STERLING & WILSON

January 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.: Investors Call Q3 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, January 20, 2023 at 03:00 p.m. for the Unaudited Consolidated and Standalone Financial results of the Company for the quarter and nine months ended December 31, 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 and Wilson Renewable Energy Limited

Q3 FY '23 Earnings Conference Call"

January 20, 2023

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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 Sterling and Wilson Renewable Energy Limited Q3 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 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 a Moderator by pressing star then zero, on your touch-tone 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: Yes. Good afternoon, everyone. I welcome you all to the Q3 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 Advisors. We will start the call with operational highlights for the quarter and industry overlook by Mr. Amit, followed by the financial highlights by Mr. Bahadur, post which we'll open the floor for Q&A.

Thank you, and over to you, Amit.

Amit Jain: Yes. 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. Beginning with our order book, our unexecuted order book as on January 18, 2023 stands at INR 2,703 crores, with nearly 84% domestic EPC, which is executable over the next 18 months. The company has announced new orders and MOUs totaling approximately 2.8 gigawatts in the first 9 months of fiscal year 2023.

In Q3 FY '23, we were awarded two new contracts in India for solar EPC projects. First was a 242-megawatt project from Amplus Solar, part of PETRONAS Group, for a project located in Bikaner, Rajasthan. The second was a 60-megawatt project from AMPYR Energy for a project located in Koppal, Karnataka. Total new orders amounted to approximately INR 364 crores.

Last quarter, we had announced the BOS package consisting of 4 blocks of NTPC Renewable Energy Limited solar PV facility at Khavda RE Power Park, Rann of Kutch, Gujarat, with a total capacity of 1,570 megawatt DC, which is one of the largest projects awarded to us in India thus far.

The overall bid value inclusive of O&M for three years is INR 2,212 crores inclusive of taxes, and the contract agreement for the project was signed in October 2022.

In September 2022, the US step-down subsidiary of the company signed a memorandum of understanding with the Government of Federal Republic of Nigeria, along with its consortium partners, Sun Africa, for the development, design, construction and commissioning of solar PV power plants, aggregating 916-megawatt peak at 5 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 company is in the process of finalizing the D and EPC agreement. Further, our order pipeline continues to grow and remains strong, even after announcing some large order wins in India. This we believe, is fairly representative of the overall buoyancy in the market.

We expect to bid further projects constituting more than 21.6 gigawatts with India having the highest share at 55.5%, followed by Middle East and Africa at 24.9%, US and Latin America at 8.9%, Europe at 5.4% and Australia at 4.8%. Ordering activity in India is likely to further gather pace with private IPPs and PSU pipeline continuing to grow and a resolution of GIB issue, which had held up some projects in Rajasthan, which is one of the top 3 markets for solar installation in India.

We also foresee strong growth drivers in our key international markets of Australia, EU and US driven by favorable evolving regulatory landscape and module price correction. We foresee a lumpiness in order inflow with stronger companies expected to take a larger portion of the market in future and lower level players moving out.

Now I will give you an update on solar market outlook. One of the key positive developments in the last 12 months has been the decline in solar module prices globally as a result of increasing capacities coming on stream. Module prices, which had touched $0.28 to $0.29 watt peak last year, have been steadily declining and have declined to $0.23 per watt peak by the end of 2022.

As module price is a key determinant of the project cost, a lower module price enhances project feasibility and is likely to help accelerate project award and encourage development of more solar projects globally. Polysilicon availability, which has been a key bottleneck in the solar supply chain, is expected to rise significantly in 2023 as per industry reports, and this should consequently help keep prices in check and potentially bring module prices even lower.

From a demand perspective, we are continuing to see a good buoyancy in international and Indian markets for solar EPC projects. Especially in India, in the last 5 years, solar power capacity in India has risen manifold from 22 gigawatts in March 2018 to 60.8 gigawatts in September 2022. India's solar power potential is estimated to be about 749 gigawatt. At around 61 gigawatt the installed capacity is only around 8% of that, and there is a significant potential to increase capacity in the future.

The last six years have also witnessed a steep decline in solar tariffs in India. The pace of commissioning of new capacities in India is expected to continue at a rapid rate in the medium term, owing to excellent cost competitiveness, interest from domestic and institutional investors and the Government of India's sustained attention, supported by new technologies, such as hybrids, floating solar projects and better storage technologies.

In the near term, solar plus storage infrastructure industry is also expected to grow. Cost reductions, operational efficiency and the possibility to minimize storage capital cost through the solar investment tax credit are all advantages of combining storage and solar. With the rapid development of high-performance, low-cost PV technology, India may be able to continue to lead the global solar revolution in future.

Globally, adoption of green hydrogen is critical to achieve the announced net-zero carbon emission targets. The Union Cabinet recently approved the National Green Hydrogen mission with an allocation of nearly INR 20,000 crores, aimed at producing 5 million ton of green hydrogen annually by 2030.

About 115 gigawatts of renewable energy capacity would be required to produce the targeted 5 million ton of green hydrogen by 2030. The government expects the mission to attract investment worth INR 8 trillion by 2030. The mission would also result in reduction of greenhouse gas emission by nearly 50 million tons annually and save India INR 1 trillion in its fossil fuel imports. The mission is aimed at making India a hub for both manufacturing and export of green hydrogen.

The energy crisis on account of Russia-Ukraine war has urged the EU to accelerate the development of renewable energy and reduce reliance of resources from Russia. EU targets to have 45% renewable energy in its energy consumption mix with 600 gigawatt of solar capacity by 2030. This should lead to an additional 8 to 11 gigawatt of new installations per year on top of previous levels.

In the US, while there has been a positive regulatory development in the last six months, activity on the ground has been muted as a result of scrutiny on imported modules, which has caused a large amount of solar panels getting detained at the US borders.

The US Solar Energy Industries Association forecasts that USA will only add about 16 gigawatts of solar capacity in 2023, which represents a similar level to that of 2022, as the scrutiny is expected to remain in place in the near term. With panels stuck at US Customs, projects of some large developers has got pushed to 2023. However, with tax credits due to expire in 2025, we expect ordering activity to pick up significantly in 2023 so that projects can be operational by 2025.

Australia is making significant strides in its solar ambition, and it is a market we are hopeful of doing well since we are already the established leader there in the solar EPC. I would like to highlight that we are well positioned to capitalize on these growth prospects, thanks to our global reach and our strong relationship with the customers and lenders.

On our O&M side of the business, our solar O&M portfolio as of date is approximately 7 gigawatt with third-party O&M constituted approximately 1/3 of the portfolio. Kindly note, this portfolio includes EPC projects under construction / commissioning, for which contractual revenue is expected to commence by March 2023.

O&M constituted 7.3% of revenue in 9MFY23 and stood at INR 141 crores. Our enhanced value to customers through O&M differentiators like drone thermography, strong analytics and predictions, IV curve tracers, underground cable fault finders, etcetera, will help us in expanding our O&M portfolio.

As more operations and procedures in O&M are digitized, we are unlocking the value of predictive maintenance and making increasing use of it. Through the use of global customer mapping, it is our intention to locate lucrative business prospects with the end goal of significantly expanding our market share in O&M category. In addition to this, we are capitalizing on the solid ties we have with IPPs all around the world.

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, everyone. I will take you through the consolidated financials for the nine months ended December '22. Revenue increased by 1.7% quarter-on-quarter, aided by higher contribution from the O&M segment. For 9MFY23, revenue has decreased by 51% year-on-year due to lower contribution from ongoing EPC projects.

Gross margins remained suppressed primarily on account of international EPC projects. Net loss during the quarter has declined to INR 99 crores versus INR 299 crores in the previous quarter and INR 429 crores last year. In 9 months FY '23, O&M accounted for 7.3% of revenue, totaling INR 141 crores. While O&M gross margins have improved sequentially, 6.7% in Q3 FY '23 versus negative 13% in Q2 FY '23, they are still impacted by projects where O&M costs have been incurred, but revenue recognition has not begun due to the clients delaying final handover. We expect O&M margins to normalize in the coming quarters. Also, new site additions to O&M portfolio are likely to start contributing to top line in FY '24.

Coming to the balance sheet. As on December 31, '22, net worth stood at INR 218 crores and cash and cash equivalents stood at approximately INR 181 crores. Our net debt stood at INR 1,374 crores. We anticipate net debt to decrease with new order inflows and completion of US/Australia projects.

With respect to advances and performance bank guarantees, which were encashed by four customers amounting to INR 588 crores, approximately INR 350 crores have been refunded by the customers for two of the projects. With respect to the balance, the company is in discussions with the customers.

As on December 31, '22, we had a negative working capital of INR 140 crores as compared to a negative working capital of INR 272 crores as on September 30, '22. Receivables due for more than a year as on December 31st, were INR 325 crores and have declined compared to INR 362 crores as on September 30, 2022. Of this, related party receivables are approximately INR 11 crores, net of the INR 207 crores that the company must repay to the related party in relation to the Waste to Energy project advance.

The Indemnity Agreement covers approximately INR 259 crores of non-related party receivables. With this, we can now open the floor to questions and answers.

Moderator: The first question is from the line of Abhineet Anand from Emkay Global Financial Services.

Abhineet Anand: First of all, I want to understand on this gross margin still going negative, while I think it has improved on a sequential basis. On similar revenues, you have lower gross margin losses. But I want to understand that what quantity of your sales are still left, which would be below gross profit levels?

Bahadur Dastoor: I'll answer that question, Abhineet. The company has accounted for the losses on its ongoing projects. It today has a UOV of about INR 2,700 crores and if one were to look at projects, which are going to be on a no profit, no loss situation, the gross margins there would be between 10% to 11% on all of those. We expect that gross margins will normalize by first quarter of FY '24 and there is nothing much that one has to do now for the ongoing projects.

Abhineet Anand: And in general gross margin, I think you have been over years guiding is around that 10%, 11%, right?

Bahadur Dastoor: That is the same percentage which we expect on all the new non-legacy projects.

Abhineet Anand: Secondly, on this Nigerian contract actually what are the steps still remaining? It has -- we probably had L1 or something in September and it's been for 4, 5 months. So when do we actually expect it to come in our books?

Amit Jain: So maybe I will take this question. So we have continuously engaged with the Government of Nigeria and substantial progress has been made. The discussions are continuing, and we expect to finalize this order soon.

Abhineet Anand: And sir, last one from me. From Reliance perspective, can you throw some light in terms of the next two, three years? I'm just saying - -–not for any specific number or something, but if you can give some view, because Reliance has stated that they will be putting certain capacity by FY '25, if you can guide us to the role that we are playing?

Amit Jain: So as like it has -- it is in public domain that this is a mega project. The plans are huge and the development is going to be one of the largest in the world. So, both the teams are engaged in discussing, planning and the final project execution and strategy for execution that is being discussed. But as far as the exact details of year-wise, rollout plan is concerned, only Reliance will be able to provide that information. At this point as and when we finalize that with Reliance, we'll get back to the market with that information.

Bahadur Dastoor: And let me just add to what Mr. Amit has said. Obviously, with the infusion that Reliance has done into this company, we would assume and our assumption continues to remain strong, that we will be the preferred EPC subcontractor for the projects as and when they are announced.

Abhineet Anand: And largely on the BOS side, right? This will be largely on BOS?

Amit Jain: Correct because -- yes, because Reliance will be supplying the module, it will be on BOS side.

Moderator: The next question is from the line of Nikhil Abhyankar from DAM Capital.

Nikhil Abhyankar: Sir, I've got a couple of questions. So there has been a drop in module prices and even polysilicon prices for the last two months. So where do you see the module price heading in the next year? And what will be the impact on our gross profit margins?

Amit Jain: So as far as the decline in module price is concerned, we see that until the end of the year, they were close to $0.23. And in this particular January itself, we had seen them the module prices correcting to the level of $0.20, $0.21. So all depends upon the new capacities coming online because in this further few quarters, more and more capacities, both for polysilicon and module manufacturing, will come on stream in China and various other parts of the world.

So at this point of time, it's difficult to take a forward call, but we see that module prices, which were a major issue in the last two years, is going to correct itself, and we see the module prices continuously declining and a very, very cost competitive pattern. So that we are going to witness in coming quarters.

And as far as our gross margins are concerned, so first, it takes away the risk, which we were facing on the module supply uncertainty. More and more project closures will come into effect and we see the robust growth in the market. And certainly, it will protect our margins, and if we decide to go with the module prices and we see the decline in the module prices, there it will impact us positively.

Bahadur Dastoor: And just a final point is, as far as the domestic market is concerned, there would be no impact because we work only on BOS. Modules are not part of our scope.

Nikhil Abhyankar: And sir, just an international question to the Nigeria order. Sir, given this module prices have been falling, sir, is there any chance that the actual order size will be lower than 1.5 billion, as earlier mentioned?

Amit Jain: So actually, in Nigeria, as we have informed, the Nigeria order is with the US EXIM funding. So, for that, the module has to comply with the US specifications and from the US manufacturer as of now. So the Chinese components in those modules cannot be used. So for that, it's very difficult to predict that how module prices will be, and we don't see any change in the order value with respect to the decline in module prices in other parts of the world.

Nikhil Abhyankar: And just a final question, sir. What is the quantum of international orders remaining where we are expected to still make gross losses?

Amit Jain: I think I will discuss with Mr. Bahadur to give you the exact figures on that.

Nikhil Abhyankar: I'll repeat the question...

Amit Jain: Inquiring about our balance order book with respect to international orders as on date.

Bahadur Dastoor: Yes. So the balance order book that we have as of right now is roughly in the region of about INR 450 crores. This is not including Nigeria. Nigeria has while -- there is an MOU that is signed that order value is upwards of $1.5 billion. But what I'm talking about are those jobs, which are part of the legacy jobs, which are about INR 450-odd crores, which are expected to get over mostly by quarter 4 or maybe a slight overflow into the first or second half of FY '24.

Moderator: The next question is from the line of Abhinav Bhandari from Sohum Asset Managers.

Abhinav Bhandari: So first question is on the NTPC orders. So have we received or booked any mobilization advance during the quarter? And if not, how much would be that number, which would come in possibly Q4, Q1?

Amit Jain: So advance has been received by NTPC, and we're in the process of mobilization of the project.

Abhinav Bhandari: Can you help me with the numbers, sir, how much would be the exact amount?

Bahadur Dastoor: You will have to repeat the question. I'm, unfortunately, very sorry that I again got dropped off. What is number that you're looking please?

Abhinav Bhandari: Yes. So, Bahadur, on the mobilization advance from NTPC that you received during the quarter?

Bahadur Dastoor: We have received roughly INR 220 crores of mobilization advance from NTPC.

Abhinav Bhandari: Sure. So just trying to get a clear picture on this debt increase to about INR 1374- odd crores, which you said. So one is you would have received this mobilization advance. Second is, if I read in the footnote, there is some INR 66-odd crores that you received from the promoter side. And there is another INR 349 crores, which has been settled with the three clients. So I'm just trying to understand, despite all these 3 inflows, how is the debt increase? Can you help me understand that mathematics?

Bahadur Dastoor: Yes, that's no problem. Because we had our legacy projects in Australia and US, which required to be funded to bring them to a closure. So one is that there is a reduction in payables by roughly INR 300 crores. There are also overheads of almost INR 90 crores, which had to be paid.

So I was just answering Abhinav's question and considering the interest as well as the overheads, there was a need to borrow as well as the need to borrow to close off payments, which are coming up in January, February and March.

Abhinav Bhandari: But the inflows that I spoke of has already been adjusted against this number, right, INR 1,374 crore, or it has come in January?

Bahadur Dastoor: See, look at it this way that the INR 66 crores, which we have received from the promoters is against money that the company was already a cash out, right? So it is not really an inflow per se. We had against those indemnity receivables, we also had to make a payment of roughly about INR 35 crores to INR 40 crores against those indemnity assets in the quarter. So the entire promoter indemnity has not been a free flow as far as the company is concerned.

And borrowings, Abhinav, can never be last minute. If you have an LC obligation, et cetera, you need to well plan them...

Abhinav Bhandari: No, that's well understood and appreciated. I was just trying to get closer to the figure, that's what I was trying to understand.

Bahadur Dastoor: All right.

Abhinav Bhandari: And just one last bit. So on this INR 1,374 crore, what would be our average borrowing cost today?

Bahadur Dastoor: It would be between 9.5% to 9.7%.

Abhinav Bhandari: And sorry, just one more. There was some additional assistance to promoters that you were to give, I think that was disclosed in last quarter. So has that been already given or that would happen now?

Bahadur Dastoor: Sorry, could you repeat that question, please?

Abhinav Bhandari: Wasn't there some additional assistance to promoters in terms of loans that we were to give, which probably, I think, was discussed last quarter?

Bahadur Dastoor: No. Okay. So there is no loan that can be given to the promoters at any point in time. The articles prohibit that. What was taken as a resolution in the AGM was a facilitation to return the OLD HALL advance in the form of a loan, pending such time as the other formalities are completed. However, since there are group dues, the OLD HALL advance has not been given. But under no circumstances, can any loan assistance be given to the promoter group because our articles prevent it from happening.

Moderator: The next question is from the line of Jaideep Sampat as a Proprietor.

Jaideep Sampat: I was just wondering when the module prices and all aluminium steel prices were going up, so we had a loss and negative margins. Now since in the last few months, all these prices of modules and steel, et cetera, is coming down, so isn't there -- why don't we see a positive margin, especially since the contracts which are old and having old rates?

Bahadur Dastoor: I will start to answer that question. Mr. Amit may chip in later. We have to understand that all the modules for our old contracts have already been supplied. The last of them were supplied in Q1 of FY '23. When you're looking at a solar plant, one of the last material items that go into the plant are the modules because you have your cables, which are trenched out first or piles or trackers, which are put and ultimately the module. So, all the materials have already been done.

What we are looking at now to complete the projects are essentially subcontractor costs and commissioning costs. So no price reduction is going to help us in so far as our legacy projects are concerned. As far as the new projects that the company has taken as of now, be it NTPC, be it Amplus or AMPYR, these are without modules.

As far as steel, etcetera, prices are concerned, they were at their lowest points, which were factored in at the point of taking this job. If there is any further reduction, it could definitely help us. There would be small benefits, but it won't reflect into a gross margin even in Q4 of FY '23 because most of these projects, the new ones that I'm talking about, will all commence either towards the fag end of FY '23 or in the first quarter of FY '24. Have I answered your question, sir?

Jaideep Sampat: Yes. And in the Nigeria project, what are the margins that we are looking at?

Bahadur Dastoor: The margins for the Nigeria project are similar to what we are right now doing in our international business. It would range in a number between 10% to 11%. What I'm talking about is the gross margin.

Moderator: The next question is from the line of Faisal Hawa from H.G. Hawa & Company.

Faisal Hawa: Sir, can you just give a brief information that as how you are seeing this green hydrogen opportunity playing out for us. And we are now on record, there is a press article saying that we will be now manufacturing even electrolyzers, transformers, generators, etcetera. So what is the capex that you would require on that? And will that also increase our offering as a complete EPC provider for green hydrogen projects?

Bahadur Dastoor: I will just start off by clarifying that when you're talking about generators, it is a separate Sterling company called Sterling Generators, which is offering green generator sets in lieu of earlier diesel generator sets. So, it has nothing to do with the solar entity. Mr. Amit, you may kindly proceed for this.

Amit Jain: Yes, yes. Thanks, Bahadur. So Mr. Hawa, as Bahadur has already clarified that we are not into manufacturing of electrolyzers and that's being undertaken by a separate company. Sterling & Wilson Renewable Energy Limited as such has no plans for the manufacturing of electrolyzers.

As far as the green hydrogen space is concerned, we see, going forward, a very robust growth in solar market, which is coupled with the hydrogen projects. And as governments, not only in India and various other parts of the world, has announced various initiatives with respect to green hydrogen. I see in next couple of projects, market growing multifold, particularly the solar projects, which are going to be associated with our green hydrogen projects.

Faisal Hawa: So sir, are you not seeing a position in which you'll be actually be able to pick and choose your orders depending on the margin. There could be like a surfeit of orders coming into international markets?

Amit Jain: Absolutely, absolutely. Yes. Yes, you're absolutely correct, Mr. Hawa. So that, I think 2 or 3 quarters down the line, we see that situation coming into the market because Indian market is growing significantly and the similar situation is in global markets. So we see a lot of new projects getting floated, where the EPCs have to take call based on their capacity and the order book at that point of time.

Certainly, the margins and the order book both will improve in the coming few quarters. And that trend will go for further few years going down the line. As you must have heard from Davos also like the political leaders, as well as the industry leaders are like the positive news is coming from all the side and they're making commitments and more and more investment across the globe.

So effectively, by being there in the space and one of the largest players in the world, we are definitely going to ride that phase and cash it out on it totally.

Faisal Hawa: And sir, what is the kind of orders in terms of numbers that we are targeting for '23 ended FY and then again for '24 ended FY?

Amit Jain: The order booking, I think for this particular quarter, I will not be able to give you the number -- that what the number is going to be because there's two months left. We are in discussions with multiple customers in India, as well as in international market. So just a slip can lead to the change in numbers so I will not take a call on that number at this point of time.

As far as FY '24 is concerned, we had given that on steady state basis, even like we had given a similar numbers for FY '23. We expect that on a steady state basis, we expect without considering the portfolio of Reliance, order book of $1 billion and that also excludes one off big projects, like Nigeria, which may come in and which may give a significant boost to the order books. And this $1 billion order year-on-year, it will have like the growth, which we are projecting 10% to 15% growth in the order book. So that's the projection I would like to give at this point of time.

Faisal Hawa: And each of these orders would take two years to complete end to end from order...

Amit Jain: Like 12 to 18 months. 12 to 18 months is the typical project execution time for most of the solar projects.

Faisal Hawa: So that would include even the -- from the date of order given and accepted?

Amit Jain: Yes, that's correct.

Moderator: The next question is from the line of Iqbal Khan from Nuvama.

Iqbal Khan: Sir, one question I have on debt itself. I'd like to mention that the international order, which are yet to be executed, is around INR 450 crores. And I believe they are the legacy orders from Australia and US. So by this do you mean that there is any chance of debt going up in Q4 as well? If yes, then could you guide us some ballpark number for that?

And secondly, on the Nigerian projects, like there has been news floating around Nigerian project that there is opportunity of around USD 10 billion. So how do you see to this opportunity? Besides the phase 1 project where MOU has already been signed, when do you see this deal getting signed by the end of Q4 or it might spill over to Q1 FY '24?

Amit Jain: Can you repeat your question? I could not hear you clearly.

Iqbal Khan: Sir, first question is regarding the debt. So you mentioned that there is an international order backlog of INR 450 crores, which are yet to be executed. And I believe they are the legacy projects, which have already become loss-making, Australia and US. So is there any possibility that the debt might go up again in Q4? If yes, then could you please give us some ballpark numbers for that?

And secondly, on the Nigerian project, like there has been news floating around the Nigerian project, that Nigeria has a mission of some 30:30:30 around USD 10 billion opportunities there. So how do you see this opportunity? And when can we see this actual financial closure of this Nigerian project from the point of view of Sterling & Wilson? Will it be in the books of account by Q4 FY '23, or it might spill over to Q1 FY '24?

Bahadur Dastoor: I will start out by answering the debt. Mr. Amit take up the position of Nigeria later. As far as debt is concerned, yes, there will be increase in debt in Q4 in the region of about INR 200 crores to INR 300 crores, to close the existing projects as well as to meet the overhead requirements.

The debt will slowly start coming down from FY '24 depending on the size of the projects that we get, as well as the mega projects that we are targeting. There is a high possibility of debt coming down significantly by Q4 of FY '24. As of right now, this is the target that we are looking at as far as debt is concerned. Over to you, Amit, for the Nigeria, please.

Amit Jain: Yes. So as far as the Nigeria is concerned, as I informed during the -- earlier in the call, that substantial progress has taken place and we expect to sign it soon. I will not like to pinpoint like the exact date and time when we'll be signing the contract. Discussions are on, and we expect to sign it soon.

The phase 1 is approximately $2 billion and the total MOU, the framework agreement, which has been signed with the Nigerian Government for the investments for $10 billion between US EXIM and Federal Republic of Nigeria. So this will be executed in approximately various stages and first phase is $2 billion, which we expect to conclude soon.

Iqbal Khan: Yes, that's right. So I'm saying would you be looking out for the remaining $8 billion opportunities as well?

Amit Jain: Yes, yes, we'll be cooperating with Sun Africa for further opportunities, the subsequent phases, which are to be executed in Nigeria.

Iqbal Khan: And just one more question I would like to add. Regarding the NTPC, you had said that you have received advance around 10%, which is mobilization advance. When would -- I mean, is it fair to understand that the revenue recognition of the NTPC will be reflected from Q1 FY '24 onwards or it has been already reflected in this quarter, I mean our Q4 FY '23?

Bahadur Dastoor: No, no, it will start reflecting from Q1 FY '24 onwards, because even if there is some amount of revenue in Q4 FY '23, it will not meet the minimum benchmark test for us to start booking margins. So essentially, it will be in Q1 FY '24.

Moderator: The next question is from the line of Tushar Sarda from Athena Investments.

Tushar Sarda: I have three questions. One is, do your margins increase, if you take orders without the modules, gross margins because the order value reduces, but your absolute margin may remain same? Is that understanding right?

Bahadur Dastoor: I'll answer that question. When we take a total turnkey project, we do take margins on the modules as well. Considering the fact that worldwide module prices are known, if one were to break it up component-wise, obviously, our margins on the modules would be lower, but it is not necessary that you do it at a zero margin. Coming to the fact that you are taking a project without modules, yes, your margins in the percentage terms will be slightly higher in a BOS contract as compared to a turnkey EPC contract. It does not in absolute terms remain the same.

Tushar Sarda: My second question is, the solar opportunity in India seems to be fairly large. So why not focus on India and why go to global markets because you're planning a $1 billion kind of orders. I'm sure you should be able to get such orders from India itself.

Bahadur Dastoor: So before Mr. Amit answers, I'll just request you to have a look at our big pipeline, almost 55% of whatever we are bidding now and in the foreseeable future is India. And this, we are not even considering the mega project from the group company. So we are looking definitely at India. At the same time, we do not want to give up our opportunistic reach worldwide. So we do have bids coming outside India as well. Sorry, Amit, for jumping on...

Amit Jain: No, no, that's fine. So we have seen that. We are addressing all the opportunities, which are there in the Indian market very, very aggressively, whether it is with IPPs or PSUs. So we do recognize that there is a huge potential in the market and our Indian order book will grow significantly this year.

But at the same time, we don't want to give up the advantage and outreach we have internationally and the relationship which we have the global IPPs, we don't want to give it up. We foresee the similar robust growth happening everywhere, Europe, US, Australia, Latin America, even the Middle East market. And with the module price correction, even these markets will grow significantly.

So we'll capitalize significantly both on the domestic as well as the international market growth. The portfolio balancing will, of course, will happen depending upon what's the appetite we have. But definitely, we are going to address all the opportunities we have very diligently.

Tushar Sarda: My last question is, as an investor, how should we look at risk mitigation in case of fluctuation in module prices because they're known to be volatile and also the steel prices. How should one view this risk?

Amit Jain: Yes, yes. So actually, we have addressed this issue multiple times in all of our investor call that we are putting strategies in place, even if we are taking the module risk, how to address that. Either that is going to cover with the discussions with the customers that we are covered, with that either there are price variation clauses or it's a pass-through.

So whatever risk arises, we pass it on the customers. On the other hand, with the glut in the market, the module -- overcapacity in the module market, module manufacturers are also becoming more flexible, and that was part of our earlier strategy as well to get the performance bonds to the tune of 10% to 15% and which more and more module manufacturers are accepting. So it's a two-pronged strategy, either cover the risk with passing on the price increase to our customers or having substantial bonds from our supplier, so that we are not exposed to any price volatility as far as modules are concerned.

Moderator: The next question is from the line of Manoj Dua from United Securities.

Manoj Dua: Sir, I want to take assuming a very positive scenario in this world after Ukraine and Russia war, everybody want to reduce dependency of fossil fuel. And with green hydrogen in India have a tailwind and you have a tailwind of power partner Reliance as putting a big project.

So what would be our limiting condition - to not to tell like, for example, $1 billion you can do from Reliance, $1 billion, we are already bidding - if we have 1 big project like Nigeria, if we have more like that. So would you stop taking it or you will put we will take that much percentage margin and leave other? What would be the limiting factor - working capital, how to think about it? I'm taking a positive scenario. So can you throw some light on that?

Amit Jain: Yes. Definitely. So definitely, it's going to be a very, very positive scenario with the Reliance and Nigeria you're talking about and the growth in domestic and international market. So definitely, the portfolio, which will be decided upon our order book at that point of time and what kind of margins we can make with every incremental order.

So of course, we have to look both at the top and the bottom line of how much. So every incremental order, we have to look at the margins we are going to make and the calls will be made on that point of view. We are also taking capacity building exercises and we have to see how much market we can cater to efficiently - that will also decide the further order booking, if we reach that scenario.

Bahadur Dastoor: And all the capacity building measures are being put in place to achieve whatever this company aspires to achieve, be it in terms of manpower or locational offices, et cetera.

Manoj Dua: Can you say it's the manpower is the main thing in our capacity building exercise? And today itself, as of now, what would be our capacity for doing these kind of things? I know it can be easily added, I think. So, can we do take an order of INR 30,000 crores or INR 40,000 crores in the year or we have to stop? There is a limit to it with this foreign exchange fluctuation, working capital, we can take that much only?

Bahadur Dastoor: So you have actually said everything that could be said in our balance sheet. But see, what we need in terms of manpower or project manpower because whatever we are going to do at the site, you're ultimately going to do through a contractor, right? Whether you do it out of India or whether you do it in international markets. We do not want to do a lot of self-perform on our own.

So the limiting factor, yes, manpower is obviously a limiting factor, working capital is a limiting factor. In today's time, I do not think we can do INR 30,000 crores, INR 40,000 crore in a year. It will be a journey that one will have to do to build up to reach those levels. It is not impossible to build up, and there is no limiting factor, which cannot be overcome. But it has to be a progressive journey. It cannot happen overnight.

Moderator: The next question is from the line of Jayesh from Cask Capital.

Jayesh: So my question is, what are our learnings from the past mistakes, some problems in the projects maybe domestic and overseas that we have faced? And how are we planning to mitigate it, while you have already mentioned about raw materials, I think...

Amit Jain: Sorry, Mr. Jayesh, we have lost your audio again.

Moderator: Yes. May I please request you to use the handset, if possible?

Jayesh: So my question is that how would you mitigate the issues regarding forex fluctuation and manpower especially in overseas market?

Bahadur Dastoor: Your question was not very clear, Jayesh. I heard one part of forex fluctuation. Let me attempt to answer that. As far as our overseas jobs go, all of them are dollar-denominated. So what the company does is, it hedges for a timing mismatch such that ultimately, our inflows and outflows are protected as a standard policy. So forex fluctuation would not impact us so much.

There are certain unjudgeable items. For example, when we have given loans to our overseas subsidiaries to take care of the losses in overseas projects. Now that will come in only over a period of time, which is slightly lengthened. So those kind of fluctuations are unfortunately not completely avoidable. Project fluctuations are very much covered as far as this organization is concerned.

Coming to your question on risk, I think we have addressed it even in the previous call, there have been a lot of learnings. Company has identified most of its risks, be it in materials, subcontractors, logistics, support given on commissioning, the right kind of people, litigations in overseas markets. So there's a complete risk register that has been developed. It has been discussed by the Risk Committee of the Board. It will be continuously enhanced and measures have been put in place to avoid a repetition of the past. It has been a learning for us, a very expensive learning, and we have put it to good use.

Jayesh: Yes, yes, yes. Just one more thing. Question was, I think in the presentation in the outlook slide, you mentioned that the company is ought to achieve $1 billion of order inflow. Now that was for FY24?

Moderator: Sorry, Mr. Jayesh, we are losing your audio. May I request you to please come in a proper network area, and please rejoin the queue once again. Thank you. In the meanwhile, we'll move to our next question that is from the line of Akshay Kothari from Envision Capital.

Akshay Kothari: Sir, what will be your percentage of advance received from our customer. So if we get, say, INR 1,000 crore order, what will be that percentage?

Bahadur Dastoor: It depends. But generally, the advance range would be between 10% to 15%. So there are milestones. So one, there is a pure advance, there could be a second milestone on completing of your ordering. There could be another milestone on completing of designing. And with all of these milestones, that's why generally, the solar projects are cash flow positive and capital employed negative.

Akshay Kothari: And would that advance be the same for Reliance project also?

Bahadur Dastoor: We would want it to be the same, but it's not something I can answer at the moment because ultimately, it will be something that is decided between the two parties, considering the size of operations and once the order is received. But definitely, it would not be a zero advance, let me put that way.

Akshay Kothari: And would our working capital, which is currently negative, be the same when Reliance would also come in?

Bahadur Dastoor: It is too early to answer. But if all things remain the same and there is an agreement between both parties, I don't see a reason why it should not be because at the end of the day, it is -- both parties will have to look at it from an arms-length perspective, to say that it meets the related party norms.

Akshay Kothari: But also they are coming up with huge scale, so they may command their terms.

Bahadur Dastoor: No, but we have to also keep in mind that this company cannot afford to fund the project, right, of this sheer scale. So, whether it is a breakeven or a negative working capital, it will be decided. We will try to keep things as lean as possible.

Akshay Kothari: And sir, regarding the price rise, you mentioned that there is a risk register in place and everything. So just wanted to know from the newer projects, they must essentially be having price variation clauses, right?

Bahadur Dastoor: Amit, would you like to take that question?

Amit Jain: Going -- yes, Bahadur, you can continue. Otherwise, I can pitch in.

Bahadur Dastoor: Yes. So going forward, there are definitely price variation clauses and methodologies which are being built into the contracts to ensure that all the price fluctuation does not land on the EPC subcontractor.

Akshay Kothari: So going forward, so currently, the order inflows, which have come, they are also not having price variation, right?

Bahadur Dastoor: They don't have modules. The order inflows that have happened so far are all in India. So we know where the commodity prices are today. So those are at a lower risk. When you're talking of international orders, that's what I was talking about, where price variations are now being built in and discussions are being had with the developer. If I miss something, Amit, you may just pitch in.

Amit Jain: No, no, that's right, Bahadur. You've covered it.

Akshay Kothari: Sir, what would be our subcontracting expenses as a percentage of revenue?

Bahadur Dastoor: It would depend on country to country because subcontracting expenses in Australia would be much higher than subcontracting expenses in India...

Akshay Kothari: On a blended basis, overall basis?

Bahadur Dastoor: 15% to 20% would be our subcontracting cost.

Akshay Kothari: And they are expected to come down because order inflow in India is going to increase?

Bahadur Dastoor: Yes. If you look at it from a blended perspective, yes, it would come down, but we have to look at it project by project. And in some projects in -- let's say, as I explained in Australia or more importantly, in US, where if you're going to be in a unionized territory, subcontracting prices could be phenomenally high. So, I don't want to look at it from a blended perspective. If you look at it, modules could generally be 1/3 or even 40% depending on which country you are in; your BOS would be another 30%; 15% to 20% is the subcontracting costs and roughly 10% to 15% would be your margin - lesser 10% to 12% would be your margin.

Akshay Kothari: And sir, any other plans for fundraising?

Bahadur Dastoor: I just mentioned to a previous caller that during this quarter, there would be an increase in borrowing to meet the closures of the existing projects, which would be in the range of INR 250 crores to INR 300 crores. We don't have any plans to do a fundraise, except to meet the obligations of closing of the projects.

Akshay Kothari: Apart from borrowings, no plans for fundraising through equity right?

Bahadur Dastoor: Nothing that we are in a position to talk about at the moment.

Moderator: The next question is from the line of Shashwat Tandon, as an Individual Investor.

Shashwat Tandon: I wish to ask that will it be safe to assume, sir, that on a Q4 quarter we will be in the black again at the operating level?

Bahadur Dastoor: When you say operating level, if you mean EBITDA?

Shashwat Tandon: Yes...

Bahadur Dastoor: It would not be, because you're talking about your balance projects having very little margin. So there won't be a negative, but there would be very limited margin that one would have. If you offset that with approximately INR 90-odd crores of overheads, a few INR 30-odd crores of interest, that does not seem -- what you are saying does not seem likely.

Shashwat Tandon: No, I was saying at the operating level, sir. Gross margin at operating level?

Bahadur Dastoor: Gross margin at the operating level should be, because we have accounted for all the losses that there are.

Shashwat Tandon: And sir, secondly, like a book value of our company equity has taken a beating with the last two years of losses that we have covered up. So is there any plan to shore that up with the promoter allotment or a QIP?

Bahadur Dastoor: If such a discussion had to have happened, it would have already been disclosed to the stock exchanges.

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

Amit Jain: Thank you. With the strong support of Reliance Group and Shapoorji Pallonji Group, we intend to accelerate our growth trajectory by aggressively pursuing large markets globally where we see enormous growth potential. India, too, has reached an inflection point, from which we expect the solar power industry to gain further traction and momentum.

Climate change initiatives took center stage at WEF Meet at Davos, and renewable energy is taking the center stage with solar projects leading the race. We are well positioned to capture the tremendous growth opportunities, which lies ahead. We are confident of regaining our leadership position due to our deep-rooted client relationship, global presence, ability to provide customized solution, strong track record of executing complex and large-scale projects, a robust balance sheet and strong parentage of Reliance Group and Shapoorji Pallonji Group.

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 SGA, our Investor Relations advisers. Thank you once again, and have a great day. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Sterling and Wilson Renewable Energy Limited, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines.