank you very much.

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

Faisal Hawa: Yes. I mean, we have made it a habit of having results which are generally up and down and there is no trajectory to any kind of sales. I mean, how will we ever have any kind of uniform sales? Because again, this result is a bolt from the blue.

Bahadur Dastoor: I will start by answering this Mr. Hawa and then Amit can just add into it. Whenever we have found that there is an issue, we have provided for it 100%. So we do not want to leave it as a dripping tap which goes on affecting future quarters. The reason for making large provisions, almost INR165 crores in one project, almost INR45 crores in another, almost INR60 crores in a third is just to ensure that no matter what has to be done, we have accounted for it and taken care of it up to March 2023. We do not want anything affecting our numbers for FY'24 which we really believe will be a turnaround year. If things go to plan, things will start showing positively from the first quarter itself, the trajectory.

Faisal Hawa: But sir, if you see the previous transcripts, we say this for almost every second, third quarter and again there is a new development which brings us down. And I mean, I clearly feel that these three writebacks of sales should have been actually communicated to the exchange in between the quarters because it is a material development. It cannot be done with the results.

Bahadur Dastoor: Firstly, it was not anything which happened in the middle of the quarter. All three are not resulting in writeback of sales. There is only one which has resulted in the writeback of sales. Further, our legacy orders are now down to INR500 crores. There is virtually nothing left. What we have in hand right now are our domestic orders which even if you go the last three to four years, have always given the gross margins even in the worst of times.

Faisal Hawa: When the domestic orders itself are so good, why go to overseas orders where we always tend to lose money? With these three orders where we are LNTP, I feel that there is more risk coming our way because we clearly are not able to handle the overseas risks. We are continuously ending up paying money to the customer. I can't see how we can be held responsible for his project not actually performing and having to do the entire project almost again. It is something which shows some kind of an inefficiency on our part.

Bahadur Dastoor: Firstly, it is not the entire project. The project is of a very large magnitude. We are talking of the replacement cost of a particular component of that particular project. Because it is overseas, we have said that the cost of material itself is a very small portion. It is the cost of installation. Mr. Hawa, anything you redo in a site will at least be four to five times the cost of the initial installation. That is what is causing us the pain point. As regards your question about international projects, I will let Amit answer that.

Amit Jain: Mr. Hawa, as I alluded to, first of all the projects, the legacy projects which we see, they were all booked in pre-corona times and were impacted by I think a lot of uncertainties and unforeseen circumstances. Project execution started in COVID and then the unpredictable climatic conditions in those zones and the shortage of manpower, complete breakdown of supply chains. All that impacted. These were the only legacy projects which we were carrying out. With this one, this particular quarter, we have practically accounted for everything which we can foresee in these projects and there is no possibility of carrying out any further losses in these projects.

With us now embarking on new order booking, majority of it is coming from domestic where we have a proven track record and we have always delivered. As far as the international projects are also concerned, we are very cautious in booking new projects. Risk profiling and margin profile of the project is thoroughly checked and we are making doubly sure that we are going to deliver high returns even on those projects and that's why there was slow down in the last few years in booking international orders. So whichever order, whether domestically or internationally we are booking, margin profile and risk are thoroughly being assessed so that we continue to deliver high margins to our shareholders and we are proceeding on that trajectory and I don't see any more losses at all coming out of our portfolio. So we have taken care of everything. So that's what we are projecting.

Faisal Hawa: Okay, thank you very much.

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

Bhavik Shah: Hello sir. Thanks for the opportunity. I just want to understand the cost of capital for the borrowings which you have taken. At what rate have you taken the borrowings?

Bahadur Dastoor: The borrowings range from between 8.9% to about 9.9%. This could go up as the repo rates change but that is the range at which it is about now. So on an average you could say about 9.5%, 9.65%.

Bhavik Shah: Okay. What kind of gross margins or EBITDA margins do you expect in the Indian projects and the overseas projects which you are going to take and the NTPC projects as well?

Bahadur Dastoor: Sorry, you will have to repeat your question please. It was not very audible.

Bhavik Shah: Just a minute.

Moderator: Ladies and gentlemen, the line for the current participant in the queue seems to have disconnected. We will move on with the next question which is from the line of Iqbal from Nuvama. Please go ahead.

Iqbal: Hi, thank you sir. I just wanted to understand this reversal of the revenue recognition in more detail. You have mentioned in the proforma it is around INR190 crores. However, the second point says around INR166 crores. So what is the remaining amount in this? So I just wanted to understand in detail about this, the provision that you have made for? That will be very helpful.

Bahadur Dastoor: See, the cost to completion went up by INR165 crores. Therefore, on a percentage of completion, your percentage of completion fell. The only way to recognize this is to reverse the revenue which has been booked in the last quarter. The cost of INR165 crores has still not been incurred. They have really been made as a provision in the cost to complete. Therefore, there is a reversal of revenue to the extent the cost is higher than that. There will be a foreseeable loss which has been provided for.

Iqbal: Thank you.

Moderator: The next question is from the line of Shantanu from Think Investments. Please go ahead.

Shantanu: Yes, hi. My first question is that these INR450 crores, INR500 crores old orders - they were supposed to get executed, kind of they were supposed to get over this quarter. But I don't see any execution on that front. So is there any challenge in finishing those orders? What was the reason that nothing major happened this quarter?

Bahadur Dastoor: You have to realize Shantanu that out of the INR490 crores approx which is there, INR165 crores is on account of the cost increase only which has been pushed, right. Otherwise, in this particular quarter, if you would have seen the proforma that we have put in, your turnover would have been INR278 crores. If you see the slide which we have given for a proforma profit and loss account. So that would be comparable to what we have achieved in the previous quarter. And it is not that nothing has happened in this current quarter.

Shantanu: Got it. Okay. So now, like you mentioned that whatever hits you have to take, you have taken and your revenue will be cost. So are we fully…

Bahadur Dastoor: Just for these projects.

Shantanu: Yes, just for these projects, obviously. So, are we, fully sure that this will get over in Q1? And maybe some flow, something going into Q2. But there is no other problem in executing this?

Bahadur Dastoor: As per our plan, a bulk of it should get done in Q1 and there would be an overflow into Q2. As of right now, we do not envisage, let me not say as of right now. We do not envisage anything and there are no surprises further we believe.

Shantanu: Okay. Now coming on to your balance sheet. So debt has gone up to INR2,000 crores, right? And this majorly is because of all these one-offs, etcetera. So I heard the number of INR1,200 crores to INR1,300 crores of indemnity assets, right? Now, just to come to the bottom line, this money is actually supposed to come into the company. And it should ideally knock off the INR2,000 odd crores of debt that has been accumulated over this 1 and 1.5 years. So I want to understand this breakup of this indemnity assets and the timeline as to how this will come in. So that what can be the net debt at the end of FY'24. This is excluding any advances that we get for Nigeria project or NTPC. That's purely operational. I just want to understand what sort of money can come in from the indemnity receivables, whatever you want to call it, that can get knocked off to the debt, say, in the next 12 months, FY'24?

Bahadur Dastoor: So first of all, it is not just the INR1,200 crores of indemnity receivables for which we needed to borrow. If you had a chance to have a look at our notes to the financial statements, you will find that in a particular project in the US, we had appointed another subcontractor and we've taken the first subcontractor to court. Then the company has paid USD 58 million, which is shown as a recoverable. And if you add that as well, then you're talking about INR1,700 crores of money which has been blocked, which is closer to the money that is totally borrowed.

So that arbitration and claim can go on for about a year at the minimum. So we will know about it at that point in time, even though legal opinion says we have an extremely, extremely strong case.

Now coming to the INR1,200 crores of indemnity, we expect to get somewhere around INR450 crores, a number anywhere between INR450 crores to INR500 crores in September '23. Balance will happen in the next year or thereafter.

Shantanu: Okay, but why would this not come in FY'24 itself? Why will the balance go in the next year?

Bahadur Dastoor: The indemnity agreement is very clear that only when a claim is crystallized, which means it has reached the last stage of appeal, can it be levied upon the promoter. As of right now, there are claims which have crystallized even after October 22. In September 22, we had filed our first indemnity claim, money of which we received. From October 22 and onwards also, some things have crystallized significantly. And the balance amounts which will crystallize is what we can claim in September 23.

I can't claim the entire INR1,200 crores from the promoters in September 23 because the company is first expected to fight it out with the customer and the regulatory authorities and or any tax authority. And only when it fails, is it supposed to go after the promoter as the last resort.

Shantanu: So what happens to the interest cost that the company will have to bear for this one, one and a half year till this gets fully crystallized?

Bahadur Dastoor: The company will have to bear the interest. Interest is not on the promoters. What the agreement has done is secure the principal.

Shantanu: Okay, understood.

Bahadur Dastoor: If I had to even charge the interest, then my EBITDA would effectively be my PBT, right?

Shantanu: Got it. Lastly, can you give us an update on what is the status with Nigeria and Reliance both? That will be really helpful.

Amit Jain: So Nigeria, we are in advanced stage of discussions with the NDPC and Ministry of Power of Nigeria. And we expect to get it concluded either in Q1 or early Q2. So that's where we are on Nigeria. And in Reliance, we are in discussion with them. And rollout plans are getting finalized. But we have not been informed of the exact schedule. So discussions are going on. And we are planning for the execution of the project.

Shantanu: Okay. So just let me get this clear. So Nigeria order, say, worst case execution starts in Q2 or Q3. Is that understanding right?

Amit Jain: No. Execution will start in Q4. And we will be having a very minor portion of the revenues in Q4.

Bahadur Dastoor: See, after the order signing, there is also going to be the financial closure. And post which, we will start the work.

Shantanu: Should start only in Q4 execution, right?

Amit Jain: Yes.

Shantanu: Okay. And similarly for Reliance, worst case, will this happen in Q4 or then it will slip into Q1 FY'25?

Bahadur Dastoor: As Amit said, there is no plan which has been finalized as of yet. As we find out, we will keep you all informed.

Shantanu: Okay. Got it. And on the NTPC, both orders, I believe nothing has started yet on the execution part, right? The first order we got in October, if I am not wrong. So do we expect that to now start in Q1?

Bahadur Dastoor: Shantanu, that is incorrect. Work has started at the site. However, there has not been enough work for us to start recognizing revenue. So on the first site, work has already commenced.

Shantanu: Okay. And on the second, when do we expect that to start?

Amit Jain: I think we are expecting to sign the contract either end of this month or early next month. And because the site is adjacent to the first project and we have already done engineering for the first project. So we will be moving on fairly quickly on the second project. And the revenue recognition will start from Q3 FY'24.

Shantanu: Got it. Okay. That's it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: I just want to know our net worth has turned negative. Are we planning to raise any funds? If the promoter is planning to put money or maybe raise any funds from QIP or anything of that sort?

Bahadur Dastoor: Nothing has been finalized as of date, Vignesh, for me to provide any further guidance on this.

Vignesh Iyer: Okay. Just to understand the NTPC project…

Bahadur Dastoor: I just want to add that as far as the standalone net worth is concerned, it is a very positive net worth over INR1,000 crores. It is only the consolidated net worth that has gone down.

Vignesh Iyer: Right. Understood. Just to understand the NTPC project side. So this INR4,900 crores unexecuted order book has NTPC project as well, right? I mean, part of it.

Bahadur Dastoor: Approximately INR3,600 crores would be the unexecuted order value on NTPC.

Vignesh Iyer: And that would be 1.5 gigawatts, right?

Bahadur Dastoor: That would be 1.5 into 2. Almost 3.

Vignesh Iyer: Okay. Right. So, fair enough. And just to understand this international project, I mean, the one you're talking about in South Africa, Australia and US, and as well as the Nigerian project, would it have a similar gross margins similar to like what is in domestic?

Bahadur Dastoor: No, it would be slightly lower in terms of the international jobs. Nigeria, however, is a fairly comparable margin project.

Vignesh Iyer: Okay. Sir, another part of it. So what we've faced due to this legacy project was the increasing cost. I mean, so coming to this new project, do we have this cost escalation as part of the contract? And how much is that cost escalation possible? I mean, in case, suppose, some other big event comes up similar to Russia, Ukraine, and there is a problem with procurement of material or something similar. So what is the percentage cost escalation possible on this newer projects that we are signing?

Amit Jain: So whatever the newer projects we are signing, we are considering the present prevailing cost, and orders booked are placed on vendors immediately after we have finalized. So that we are hedged during the execution of the project. So we are taking extreme care to move fairly quickly, and we have built provisions to pass out for any extraordinary circumstances to pass on the cost to the customers. The orders are going on back-to-back basis to the vendors so that we are not exposed at all for the variations in the market.

Vignesh Iyer: Fair enough. So just to understand these newer projects that you are going to sign, I mean, the INR5,000 crores value in South Africa, Australia, and US, and once the MoU is signed with Nigeria. I mean Nigeria MoU is done, once that is part of the order book and you have started your work from quarter 4, would both of these projects have similar timeline of execution of 12 to 18 months, or it would be a bit more than that?

Amit Jain: Only Nigeria will have a little more than 18 months. All other orders will have the same execution timeline of 12 to 18 months.

Vignesh Iyer: Okay. And apart from the legacy order book, we would only see mainly the revenue being recognized from Quarter 3, right?

Amit Jain: Pardon?

Vignesh Iyer: I mean, assuming your legacy order book gets over in Quarter 1 and some part goes to Quarter 2, for the newer order book, I mean, where the gross margins are 10% to 12% or a bit lower, would we see the revenue recognition coming mainly only from Quarter 3 of FY'24?

Bahadur Dastoor: If you are talking of the international jobs, then other than the legacy jobs, they will essentially be slightly in Q2, but majorly in Q3 and Q4. If you are talking about the unexecuted order values that we hold for the domestic business, they will start from Q1 itself.

Vignesh Iyer: Okay. Got it. Yes, that's all from my side. All the best, sir. Thank you.

Bahadur Dastoor: Thank you.

Moderator: Thank you. We have the next question from the line of Jayesh Gandhi from Harshad H. Gandhi Securities Private Limited. Please go ahead.

Jayesh Gandhi: Am I audible, sir?

Amit Jain: Yes.

Jayesh Gandhi: Okay. So I have a couple of questions. First is on EPC margin. When we say an EPC gross margin 10% or 11%, are we talking about consolidated or only domestic?

Bahadur Dastoor: Right now, when we have said that we want to return to 10% to 11% gross margin going forward, we are talking about a blended margin across the world for projects that are either in progress or expected to be in progress in Q3 and Q4.

Jayesh Gandhi: So domestic probably would be a higher margin, right? According to you, since we are…

Bahadur Dastoor: Gross margin includes O&M margins also. And therefore, when we are saying O&M is of course a significantly higher margin though a smaller revenue. So we are talking of a blended gross margin across all lines of business and geographies to be where we have indicated them to be.

Jayesh Gandhi: Got it. So 10% is basically EPC as well as O&M. That is what you are alluding to?

Bahadur Dastoor: Correct.

Jayesh Gandhi: Okay. Secondly, just a confirmation. The listed company is in the business of only EPC and O&M and battery energy storage, right? Or can we do something else also?

Bahadur Dastoor: There is nothing that would prevent us from doing something else as long as it is in the renewable space. The mandate which this company has is to do EPC business for renewable energy. And of course, the EPC contract can include or will include round-the-clock power where battery and energy storage would be a part of the project cost.

Amit Jain: Yes, that's right. Because going forward, the trend is moving towards hybrid. So in addition to solar and battery storage, if it requires venturing into BOS for wind and other systems, so the company is gearing up to address all other additional solutions and we will be ready to provide complete hybrid solutions to the market.

Jayesh Gandhi: Okay. Now, sir, why I am asking this is because just two days back, one of, I don't know whether it is a subsidiary or what, Sterling & Wilson project got a transmission order from MPPC. So we will never be into the transmission, right?

Amit Jain: So that's the order booked by Sterling & Wilson Private Limited. So that company is part of Sterling & Wilson Private Limited, not part of Sterling & Wilson Renewable Energy.

Jayesh Gandhi: Okay. And the last question is, how confident are we on getting the Nigerian order? Because as I see, we have just entered into an MoU with the Nigerian government. I mean, it's just an MoU. Or are we in an advanced stage now?

Amit Jain: No, we are in advanced stage. It's not just the MoU. The draft contracts have been exchanged. The legal teams are engaged. The final terms of financing, term sheet between Exim Bank and Nigerian government is getting finalized. So it is not just MoU. We are just about to conclude the contract. And it had slowed down a little bit because of elections which were happening in Nigeria. Now we expect to close the Nigerian order by either the end of Q1 or early Q2.

Jayesh Gandhi: All right. Thank you and best of luck.

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

Iqbal: Hi. Just want to put forward one more question. In our unexecuted order book, around INR500 crores are the legacy orders, which I believe is no more a profit-making order for the company. So would you be incurring more? I mean, would you be raising more debt for this company going ahead? I mean, for this project. So in short, how much to what extent the term debt might increase in the financial year '24?

Bahadur Dastoor: So Iqbal, it is not just that debt is the only way that one can fund a project. The company also has available letters of credit limits which it could utilize. So it will be a mixed bag where you will stretch your payable to ensure that it can be offset against the receivable of an advance from a future project.

So company will do everything in its power to keep debt low. But if it is required to be borrowed, yes, then there would be an increase in debt.

Iqbal: The magnitude of the debt that you might have to borrow would be lesser than the INR500 crores indemnity which is receivable. Would that be a fair understanding?

Bahadur Dastoor: See, the INR500 crores indemnity receivable will come in Q3. The projects that have to be completed, the legacy ones are in Q1 and Q2. The company will work out the most efficient ways to take care of meeting the cost requirements. Also, let us not forget that on the one hand there is cost, but on the other hand there is also a receivable from customer.

So there will be definitely a certain amount of borrowing and or LC management which will have to be done to take care of this. We are in the process of working out the most efficient way to do it.

Iqbal: Thank you sir.

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

Amit Jain: Thank you. We hope to build on the order momentum of FY'23 and turn around the financial and operating performance of the company in FY'24. With the strong support and parentage of promoters, we intend to accelerate our growth trajectory and 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 Mr. Sandeep Thomas Mathew or SGA, our Investor Relations Advisors. Thank you once again and have a great day. Thank you.

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