

Inox Wind Limited
Q1 FY16 Results Conference Call
July 27, 2015

Moderator: Good Evening ladies and gentlemen. I am Sahad, your moderator for this conference. Welcome to first quarter FY16 Results Conference Call of Inox Wind Limited organized by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Bhavin Vithlani from Axis Capital. Thank you and over to you.

Bhavin Vithlani: Good Afternoon, everyone, and a very warm welcome to the first quarter FY16 Earnings Conference Call for Inox Wind Limited. From the management, we have Mr. Deepak Asher – Director and Group Head of Corporate Finance and Mr. Devansh Jain – Executive Director. I would like to request the management to take us through the 'Presentation' which has been uploaded on the exchanges, post which we will open the floor for Q&A. Without much ado I now hand over to management for their opening remarks. Over to you Mr. Asher and Devansh.

Deepak Asher: Good afternoon everyone. On behalf of the Board of Directors and the Management of Inox Wind Limited, we extend a very warm welcome to all of you to this Earnings Conference Call of the company for the First Quarter of the Financial Year 2015-16. Inox Wind management is represented today by our Executive Director – Mr. Devansh Jain and myself, Deepak Asher – Director and Group Head, Corporate Finance for the Inox Group of Companies. Before I get on the discussion of the financial performance for the quarter, let me give a very quick introduction about ourselves.

Inox Wind Limited is a part of the Inox Group of Companies, which has diversified business interests and a significant leadership position across different verticals including Industrial Gases, Engineering Plastics, Refrigerants, Chemicals, Cryogenic Engineering, Renewable Energy and Entertainment. Inox Wind is amongst India's leading manufacturers of the Wind Turbine Generators and provides Turnkey Solutions for building Wind Farm Projects across the country. Our company has rapidly scaled up in the last 4-years with an annual WTG sales increasing more than four-fold from 120 MW in FY12 to 580 MW in FY15. Our Consolidated revenues have grown 147% CAGR over the last 4-years, our EBITDA has expanded by 150% CAGR over the last 4-years and our PAT has witnessed a growth of 169% CAGR from FY11 to FY15. Our key strengths include the ability to provide end-to-end turnkey solutions for Wind Farm Projects including Wind Resource Assessment, Site Acquisition, Infrastructure Development, Erection and Commissioning and Long-Term Operational and Maintenance of Wind Power Projects, access to sophisticated technology and design for high quality 2 MW Wind Turbines through a perpetual and exclusive license from AMSC, Austria resulting in high performance efficiency of WTGs and R&D cost savings. In-house manufacturing capabilities for all the key components are going to making a WTG, including Nacelles, Hubs, Rotor Blade Sets and Towers, ensuring cost competitiveness and strict control over quality. Sufficient land bank as of 30th June 2015 for the installation of an aggregate capacity of more than 4,500 MW. Extremely efficient cost structure, leading to best in industry margins which are further expected to improve driven by economies of scale and positive operating leverage and a strong balance sheet at an extremely modest leverage ratio. With these strength, we hope to sustain a robust growth rate and improve for return ratios going forward.

With these brief words of introduction, I would like to take you through some of the key operational highlights for the current quarter and then we can open the session for Q&A. The

Financial Results for the Quarter have been approved by the Board and have been uploaded to the stock exchanges and as well as on the Company web site. On the Company's website, we have also uploaded the Earnings Presentation and I intend to walk you through some of the key highlights of the Earnings Presentation. On the key financial parameters for Q1 FY16 as compared to Q1 FY15, our total revenues has grown from Rs.3.04 billion to Rs.6.35 billion, a growth of 109%. Our EBITDA has grown from Rs.470 million to Rs.863 million, a growth of 84%. Our PAT has improved from Rs.234 million to Rs.505 million, a growth of 115%. PAT margins has seen a growth of 7.7% which is what they were in Q1 FY15 to around 7.9% in Q1 FY16. In terms of breakup of the total revenues, Q1 FY15 saw sales of about 66 MW which were turnkey sales. Q1 of FY16 saw sales of 120 MW, of which 90 were pure Equipment Supply and 30 were turnkey sales. In addition, we also commissioned the 78 MW during the current quarter. The corresponding figures for the earlier quarter was nil. In terms of breakup of revenues in rupee terms, the total sales of Q1 FY15, as I mentioned, was about Rs.3.02 billion, this quarter we saw a total sales of Rs.6.33 billion, of which Rs.5.87 billion was from sale of products and about Rs.464 million was sale of services essentially EPC services. From the perspective of breakup of cost, our raw material and EPC cost was 72.8% in Q1 FY15, this has gone up marginally to 73.1% in Q1 of FY16. Variable costs have gone down from 4.2% of sales in Q1 FY15 to 3.5% of sales in Q1 FY16. Fixed cost again gone down marginally from 8.9% in Q1 of FY15 to 8.5% in Q1 of FY16. Forex expense which was actually a negative or gain in Q1 FY15 of 1.3%, this quarter we have had a forex loss of 1.3% of sales, and as a result of essentially the swing in the forex, our EBITDA margins have contracted marginally from 15.5% in Q1 FY15 to 13.6% in Q1 FY16.

In terms of working capital, our total working capital investments is about Rs.14 billion as of 30th June 2015 as compared to about Rs.6.3 billion in Q1 of FY14, but this is to a large extent because of increase in volumes. In terms of number of days, our working capital in Q1 of FY16 is about 174 days as compared to 157 days in Q1 of FY15.

The order book as of 30th June 2015 stands at about 1220 MW, this is roughly equivalent to about 12 to 15-months of sales, we have added about 162 MW in terms of the order book, of which we have executed about 120 MW, which leaves a residual order book of about 1220 MW to be executed as of 30th June. Our diversified and reputed clientele includes Sembcorp, Green Infra, Continuum Wind, Tata Powers, Bhilwara Energy, CSE, Renew Wind Energy, Ostro Energy and PSUs like NHPC, RITES and GACL amongst others. In terms of the breakup of the order book around 97.4% is comprised by IPPs and institutional buyers whereas 2.6% represents retail and SME buyers. A state-wise breakup includes about 46.7% in Madhya Pradesh, around 39.3% in Rajasthan, and 13.9% in Gujarat. Around 60% of our order book is turnkey and the balance 40% is pure Equipment Supply and this perhaps represents the highest proportion of pure Equipment Supply contracts in the industry. We have a current pipeline of projects site in excess of 4500 MW spread across 5 to 6 different States, and we are focusing on increasing the land bank not just in the existing States, but also in new States like Tamil Nadu.

In terms of the update on the capacity expansion, our current capacity is 550 Nacelles and Hubs at Una in Himachal Pradesh, 400 Blade Sets in Rohika, Gujarat and about 150 Towers in Rohika, Gujarat. These are to be expanded to 300 Towers in Rohika, Gujarat. We are setting up the new project at Barwani, Madhya Pradesh which is intended to cater to capacity of 400 Nacelles and Hubs, 400 Blades and about 300 towers. The Blade plant in Madhya Pradesh is ready to commence operations any moment now most probably within this month or early next month, and this blade plant by the way would be amongst the largest in Asia.

On the technology upgradation, INOX Wind has launched the 100m Rotor Diameter Blade. The turbines with this blade provides higher energy, in fact, the energy yield goes up by as much as 18% which leads to lower energy cost as well as higher returns for our customers as well as a higher price for us and an improved market share. We are also in the process of launching the 113m Rotor Diameter Blade and this again would improve efficiencies for our customers by as much as 20%, bringing down the cost of energy generation, and therefore, leading to higher profitability to our customers, as well as better margins for Innox Wind.

The impetus which drives the growth continues to be the regulatory push that the government is providing to this sector like - Accelerated Depreciation, Attractive Preferential Tariff, Generation-based Incentives, Wind Power Projects recognized as CSR Obligations, SAD Exemption which improves profitability of Turbine manufacturing because of import duties going down, the green corridor which creates a fast track evacuation infrastructure for these projects, Renewal Generator Obligation which is expected to be set up pretty soon, and the amendments to the Electricity Act and the RE norms which will strengthen the RGO Compliances. In fact, as you might recall, and we had mentioned this earlier, the MNRE is aiming for 10 GW of wind energy addition every year, and all the regulatory moves that we have been seeing including the last ones which happened in the last quarter, where the RBI notified investments in renewable energy to be recognized as priority sector lending, will all provide the push to this sector.

So, with these words, I would like to conclude the summary of the operational performance and I would like to open it for Q&A, for which both Devansh and myself will be available. Over to you, Bhavin.

Moderator: Ladies and Gentlemen, we will now begin the question and answers session. Our first question is from the line of Mohit P from IDFC. Please go ahead.

Mohit P: First question is regarding the order book. We have got around 1.2 GW of orders, has the customer entered into PPA for each of the power plants which are there in the order book.

Deepak Asher: The customer places an order with us for either the supply of the turbine or turnkey execution of the project. Once the turbine is supplied and erected and commissioned, the PPAs are entered thereafter, after the commissioning of the turbine. So the PPAs do not happen when the order is placed with us. The PPA rather happen when the order is completely executed and commissioned.

Mohit P: Are states are more willing to sign the Power Purchase Agreement compared to last year?

Devansh Jain: Couple of states have become proactive on the Renewable Energy front and some states which had seen a lot of expansion over the past 1 or 2 years have a kind of slowed down, are now expected to stabilize and pick-up again. Inx has seen a lot of action in Gujarat, Madhya Pradesh and Andhra Pradesh. Some states like Maharashtra and Rajasthan have slowed down though. IPPs and the big players really go there, where the government is very supportive and where there is a clear plan of action. So we would be executing our volumes in those states where customers want us to be and where there are clear policies in place.

Mohit P: Out of 1.2 GW, how much are binding agreements.

Devansh Jain: About 800 MW would be binding agreements at this point in time.

Mohit P: 10% renewable power purchase obligations which the government is targeting which you have mentioned, is this estimate official or from public domain.

Devansh Jain: This is available on the government websites, the Renewable Energy Law which the government is working towards is also in the public domain, but this is something called "Renewable Generator Obligation" which is the part of the amendment to the Electricity Act, this was placed to the Parliament. I believe the Parliament Committee on this matter has given some comments, and what we understand which is in the public domain, this is going to be presented again in the present session of Parliament hopefully, and once this is clear the government expects to mandate all thermal players to set up 10% of their capacities in Renewable Energy. It reduces the risk, it reduces the burden on distribution companies to simply buy Renewable Energy by shifting this onus somewhat to the generation companies.

Mohit P: So, this is not a RPO obligation?

- Devansh Jain:** It's a generator obligation, RPO is putting the obligation on the distribution companies, the companies which buy power this is now going to put the onus on the generation companies.
- Mohit P:** At the end of FY15, company sold around 578 MW of Turbine, while commissioned around 274MW of Turbine. So 304 MW still needs to be commissioned?
- Devansh Jain:** That is right, now within that broadly about 200 MW is what is turnkey which we need to commission and balance is Equipment Supply which has nothing to do with Inox Wind, it is the Equipment Supply buyers job to do. With respect to the 200 MW which we need to commission, there will always be some amount of lag between what is supplied in a quarter, for example, you cannot supply 100 MW in March and commission it within March. So there is a lagging effect of one quarter typically. If you look at what we did in the last quarter we have done about 200 MW. So we have about 200-250-odd-MW of lag, but that again also is a function of a common infrastructure being created, so, for example, we almost have 200 MW of Turbine erected ready for commissioning, the day our sub-station gets charged which is expected to happen at any point in time, the entire 200 MW gets cleared out of the system.
- Moderator:** Thank you. The next question is from the line of Gaurav Sanghvi from Bajaj Allianz. Please go ahead.
- Gaurav Sanghvi:** Last year we closed industry with around 2300 MW. What is the expectation for this year, given a fall out of some of the states like Maharashtra? The second question is if we look at EPC business profitability, it seems to be subdued vis-à-vis the profitability of the Equipment Supply.
- Deepak Asher:** CRISIL published a "Sectoral Outlook Update", where it has estimated the size of the market to be about 3600 MW in FY16 and about 4100 MW in FY17. Our internal expectation is market would probably be around this size, if not larger than that, but that is clearly something that is available as independent research. Secondly, on the EPC profitability, we have I think indicated this earlier as well that in percentage terms, the EPC margins are lower than what they are on Equipment Supply, just to give you a very broad numbers the Equipment Supply typically has a 20% margin on sales, EPC has roughly about 10% margin on sales, because the Equipment Supply constitutes a major component of a turnkey project the blended margin would be between 16% to 17% because the weightage on Equipment Supply would be higher. Having said that a turnkey project does give us a higher absolute margin just not in percentage terms because of the fact that the margins on EPC, however lower than in percentage terms, are positive, and therefore adds to the total absolute margin.
- Gaurav Sanghvi:** Working capital has moved up from 157 to 174 days. So, what would be steady state working capital going forward?
- Deepak Asher:** Our assessment is, steady state working capital would be anywhere between 120 to 150 days. If one wants to work with a conservative assumption it would not be very far off the mark to work with about 140 to 150 days of working capital.
- Moderator:** Thank you. The next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.
- Aman Batra:** Sir, what do you think about the Solar Power tariffs coming down, what incentive the states have to meet their RPO obligation through Wind and not through Solar because the tariffs are coming down pretty sharply?
- Devansh Jain:** From a return perspective, investors invest in businesses where they get returns, and return from Wind continues to be about 15 to 20% higher compared to Solar. This can be cross-verified across all utilities and IPPs who are investing in this sector. I also personally believe while Solar is going to grow phenomenally and I think there is a huge thrust on Solar as well from the government, Solar is occupying more media space than what is required. On the ground we are doing about 2 to 3 GWs of Solar possibly in this financial year, but a lot of the tenders which you see which are being awarded today 700 MW in MP, 300 MW in Andhra,

these are all tenders where land acquisition has been going on for the past 2 to 3-years, let us not forget acquiring contiguous land is very-very difficult and tricky. So from an on-ground execution perspective it is easy to say we want to put up 5000 MW of Grid Solar or 7000 MW of Grid Solar. Where is the land? States if you ask it they take 2-years 3-years 4-years to acquire 500, 700-MW of contiguous land put together. So on ground execution cannot keep pace with this simply because contiguous land and land acquisition itself is a big-big challenge in India. Second, I think if you look at average solar tariff across India there are about Rs.5.5 to 6. Let us not look at one odd street bid of 5.1 or 5.2, you do not even know whether those 10 or 20 MW of projects are ever going to see light of the day, look at the people behind those bids. Realistically I think solar is at about Rs.5.5 to 6 Rs, Wind is about Rs.5, while some states may be higher, some states are also lower, you have got states at Rs.5.7 of tariff, you have also got states like Gujarat and Tamil Nadu with Rs.3.5 and Rs. 4.1. Wind is far more mature, returns from Wind are better, investors make better returns there. We believe Wind will continue to maintain this 3-4-5 GW of year-on-year capacity buildup and Solar the base is low so it is going to grow, it is going to move up significantly and probably do 3 to 4 GW a year and I think we will kind of stabilize there because there are far too many challenges around contiguous land with respect to Solar.

Aman Batra: Do you foresee that some of the states may move to competitive bidding for Wind as well just like they do in Solar?

Devansh Jain: Two things, first of all, why do they do this in Solar, because the government gives you the land and gives you the evacuation. So you are only bringing in the panels and doing nothing else. Let us assume a scenario where the government gives all the land for Wind and the power evacuation where honestly we are very ready for competitive bidding. The government cannot acquire that land, the government is not giving us evacuation, because unlike Solar where certain pockets of radiation you can just put together land over 2, 3, 4, 5-years for 400-500 MW, in wind these are all isolated pockets 50 MW 200 MW, you need to collect data for 3-years, only then can you acquire land. If government starts doing this it will take 5 to 6-years which is we have no problem with but the government has failed to do this and I do not think they can do this. Globally, competitive bidding in Wind has failed across the board. Having said that if competitive bidding was to come in, honestly, it will be beneficial for the stronger players such as Inox Wind because stronger IPPs will partner with us and will bid, the weaker players will go out of this sector, and you will see more consolidation happening in this sector.

Moderator: Thank you. The next question is from the line of Deepak Agarwal from Elara Capital. Please go ahead.

Deepak Agarwal: For the order inflow of 220 MW during the quarter and the breakup of the order book on Slide 8, so this is in volume metric terms?

Deepak Asher: Yes, in the breakup is in percentage terms based on volumes.

Deepak Agarwal: What would be the approximate value of this kind of an order?

Deepak Asher: No, we cannot share the value terms. In the industry everyone knows, that the average sale price of a turnkey project would be about Rs.5.5 to 6 crores per MW, so it is not very difficult to get an approximation. We don't share order book in value terms

Deepak Agarwal: Reason for asking this question is that in Q1, approx. revenue from sale of products is about Rs.590 crores and execution is about close to 120 MW. So the realization is kind of slightly less than Rs.5 crores per MW.

Deepak Asher: In slide 5 what we have said is that in terms of sales there is 120 MW of equipment sales, of which 90 MW were only Equipment Supply where there was no erection and commissioning service involved and 30 MW was turnkey. So I think it is not possible for you to compute an average realization because of the fact that there are three components to the sales -- that is turnkey sales, there is Equipment Supply sale and there is commissioning. So any inference

that you draw by merely dividing these revenue numbers with the volume numbers may not be accurate because the large part of that sales would not have been commissioned, it is just because of the land that they all spoke about or because of the fact that those contracts were on a pure Equipment Supply basis.

Deepak Agarwal: And in terms of the order inflow, that you have reported, is there any customers who are operating in the REC market or you are completely into the PPA market?

Devansh Jain: I think it is a function of the customers. We honestly do not care whether they go under REC route or PPA route, but logically it makes more sense for them to lock in PPAs when PPA is at Rs.5-5.5-8 where the returns are higher and also given the fact that the REC market still needs to find its feet.

Deepak Asher: Also from a financing perspective because this asset is 75-25 leveraged, it is easier to tie up debt for our customers, if they have a locked-in PPA versus if they take the price risk on the power which is, if you go through down the REC route. So I think a lot of the incremental capacities coming through the PPA route but we as an equipment supplier we are indifferent to how the wind farms eventually sell the power.

Deepak Agarwal: My last question is on the land bank which you have indicated about 4500 MW. So, how much is it actually acquired where given a customer being available you can start the work like in the current year itself?

Deepak Asher: We are not going to start the work on 4500 MW in the current year itself.

Deepak Agarwal: To what extent you can start?

Deepak Asher: This land bank is good for at least another 4 to 5-years, perhaps longer considering the fact that the large part of our order book is also pure Equipment Supply where we would not be consuming our own land bank. So to the extent that this land bank actually will last us for more than 5-years, it is not relevant to assess as to whether we can start work on all this 5000 MW or not. Having said that if your question was "how much of it have we actually acquired" Acquisition in this business is in a different format. We could actually buy the land if it is private land or you take the land on long-term lease if it is a government land or in some cases you actually take an allocation of that land from the regulatory authorities and then not execute the lease till you actually want to commission the project. What we can say is for all this land we are in control of the land bank and hence can either execute the legal documents or start execution of the project whenever we find it necessary to do so.

Deepak Agarwal: So most of the large IPPs which have indicated as your customers, so the IPPs rely on you for the land acquisition because the players like Tata Power, CAC, which you have been covering usually they prefer to buy the land on their own and order the equipments separately?

Deepak Asher: That is not true and what we have also given you in terms of breakup is how much of our order book is turnkey where we will also supply the land and the EPC services and how much of it is pure Equipment Supply where we will only supply the equipment and that mix as you will see on Slide 8 is 60% turnkey and 40% Equipment Supply and therefore 60% of the order book once we execute it, will be with the land.

Deepak Agarwal: When you say turnkey, 60% of the order book, is the portion where everything has been done by you from end-to-end?

Deepak Asher: Yes, when I say turnkey, it is everything including wind resource assessments, land acquisition, evacuation infrastructures, erection, commissioning services and the supply of the turbine.

Deepak Agarwal: Can you share, what is the breakup of the order inflow from which customers you are getting at least the larger ones?

Deepak Asher: There will be confidentiality issues around that, our customers would not allow that to be published. We have given names, but to give names in which quantity sometimes is sensitive from a customer perspective, but we will see what we can do, we note your suggestions.

Moderator: Thank you. The next question is from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.

Ruchit Mehta: What is nature of Rs 8 crore of foreign exchange losses in the current quarter, what are they related to?

Deepak Asher: The nature of the loss is foreign exchange. The Euro strengthened, the opening rate of the Euro was 67.5 as at the beginning of the quarter, the closing rate was 71.20 and therefore not just our purchases for the current quarter, but even a restatement of our creditors for purchases required us to book this loss.

Ruchit Mehta: So to what extent of our cost of goods sold is Euro-denominated or non-INR denominated?

Deepak Asher: If I were to look at it from the perspective of percentage of sales I think around 20% of sales would be foreign currency.

Ruchit Mehta: Second is that on the land bank, whatever the land portion that you are holding at this point in time, is that being held completely in the name of company or is it also being held in various group entities as well?

Deepak Asher: All the land that has been incrementally acquired is being acquired in the name of the company or its 100% subsidiary Inox Wind which renders the EPC Services. Only thing is historically, because we started this business before the company Inox Wind was incorporated, the land that was acquired prior to that was in the name of some of our group companies which includes Inox Renewable as well as Gujarat Fluorochemicals. But the moment we decided to float this company and execute the Wind Farm business under Inox Wind or its subsidiaries, all those land's beneficial ownership was transferred to Inox Wind through a framework agreement which was disclosed in our DRHP.

Ruchit Mehta: If one looks at the differential between the consolidated numbers and the standalone numbers, for the past 8-10 quarters data that you have disclosed, the gap is always a negative number, it seems that the IWL business that is there, EPC side of the business always have reported an EBITDA loss, could you just sort of explain that, this quarter you are getting Rs.10 crores odd loss, previous quarter was about Rs.16.5 crores?

Deepak Asher: I think that is essentially because of the fact that the commissioning of the projects has had a lag behind the supply and to the extent that there are about 200 MW of Wind Turbines yet to be commissioned, the cost of those are already reflected in our P&L, but the revenues from that commissioning will be booked when the projects are actually commissioned. So we do believe that, it is not very accurate to look at the results of the subsidiary on a standalone basis because frankly speaking that subsidiary has no reason to exist except as a Turnkey Solutions developer along with the equipment supply. So it is only consolidated results that matter. But having said that once the backlog of the commissioning is cleared and we expect a significant part of this backlog to be cleared in Q2 and Q3 of this financial year, you will see positive bottom line in the Infrastructure business as well.

Ruchit Mehta: As visible from 8, 10-quarters of data that is there, none of the quarters barring fourth quarter fiscal '14 had EBITDA-positive numbers, is there are backlog issues, then at some point in time which start reflecting in at least some of the quarters?

Devansh Jain: I think there is also the fact that we have been growing very-very fast, so we have been investing ahead of time on building substations, for example, we are building two substations presently of 400 MW capacity each which has been in construction since the last financial year, now we have not commissioned anything against that, whereas money to build the

substations in transmission lines is continuously being pumped. Now once we add that and we kind of reach up certain size, let us say 800 MW or 1000 MW then you are not investing far ahead of time and your growth momentum is not going to be 80%, 75% as it has been in the past 3 or 4-years. So probably another two or three quarters we will start seeing that. And second, the entire O&M business which is an annuity business where we expect towards fairly significant margins going forward as the pie increases and turbines get off their warranty period, all that earning is going to be Inox Wind Infrastructure Services Limited that is not in Inox Wind. So another year or so I think we should be seeing fairly high profitable numbers in IWISL as well. Not that it matters because we need to look at the entire entity as a consolidated piece.

Ruchit Mehta: What exactly is the nature of how accounting that happens in terms of matching the cash flows accordingly? What are timelines involved in this whole process?

Deepak Asher: Again, it depends on whether it is a pure Equipment Supply order or a Turnkey order. If it is a pure Equipment Supply order then you book the revenues when you supply the Turbines and again there could be minor variations on order to order or customer to customer or contract-to-contract on whether a ownership is transferred on dispatch from the plant or at material reaching the site, which could take anywhere between 2 to 3-weeks. But having said that I think the larger picture is that in a pure Equipment Supply you book the entire revenues of a contract when the equipment is supplied. On the other hand, if it is a turnkey contract, again, we typically breakup this contract between Equipment Supply and the EPC part. The Equipment Supply again in turn is booked when the equipment is supplied and the EPC part is booked as revenue when the Turbine is commissioned. This again has nothing to do with cash flows because again payment terms could be different from this. Payment terms could constitute a component which is an advance payment and then progressive payments against supplies including parts supplies like Blades, Towers, Nacelles, Hubs, etc., and then there would be some payment which is linked to erection of the Turbines and commission of the Turbine. But from a cash flow perspective, when you receive the payments it is completely independent or when you book the revenues, you book the revenues when you do the sales or when you do the erection and commissioning.

Ruchit Mehta: Generally, how many days of credit you give your customers?

Deepak Asher: If you look at our working capital cycle, we have said not just from a receivables perspective but from an overall working capital deployment perspective, it is currently at about 170-days which as I mentioned earlier we expect that to be between a 120 to 150-days.

Ruchit Mehta: Is 180-days of customer credit, a hypothetical number or actual.

Deepak Asher: No, we do not give a customer 180-days, what we give a customer is typically between 30 to 60-days but at times what happens is, if for example the commissioning of the project is delayed because of the common infrastructure is not yet set up, then customers tend not to pay even for the equipment supplies till the entire project is commissioned. So this actually varies from customer to customer and contract to contract. I think from a holistic perspective our receivables currently are at about 180-days and we expect to bring this down to about 150-days.

Ruchit Mehta: 90 MW of your Equipment Supply, which has been shown in the presentation break-up, if that has been sold on a pure equipment basis, and therefore effectively assuming it gets transferred to the customer or whoever the EPC guy is and you have got nothing to do with that. So that customer must pay you on 60-days money but we still have an average of 180-days?

Deepak Asher: But you do not know whether that a supply was made in the last week or last fortnight of June in which case it would still be reflecting as outstanding as of 30th June. You need to look at the average age of receivables rather than the average collection period.

Moderator: Thank you. The next question is from the line of Ankur Sharma from Phillip Capital. Please go ahead.

Ankur Sharma: In terms of the competition that you are witnessing in the market, are you seeing increased competition from the likes of Suzlon or Regen, who either recently raised money or in process of raising equity as well and are therefore more comfortable in kind of taking more orders in the market?

Devansh Jain: There are two things, we have seen that the sector itself is expanding, with the reintroduction of GBI, AD and three broad categories of IPPs, PSU orders, CSR and the Accelerated Depreciation Market, the market itself is expanding. If you look at the past 2 or 3 years we have been at virtually 2 GW plus minus and this year we expect the sector to do close to 4 GW that is a 100% growth virtually. Now within, that to the extent that we are already sold out, there is limited competition that we are really dealing with at this point in time and also the fact that we are delivering projects well, most of the customers are very happy with us, we have understanding and kind of MoUs or agreements with them where they see a pipeline and they keep ordering based on policies and what we offer to the market, as a result of which you will notice that while we have already done 120 MW, we still have 1220 MW order book which will not just for this financial year but also part of it goes into the next financial year. With respect to part of the competition coming back, Inox and one other MNC player are currently preferred suppliers across IPPs. The other players are focusing more on the AD market as the AD customers still need to go somewhere to get those orders, I think the fact that we probably are the lowest cost manufacturers, we have the highest margins, the market is growing, we are not honestly concerned about competition in the marketplace.

Ankur Sharma: Just on the AD market which you also just mentioned, on the last call you did speak about targeting this market as well going forward, so could you just tell us what could potentially be the size of this AD market in FY16 and what kind of targets we have because right now we do not really have too much of orders from that segment?

Devansh Jain: Two things, why we do not have orders is because Inox Wind has been virtually sold out for this financial year. To the extent you have sold out you obviously cannot take more orders, and I think this financial year we would expect the AD market to be 1000 MW to 1500 MW, possibly 1000 MW this year because you have also got some amount of Solar on the AD side, above that 1000 MW what I have said is that we are focusing on strengthening our AD marketing team over the course of this financial year, we want to diversify our market portfolio where we want to capture at least 25% of what we do through the AD route. And I think we are well on track for that. We are restructuring marketing, we are doing a lot of things on the ground on the marketing side which will enable us to capture a larger pie of the AD market for the next financial year where we have not sold out yet.

Ankur Sharma: On your order book, when we last spoke on the Q4 call, I remember you said you had about 1400-odd MW of order book. This may not have been the firm order book of course, but for which you had also MoU signed with customers. So, would you like to give a number there? You have 1220 MW, obviously, what you have as firm order book.

Devansh Jain: I think the only difference is if you add what has been executed over the quarter is 120. If you add 120 on 1220 you will get to a number of about 1340. It is a rolling order book. For example If in next quarter, if we do 200 MW, then we always discuss the order book as at March or as at June, we should also look at the execution and how much is equipment supply or how much is turnkey. So if someone ask the order book number as of July, its almost the same, so whether it is increasing the order book or decreasing the order book, it will always be plus or minus in this range.

Moderator: Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: I just wanted to get a little bit of sense about the whole Discom situation. All the expansions we are talking about today is keeping in mind that some of the Discoms today are struggling

particularly Rajasthan, etc in order to repay their debt. So, could you just elaborate a little bit as to what you are seeing on the ground in terms of how this might pan out and is it something that could impact growth for you and for the industry in general?

Devansh Jain:

Like I mentioned at the beginning of the call, what we are seeing is a lot of Renewable Energy capacity over the past 2 or 3-years, so for example, Rajasthan and Maharashtra have seen a lot of Renewable capacity addition in FY12-13, FY13-14, FY14-15. Now, these are the states which have kind of slowed down. You now see in Andhra Pradesh and Madhya Pradesh which have come to the front where they are virtually virgin states from a Renewable Energy perspective. We are seeing a lot of momentum there. We see massive capacity additions over there for the next 1-2-3 years. What we are seeing in the states like Rajasthan and Maharashtra is now what they say, "I have met my RPO obligation." For the coming financial year for example, if my RPO obligation is going to be 500 or 600 MW, I only want to procure that much capacity because now I am not lagging the RPOs. States like Andhra and Madhya Pradesh where there is a massive lag of RPO, so if the RPO supposed to be 7% and they are at 2%, they still need a massive amount of capacity to come up before they meet their RPO. So, obviously, 3 or 4-years down the line, if all these guys virtually achieving their RPO, on a year-on-year basis, every state will probably be 600-800 MW and then if four or five states firing you will have 3 or 4 GW of marketplace, the RGO impact has got nothing to do with the distribution utilities, because then it is going to be a function of passing on the obligation of Renewable Energy on generators itself. Now, that market could potentially be anywhere from 1000 MW to 2000 MW p.a. So, that is how we see the market moving. With respect to your question of some distribution companies facing pressure like Rajasthan or Tamil Nadu and so on and so forth, that is well known, that is something which the utilities and the IPPs are well aware of and I think they build that into their IRR calculation when they take investment decision. It is common sense over the past years you have seen a lot of these IPPs moving away to Gujarat, Rajasthan, Maharashtra, Madhya Pradesh. IPP generally do not like to invest in Tamil Nadu. Tamil Nadu is coming back again because of AD customers. Also, suppose if payment terms to be for example are 60-days and distribution companies end up taking 5-months or 6-months. From an IRR perspective, there is a very-very minor impact on IRR. And most of these IPPs already build that assumption while calculating the IRRs and while factoring in what the investment requirements, etc will be.

Pulkit Patni:

But keeping the same thing in mind, do you really think that the RPO obligation most of these states are going to abide by particularly in the current scenario where the penalties are not very high, obviously, the new Electricity Act proposes much higher penalty, but in the absence of something like that, do you really think that all these states will have to abide by their RPOs?

Devansh Jain:

They have to abide by, but obviously like you said there are no penalties, people may choose not to and globally, Renewable Energy is growing massively across the world because of government push. If the bureaucrats and other people had their call, we would not have any renewable energy capacity, there would be no hydro, wind, solar anywhere in the world and we would only have thermal capacity everywhere. But then, I don't know how fast climate change would impact everybody's life and what would happen to future generations. So, clearly, globally, everybody is pushing for Renewable Energy. Fact of the matter again is this government's priority is Renewable Energy. They understand the long-term impacts of Renewable Energy. The benefits while from a myopic view one may be seeing that you are paying Re.1 extra, but from a 20-year perspective, energy security, no dependence on third-party countries for oil, gas, etc, a lot of these things come in. And honestly, if you look at the total capacity of Renewable Energy going into the grid, India installed waste is 2.5 lakh MW. Renewable Energy is at about 35,000 MW which is operating in about 20-25% PLF. We are talking about 6,000 or 7,000 MW of actual energy in 2 to 2.5 lakhs MW capacity. If India cannot even do that? Then honestly, I do not know where the future generations will go and how we will be able to tackle all the climate change pressure which the developed countries and developing countries like China are facing and acting upon.

Deepak Asher:

Also, if I may add to that, from a financial perspective, if you look at the levelized cost of power through wind it is not more expensive than the levelized cost of power through any other near thermal source, considering the fact that there is absolutely no cost escalation in

this business because there is no marginal cost, there is no fuel, there is no variable cost. Most of the cost is fixed, upfront, and hence your tariffs are tied up for the next 20-years, whereas in other fuel-based power there would be fuel cost pass-through in terms of higher gas cost or coal cost and hence if you look at a 20-year life cycle of the project, I think the levelized cost on wind would also be as competitive as any other source of power.

Devansh Jain: Also, just to add quickly, let us not forget, the draft for the Renewable Energy law is already in the public domain, the RGO is already in the public domain, it is already being placed in parliament once. So clearly, this government is walking the talk and not just targeting aggressive number of Renewable Energy, but actually bringing in policy change to ensure that Renewable Energy actually comes up on ground.

Moderator: Thank you. The next question is from the line of Sandeep Panda from Sharekhan. Please go ahead.

Sandeep Panda: Due to the lag effect in commissioning, what quantum does it impact our revenue in terms of like as you said EPC will partly book our revenue? The second is that as you said business model itself is like having that kind of a lag and it seems because of that for last 7-8-quarters that we see there is a lag happening in one of our subsidiaries. So is it going to continue and if you can throw some light what portion of our revenue will be impacted because of that?

Deepak Asher: It is wholly irrelevant to look at what a subsidiary is doing, because the subsidiary has no reason to exist except for providing EPC services to the holding company and frankly it was created as a subsidiary only for indirect tax, service tax and VAT reasons, rather than for actual business operations reason. So really it does not matter as to whether X-subsiary is a loss and holding company is a profit, one needs to look at the consol numbers between the two. Secondly, I would also mention as Devansh alluded that earlier, but maybe in more specific terms, I would like to say that where you are on a very high growth path, this lag will continue. If I do 200 MW this quarter for example and 400 MW next quarter, so I am actually incurring EPC cost for 400 MW in Q2 but I am commissioning the 200 MW in Q1, and therefore my revenues are for 200 MW but my cost is for 400 MW. Again, in Q3, if I expand from 400 to 800 MW and I am incurring cost of 800 MW but I am having revenues of 400 MW which is what I sold in Q2 and hence if you are on an extremely robust and strong growth path, the impact of this lag will be evidenced in negative bottom line in the subsidiary. However, as business matures and your growth is more stable, the impact of that lag will be much more minimal, for example, if I get into doing 1000 MW in one particular quarter at some point in the future and then the next quarter will grow by 20% which is 1200 MW, then you would not see the impact of such a significant growth. So to some extent, I think we have victim of our growth and the subsidiary has not been showing profits because of the growth but I am sure that is not something which is likely to happen going forward. And thirdly and lastly, the subsidiary will have O&M revenues, there are not any O&M revenues booked in the subsidiary yet, and it was always said that when O&M revenues kick in, as more and more of our turbine population goes off the warranty period, there will be an additional revenue stream in the subsidiary because of that.

Moderator: Thank You, The next question is from the line of Rahl shah. Please go ahead.

Rahil Shah: What would be the royalty implication on the 113m Wind Turbine.

Devansh Jain: There is a license fee or honestly could be royalties, royalty would be sub-\$2 million, I cannot share the exact number with you, I did share the exact number of turbines over which it is spread.

Rahil Shah: It would come into play this financial year.

Devansh Jain: I am not sure how much of it would come into play this financial year, maybe 20, 30, 40 MW, but certainly over the next financial year, we will see a massive build-up of the 113 m Wind Turbine.

Rahil Shah: This would have much higher PLF compared.

Deepak Asher: This would have higher PLF, there would be better generation for our customers and hence better cost efficiency for our customers and higher margins for us. And to that extent, the royalty would be very insignificant part of the higher margins.

Devansh Jain: Margins would expand substantially – thanks to 113m Wind Turbine.

Moderator: Thank you very much. Ladies and Gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Vithlani for closing comments. Over to you, sir.

Bhavin Vithlani: 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 we wish them best of luck for the future. Over to you, Mr. Devansh and Mr. Asher for your closing comments.

Deepak Asher: On behalf of Inox Wind Limited, the board and its management, we are extremely grateful to all the investors and analysts who have taken time off their schedules to attend to this call. We truly appreciate your interest in the company and look forward to your continued support going forward as well. Thank you very much.

Moderator: Thank you very much. Ladies and Gentlemen, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.