"Sterling and Wilson Solar Limited Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, good day and welcome to the Sterling & Wilson Solar Q3 FY2021 Earnings Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Jain, Head of Investor Relations from Sterling & Wilson Solar Limited. Thank you and over to you Sir!

Vishal Jain: Good Morning. I welcome you all to Q3 FY2021 earnings call. Along with me I have Mr. Bikesh Ogra, Director and Global CEO; Mr. Bahadur Dastoor, CFO, and Strategic Growth Advisors, our Investor Relation advisors. We will start the call with the operational highlights for the quarter by Bikesh followed by financial highlights by Bahadur post which we will open the floor for Q&A. Thank you and over to you Bikesh.

Bikesh Ogra: Thanks Vishal and a warm welcome to all the participants on this call. I would like to give you a quick update on the impact of COIVD-19, key addressable markets followed by an update on our business operations for Q3 FY2021.

As I had mentioned earlier also, the project execution had got impacted in the first half of the year due to COVID-19 and the project execution has picked up across geographies in H2. Our objective and priority continues to be focused around the safety and wellbeing of our employees, vendors, partners and all the stakeholders in the value chain. We have been consistently taking utmost safety measures, which are in strict compliance and in accordance with the guidelines laid by the respective countries.

Our strategy to expand into developed markets of Australia and US have been bearing fruits, it has also shielded us from geographical concentration risk. We now have a full-fledged management team in Australia and US to cater to the large markets. We are on course to complete our first major turnkey solar EPC project in Australia, which is a 200 megawatt solar plant for customer LSBP by the end of next month. In the US the potential of the market is enormous and the top four to five EPC players having presence in that market can each bag orders worth $500 million each year. The positive changes in the US government policies to solar industry in terms of extension of tax credits until 2022 coupled with the government's focus on renewable energy bodes well for the solar industry players. We are seeing a lot of traction in the US market and expect to witness substantial order inflow from the US market going forward. The Latin America market also remains an important market for us and we will continue to focus in this market. During Q3 we have bagged an order worth 420 Crores in Chile. As explained in the earlier call the European market provides a good opportunity as we expect annual capacity addition of around 6 to 7 gigawatt over the coming years. To address this growing market we already set up a full-fledged management team at Seville, Spain. We are currently working on large number of potential bids and confident of acquiring orders in the near-term. Our aspiration is to become one of the leading solar EPC company in this region as well. This surely has become a very promising market for us. Middle East market continues to remain challenging due to intense competition. Despite this we have recently bagged 230 megawatt worth of order in Egypt valued at Rs. 930 Crores, which is obviously at an acceptable margin, which reiterates our commitment to remain relevant in the Middle East market. We have won this order from one of the leading global IPPs. This project is schedule to be commissioned by Q1 2022. With this current win our EPC portfolio has grown to a very significant 10,700 megawatts. We will continue to remain selective in bidding for projects in this region at the same time we will be keeping a close watch on the execution capabilities for the large size projects, which has been won by our competitors.

Solar project along with energy storage and floating solar are also poised to grow substantially in the near future. We have a very strong team and technical partnerships to take up a leading role in these emerging technologies as well. On this note, we have recently emerged as lowest in one of the very large floating solar projects in India. On the solar plus energy storage dispatchable power projects we have very recently participated in a bidding process for a large utility scale project in South Africa which the results would be announced very soon. With the storage prices further coming down we see more of these kind of projects getting bid in the foreseeable future.

Coming to operation and maintenance business, we currently managed around 8.1 gigawatt as our portfolio; we have acquired a substantial amount of third-party operation and maintenance business for India. On the international front operation and maintenance market for those projects the EPC was undertaken by third-party companies is expected to grow in the coming financial year. Our objective is to acquire an additional third-party O&M portfolio of at least 1 gigawatt each in domestic and international market for FY2022, this obviously would be incremental to our regular self EPC executed O&M business. I am very happy to share that we have recently won our first O&M project outside India on a competitive basis in Oman.

On the operational front despite an extremely challenging business environment we have seen healthy order inflows amounting to around Rs. 7,000 Crores, which is higher than the last year restated order inflows. This includes the recently signed order for 230 megawatt solar plant in Egypt worth around Rs. 930 Crores. We have LOIs for certain orders in India and America, which we will announce as soon as the orders are signed. Our gross unexecuted order value before adjusting for revenue post December 31, 2020 stands at Rs. 9,674 Crores as of February 12, 2021. We expect majority of our current outstanding order book to be executed by end of next fiscal year depending upon no further worsening of the COVID situation. Thank you. 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 Bikesh and good morning. I will take you through the consolidated financials for nine months ended December 31, 2020. Before we run through the financials I would again like to reiterate that the company's revenue order inflows and gross margins could be lumpy due to geographical mix and stage of execution of the project in any particular quarter and hence comparison on corresponding previous period will not be a true reflection of the performance for a quarter and the performance may not be representative for that of a full year.

Revenue for nine months FY2021 increased by 6% to Rs. 3,716 Crores driven by significant ramp up in execution of projects in US, Latin America, and Australia leading to an improvement in revenue for Q3 FY2021. The region wise revenue breakup is as follows: Australia contributed 47.3%, America is 21.8% followed by India, which contributed 16.9%, MENA region with 12.2% and balance 1.5% from Africa. O&M revenue increased by 27% to Rs. 180 Crores in nine months FY2021 compared to Rs. 132 Crores in nine months FY2020 with an EBIT margin of 36.9%. O&M business contributes 4.8% of revenue in nine months FY2021 as compared to 3.8% in nine months FY2020.

At a company level the gross margin witnessed a decline to 8.2% in nine months FY2021 due to unprecedented increase in commodity and logistics cost as well as higher execution cost in developed markets due to COVID and labor movement restrictions. Due to these factors we expect gross margins for the year FY2021 to be in the range of 9% to 10%. Based on the expected geographical mix of UOV at the end of March 2021 and the stage of execution of projects we expect the gross margins for FY2022 to normalize again in the range of 10% to 11%. Overheads in nine months FY2021 reduced by Rs. 51 Crores to Rs. 240 Crores due to right sizing and cost optimization measures undertaken. Our overheads as a percentage of revenue reduced from 8.3% in nine months FY2020 to 6.5% in nine months FY2021 and will go down further in the next year. Additionally, there has been forex and mark-to-market loss amounting to Rs. 47 Crores in nine months FY2021 primarily comprising of Rs. 24 Crores reinstatement on loans given to overseas subsidiary and branch, which is in the nature of an equity contribution and Rs.26 Crores on account of mark-to-market loss on forward contracts relating to projects yet to commence or in early stages of commencement. EBITDA and PAT for nine months FY2021 stood at Rs. 43 Crores and Rs. 54 Crores respectively.

Coming to other comprehensive income, the group had taken forward contracts including cross currency hedges to hedge the exposure of currency fluctuation in respect of receivables from customers, trade payables and letter of credit relating to a project in the initial stages of execution. The Australian dollar INR derivative contracts were taken for receivables from customers and Australian dollar to US dollar and US dollar to INR derivative contracts were taken for trade payables and letter of credit payments. The strengthening of the Australian dollar has resulted in the other comprehensive income having a mark-to-market loss on a notional basis of about Rs. 175 Crores. On utilization of forward contracts on the date of maturity the effective portion of the cash flow hedge results previously recognized in other comprehensive income will recycle to profit and loss account, which will be offset by increase in revenue due to the restatement of receivables for that particular project.

Coming to the balance sheet, I would again like to reiterate as per the amended articles of association, the company cannot give loans to promoters or their affiliates post listing. The external term debt outstanding as on February 12, 2021 is Rs. 332 Crores; this is after debt of Rs. 457 Crores paid during the current year-to-date. Since listing last year we have repaid a total of Rs. 2,179 Crores to internal accruals and money received from group companies on collection of intercorporate deposits. The repayment schedule of external debt over the next two quarters involves a payment of Rs. 213 Crores in Q4 FY2021 for which we are in discussion with banks and balance Rs. 119 Crores payable in Q1 FY2022. We have cash and cash equivalent of approximately Rs. 329 Crores and a net worth of Rs. 951 Crores as on December 31, 2020. The total intercorporate deposits due including interest stood at Rs. 1,160 Crores as of February 12, 2021, which as mentioned by the promoters will now be paid latest by September 30, 2021. Quarterly interest on ICDs has been serviced in keeping with the promoter commitment. Our net debt to equity as on December 31, 2020 is 0.6x, as of December we had a negative networking capital of Rs. 35 Crores as compared to a positive networking capital of Rs. 178 Crores as on March 2020.

On the cash flow front during nine months FY2021 we had a net operating cash flow of Rs. 104 Crores as compared to Rs. 119 Crores for nine months FY2020 and Rs. 338 Crores for FY2020. Cash flow from operations and investing activities has been used to repay borrowings and interest thereon.

Receivables due for more than one year as of December 31, 2020 stood at Rs. 549 Crores, this includes amount due from a customer under NCLT of Rs. 71 Crores net of provisions, it also includes Rs. 133 Crores from a customer in Argentina and we are working closely with the customer and lender to the project and have already recovered Rs. 27 Crores during nine months FY2021. We are also discussing with the customer regarding waiver of LD imposed on the company, as the LD imposed on the customer has already been completely waived off we have made adequate provision for liquidated damages as per our best estimates. Receivables due for more than one year from related parties amounts to Rs. 216 Crores. Receivables due for more than a year has increased from Rs. 455 Crores as of March 2020 to Rs. 549 Crores as of December 2020. Increase is primarily on account of the amount due from related party as explained above; however, we have been able to collect Rs. 157 Crores that is 35% of amount due for more than one year as of March 2020. The company is confident of collecting the balance overdue receivables in due course.

As you all would be aware Shapoorji Pallonji & Company Private Limited (SPCPL), the holding company has applied for onetime restructuring (OTR) facility, which has impacted our ability to fully utilize our existing banking limits and/or obtain fresh banking limits and rollover of the existing facilities. As a result subsequent to December 31, 2020, the company is facing challenges relating to obtaining funding for cash outflow in respect of timely repayment of borrowings, raising of fresh non-fund limits, and other activities. This is expected to impact our annual revenues for FY2021 from what was earlier envisaged and we expect to close the year with revenue in the same range as last year. We understand that banks would be willing to support us once the OTR for SPCPL is approved over the next two months. With this we can now open the floor to questions and answers.

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

Anand Lalla: Sir thank you for giving a brief update specifically on the different markets. My question is related to primary all the geography, so if you could just give me an update, so what I have also seen when you gave the geographical mix as we know the order book mainly comes from Australia and we sounded very bullish and optimist on the US market as well, so how do in the current order book as we stand the large order comes from Australia how do you see that market panning up and if you are so optimist on the US market as well do we see the change in the mix of orders coming from, incremental orders coming from US as well plus also on the Spain side if my memory serves me right we have also opened an office in Spain so if you could also give some idea on that market as well as the entire European market plus what I heard correctly I am sorry the voice was not clear so I think there would be no revenue growth we will be doing the same revenues this year as last year correct me if I am wrong, if you could as we know that the execution period the current order book would be around 10000 Crores and the execution takes around 12 to 18 months so if can you give some idea is possible on the revenue guidance for the next year and also some estimate on the margin side how the margins look?

Bikesh Ogra: I will first answer your question on the Australian and the US market. So this year we have had a substantial chunk of our order book and revenues coming in from the Australian market and this trend will continue for the coming years as well because now we have established ourselves as one of the leading EPC players in that market, next year for Australia we would be bidding in for anywhere between 1.5 to 2 gigawatts worth of bid. In the US markets like I mentioned we have started seeing good traction in the markets, there we have had a couple of years wherein we did a lot of understanding of the market to understand the landscape and the North American markets we will be bidding for a pipeline of around 3.5 to 4 gigawatts and we are targeting to win anywhere between 500 to 700 megawatts in the US market as well, so that answers your question on Australia and the US market. In terms of our office opening in Spain we have now set up a very strong and robust management team there as I explained earlier and the European market primarily for us comprises of utility scale markets, which is in Spain, Portugal, Eastern European market and Greece, and that will give us a total pipeline of around 3 to 3.5 gigawatt next year to bid in and we are targeting to acquire an order book of around 500 megawatts. So this is primarily about the outlook that we are looking for the next year. In terms of the revenue as Bahadur mentioned owing to various constraints on the banking and OTR, we will be clocking a flat revenue this year; however, for the next year we are very, very confident that we will be achieving a growth of around 30% and more going by the current order book and what we see foreseeable pipeline that we have. I hope that answers your question.

Anand Lalla: Any guidance on the margin front also because there have been cost savings as well so can we see an improvement there?

Bikesh Ogra: See on the margin front Bahadur did mention that we will be marginalizing it between 10% and 11% band and on the operating side there will be leverage because we are doing a lot of cost optimization and right sizing on the overheads, there would be a definite leverage that you can get on the operating side. We will be able to guide you on that in our Q4 call as exactly what is the kind of leverage that we will get on the operating side.

Anand Lalla: Thank you Sir.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: You guys had earlier indicated that a lot of the costs are actually passed through to the customers, so just wanted to understand the reason for the impact on gross margin should not we be able to pass that on to our customers?

Bikesh Ogra: I think if my recollection serve me right the cost pass through were primarily on account of the PV modules on most of the projects, on a long gestation projects. The BOP cost, which is the cost of the commodity, the logistics, the shipping, transportation the costs are on us the volatility on the cost are on us, so that is where we have got impacted because of the immense surge in the commodity price and logistics price because of the COVID situation on the condition at ports and stuff like that so therefore that cost is not attributable to the customer, only the cost of the PV modules is what is attributable and pass through to the customer.

Bahadur Dastoor: Additionally if you see there has been a duty reduction in the prices of steel, copper; however, since most of the imports are from free trade zone agreements we have actually seen that the commodity prices have gone up and they have not seen a reduction even though duties have come down from 12.5% to 7.5%.

Riddhesh Gandhi: The other question was obviously because of the promoter issues there is an inability to actually kind of being awarded incremental contract because of our BGs and all I am assuming we would have to kind of qualify and there could be potential impacts from clients who are questioning our overall balance sheet and solvency given effectively to the qualifications in the audit report and given historically over the last few years we have not been able to achieve either our revenue gross margin guidance nor effectively with regards to the payback of effectively the loans what is giving us is the confidence that the next year is going to be a huge growth year of 30% plus especially given actually that the OTR and all can like okay it may take significantly and actually a longer they plan as expected and historically we have not put them particularly accurate in our assessment of the promoter level issues and the consequences on us?

Bahadur Dastoor: I will answer some of the questions and then Bikesh will take over the rest. First of all the balance sheet is strong but it is banking support that is required and that has proven to be a challenge more from SP going in for an OTR rather than the promoter issues as far as the loans. The loans are actually if you see our term loans they have actually come down by over Rs. 400 Crores from where we were in March a lot of it is also due to internal accruals of the company. We expect the SP OTR to be cleared in another two months we have explained that in great detail in the investor presentation as well, once this is out of the way we expect the banks to support us again because on a standalone basis the business model is strong. So as of right now and Bikesh will add to that we do not see customers questioning our bank guarantee raising abilities because we have given all bank guarantees required to date. The issue for the flat turnover is more letters of credit, which have to be opened expeditiously because if they are not opened by let us say February end and there is a lot of transit time for the materials to reach places like Latin America and Australia we find that we will have an impact on the revenue, which will then overflow to the next year. Bikesh you would like to add anything.

Bikesh Ogra: No Bahadur I think you have mentioned it all, the only thing I would like to add here is the continued faith and trust of our customers and which is very evident from this order, which we have recently bagged in, in spite of having a very tough time, which I believe is a passing time for us couple of months we will be through this. We are still having the faith and trust from the customers in terms of our execution capabilities, in terms of our bank ability, in terms of our balance sheet and we strongly feel that next couple of months once we are through with this issue of OTR the banking fraternity will support us to unblinkingly and we will be able to achieve what we just now mentioned in terms of our growth on the order pipeline and the business acquisition.

Riddhesh Gandhi: Thanks all the best.

Moderator: Thank you. The next question is from the line of Anuj Jain from Globe Capital. Please go ahead.

Anuj Jain: Sir my question is primarily on the margin front. First of all as we had booked majority of our nine months revenue from Australia region and in the earlier calls we have guided that we have better margins vis-à-vis Middle East region and the Australia and US market, so I just want to understand that just now Bahadur Sir has said that for this year the margin guidance is 9% to 10% and for the coming year it would be again normal 11% to 12%, so why is it the same range of margins, which we were enjoying earlier when we have major share in the Middle East region whereas now we have better revenue visibility in terms of Australia and US region can you please give some color on the same?

Bahadur Dastoor: Yes, so it is actually the Australia revenues, which are getting pushed back into the next year because of the potential LC issues, which is what is impacting our overall margin otherwise we would have caught up in Q4 and we would have achieved what we had set out to achieve. The Australia as an entity continues to have great margins it is only that those revenues are getting pushed into the next year.

Anuj Jain: Earlier you have said that gross margin will be in the range of 9% to 10% so we can see some major kind of rerating kind of margin in Q4 is it right?

Bahadur Dastoor: 9% to 10%, yes. So margins will not be majorly rerated if you see right now your gross margin is at about 8.7% so we expect the margins of Q4 to be in the range of 10% to 10.5% which will give us anywhere between 9% to 10% as the annual gross margin.

Anuj Jain: For the next year what we can assume?

Bahadur Dastoor: I have already mentioned in my speech that it would be again rated back to 10% to 11% because we will be done and most of our Australia revenues will now be there in the next year, which are at significantly higher margins.

Anuj Jain: So it might get rerated also is what we are seeing?

Bahadur Dastoor: We would right now like to project 10% to 11% of course we will strive to optimize margins as much as possible.

Anuj Jain: In terms of the cost side which you had said that like you have mentioned in the investor presentation about the aluminum, copper and material pricing, so majorly we got impacted by the logistics cost right because in terms of material prices we can pass on in terms of that module prices that is the factor in so we got impacted by the logistic cost?

Bahadur Dastoor: No, so modules is a pass through but when we are saying commodity prices we do not mean modules we were talking about copper and steel, which go into cables, go into the structures those are what we call balance of plant cost those are not passed on to the customer, so we were impacted by logistics cost as well as commodity pricing not being modules.

Anuj Jain: So now I have heard on the ground that now the logistic cost issues have been sorted out to some extent which were there in the December month or early January so is it right to assume that going forward the impact would be less on the material and logistic side is it right to assume?

Bahadur Dastoor: So I will just give my point of view and Bikesh will again add further. There could be a softening of pricing after the Chinese New Year or maybe in the first quarter of FY2022. As of right now we have factored in the hit that we believe would come in on the basis of the increased pricing. Bikesh if you would like to add anything from pricing point of view.

Bikesh Ogra: So Bahadur the point that you try to made as an extension of the point we are definitely looking at softening of these prices. Basis the fact that there was a lot of congestion at the ports because of the COVID and restricted movements and the congestion is started to ease out on various ports and therefore we would definitely see a softening of these prices as we have understood from the market in another couple of months and the commodity prices also post the Chinese New Year is what is assumed to be getting soften so what you said Bahadur is absolutely right so we will definitely see now it is getting marginalized in the next couple of months.

Anuj Jain: Okay Sir thank you that is it from my side. Wish you all the best.

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

Dixit Doshi: Sir first question is regarding the SP group's OTR so you mentioned that we are seeing a letter of credit issue and that in fact our execution I wanted to understand let us say if that issue does not get resolved in the next couple of months apart from letter of credit how it can impact our new order book I mean let us say whatever bank facility or BG we have as of now what kind of order book we can scale up from Rs. 9,000 Crores to what level we can do?

Bahadur Dastoor: So the bank guarantees are required to be given at the time of the notice to proceed and not at the time of the signing of the contract. As far as the OTR for SPCPL is concerned it is a process that is happening for the first time and there are various complexities. All the banks there have already signed the intercreditor agreements and the details of the plan are in discussion and what we have been informed is that it should be over in the next two months. So as of right now we do at any point in time have between 5% to 10% of our non-fund limits available we are hopeful that this will tied us over the crisis till the time the SP OTR issues are resolved.

Dixit Doshi: Second in terms of this cost escalation so obviously the freight rate moving up and the container unavailability I understand, but in terms of commodity prices so do not we hedge back to back when we receive the order?

Bahadur Dastoor: We do financial hedging we do not took commodity hedging because that is something that keeps fluctuating at all points in time. So, so far we have not been doing commodity hedging.

Dixit Doshi: Looking at such sharp fluctuations recently are we planning to hedge commodity also back to back?

Bahadur Dastoor: See it is a difficult proposition though it is not being completely ruled out because we are not a manufacturer so generally commodity hedging would be more suitable for your manufacturers; however, as a matter of policy we are looking at options of how to do commodity hedging. So far we are seeing that it is a two, three months phenomenon but we will come out with a policy on this.

Dixit Doshi: Last question from my side. So now almost 75% of order book is in US and Australia so due to COVID or any other issue are we seeing any execution impact over there in terms of labor or anything or now it is more or less back to pre-COVID level?

Bikesh Ogra: I would not say it is more or less back to pre-COVID level because there are border movement restrictions still in Australia, but we still have been able to manage the resources and the execution in Australia as well as in Chile, which is Latin America per se, which has been our front market for the revenue this year. US also wherever we are executing the project we are having not much of difficultly in mobilizing the labor for resources for the execution of the projects. As the vaccination picks up I think we would be reaching the pre-COVID levels I would assume in the first quarter of next year and the execution would definitely get more easily facilitated.

Dixit Doshi: That is it from my side.

Moderator: Thank you. The next question is from the line of Shivan Sarvaiya from JHP Securities. Please go ahead.

Shivan Sarvaiya: Sir one is on you are look forwarding into floating solar and into storage so if you could give some idea on the competition are there in the global markets in India and how do you see our margins moving due to this foray would it yet remain in this 9% to 11% or there is because this is a newer field in solar you could have a higher margin there?

Bikesh Ogra: No so when you talk about the competition, the competition would be the same as we see in the EPC space right I think it is on an incremental value add that we are trying to build in, obviously we have to build in the capabilities and competencies to be able to do the floating solar as well as the storage based technologies. We would not see a much of a margin shift in terms of incremental accruals on margins basis the competition being the same but obviously you will have to build in the competencies, which along with us there are lot of other EPCs who are also building the competency, but then definitely in the upside there will definitely a large scope for the floating solar going forward as well as for the storage plus solar based projects not only in India, but globally also because of the fact that the storage prices the battery prices have been coming down exponentially and therefore there will be a lot of dispatchable power projects, which would get bid for in the foreseeable future. As I mentioned earlier one of the large utility scale projects that we have bid in recently is in South Africa wherein there would be around the clock dispatchability for the projects and that would be continuing to come in from other countries as well.

Shivan Sarvaiya: In terms of the competition currently in Australia, Europe and America if you could give some color there are the Chinese as dominant as they are in the MENA region?

Bikesh Ogra: We have not seen a major competitive landscape from Chinese in the Australian market, the US market obviously we do not have any Chinese EPCs, in Latin America we do face them once in a while not as much as they are in the Middle East, so primarily to answer your question we see a lot of competition coming in from the Chinese EPCs in the Middle East market and once in a while competition coming from them in the Latin America market, but in Australia we have seen only one or two projects wherein the Chinese module manufacturers are also participating as EPCs only one or two projects barring that we have not seen majorly any Chinese competition in any other parts of the globe.

Shivan Sarvaiya: In continuation to this in the last concall you had said that the Chinese do not like to or are not interested in bidding in projects which are less than 500, 600 megawatt and they are interested only in the larger projects my question was that once these markets like Australia, Europe and America mature and even in those markets there is a 1000 megawatt plus kind of projects that start coming in do you see them coming in a big way the way they have come in the MENA region?

Bikesh Ogra: I think you have to also appreciate the fact that there is a grid limitation in terms of the large size projects that get synchronized with the grids, in say Europe one is the grid limitation the other one is the land availability you cannot be having a 500 megawatt single location project in Europe anyway you will not have that, the maximum capacity that it can go up to maybe the 100, 150 or a 200 megawatt and that is also very rare, likewise in the Australian market also there are very, very few projects, which are upside of the 200 megawatts because of again the grid limitations and the grid absorption capabilities. In the Latin America again you will have 100, 200 megawatt we have not seen barring very, very few projects we have not seen projects in excess of 200 megawatt and for the US markets I think there is a definite push back for the Chinese, which we hope will continue and there also the project sizing is around 200 to 300 odd megawatts so effectively I think the only place wherein we see a large capacity single location projects coming up is in the Middle East as I had mentioned in the last call I continue to have that view unless there is some dramatic change in this complete grid feasibility of these countries.

Shivan Sarvaiya: Sir apart from the size of the project being a deterrent to the Chinese players in terms of our business model how is our business model different from those Chinese players so that I am trying to just understand how we are going to be able to guard our margins if there is a possibility of rampant competition by whoever wants to come in those regions and we do not face that what we faced in the MENA region?

Bikesh Ogra: No, if you look at our earlier order revenue and forecast we are focused around 2 or 3 regions, 2 or 3 countries which had created a lot of concentration risk for us. Now with us being present in 26 countries and our reliance on the MENA region as I had mentioned earlier and we keep on mentioning that we are definitely not as much reliant on the MENA region as we were in the past that has given us that hedge against the margins, against the projects and against the concentration, so we are very, very confident that because we have now spread across so judiciously across the globe we will not face any what you call major risk on our margins and there is a clear hedge against the concentration that we earlier had a threat of.

Shivan Sarvaiya: The LC issue that is there currently you said that the Australia revenues could get pushed into the next year is there a risk of any delays on our part, which will lead to any penalty is being imposed on us because of this on our ongoing projects?

Bahadur Dastoor: I do not see that risk at the moment we are still slightly in the comfort zone. The question for the LCs really is about timing because right now the Chinese New Year and there is a 30, 35 day transit time from China to Australia in case the materials do not reach on time we will lose revenue for the year so even if the LCs are opened 15 days later than what they are we could see March 31, 2021 passing through; however, that timeline does not impact the project timeline it impacts the revenue.

Shivan Sarvaiya: Thank you very much and best of luck.

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

Devam: If you could just share what would be the rough percentage impact of our contribution of aluminum, copper, steel and freight in our cost structure?

Bikesh Ogra: So if you talk about the balance of plant it all depends on from country to country it varies anywhere I am talking about balance of plant, which obviously includes the steel, the copper, the aluminium, the logistics cost, which will vary anywhere between on a overall project pie it will vary anywhere between 20% to 25%.

Devam: We are saying all of these combine I mean all these four components, aluminium, copper, steel and freight will be 20% to 25%?

Bikesh Ogra: No, not the balance of plant but the overall pie suppose 100 is the cost of the project 20 to 25 would be the cost of all of these components.

Devam: So firstly when we come to 4Q margins I heard the management highlighted that 4Q margins would come back to around 10% level so how confident are we of this because given that I think these commodities remain disrupted and this contract prices would have been in place much, much before so with regards to 4Q as well as FY2022 how will gross margin quickly reverse unless you start hedging or unless you take some other intervention?

Bahadur Dastoor: So the first point is that the Q4 will include a lot of Australia, which also overflows into the next year, so those are at a higher margin as compared to the projects that we have completed so far. Of course Q3 also included Australia to a great deal but the large margin projects are those which will come in the current quarter and in the next year and that is the reason and we have taken most of the impact of the increased logistics cost on our ongoing projects and adjusted our margins, of course if there is a significant movement again it could possibly happen we do not think that is so probable at the moment, but we will know once the Chinese New Year comes to an end. Mr. Ogra would like to add something he could do. Yes please sorry I interrupted you.

Devam: Yes, so I was just talking of let us call them the legacy orders the orders which we have taken before this commodity moves or this freight moves happen so that would still be excluding the Australian order new orders like let us say new orders are still flowing through right now excluding those orders still a predominant part of the order book would be lying in those legacy stages.

Bahadur Dastoor: Those legacy orders are all coming to a close now. So the newer orders like for example in Chile will commence or has slightly commenced already February, March, we have factored in the commodity pricing already in that margin, Australia also the ones which were legacy of almost come to an end the new ones are the ones taking off with the higher margins.

Devam: So we can be very confident of the fact that if let us say the environment around this commodities and freight remains more or less stable or around the current situation then you should be able to see margins of 10% coming back in 4Q as well as FY2022 that is what you are saying?

Bahadur Dastoor: Yes.

Devam: On the funding side basically we see that because of the OTR related challenges and we are facing challenges in utilizing our existing limits as well as obtaining fresh limits so that would mean that basically a lot of our activity would be curtailed and like what we have mentioned that our FY2021 revenues and performance might be hit, but how because the OTR for Shapoorji is a moving thing like you mentioned there are lot of complexity so the best case is that it concludes in two months but if it is let us say stretches further it will even impact our FY2022 is that understanding correct?

Bahadur Dastoor: We do not expect it to go beyond two months but where it to go beyond two months in an event, we are in discussions with banks so to answer your question directly if it goes through further it all depends on our individual discussions with each banks and the comfort that they draw from the business models else there could be a possibility that there is a disruption there.

Devam: Given the fact that what you highlighted I mean you guys have a very strong balance sheet at the company level so is it possible for a lender to take a call directly on the company's balance sheet rather than go down into the group complexity?

Bahadur Dastoor: Sir we are part of the Shapoorji group so there is something called the group borrowing limit, which all banks are governed by so they do look at that until the OTR is settled this overhang will remain because we are part of the SP group.

Devam: Okay sure Sir. Thanks, that is all.

Moderator: Thank you. The next question is from the line of Dhruvesh from Prospero Tree. Please go ahead.

Dhruvesh: Most of the questions have been answered, but just one part in terms of I mean let us say when we keep hearing the news related to the setup of solar plant, many new players are coming and also giving a very aggressive guidance I mean for one there is Tata projects which is talking about already having installed capacity of 4 gigawatts thinking to reach to 20 let us say if all these issues continue with us for six to 12 months more will it not retain our position permanently in the market if you can throw some light from a four five year angle?

Bikesh Ogra: I like you said the questions have been answered. We have a very strong fundamental as a business model and considering our footprints and our reputation and the delivery capability and the way we have grown globally I think we are very, very confident that this 10.7 gigawatt, which is 10,700 megawatt in the next seven to ten years can easily be scalable to around 40 to 45 gigawatts and therefore we do not really see a major challenge in terms of what you call that the growth. Yes, we are running through a overhang there is a OTR issue which we are grappling with and like what Bahadur mentioned we are mostly through with the processes of the OTR and next two to three months as when we will see that everything gets normalized and we are back to normal and it is business as usual so the growth potential for us is phenomenal. When we mentioned about Tata is obviously a great company, they have majorly a local presence like which is in India they are not as global as of now as we are and therefore our growth potential to grow the market and scale up is quite phenomenal in comparison to see most of the other solar EPCs that are present in India.

Dhruvesh: One followup on that, though Tata projects would be local in India but there will be each local player in each country and I am not arguing I am just trying to understand that does it because ultimately even they can get the panels from China and install it in South Africa or in Middle East or in Australia, etc., and maybe they will learn from your model and emulate I mean that is how most businesses try to flourish eventually and therefore probably our margins and all the questions related to margins are coming from that angle and though your guidance is more coming from this 8%, 10%, 11% coming from an angle of existing orders but what most people would like to understand your thoughts are how does the margin shape up let us say even if our business doubles and if the margins go down by 2%, 3% we are back to level where we are today some thoughts around that?

Bikesh Ogra: No, so definitely I think if you look at our complete footprint and more specifically the Middle East we definitely could have picked up another 2 to 3 gigawatts of the projects here and the margins would have been anywhere between 5% to 7% and the customers prefer us as an EPC because we have delivered, we have a proof of concept delivered projects here on budget in time, but the fact of the matter is we definitely did not opt for those projects because that does not fall in our margin profile and the fact again is that we are now opening our newer avenues in terms of US, Australia and European markets, which gives us a better margin profile and obviously would keep us in terms of up to the speed in terms of the growth aspiration that we have so therefore we do not definitely focus only on the revenue it is also on the quality of the project, the margin profile and also the fact that today when you talk about people emulating us I think we must also appreciate the fact that today Sterling & Wilson Solar has been a global EPC player from the last I would say five to six years every market has got this nuances, every market has got its complexity into enter, we took almost two years, two and a half to three years to enter into Australian market to understand the landscape, to get an acceptance from the lenders because these are all projects which are project funded not balance sheet funded so you need to have the lenders go ahead, you need to have an understanding of the landscape, you need to have the understanding of the grid situation, like wise in the US also it has taken three years to really establish ourselves as an EPC player and now only we are getting acceptance from the customers. Europe also we have been one is that we have been trying to understand that market from last one year. The second is that there are these global IPP players who are having presence in all of these geographies and we have a network and relationship with all of them so they would definitely and having executed projects with them in say Australia and US now once there is a project which comes in Europe they know that we have a credible partner in Sterling & Wilson Solar they would definitely want to work with us because they have negotiated contracts with us, we know their way of working they know our way of working it becomes a much more accelerated process rather than reinventing the whole wheel by getting a new EPC in and from a different country having not worked with them, so the process is a bit complex because of the timeline that had involved and I am not saying that people will not come in, so there is enough room for people even if they come in enough room and enough space and enough business available for people even if they come in but it takes some amount of time for any EPC or any company to really establish themselves in India, the region or any other country.

Dhruvesh: In a short summary there is some X amount of money outstanding for more than one year for a nonrelated I think it is related to the Morocco project and one more if you can explain I mean generally what we have seen that whenever such thing happen there has to be some kind of write downs or bad debts kind of a situation so where are we standing there and by when this will be completely out of the books either in the form of provided or money coming back?

Bahadur Dastoor: So we have made liquidated damage provisions wherever it is required. We also have claims on those customers some of those claims would include an interest element if that goes on so there is no expected credit loss provision, which is anticipated at the moment. Having said that we are in discussions with and it is less Morocco it is more Argentina that we are talking about. We are as I have mentioned in discussion since their LDs have been completely waived off for them to release our entire funds; however, this could extend till the end of this particular calendar year. I would led Bikesh add further if I have missed out anything here.

Bikesh Ogra: No, so Bahadur you are right so clear point I think these are sticky outstandings and if you would have noted we have collected a portion of these outstanding in this year around Rs. 27 Crores we have already collected from Argentina project and like what Bahadur mentioned the LDs, which were earlier imposed by the utility on our customer have been totally waived off. Now we are in discussions advanced stages of discussion I would say with the customer in order for us also to get exempted from those LDs the discussions are ongoing I would not be really giving you an exact and definitive timeline, but I believe it may take well like what Bahadur mentioned go this year end it may slightly get stretched into Q1 also, but we surely envisage that by Q1 we would be able to give a definitive conclusion on this particular outstanding.

Dhruvesh: What is the number with the Argentinean customer pending after providing for whatever losses?

Bahadur Dastoor: The figure is Rs. 130 Crores. Also mentioned in our investor presentation we thought it would be good to keep the market updated.

Dhruvesh: I might have missed it.

Bahadur Dastoor: No worries I am just drawing your attention.

Dhruvesh: Thank you.

Moderator: Thank you. The next question is from the line of Noel Vaz from Ashika Stock Broking. Please go ahead.

Noel Vaz: I think all my questions have been answered. Thank you.

Bahadur Dastoor: Good to hear.

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

Shashwat Tandon: I wish to know that like Tata how are you have mentioned is also a way company trying to expand very aggressively are we also looking to do some projects for the government of India when they come up after this big scale union budget are we looking to do projects in India?

Bikesh Ogra: Absolutely we are an Indian based EPC, we have a large portfolio of projects available in India and we continue to take pride in the fact that we will be associated with the Government of India's thrust towards the solar and we will want to contribute as much as possible to the growth of the solar landscape in India so definitely there is no doubt that we will want to bid continuously for all the projects that come up for the EPC portfolio in India.

Shashwat Tandon: All this talk about the freight rates having multiplied by goods being shift from China what has it turnout to be a cost per megawatt increase and this would be a fraction right?

Bikesh Ogra: No, it is not a fraction. See it all depends on which country. Now the freight between say China and say Vietnam is much less than freight between China and Chile or China or Australia or China to say US, so it all depends on country to country as to how much is the distance it has to travel in order to determine the freight rates. So earlier what we used to pay $750 per container just to give you a perspective of numbers so if we used to give $750 per container for any shipment to come in from China into India now the same container cost was around $3500 to $4500 and each megawatt to just again give you a perspective on the containers per megawatt each megawatt has around 6 containers. So, the cost is significant. It depends upon the proximity between China and the respective country and if the distance is large then the container freight rates also accordingly increases.

Shashwat Tandon: That is all Sir. Thank you very much.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to Mr. Bikesh Ogra from Sterling & Wilson Solar Limited for closing comments.

Bikesh Ogra: Thank you. The opportunity for solar power industry will continue to remain buoyant as we have said earlier and grow at a very rapid pace over the next two to three decades. Most of our clients are looking at significant capacity addition and will continue to remain confident of the opportunities going ahead. I am hopeful that we have been able to address all your queries. For further information kindly get in touch with Vishal Jain or Strategic Growth Advisors, our investor relation advisors. Thank you once again and have a great day.

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