"Sterling & Wilson Renewable Energy Limited

(formerly known was Sterling and Wilson Solar Limited)

Q2 & H1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Sterling & Wilson Solar Limited Q2 and H1 FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on 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 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 Investor Relations. Thank you and over to you, Sir!

Vishal Jain: Good morning everyone. I welcome you all to Q2 FY2022 and H1 FY2022 earnings call. Along with me, I have Mr. Amit Jain – Global Chief Executive Officer, Mr. Bahadur Dastoor, Chief Financial Officer, and Strategic Growth Advisors our Investor Relations Advisors. We will start the call with an update on the Solar Power Industry and operational highlights for the quarter and half year by Mr. Amit followed by financial highlights by Mr. Bahadur, post which we will open the floor for Q&A. Thank you and over to you, Amit.

Amit Jain: Thanks, Vishal and a warm welcome to all the participants on this call. I would like to give a quick update on the stake acquisition by Reliance Industries, solar power industry and other allied renewable businesses and status on our business operation.

In October 2021, Reliance New Energy Solar Limited, wholly owned subsidiary of Reliance Industries Limited, executed definitive agreements with promoters of the company to acquire 40% stake in Sterling & Wilson Solar Limited by combination of primary investments, secondary purchase and open offer. This deal would entail a cash inflow of Rs.1,100 crores into Sterling & Wilson Solar Limited from preferential issue to Reliance New Energy Solar Limited, thereby strengthening the balance sheet and further improving our financial profile.

Reliance is committed to making India a global leader in green energy based on latest and most cost competitive technologies and development capabilities. Sterling & Wilson Solar Limited with its engineering talent, deep domain knowledge, global presence and experience of executing some of the most complex projects globally will become an important part of solar value chain of Reliance group. Sterling & Wilson Solar will immensely benefit from Reliance group integrated new energy vision, which will further strengthen our position as a leading EPC and O&M player globally. This will provide us with great opportunity to further accelerate our revenue growth.

Now, I will give you an update on our waste to energy business. We signed our first waste to energy order in United Kingdom for approximately to Rs.1,500 Crores from a leading developer of energy assets in UK and Europe. The project is in collaboration with an associate company and the project will be executed over a period of 3 years, which will provide consistent revenue stream year-on-year. The facility will process 23.2 tonne of non-recyclable solid municipal waste per hour, diverting over 1,85,600 metric tonne of waste each year and generate around 19.6 megawatts of energy. As per the contract, the company would receive 15% of the contract value as advance.

For our waste to energy business, we largely plan to focus on Europe and UK, which constitute 40% of the global waste to energy market. We have recently opened a branch office in UK. The waste to energy market in Europe and UK is expected to grow by US $5.25 billion annually for coming 5 to 7 years. About 70 new plants are anticipated to come every year until 2027. There is a robust pipeline for waste to energy business worth USD 685 million in UK markets. We expect gross margin for waste to energy business upward of 10% with negative working capital cycle.

Now, as we informed during our last call that we have entered into a battery energy and storage system business. Battery energy storage system is expected to grow in next 4 years to $12 billion annually. UK and Europe will be the next big consolidated market with UK, Germany, France, Italy, and Spain being top five countries. We have added team of battery experts, sales and execution team to capture this market opportunity and have bid order pipeline of 1.4 gigawatts hours across US, Australia, Europe, and Latin America.

Now, the solar industry continues to face headwinds due to unprecedented increase in cost of modules, commodities and freight cost over the last one year. It was earlier anticipated that situation would ease out and order finalization would pick up in H2 FY2022. However, the prices continue to rise making the project for IPPs unviable and hence we anticipate that majority of order finalization will shift from current year to FY2023. As a result the short-term outlook continues to be challenging. The long-term outlook continues to remain robust due to global thrust on clean energy and significant solar capacity additions planned by IPPs globally.

Our overall addressable market across the globe for solar EPC project is expected to grow at 14% to 15% per annum. We have increased our focus on two larger significant green energy markets - US and Europe. The USA market is expected to add 25 gigawatts in 2022 with 75% of the projects in utility scale. The recent US government policies have given a significant impetus to the growth of solar and energy storage, which gives us an exciting growth opportunity in one of the largest global markets. We have already completed 7 projects aggregating 38 megawatts in US. Currently two large projects in USA aggregating 400 megawatts are in progress and expected to be completed by Q1 FY2023. This has resulted in Sterling and Wilson being recognized as a strong EPC player in the US market.

In Europe, we have already opened our office in Spain last year, which will be our headquarter for European operations. 200 gigawatts of solar PV installation is expected by 2030 owing to shut down of coal, gas and nuclear plants. We will be pursuing development activities in both US and Europe to secure more EPC business and increase market coverage in these markets.

Further the Indian market will continue to remain our focus. At recently held COP26 Summit, Prime Minister, Mr. Narendra Modi enhanced India's target for installed renewable energy capacity by 2030 to 500 gigawatt and also pledge to make renewable energy 50% of the country’s energy mix by the end of the decade. So, the Indian solar power market is brimmed for enormous growth over the next decade.

Our unexecuted order book as on November 30, 2021 stands at Rs.6,730 Crores, which is executable over the next 12 months. It is important to note that the module price risk is limited only to the pending partial supply for the two projects aggregating 422 megawatts amounting to Rs.765 Crores.

Now coming to our solar O&M business - our portfolio as of date is 8.4 gigawatt as of September 30, 2021 with third party O&M constituting 44% of the portfolio. We are focusing on increasing international O&M portfolio through organic and inorganic route. Our enhance value to customer through O&M differentiations like drone thermography, strong analytics and predictions, IV Curve Tracer, underground cable fault finder, etc., will help us to expand our O&M portfolio.

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

Bahadur Dastoor: Thank you, Amit and good morning friends. I will take you through the consolidated financials for the half year ended September 30, 2021. Revenue for H1 FY2022, has been 2,633 Crores as compared to 2,405 Crores in H1 FY2021. O&M constituted 4.3% of total revenue in H1 FY2022.

The region wise revenue breakup is as follows: Australia contributed 57%, American contributed 27% followed by India which contributed 13% and balance 3% by MENA and Africa region. At a company level, the gross margins were impacted significantly in H1 FY2022 on an account of unprecedented increase in prices of modules, commodities and freight and higher execution cost due to COVID.

If we were to eliminate these unprecedented price increases, then the normalized gross margin for H1 would have been 3.5%, Further the normalized margins for H1 continue to remain lower on an account of carry forward impacts of items, which had affected FY2021. Recurring overheads for H1 FY2021 increased by Rs.8 Crores to Rs.171 Crores. In H1, we have also accounted for accelerated mark to market loss of Rs.58 Crores on an account of cancellation and re-booking of forward contracts on expiry relating to ongoing projects. This resulted in an accelerated accounting of losses. The same has been flushed out from effective portion of cash flow hedge of the other comprehensive income resulting in negligible impact on shareholder funds. The same would be reversed in the coming quarters and would be recorded as a gain.

Now, coming to the balance sheet. ICDs outstanding as at August 14, 2021, stood at Rs.741 Crores. I am happy to state that these ICDs have been fully repaid by Sterling & Wilson Private Limited and Sterling & Wilson International FZE along with interest thereon during Q2 FY2022. With this, the entire outstanding loans of Rs.2,563 Crores as on the date of listing of the company's equity shares on the stock exchanges along with all further interest accrued till date stands repaid in full.

However, gross debt has increased from Rs.468 Crores as at March 2021 to Rs.674 Crores as at September 2021 due to advance and performance bank guarantees encashed by three customers.

We have cash and cash equivalent of approximately Rs.432 Crores and a net worth of Rs.438 Crores as on September 30, 2021. We also had a negative working capital of Rs.297 Crores as compared to negative working capital of Rs.531 Crores as on March 2021.

Receivables due for more than one year as at September 30, 2021, stood at Rs.412 Crores compared to Rs.445 Crores due for more than one year as at June 30, 2021. They comprise of related party receivable of Rs.166 Crores, which includes receivable of Rs.113 Crores against which the company has received unconditional assurance of proceeds from sale of plant.

On the cash flow front during H1 FY2022, we had a negative operating cash flow from operations due to increase in working capital on an account of BG encasement of Rs.404 Crores and payment to overdue vendors. Amount received from ICDs and additional borrowings from bank have been used to meet the requirements of cash flow from operations.

Upgrade in credit ratings. In October 2021, India Ratings and Research have upgraded Sterling and Wilson Solar Limited's Long-term Issuer Rating to 'IND A-' from 'IND BBB+' while revising the rating watch to Rating Watch Positive from Rating Watch Evolving. According to the credit rating agency, the upgrade reflects an improvement in SWSL's financial and liquidity profile at the standalone level - majority on an account of an inflow of Rs.741 Crores of ICDs from the promoters, which have been used to repay the entire outstanding term debt.

The upgrade in rating also reflects an expected improvement in the business and financial profile and a further improvement in the liquidity profile of the company as there would be a further cash inflow of Rs.1,100 Crores subsequent to the acquisition of a 40% stake by Reliance New Energy Solar Limited in SWSL. Additionally, Acute Ratings and Research have also upgraded the rating for commercial papers of Rs.200 Crores to Equity A2+.

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 Akash Mehta from Capex Investment. Please go ahead.

Akash Mehta: Good morning, Sir and thank you for taking my question and the detailed update on operation. The first question I had that was we had accounted for one-offs in our previous quarter results. Just wanted to know why is there a spillover of the same in this quarter and will it that continue in the second half of FY2022 as well?

Bahadur Dastoor: If you see, we have explained in our investor presentation that and module suppliers have continued to increase their prices. We have faced effects of that. Also freight costs earlier used to be between $7,500 to $13,500 per 40 foot container which continue to increase to $11,500 and $18,400 per 40 foot the container. All of these price increases have led to the effects. So while we believed there were one offs, which impacted us in March 2021, the increase continues even now affecting our performance for this 6 months.

Akash Mehta: And when can we except the company turnaround in terms of our operation metrics?

Bahadur Dastoor: The prices which are going right now are too volatile for someone to take a complete view on when this turnaround is expected. We will have to wait for the super cycle to calm before we are in a position to give a prediction on how things will turnaround.

Akash Mehta: And just last question would how does the company plans to hedge itself against any future volatilities in module, commodities and logistics prices, any colour on that?

Bahadur Dastoor: So, the company right now is in various stages of discussions with module suppliers as well as customers to try and reduce the dependencies on various cost. While for modules we definitely have a kind of strategy in place. One has to keep in mind that as far as logistics costs or other costs are concerned it is a part of business risk, which has to be adequately costed, which we have been doing from a number of years, except for the commodity super cycle, which has existed over the last 9 to 12 months.

Akash Mehta: I think that is it from my side, thanks.

Moderator: Thank you. The next question is from the line of Mohit from DAM Capital. Please go ahead.

Mohit: Good morning, Sir and congratulations on getting a marquee investor as a shareholder. Sir, my first question is how does this new investor coming in changes our opportunity basket and does it change anything in terms of strategy for us for the next couple of years?

Amit Jain: So, as you know with the new investor coming in - as you must have known that Reliance has committed to make India a global leader in Green Energy based on the latest and most competitive technologies and they are capturing the entire value chain of the solar starting from silicone to modules and storage. So couple of years down the line, we will be able to source all the products from India and that will reduce our dependency on the global markets. So that will enhance our portfolio as well as reduce our risks significantly. So this partnership will add a lot of value to our portfolio, to our top and bottom lines. And on other hand the Reliance has also committed to make India a Green Energy Hub, so they will be adding significant capacities, which will also add to our business top and bottom line. And our balance sheet will grow stronger year by year. So we see that all the three synergies - adding to the financial strength, capturing the entire value chain and their captive projects which will be coming in India will provide lot of business to us. So all the three areas put together will give a lot of impetus to the business. And we do not see any change in our strategy going forward. So we will continue to maintain our global leadership in EPC space going forward as well.

Mohit: I understand that the H2 is going to be challenging for us, so how do you see FY2023 in terms of order opportunity from international and domestic market? Have you seen the clients floating tenders at least, so that we can close it somewhere in FY2023 especially in the solar space. And if you can comment something on the waste to energy market, the tendering which you believe is likely to close in FY2023?

Amit Jain: So, as we have explained in our investor presentation and opening speech that though the bids were there this year as well, but the decision making has moved to FY2023 due to volatility in the global markets. So projects are not viable. But we see the markets also stabilizing and now all the pent up demand - we see the market growing at the rate of 10% to 15% every year plus decision making, which is not happening this year all the projects getting moved to FY2023. So we see a big movement and enhancement in order booking in FY2023. We foresee at this point of time, if market stabilizes, a good growth in our order booking in FY2023.

Mohit: How is the Middle East in the H2 or FY2023, is it going to be a key market for us?

Amit Jain: In Middle East, we are taking a cautious approach, as we have explained on various investor calls that because of the Chinese competition in the Middle East market we are very, very cautious, so we are taking wait and watch approach in Middle East market. But US, Europe, Latin America will be going to be very, very strong markets for us and we see a lot of robust growth in those three markets and they are our target markets.

Mohit: How is Australia right now?

Amit Jain: Same applies to Australia, for FY2023 (because not many of the projects getting decided this year) we see a like regular growth plus a pent-up demand in Australia markets as well.

Mohit: Understood, Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Avneet Anand from Emkay Global. Please go ahead.

Avneet Anand: Thanks for the opportunity. First, I wanted to know the Reliance association obviously great news, but how does an investor in Sterling take this from the point of view that its module are being sold from some of the entity through Reliance, how does this profitability in the two entities get adjusted?

Bahadur Dastoor: This is a little presumptuous at the moment. Obviously all related party transactions are by law at arm's length. We will be able to talk on this appropriately once Reliance's module capacities are in place. And as of right now I would not say dependency because modules are not available till such time as Reliance comes up with its factories.

Avneet Anand: Secondly, you did mention that even if you adjust for the one off that we have had, the gross margin in H1 should have been somewhere around 3% to 4%, right. So we used to do somewhere around a double digit number in the last 2 to 3 years. So what is needed from the company and the external environment point of view that it will go back to our double digit gross margin numbers say in 2023-2024 whatever timeline you think is suitable?

Bahadur Dastoor: First of all the 3% is also because of the carry over effects of the one offs, which we faced in Q4 of FY2021. Otherwise we would have been close to what we normally do. At the same time what we are seeing is that global bids have again gone up by almost 20% to 30% due to increase in prices and these projects will come up for bidding next year. So if all of this stabilizes, if the external environment stabilizes, I see no reason why we cannot go back to what our normal margins were in the earlier years. But as of right now these have been affected as we have repeatedly said due to the ongoing external issues, not entirely within the control of the company. This is something that has affected various industries and most notably the solar industry and not just Sterling & Wilson Solar.

Avneet Anand: I appreciate that, thirdly and this is my last question, see if we go one to two years back domestically probably we were 20% odd plus or minus 5% in terms of our order book - we used to be around Rs.2,000 Crores. If we see in the last two to three years say Tata Power does EPC solely in India has as an order book almost of Rs.8000 Crores to Rs.9000 Crores. So what exactly have we missed in the domestic market which itself is a decent market as of today, where we were almost number one and now fairly have slipped a lot?

Bahadur Dastoor: No, we have not slipped a lot. We are still in the top two as far as the domestic market is concerned. Of course with Reliance coming in that will certainly help us drastically in the domestic business for sure. We continue to remain in a leading position in the domestic markets - even right now we have won orders in this year in the domestic market from two premium customers. We do not believe that we have slipped so much right now and we will continue to maintain one of our leading positions in the market. And of course let us keep one thing in mind, that when we are talking of our turnover, we do not have modules in domestic business, it is always ex-modules; while Tata Power includes modules in its overall scheme of things - so that also brings into account almost 40% differentiator in terms of turnover. We are also very highly selective in choosing of our customers not to say they must not be, but we prefer to be cautious.

Avneet Anand: And do we do public sector orders, because I do not see there were lot of public sector orders in India from the types of say NTPC and SJVN and others. So do we participate in tenders from them in EPC?

Bahadur Dastoor: Yes, we do, unless the tender include sourcing of land because there is too much of risk if land sourcing is also involved especially in India, so we do not do any orders with land.

Avneet Anand: So ordering other than India, how much of that would include orders with sourcing or without sourcing of land, ballpark number will help us?

Bahadur Dastoor: We do not do any orders with land, none.

Avneet Anand: If India is 10 to 15 gigawatt market now and it will grow - what percentage of that would with sourcing of land and what percent without sourcing of land?

Bahadur Dastoor: We will have to check and come back to you once available.

Avneet Anand: No issue, Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Samir Palod from AUM Fund Advisors. Please go ahead.

Samir Palod: Thank you for the opportunity, Sir, just if you can walk us through - when on your module prices started going up and the logistics cost going up, what would be the behavior of your customers or IPP? What sort of discussion that you had with them for letting some pass through, etc., so just want to understand the structure of the industry when this unprecedented volatility comes into being in your business?

Amit Jain: When this unprecedented volatility in module and logistics started coming in, we have initiated discussions with most of our customers where we are getting impacted. And discussions are in advanced stage and some of our customers have given some compensation to us also. And discussions are in advanced stages with other customers. And as the part the module and the commodity risk is on us but going forward we are building some strategies to pass on the risk the customers and protect from the increase with our module suppliers as well. So that is an ongoing process and that is in place.

Samir Palod: Because the module suppliers from China obviously have not agreed to stick to their commitment, so how are you going to enforce anything against Chinese module suppliers? Is it going to be via bank guarantee?

Amit Jain: Yes, that is one of the strategies - to have the higher amount of bank guarantee from the module suppliers in China as well as part of our bidding strategies as to how to protect the maximum risk at the bidding stage, so that the risk can be passed on to the customers going forward.

Samir Palod: But isn't the customer and IPPs who has built in at a particular power price very sensitive to any increase in the cost of the project?

Amit Jain: That is why this year all the projects are getting pushed out to next year. They are sensitive but they are also working on strategies and building in tariffs. As you would see that in this year in most of the tariffs where the biddings are happening, the tariffs have gone up by 10% to 20%. So everybody is taking those factors into account and building suitable strategies to handle this price increase and to protect against the volatility in the market.

Samir Palod: My second question is for your unexecuted order value, how much more gross margin damage are you going to see or is that whatever is current prices have already been taken to the provisions you are taking? Are we going to see extended gross margin level losses for the next two quarters as this order book gets executed?

Bahadur Dastoor: So, I break up this into two parts, first of all what is the module exposure that we have in the unexecuted order value. As of right now the pending partial supply of modules are only for two projects, which is 420 megawatt odd aggregating to about Rs.750 Crores. For this the orders are finalized, the LCs have already been opened on the vendor. Now if there is no further reneging, this is the kind of quantum that we have already factored in as part of our cost. As of right now we have taken all costs which we believe are required for completion of the project. But we are in circumstances where prices are not fully within industrial control, things are fluctuating. So we expect that gross margins of H2 will also remain suppressed. As I have mentioned we have taken all the cost already in place, unless there are further increases which come in, which are beyond calculation at the moment.

Samir Palod: So if everything has already been taken at current prices then why will gross margin in the next two quarters not trend back to high single digit or even your earlier 10% odd levels? I understand if prices remain further volatile or go up further, but if those prices remain constant, why should you not be able to maintain gross margin over the next 2 quarters? Is there anything that I am missing?

Bahadur Dastoor: No, you are not. So we will have the gross margin. But if you are looking at it from an annual basis it will be a suppressed overall picture. As of right now we are definitely seeing gross margin being higher in H2 as compared to H1 - unless there is a module, logistics or commodity impact which comes and hits us. So all things remaining constant, your understanding is absolutely right.

Samir Palod: So, would it be fair to say this unprecedented volatility in logistics and module prices have sort of overall changed their way the whole solar EPC contracting business is going to be renegotiated both at the IPPs end and at the vendors end?

Bahadur Dastoor: As I mentioned a little while ago, while we do have strategies which we are implementing for modules one has to keep in mind that things like commodity, freight, etc., are part and parcel of business risks and therefore that is not something that can be completely passed on. Of course buffers can be built into cost which we do even now, but those buffers have been breached. If you would see are investor presentation on slide #7 it clearly shows how last year the freight costs were about $1,800 to $2,000 per 40 foot container, they are at $18,000 and $11,000 per 40 foot container now. These are phenomenal price hits, which no one can take. But again answering your question - in the next two quarters if everything remains a constant, for that quarter the gross margin would be up, but on an overall year basis, it would definitely be suppressed.

Samir Palod: Thank you for that and all the best.

Moderator: Thank you. The next question is from the line of Vipul Lamba from Lamba Investments. Please go ahead.

Vipul Lamba: Thanks for taking my question. What is the base commodity for module prices because the price increase which has happened is significant and other than the base commodity, is there anything else in power, you know demand like gap or anything else which is leading to such kind of increase and what do you see as a future trend coming up?

Amit Jain: So, the base commodity for module system is polysilicon, the price of which have shot more than 4 times over last one quarter. As you know the major production of polysilicon is happening in China and prices have got significantly impacted. And some of the facilities in China has come under scrutiny from various countries because of the social issues and that has also impacted the polysilicon prices. Also the production of polysilicon & modules was severely impacted over last one month due to the power rationalization in China. So most of the manufacturing, not only polysilicon and module manufacturing facilities, the other facilities are operating almost half their capacity which has created a supply demand gap as well as the price increase due to increase overheads and production costs by the manufacturers in China - so this has led to a sharp jump over last 4 weeks itself. So, we have seen significant increase there, so that is the immediate reason for the increase in model prices.

Vipul Lamba: And in terms of the future trend as the solar industry is dependent on this, what do you see - because these kind of challenges we are talking about considering the Chinese economy they may go on for some time - the unrest which is there or the slowdown which is there in the China right now, this may continue. So how do you see the impact on the overall industry including your business even if you start passing on the cost and derisk yourself from the module price risk, but how do you see the overall industry moving?

Amit Jain: The industry has realized that - all the countries and globally - there is a momentous de-linking from China and local capacities are coming up. And as we have said in India also the huge capacities will come up in the next 18 to 24 months. So as we see the short-term it will continue to be challenging, but in the long run we will be de-linking ourselves. The global dependencies will reduce and we will be able to produce products from Indian market and that will provide a significant risk reduction in our operations.

Vipul Lamba: And what do you see this Reliance deal getting completed and is there a possibility of, because they are buying 40%, how would be the promoter share look like after that shareholding?

Bahadur Dastoor: I will take that, it is broken up into three tranches. The first tranche is where there will be an infusion of about Rs.1100 Crores into the company. That would give them close to 15% of the enhanced share capital base. Post that they will acquire about 10% of the enhanced base which they would buy from the promoters taking them to 25%, triggering an open offer. In the open offer, they would want to come to about 15% more - thereby taking it at 40%. In the open offer, if they receive more they would sell down - they and the promoters would sell down such that on an overall basis finally Reliance would be at 40%, the existing promoters would be around 35% and the public shareholding will be about 25% to 26%. This is the overall understanding that is there and how the deal will go forward.

Vipul Lamba: And from a future strategy perspective in terms of business, is that we are trying the best possible to de-risk from the commodity price and be a more of a service player rather than the product business - that is right?

Bahadur Dastoor: No, we will always be supplying products as part of our overall offering - except in markets where modules are not part of our scope for the moment, example India, but everywhere else we give balance of supply or BOS as we call it for the entire EPC offering.

Vipul Lamba: Just last question, how much is the backlog left where we have the old pricing, and the cost implication is that that we have to keep booking considering the pain in the market prices?

Bahadur Dastoor: For all our orders, as Mr. Amit have explained - our lump sum orders with a fixed price, we are in discussion with customers for asking for enhancement of cost - that is an ongoing discussion that happens, but all of our contracts are lump sum fixed price.

Vipul Lamba: So, how much is the order book is such left which has this kind of risk of commodity pricing impacting our business, how much is the value of the order book which is still to be booked in?

Bahadur Dastoor: So, in terms of modules as I explained it was about $100 million in this entire Rs.6,730 Crores and roughly about Rs.4,000 Crores odd is the solar order value where the risk is there. We have factored in all the pricing, but these are the final lump sum prices which are there.

Vipul Lamba: Thank you. Thanks for taking my question.

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

Anuj Jain: Good morning everyone. Thanks for taking my question. Sir, I am just having one basic question. The orders which we are taking a hit, our cycle is generally of 12 to 15 months. So I am assuming those projects which we might have initiated in the month of September 2020, and as per our cost escalation in terms of module prices and logistics, we have seen the costs over running in the last one year. So just wanted to understand while initiating contracts after June 2020, when we take that into account with the customer that costs are going haywire. So why did we take that floating kind of thing into our contract? Otherwise it is a big problem and as per our last conference call after March quarter as well as after the June quarter, as per your commentary, - I do not remember what is the bifurcation of the short-term contracts and the long-term contracts - you were saying yes, there is a possibility of cost overrun in the short-term contracts which are not of much magnitude vis-à-vis the long-term contracts. So I am not able to understand the kind of cost overrun, which is currently going on - without passing on to any of the cost increases to customers? I mean it is little surprising, so can you please elaborate on that front, Sir?

Bahadur Dastoor: Anuj, I will draw your attention to slide #8 of our investor presentation, which I will just speak about. You will see that we have booked orders of about Rs.2,000 Crores out of which Rs.1,500 is the waste to energy, so the orders pertaining to solar, which is there in this entire UOV, which is booked in the current financial year is just about Rs.500 Crores. At the same time you will also see that price variations of almost Rs.200 Crores, Rs.183 crores to be precise have been approved by various customers. So whilst we have mentioned that we do not take risk of modules in long-term projects, but there are other prices also which have gone up not just relating only to modules. Commodities have gone up, freight have gone up and all of this continues to impact the entire UOV. So it has nothing to do with short-term or long-term except for the fact about module risk. Module risk we already explained today the balance modules which have to be shipped are just about a $100 million or Rs.750 to 760 Crores in the entire UOV that we have as of now have. Have I addressed your question, Anuj?

Anuj Jain: Yes, Sir. Thank you, Sir. That is it from my side.

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

Manoj Dua: Congratulations with Reliance alliance. I understand this commodities volatility is a once in a lifetime, which we have seen and I appreciate that management has to work so hard to counter all this. So my question is when we suffer for that kind of loss or kind of headwind we face, which may not repeat and maybe try to create lot of hedges to protect that in future which may be too much considering our low margin business, do you think it is right to think too much for the risk in the future in terms of this super commodity cycle, thank you?

Bahadur Dastoor: See, all business is fraught with risk, there is no risk there is no reward. So one has to take in a balanced view of how much of risk one needs to factor in. Obviously there are some items like modules, which we cannot live with because those would impact the business significantly. But a lot of the other line items of risk we are internally also evaluating to see how much of these we can live with - because at the end of the day business has to continue. And you have to also keep in mind that in spite of all of this, players with strong balance sheet and track record like ourselves have managed to hold our fort and will continue to go forward and reap the benefits.

Manoj Dua: Can you explain me how this second tranche of shifting of shares to Reliance will happen? Will it be off market or on market can you provide some details? And if Reliance does not get the shares in the open offer, then again you have to shift it through off market or on market?

Bahadur Dastoor: So the off market, on market will depend on the price which is prevailing on that day. So I cannot right now offer a comment on whether it would be off or on markets. As I have already explained, after Reliance reaches 25% and does the open offer. Depending on the success or not of the open offer, but Reliance wants to achieve about 40% stake. So Reliance will then take stake either from the existing promoters if there is a shortfall in the open offer or entirely from the existing promoters if there is no success in the open offer.

Manoj Dua: Can I ask one more questions?

Bahadur Dastoor: Please go ahead.

Manoj Dua: I am not worried about the related party transactions, which may happen in future because that is by law, there have reasons for that. As a shareholder, all shareholders are struggling and little bit worried about it, any future merger would happen with Reliance because we invested for a longer term and that would fail our purpose to being invested in the Reliance Industry as a collective group. Is there any provision made, that any merger would not happen?

Bahadur Dastoor: There is nothing that has been discussed on this front at the moment. And Reliance itself in its open offer and public disclosure has said that it only wants to have 40% stake in the company. And it has also held stake through Reliance New Energy Solar and not through Reliance Industries.

Manoj Dua: Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Mohit from DAM Capital. Please go ahead.

Mohit: Sir, thanks for the opportunity once again. Sir, my first question is what is usage of the proceeds from the Reliance money?

Bahadur Dastoor: It will be utilized for working capital requirements of the company. And the rest whatever surplus maybe there would be parked for future utilizations, expansions or strengthening of the balance sheet, to bid for bigger projects.

Mohit: When this money is expected come?

Bahadur Dastoor: So, there are certain approvals that are required for these transactions. Some of them have already come in, some of them are expected shortly. If you see in the presentation we have mentioned, which approvals are pending. Right now what is pending is the CCI approval, which is one of the primary requirements for the first tranche for the primary issue. Once that comes in, we would be able to fructify the first transaction.

Mohit: Sir, as far as bank guarantee encashment is concerned, in your opinion what is the chances of reversal of this?

Bahadur Dastoor: First of all we have quite clearly mentioned in our note as well as explained it to our auditors that we believe that we should be able to get our money back from the bank guarantee very shortly in this quarter. And we would be in a position to give you a complete answer by the time we come about giving investor calls for Q3. This is on account of certain misunderstandings between two customers, there were operational disputes, there were claims and counter claims, so the customers have encashed the bank guarantees. We are in advanced talks with the senior management and we believe that this thing will reverse very shortly.

Mohit: Understood, thank you and all the best.

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

Danesh Mistry: Good morning and thank you for taking the time out and congratulations on bringing a marquee investor. You mentioned basically that the solar modules are roughly $100 million in your kitty that is left. Is this at current market prices or is this at the book value at which the order was booked?

Bahadur Dastoor: No, they are at current market prices on the basis of the latest contract amendments that have been signed with the module suppliers. So all the latest prices that we are aware of and signed off till date have been considered. Of course if something goes off there and then there is a further increase, then that is a completely different ball game. But as of right now, the latest amendment is what we have signed. If you see the amendments right now between 23 to 23.5 cents, present market trends are 27 to 28 cents.

Danesh Mistry: So when we start supplying the modules for example, the Chinese do not bring on us and if we start supplying - then is the increase already booked in our P&L or as and when we supply the increase would get booked and accordingly margins get back?

Bahadur Dastoor: No, the gross margin which is shown today is after considering the increased cost of modules, which have been signed. So just because you supply does not mean that the loss comes in then. That is already factored in as long as it is at the present signed contacted price.

Danesh Mistry: Got it and just last question from my end, this Rs.1,100 Crores that will come in from RIL whenever it does…

Bahadur Dastoor: It is actually Reliance New Energy Solar and not RIL.

Danesh Mistry: I am sorry, but for example, the funds that we got from ICD (forget the cash infusion) would that make us net debt free once the we recover the bank guarantee from the customers?

Bahadur Dastoor: Well, if the bank guarantee were not there, you can very clearly see that we would be net debt neutral. But of course with the Reliance money coming in, subject to whatever is required for working capital, the balance will all go towards making the company as net debt free as possible.

Danesh Mistry: Understood, great. Thank you so much and wish you the very best of luck.

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

Faisal Hawa: If the entire pie of solar EPC is to be taken in the developed countries, what part of the solar conversion from thermal energy has happened and how much remains. So I just wanted to know what is the kind of work which can be there for the next 20 years or so. And secondly, this waste to energy project - this is very big area and most of this being catered by Japanese majors who are having this technology. So where do we see our presence, can we get some more orders on that and how profitable it is? Is it less commoditized than our Solar EPC business?

Amit Jain: First taking on your waste to energy part, as you rightly said it is a huge market and we are targeting UK and Europe for this business. And we expected this market to grow by $5.25 billion annually and we have a good pipeline there. And the space we are operating in - you are absolute right it is a niche market - and we expect the business to grow significantly. And the margin in this particular segment remains between 10% to 15%. So that is your waste to energy market. And far as thermal to solar is concerned, as you know the financing is becoming a constraint for thermal plants going forward. So year-on-year they are adding significant portion to the solar pie and I see roughly 15% to 20% of the market is getting added to solar by closure and non-capacity addition of thermal plants.

Faisal Hawa: There would be only four players in waste to energy at this point of time?

Bahadur Dastoor: It is difficult to say, but it is definitely a niche market. There are some players. We also have the technical expertise within the group, which enables us to go ahead and become one of the leading players in the waste to energy market. Right now as Mr. Amit has explained our focus is majorly UK and Europe.

Faisal Hawa: The solar EPC itself would be definitely a good 20 years business?

Amit Jain: So even I would say, yes, definitely it is a business going forward because new technologies will keep coming and our other portfolio of battery, energy storage and the green hydrogen will be another area, which will lead to further increase in our business portfolio for solar energy. So definitely we see this business going strongly more than the next decade and even up to 20 years.

Faisal Hawa: Thank you so much and I really hope that Reliance and you would be able to have a lot of synergy, thank you, Sir.

Moderator: Thank you. The next question is from the line of Vetri Raju from Equity Analyst. Please go ahead.

Vetri Raju: Thanks, most of whatever I wanted to ask has been answered. I just have one question, with the customers getting very cautious and trying to delay the projects and maybe we as a company also is very cautious in terms of not losing money - is it fair to assume that FY2022 revenues will be potentially lower than FY2021 revenues?

Bahadur Dastoor: No, not really considering the order book that we already have in hand and the execution that we are planning for that, we believe that FY2022 revenues will be at least 10% to 15% higher than what we had for FY2021.

Vetri Raju: Thank you very much and just for the previous question, I got the answer that green hydrogen is also a potential diversification of the company because largely the source of electricity is from solar or wind or something. So is there any concrete plan to get the engineering talent in that area or it is a few years away?

Amit Jain: We are right now focusing on the renewable energy, which is associated with green hydrogen. So we are focusing on that part right now and the plans will evolve in future. As of now the strategy making is in progress, so we cannot comment on anything concrete on that part as of now.

Vetri Raju: Fine, thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Amit Jain for closing comments. Over to you, Sir!

Amit Jain: Thank you, with the robust backing of Reliance Group and Shapoorji Pallonji Group, we endeavor to accelerate our growth trajectory by blending our robust project execution capabilities with the manufacturing size and scale of Reliance Group. We plan to grow significantly in the large markets of US and Europe, where we foresee a huge potential of growth. India too has reached an inflection point from where we anticipate the growth of Solar Power Industry to garner further pace and momentum. With our deep-rooted client relationship, global presence, ability to provide customized solutions, strong track record of executing complex and large-scale projects supported by robust balance sheet and strong parentage of Reliance Group and Shapoorji Pallonji Group, we are confident of navigating current tough times and emerge much stronger. I would like to thank everybody for joining the call. I hope we have been able to address all your query for any further information finally get in touch with Mr. Vishal Jain or Strategic Group Advisors or Investor Relationship Advisors. Thank you once again and have a great day.

Moderator: Thank you. Ladies and gentlemen, on behalf of Sterling and Wilson Solar Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.