



“INOX Wind Limited Q4 FY 2017  
Results Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to Inox Wind Q4 FY2017 earnings call, hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing “\*” then ‘0’ on your touchtone phone. I now hand the conference over to Mr. Bhavin Vitlani from Axis Capital Limited. Thank you and over to you Sir!

**Bhavin Vitlani:** Thank you, Stanford. Good evening everyone. On behalf of Axis Capital, I would invite you for the conference call of Inox Wind Limited. We have with us, from the management of Inox Wind, Mr. Deepak Asher, Director and Group Head, Corporate Finance of Inox Group, Mr. Devansh Jain – Executive Director, Inox Wind Limited and Mr. Atul Soni, Investor Relations at Inox Wind. Without much ado, I would now like to handover the call to Mr. Asher for his opening remarks post which we could open the floor for Q&A. Over to you Mr. Asher!

**Deepak Asher:** Thanks very much Bhavin. Thank you Stanford. A very warm welcome to all the participants to this earnings call. The Board of Directors of Inox Wind Limited has approved the quarterly and annual results for FY2017. In fact the meeting concluded at about 4 p.m. and hence there was a slight delay in uploading the results and the presentation on the website of the Company as well as the Exchanges. I trust you would have had an opportunity to go through the results and digesting some of the numbers, but nonetheless what I propose to do is to take you through the operational and financial results highlights and then we will also devote some time to an industry section because we believe that we are on the cusp of a significant change in the market for wind energy in the country and we would like to share at least our perspective on how the industry is likely to shape up going forward, with you.

Coming first to the operational highlights of the Company for the quarter as well as year ended March 2017. As you might be aware, the first tranche of the SECI Wind auction of 1 gigawatts got completed in February in which Inox Wind won 250 megawatts by becoming the lowest bidder at Rs.3.46 per unit. Inox Wind by the way was the only wind turbine manufacturer that won in this auction. In addition to this 250 megawatts, another 50 megawatts has been tied up with a winning IPP and we are in active negotiations with a third winning IPP for an additional 250 megawatts. If this goes through as we expect, then it would mean that we would have won more than 50% of the 1<sup>st</sup> SECI auction of 1 gigawatts.

During the quarter, we achieved commissioning of 422 megawatts which by the way is the highest ever commissioning done by us historically. In terms of sales, we sold 94 megawatts worth of nacelles and hubs, 144 megawatts of blades and about 170 megawatts of towers. To some extent the sales and commissioning during the quarter were adversely impacted due to the abrupt stoppage of the

signing of PPAs, which happened as a result of the market shifting from the FIT tariff regime to the auctioning regime, but we will talk more about that as we go along.

In terms of the financial results we ended Q4 FY2017 with revenues of Rs1019 crores as compared to Rs1840 crores in Q4 of FY2016. EBITDA including other income stood at Rs243 crores as compared to Rs330 crores in the preceding year quarter. EBITDA after removing other income stood at Rs229 crores as compared to Rs312 crores in Q4 FY2016 and PAT stood at Rs127 crores as compared to Rs201 crores in the preceding year quarter.

EBITDA margins improved from 17% to 22.5% for the quarter and PAT margin improved from 10.9% to 12.4% for the quarter on a YoY basis

For the full year revenue stood at Rs3415 crores as compared to Rs4450 crores in FY2016. EBITDA including other income stood at Rs625 crores as compared to Rs783 crores, EBITDA without other income stood at Rs560 crores as compared to Rs713 crores and PAT stood at Rs302 crores as compared to Rs461 crores for the full year.

EBITDA margin improved from 16% to 16.4% and PAT margin shrank marginally from 10.3% to 8.7%.

In terms of quantitative data for the quarter, we sold 94 megawatts for nacelles and hubs as compared to 328 megawatts in the preceding year quarter. We sold 144 megawatts of blades sets as compared to 296 megawatts, 170 megawatts of towers as compared to 256 megawatts and commissioning we did was 422 megawatts in this quarter as compared to 402 megawatts that we did in the preceding year quarter.

For the full year nacelles and hub sales stood at 522 megawatts as compared to 826 megawatts, blades stood at 652 megawatts as compared to 756 megawatts, towers stood at 636 megawatts as compared to 776 megawatts and commissioning was at 656 megawatts for the full year as compared to 786 megawatts for the full year last year.

As I mentioned we achieved what was the highest ever commissioning in a quarter of 422 megawatts and annual commissioning and sales could have been significantly higher had it not been for the abrupt stoppage of PPA signing by the states post SECI auctions in February 2017. So to a large extent we missed our annual targets because of this disruption.

In terms of cost analysis, Q4 2017 raw material costs stood at 68%, much lower than the 77% in Q4 FY2016. For the full year they stood at 73.6% again lower as compared to 77.2%, in FY2016. So this shows continuous improvements in all costs particularly raw material costs, fixed costs also could

have been lower had we attained larger volumes and hence fixed costs would have been shared by those larger volumes.

Nonetheless as I mentioned EBITDA margins expanded in the quarter from 17% to 22.5% but what is more rational is to look at the full year EBITDA margins which also increased from 16% in FY2016 to 16.4% in FY2017.

In terms of working capital, our working capital at the beginning of the year i.e. March 2016 was 82 days, which comprised of 148 days of receivables, 40 days of inventory, 105 days of payables and one day of others. In December 2016 receivables had gone up to about 280 days, inventory to 81 days, payables were 146 days and hence net working capital was 185 days. This has improved by March 2017 to net working capital of 153 days, which means 185 days has gone down to 153 days, receivables have gone down from 280 days to 206 days, inventory has gone up slightly from 81 days to 122 days essentially because of the abrupt stoppage of PPA signing. Creditors remain at about 146 days and hence as I mentioned net working capital from December 2016 185 days has gone down to 153 days.

In terms of absolute value inventory as of March 2017 stood at about Rs690 crores, receivables at about Rs2382 crores, payables were Rs968 crores and others were about Rs300 crores as a result of which the net working capital stood at about Rs1803 crores. We expect the working capital to ease going forward as the auctioning regime will ensure better-coordinated productions and inventory planning going forward.

In terms of cash flow analysis during the quarter, we started with opening net debt of Rs946 crores. We generated about Rs138 crores of cash profit. We generated about Rs159 crores from reduction of working capital. The capex was at about Rs200 crores and with others of Rs70 crores which was essentially a part of the intercorporate deposit to one of our sister companies have been paid back. The net closing debt that we close within Q4 FY2017 was Rs779 crores.

For the full year the numbers were opening net debt Rs641 crores, cash profit of Rs347 crores, invested in working capital Rs163 crores over the year, capex was about Rs352 crores and others being Rs30 crores as a result of which as I mentioned we closed with a net debt of Rs779 crores. This net of Rs779 crores reflects about 0.3 times debt to equity ratio, so we are extremely thinly leveraged, but we also intent to bring this net debt lower as we go forward.

In terms of order book, the industry is undergoing a significant change in the market dynamics. We believe that the industry will shift from a preferential tariff or a feed in tariff (FIT based market) to an auction based market and under this situation our conventional order book loses its relevance because a lot of those contracts will either get renegotiated or will become academic for all practical purposes and the order book will be built as we go along through the auctioning system.

Going ahead we expect a significant part of the market to be through the auction route apart from PSU and captive orders and therefore in that sense the order book through the auctioning route includes 250 megawatts which we have won directly in the SECI tender, 50 megawatts where we already tied up with a winning IPP in that auction and active negotiations that are currently going on and we expect to close shortly for another 250 megawatts with another winning IPP.

In addition to the first tender, the second 1 gigawatt SECI tender guideline has also been released on May 4 and we expect this to be concluded by June. We are already in discussions with multiple IPPs for bidding in this tender as well and the Central Government has already announced that it intends to auction about 4 gigawatts through SECI tenders annually and in addition to this there will be state governments who would also shift to an auctioning system and hence we expect the total market to be roughly about 6 to 7 gigawatts annually going forward in which we will be very active participants.

The other significant feature that is happening next year onwards is the O&M annuity business that will start accruing to us. We already have an installed wind turbine base of about 2.2 gigawatts in India with multiyear O&M agreements. A large part of this fleet has already gone off their two-year warranty period and hence the O&M revenues in terms of cash flows would have started flowing in.

In FY2017 our O&M revenue stood at about 3% of our revenues, and we expect this to be growing strongly going forward in view of the fleet size increasing. O&M revenues are noncyclical in nature. They have steady cash flow generation and have significantly higher margins than average company margins and hence would help in our margin profile as well.

In terms of manufacturing capacities as you know we have doubled our blades manufacturing capacity to 1600 megawatts. We have enhanced our tower manufacturing capacity as well and hence nacelle, hub, blade and tower capacities are largely aligned. With minor capex we can debottleneck our nacelle and hub capacity from the current 1100 megawatts. Towers can also be expanded with minimum capex as towers are low technology items which can also be outsourced and hence we are fully geared to make in terms of manufacturing capacities to reach whatever the market would demand.

In terms of project size we continue to be amongst the largest project site holders in Gujarat, Rajasthan and Madhya Pradesh. We expanded during the year in the southern states including Andhra Pradesh, Karnataka and Kerala and we have sufficient project site inventory as of March 31, 2017 for installation of an aggregate capacity of more than 5000 megawatts.

The shareholding structure is 85.62% belonging to the promoters and the promoter group, FIIs own about 1.46%, DIIs own about 6.15% and the public is 6.77%. Key institutional investors as of March 31, 2017 includes Reliance Mutual Fund at 2.02%, Reliance Life Insurance at 0.7%, BioAction

0.45%, Jai Vijay Resources 0.43%, Grandeur Peak Emerging Markets 0.27%, the Master Trust Bank of Japan 0.26%, and HSBC Mutual Fund 0.19%.

So this is a brief snapshot of our operations. I would like to spend some time in talking to you about the industry and how we see that going forward. As I mentioned to you, we believe that the industry is on a cusp of a significant change. It is undergoing a big change in market dynamics and we believe the country will move from a preferential, regulated feed in tariff (FIT) regime to an auction based market where there would be auctions from both the central government through SECI and a body similar to SECI in state governments.

In the first reverse auction Inox was the only wind turbine manufacturer to have won 250 megawatts projects directly at a tariff of Rs.3.46 per unit in spite of multiple WTG manufacturers bidding. We were the only one to be successful in that bid. We have already tied up another 50 megawatts from a winning IPP. We are negotiating with another successful IPP for another 250 megawatts. We expect going forward the central government to auction about 4 gigawatts of capacity annually and this is based on the announcements made by the Chairman of SECI.

We also expect state governments to auction about 2.5 to 3 gigawatts of capacity going forward and there would be some capacity also coming through PSU and captives. So we expect the size of the market to be anywhere between 6 and 7 gigawatts annually. In view of the fact that Inox is amongst the most cost competitive WTG producers globally we obviously expect to have a significant chunk of that business.

In terms of market outlook, the current installation in India stands at about 32 gigawatts. The government is already on record saying that they want to increase this to about 60 gigawatts by 2022. That is five years from now, which also indicates an annual capacity increase of about 6 gigawatts every year.

Now how auctions benefit the sector apart from obviously the fact that the size of the sector is expected to grow from about 3.5 gigawatts a year ago to about 6 to 7 gigawatts next year onwards. Also, project execution will be much more easier than what it used to be under the FIT regime. The reasons for this are, firstly, much lower regulatory risk. Earlier we always carried the risk of PPAs not getting signed or not getting signed on time as a result of which commissioning got delayed, which led to working capital getting blocked. In the SECI auction system the PPAs are signed upfront and therefore there is much lesser regulatory risk of the PPAs not getting signed.

Secondly, there is also an assurance of grid connectivity with the central transmission utilities and hence the connectivity risk is to a large extent mitigated under this auctioning system. So on both accounts, namely, upfront signing of PPAs as well as connectivity to the grid there is much lower regulatory risk. The second biggest benefit is that there is also a much lower financial risk. There is

lower cost of debt available because the level of risk is lower for both debt provider as well as equity providers who are agreeable to look at lower returns to reflect the lower risk in the project execution. This is precipitated by the fact that PPAs are signed for 25 years, the loan is available for a longer duration which also means your equity is much better leveraged and thirdly, for all these reasons lower the return expectation of investors which also reflects a lower financial risk.

Third, because of these auctions the sector is no longer as dependent on the fourth quarter or March performance for your annual results. In a FIT regime, tariffs got announced possibly after a delay of five to six months and then investors took about two to three months to get their financial closure in place and hence we are left with just three to four months at the end of the year in order to commission the projects and meet the annual target whereas now under the auctioning system we actually have a visibility over the next 18 months to execute the projects and hence we can plan our production much better, we can plan our execution much better and hence the blockage of working capital is going to be significantly lower.

What it means for Inox as a company in the auctioning regime is a larger market for sure. As I mentioned we expect the market to be anywhere from 6 to 7 gigawatts going forward. We also expect because of our extreme cost competitiveness, as you might be aware we are amongst the lowest cost producers of turbines not just in India but perhaps even globally we expect to be able to capture much more significant market share in an auctioning regime because in an auctioning regime it is the survival of the lowest cost producer.

We expect a higher absolute profitability because though there might be a little bit of pressure on margins since under the auctioning regime the tariffs are lower but the absolute profit would be much higher because the volumes will be significantly higher. We expect working capital management to be much more efficient because the production planning and supply chain would be much more efficient in view of clear visibility of project execution over the next 12 to 18 months. There would be lower regulatory risk, a significant part of our working capital is because of the fact that some turbines have been erected but PPAs have not been signed, etc. These kind of risk elements will go away for our IPPs and the lower credit risks would be reflected in lower return expectations because payments under that auction system would come from PTC as instead of directly from discoms.

So ideally it is a win-win for the sector. Some of the concerns that we have heard in the market which we thought we will address is would this stress our balance sheet? In the sense if you have won 250 megawatts of orders would that be on our balance sheet? Actually we do not intent to fund this on our balance sheet. We would have back to back arrangements with IPPs in other words we will sell down this projects to IPPs upfront who would be investing in the SPVs that we have created under this tender and hence we will actually exit the SPV immediately after commissioning of the project in accordance with the auction guidelines.

Are there any financial criteria for participating in the auctions? Yes. Apart from the technical criteria to bid in this auction there is also a financial criterion, which is that the networth of the bidder should be at least Rs1.5 Crores per megawatt of the capacity being quoted and this automatically disqualifies investors or bidders who do not have a networth of Rs1.5 Crores per megawatt of whatever they are intending to quote.

The maximum bid that the group can quote is 250 megawatts. The other concern that we have heard from fund investors is that would this mean lower margins? Well not significantly, because WTG efficiencies over time, lower cost of capital on debt and lower return expectation on equity will ensure that the impact on margins if at all will not be material.

In terms of technology, we have gradually moved from our first installation, which was a 93 rotor dia and 80-meter hub height turbines to the 113 rotor dia and 120-meter hub height turbine and the improvement in efficiency from that to the turbine that we currently install is as much as about 40%. So this has led to the fact that despite the fall in tariff under the auction system, our margins may not suffer significantly.

We are also in advanced stages of creating the next generation of wind turbines. We have also launched a power booster technology, which we intend to install in our investment fleet, which will enhance the output of the existing fleet as well as the new turbines by about 6% to 7% across the operating fleets and we are one of the few players who have 120-megawatt hybrid towers in India as well.

So that ladies and gentlemen is a broad overview of our operational and financial performance as well as how we see the sector unfolding going forward. We would now like to open it to Q&A. Devansh is here with me. We will take the questions as appropriate. Thank you.

- Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Gaurav Sanghvi from Bajaj Alliance. Please go ahead.
- Gaurav Sanghvi:** Hello. Sir you mentioned about the working capital. So under new auction method how do you see working capital going forward?
- Deepak Asher:** Under the auctioning regime?
- Gaurav Sanghvi:** Under the reverse auction regime?
- Devansh Jain:** Fundamentally one of the key reasons for working capital intensity to be high in this sector has always been the fact that policies get delayed and you sign agreements with customers and then payment gets delayed and in many cases the financial closure itself gets delayed. I think what auctions



does is fundamentally you have your PPAs signed upfront. So the entire risk of financial closures, PPAs, which was the biggest overhang on any projects, goes out of the window and then you have 18 months to execute a project. As we see it, we think in an auction scenario, we would be working on a very, very lean working capital scenario because advances would be fairly high given the fact that your PPAs signed upfront and I think it would be a completely different animal. It is not going to be anywhere close to the working capital requirements of the business when we were under the FIT regime.

**Gaurav Sanghvi:** So, currently we are close to 150 days, so under this regime, if you can just throw ballpark number how much improvement it can bring?

**Devansh Jain:** When you see some of these numbers right now honestly a lot of this is because policies got stuck up and a lot of the turbines which were lying on the ground as PPAs got stuck. Once this comes to an end, which would get done over the next one to two quarters under the auction regime you would typically be on a very, very lean working capital number. Now I do not want to throw out numbers out there, but it would be and we would be running virtually like an automobile manufacturing line.

**Deepak Asher:** Also, your question is how it will pan out in relation to what it has been historically. So if you look at what has been historically, the preferential tariffs were announced sometimes in September or October. So what we used to do was that we kept on manufacturing and perhaps even shipping up nacelles and turbines in anticipation of the tariffs being viable and hence you had blockage of inventory for the first three to six months of the year. Once the tariffs were announced in September you started negotiating your order book and building up your order book with our customers because it is only thereafter that the customer will start going to the banks and getting the financial closure. It takes two to three months' time so we are now in November or December where you have confirmed orders with financial closure from customers. So till then you went on kind of just shipping out the material and increasing your receivables. We have customers who are in no position to pay because there was no tariff order as on September and there was no financial closure till November and December. Then you have January to March to completely execute those projects and collect all your monies from the customers and unfortunately in some states what happens if PPAs do not get signed on time or in some cases do not get signed at all then your turbines fully erected and commissioned shall not kind of be liquidated in terms of cash because the project commissioning has not happened. While legally and contractually the customers are bound to pay because getting PPAs signed is not our obligation, but in the practical world the customer is not going to pay till he has the PPAs signed. So all these things led to the working capital being 150 to 180 days which it was historically. Now clearly both these things, the two key risks that led to this situation was there being no tariff at least for the first six months. That is not there, because your tariff is now known upfront and secondly your PPA is not being signed till the very end. Here your PPA is signed upfront and you do not start manufacturing or executing the project till the PPA is signed. So in that sense you have a clear

visibility and virtually no risk or hold up of that project going forward where it is executing and therefore you would expect to be able to recover your monies and hence manage your working capital much, much more efficiently than what was practical historically. Having said that all we can say is that we expect the working capital management to be much more efficient going forward. I do not think we are willing to put up our finger on a number but to except to say that there is going to be much lower than what it has been historically for the reasons we just explained.

**Gaurav Sanghvi:** The second question is on the sales. This entire year the sales were impacted because of the rebalancing in terms of nacelles and blades and tower supply, so that phase is over or still some rebalancing is there?

**Devansh Jain:** The phase has been completely eliminated, but again I think the market is moving from an FIT regime to an auction regime in which case the auction deliveries are going to be back ended. It is not starting upfront because the PGCIL lines and the PGCIL substation on which we connect the SECI auctions are going to happen by the year-end. So for the next one to two quarters the whole industry, the industry as a whole is going to be on a very, very slow movement. Thereafter it is going to be on a very, very high growth trajectory.

**Gaurav Sanghvi:** Sir, the last question is we have around Rs2400 Crores receivables because of the change in this auction method and there are news article that some delay in signing PPAs do we expect any write offs in this receivables?

**Devansh Jain:** It is not a question of delaying in signing PPAs; all states have stopped signing PPAs, so all the turbines, which were supplied across multiple states to multiple customers and that is the reason why our sales have dipped during the quarter because we cut down complete production when states stopped signing PPAs. The receivables which you see presently are because of the fact that majority of the turbines were supplied in Q4 and we have to do a lot of rebalancing of these turbines within Q4 when certain states where we supply turbines, the customer stopped signing PPAs. A case in point is 100 megawatts of what we supplied to private IPPs we had to cancel that sale and supply that to PSU tenders, which ideally we were going to supply over the new financial year. We have to supply to this PSU tenders simply because under PSU tender the PPAs never become a hold up in collecting payments and commissioning turbines.

**Gaurav Sanghvi:** So do we see any possibility of any write-off coming because of this particular issue?

**Devansh Jain:** No there is no question of write-off. As I mentioned to you we have rebalanced these supplies by canceling orders, which were supplied to IPPs, and rebooking these sales or reselling these to customers where PPAs was not the concern. While all these happened post February 22 when PPA stopped getting signed, so the next three to six months this entire receivables should get cleaned up.

**Gaurav Sanghvi:** Okay Sir. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Puneet Gulati from HSBC. Please go ahead.

**Puneet Gulati:** Good evening. Just if you can share your thoughts on wind versus solar, do you see that as a risk at all?

**Devansh Jain:** What is happening is the market is moving to a scenario where it is becoming more and more and more renewables, it is not about wind versus solar, it is the whole game has now shifted to cost of power to the discom, forget cost of energy, it has shifted to cost of power. As you may be seeing over the past four months the lowest bid tariff in solar was about Rs3.6 per unit and recently the lowest bid tariff is about Rs2.6 per unit. As volumes are increasing, there are more economies of scale and cost can keep coming down. As interest rates are declining people's return expectations are declining too. At Rs3.46 and – when in the first auction we saw wind going down to about Rs3.46, at that point in time solar was about Rs3.2, so 25 to 35 paise difference between different sites is not something, there is always going to be some kind of a difference, but as we see it wind and solar today have become a Rs.3 tariff game. In some stage depending on what the PLF is or depending on what the radiation is that in that state you maybe a little bit lower or a little bit higher, but broadly both wind and solar today are down to approximately Rs.3.

**Puneet Gulati:** So the next bid should come to Rs.3?

**Devansh Jain:** I am not saying it should come at Rs.3, but I am giving you a broad number that we are down to approximately Rs3. Solar is at about Rs.2.6 in Rajasthan because the radiation is very high. Depending on what security mechanisms are provided in different tenders depending on where the tender is being conducted a ballpark number of approximately Rs.3 is a good tariff. For example when we saw Rs.3.46 this was a tariff, which was achievable at some of the best windy sites of the country, Gujarat and Tamil Nadu. Now we were going to look at putting up this turbine in Rajasthan or Madhya Pradesh the tariff would have been substantially higher maybe closer to Rs.4, Rs.4.25 simply because of PLFs in those states are much lower, but having said that we believe with improvements in technology and reduction in the interest rates close to Rs.3 plus minus is what the cost of renewable today in India and at this tariff the distribution companies are very happy to purchase power, which is leading to expansion of the market. It is no longer a game of RPO requirements only or buying only wind energy or only solar energy. The intrinsic power cost itself has become more competitive than any other source of power and let us keep in mind that this is fixed for the next 25 years with no variation whatsoever and obviously the benefits of no pollution.

- Puneet Gulati:** Secondly, if you can comment upon any risk that you foresee in offloading that 250-megawatt from your balance sheet to various other SPVs if there are any regulatory concerns or any other risks that you are foreseeing?
- Devansh Jain:** First and foremost as we speak we have demand in excess of 4x of the capacity, which we have bid out and won so frankly for us to go out and not being able to offload this –is a question which is ruled out. For confidentiality reasons I will not be able to say how much is tied up and at what price and what we are doing, but as I mentioned the demand for this 250 is far in excess of quantum which we have number one, number two with respect to it being on a balance sheet as was clarified by Mr. Asher, we are not funding this by putting in any investments or equity from our side, we are not putting in any debt to execute these projects, these SPVs are sold upfront to customers and customers fund it back-to-back.
- Puneet Gulati:** So you tied up even before you bid for it, is that what you are trying to say?
- Deepak Asher:** What we are saying is that there is no risk in being able to tie it up because as Devansh mentioned the demand for the 250-megawatt that we are currently talking to different IPP is much larger than the capacity we can give them out of that 250 megawatts.
- Puneet Gulati:** Okay that is all from my side. Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Mohit Kumar from IDFC. Please go ahead.
- Mohit Kumar:** Good evening Sir. Thanks for taking my question. In the auction do you have a PPA with PTC and they have it back-to-back with the states? Is your PPA specific to a state or is it blanket?
- Devansh Jain:** No it is not specific to any state. The PPA is signed with PTC and PTC in turn has gone ahead and signed it with multiple states and they have a pool, which they allocate to all the winning bidders. Ours is not a state specific PPA, it is PTC specific PPA.
- Mohit Kumar:** Just trying to figure out is they back to back arrangement with the PTC with the state, is there any correspondence, is there any corresponding back to back one state or it is a pool of state that is what I am trying to?
- Deepak Asher:** It is not one to one, PTC signed this with all the bidders, so all the bidders have a contractual relationship and credit risk on PTC and then PTC kind of back to back sends it to various discom, so it is all pooled together.
- Mohit Kumar:** My second question is in a seemingly good year when the industry installed 5.4 gigawatt it looks like you have lost the market share and given the fact that all the guys have put up the wind capacity, we

have installed capacity in last February or March when did you decide to stop and when the other start building up and how much the capacity, which is still stranded, which believe is not signed PPA and that cannot participate in the auction and will depress the market in the FY2018?

**Devansh Jain:**

Multiple questions and I will try to answer them in one stroke. First and foremost yes it has been a good year, but let us do not get coloured by the fact that we saw 5.4 gigawatts of commissioning because almost 1.5 to 2 gigawatts of this commissioning is all the stuck up turbines of the past many, many years, where the Madhya Pradesh or Rajasthan or Maharashtra, which have come to fore and been commissioned finally simply because accelerated depreciation was coming to an end and the generation based incentive was coming to an end. In terms of new supplies, we believe the market was supplied with close to 3.5 to 4 gigawatts of new supplies and within that we supply close to 650 megawatts. Number two, having said that yes we could have certainly done far better and we were well on track to do that, but for the fact that post February 22 when the auction was conducted, all states stopped signing PPAs. We did not want to take the risk of continuing any further manufacturing in the hope that PPAs might get signed. We had 200 megawatts of incremental supply, which were to be done, which PPA were to be signed, which were to be erected and commissioned. All our cranes were idled from the February 22, stopped doing all project work simply because we did not want to take any risk because it was very clear all the state government kept saying we will not sign PPA and actually what ended up happening was they have not sign any incremental PPAs post February 22. Fortunately for us and while we may have taken a hit in a quarter I think what we have done is very good in the long run for the Company. Now we do not have stranded capacities, what we had was approximately 150 to 200 megawatts, which was work-in-progress, which was being done for customers and what we ended up doing by stopping production we reallocated all these turbines to customers where PPAs were existing, which were to be done in the new financial year or where PPAs were not a concern such as PSU tenders, so we reallocated – when you see these receivables, 100 megawatts of these turbines were reallocated to PSUs where PPA is not a cause of concern and 100 megawatts was allotted to customers where we already have PPA signed. So we do not have any capacities which are stranded or which will wait for the auctions, what we won in the auctions are going to be new supplies, which will be making in the new financial year beginning Q2, Q3.

**Mohit Kumar:**

My question pertaining to industry wide stranded capacity?

**Devansh Jain:**

Well from an industry perspective it is hard to answer, but I suppose almost all the manufacturers are sitting on at least 200 to 300 megawatts minimum per company of turbines, which would be stranded on their balance sheet.

**Mohit Kumar:**

Sir one clarification can the stranded capacity participate in auction?

**Devansh Jain:**

Well you can, but I do not know, end of the day, if you got erected turbines as I mentioned the PLF in majority of these states are much lower than Kutch and Tamil Nadu where the PGCIL connectivity is

and where the PLFs are the best, so you would really have to sell these turbines at cost or below cost to compete in those auctions number one and number two it also is the function of what turbine model it is. The newer turbines under the auctions or the larger turbines at the larger hub heights, I do not think the turbines, which were being erected or which are lying erected in the sector today are the ones, which have the highest hub heights and the highest rotor diameter, so these guys would have to take the significant hit if at all in terms of selling these turbines at cost or at loss.

**Mohit Kumar:** Last question Sir have you heard anything on state specific wind auction, which could happen in the next three to four months?

**Devansh Jain:** Well, I do not think it is going to happen in the next three to four months, I believe over the next six months states would move to an auction scenario and we already know three states have their draft auction documents being prepared one of which is already in the public domain, the Rajasthan draft auction document is already in the public domain, two states are in advanced stages of taking all their draft auction documents, but over the next six months we would see states moving to auctions and then carrying out bidding in the Q3 and then obviously you will get 12 to 18 months to execute those projects, so we are in a transition phase over the next three to six months thereafter the sector is going to see exponential growth.

**Mohit Kumar:** Thank you Sir.

**Moderator:** Thank you. We will take the next question from the line of Deepak Aggarwal from Elara Capital. Please go ahead.

**Deepak Aggarwal:** My first question just for some clarification, we had an order book of 1300 megawatt as on December and we have completed 422 in the quarter and as you mentioned that about 200 has been allocated to the PSUs or where the PPAs were already signed, so does that mean that about 600, 700 megawatts of projects has been cancelled?

**Devansh Jain:** Well it is not being cancelled, they all exist, fact of the matter is all states have stopped signing PPAs, so for all practical purposes while we can keep saying our order book is 700MW under the FIT regime and let us say we have 300 megawatts under the new auction regime with an incremental 250MW in advance stages of closure, the original 700 megawatts approximately of order book, which is still sitting with us is honestly a piece of a paper because all states have stopped signing PPAs. Yes if the states starts signing PPAs under the FIT regime then all these orders are valid and we will start executing these projects, but as I mentioned post February 22, all states have stopped signing PPAs and there has been no change at their end in terms of entertaining any new PPAs. This is not specific to Inox Wind; this is specific to the entire wind sector and all the players in the wind industry.

**Deepak Aggarwal:** No that is fine, so do you mean to say – how much cost we have already incurred pertained to the 600MW to 700 megawatt prior to February, because we do not complete the manufacturing in one month, we would have done some work prior to February 22?

**Devansh Jain:** But we would not be manufacturing at 700 megawatt in one month. The 700 megawatts would have been supplied over Q1 and Q2 of this financial year and as we mentioned we completely stopped all manufacturing post February 22. All the turbines, which we had within the system or which were WIP, have been allocated across all our PSU tenders and IPP order where PPAs were already in place.

**Deepak Aggarwal:** My second question is now when you mentioned this auction and the advantages that it brings to the sector now in that sense when we have this 300 megawatt orders at hand and since you are saying the execution period is about 12 to 18 months and the next set of auction will take its own natural time for at least two to three months from now, so do you mean that for FY2018, there would be hardly any execution to say and everything is loaded on FY2019?

**Devansh Jain:** Not right to say that. First and foremost the second auctions already in the public domain, it is expected to be concluded within June.

**Deepak Aggarwal:** But it will have an 18 months execution?

**Devansh Jain:** What I meant with respect to execution within this financial year yes for the next one to two quarters there is going to be barely any work happening in the sector, barring us and all other players finishing the turbines, which were already in the system and now supply to people where PPA's exist so us collecting all our money, commissioning those 200 odd megawatts. With respect to new supplies, majority of the new supplies will start kicking in from Q2 and Q3 and why so because from the SECI auction perspective you are connecting it to the PGCIL substations and lines, which are for example, in our case 1000 megawatt connectivity in Gujarat and in Tamil Nadu as well whoever has won who is executing it. The line and the substation of PGCIL is expected to go online in fourth quarter of this financial year, so people will be building turbines from Q3 onwards, erecting turbines, no one is going to do projects in two, three or four months, these are projects, which will be erected in a comfortable manner over six to eight months, so the supplies for all these new projects will start from September onwards and then there is uniform execution because the next auction which gets done in June you do not need to wait forever, you will start those supplies as well from September, October because the substation is common, the transmission line is common.

**Deepak Aggarwal:** But will you have stranded machines, because some would be from the order inflows of Q3?

**Devansh Jain:** Well we are not executing any of those orders anymore, we are not supplying any turbines to do those orders like we mentioned all PPAs have stopped, so there is no question of supplying any turbines under those orders.

**Deepak Aggarwal:** So basically Q1, Q2 we have nothing then?

**Devansh Jain:** As I mentioned to you well you may put it like that, the industry is undergoing a transition from an FIT based regime to an auction based regime and yes for the next one to two quarters there is not going to be any work in the sector or very insignificant work. We will be doing about 100 megawatts or 150 megawatts at most and then post Q1, Q2 you will see huge ramp up, which will sustain continuously, so then a September will be equivalent to a January will be equal to March will be equal to an April, every month is going to be uniform, but yes in that sense for the next four to five months there is no work because all the states have stopped signing PPAs and all the SECI auction and things which are going to start playing out from Q2 end and then Q3, Q4 is when the sector gets to a uniform execution mode.

**Deepak Aggarwal:** My last question if I can squeeze in, now since this auction and the projects that you own as well as the other bidders are largely restricted in high windy sites of Gujarat and Tamil Nadu, so let us say we take an example of Karnataka or Andhra Pradesh, so it would be fair enough to assume that even the next 1 gigawatt or subsequent SECI auction there is a less likelihood of getting capacities added in all the other states except Gujarat and Tamil Nadu?

**Devansh Jain:** It would be fair to assume that, yes for the next two to three bids at least.

**Deepak Aggarwal:** That is it from my side.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Bhavin Vitlani from Axis Capital Limited for closing comments.

**Bhavin Vitlani:** On behalf of Axis Capital, we would like to thank the management of Inox Wind to give us an opportunity to host the call and also all the participants to join in. Before we close I would like to hand over the call to Mr. Asher and Devansh for their closing comments.

**Deepak Asher:** As I said, to briefly conclude. the industry is on the threshold of a significant change in terms of market dynamics. We believe the auctioning system is going to auger very well for the industry. It is going to expand the size of the market to a significant extent. It is going to ensure project execution much more uniform and standardized across quarter and is also going to mean much better working capital management for the industry. Having said that, I think there will be some blips at least for the forthcoming months because obviously when a transition of a significant magnitude as this is likely to occur, there is going to be some lullness in activities over this quarter as well as perhaps a little bit of next quarter as well, but from a long-term perspective, it is extremely good for the sector. With these words, I would like to conclude this call. On behalf of the board and the management of Inox Wind I would like to thank all of you who participants on this call for your interest in this company and look forward to your continued interest as well as support. Thank you.





*INOX Wind Limited*  
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**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.