# “Inox Wind Q2 FY18 Earnings Conference Call”

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**MODERATOR:** **PUNEET GARG – AXIS CAPITAL**

**Moderator:** Ladies and gentlemen, good day and welcome to the Inox Wind Q2 FY18 Earnings Conference Call, hosted by Axis Capital Limited. As a reminder, all participants' 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, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Puneet Garg from Axis Capital. Thank you and over to you, sir.

**Puneet Garg:** Thank you Inba. Good evening, everyone. On behalf of Axis Capital, I would like to invite you for the conference call of Inox Wind Limited. Today we have with us the senior management of Inox Wind. Without much ado, I would like to handover the call to Mr. Atul Soni for his opening remarks, post which we will open the floor for Q & A. Over to you, Atul.

**Atul Soni:** Thank you Puneet. A very warm welcome to all the participants of this earnings call. The Board of Directors of Inox Wind Limited had approved the Q2 FY18 results in their meeting which concluded on Saturday. I trust you would have had an opportunity to go through the results.

As was anticipated, Q2 saw the continuation of the temporary downturn in the Indian Wind Power market due to the ongoing transition from the FIT based market regime to the auction based market regime. We believe that we are in the last stages of this journey. We expect normalisation, from an order inflow perspective, to commence from Q3 onwards, and execution to pickup from Q4 onwards. We saw during the quarter, CERC releasing an order clarifying on connectivity issues in the last week of September which paved the way for the second SECI auction of 1000MW which was conducted on October 4th where amongst other IPPs and manufacturer bidders, Inox Wind was again the only WTG manufacturer to win 250MW order book quoting a price of Rs2.65/unit. This translated into a 25% market share for Inox Wind in the auction.

In other recent developments, the Karnataka government overruled Karnataka Electricity Regulatory Commission (KERC) order and confirmed that the PPAs signed till March 2017 will have tariff of Rs4.5/unit and not Rs3.74/unit as per KERC order. The state govt. invoked special provisions under Section 108 of the Electricity Act to veto the decision of KERC. On the auction front, the government is looking to conduct 3 rounds of SECI auctions of 1500MW each till March, 2018. Gujarat would be conducting their 500MW wind power auction in the next few weeks. Additionally, there are 700MW of PSU tenders in the pipeline. These auctions pave the way for achieving robust order inflow for the sector for FY19 and the beginning of a phase of robust growth for the wind industry.

Our order book stands at 550MW which comprises of 300MW from SECI-1 and 250MW from SECI-2 auctions. During the quarter, we have down sold our SECI-1 order book to the leading IPPs in the country. For the SECI-2 order win, we are in active discussions for down selling to leading IPPs of the country.

In terms of the financial results we ended Q2FY18 with revenues of Rs80 crores as compared to Rs800 crores in Q2 of FY17. We had an EBITDA loss of Rs20 crores in Q2FY18 as compared to EBITDA profit of Rs101crores in Q2FY17. We had a PAT loss of Rs46crores as compared to profit of Rs56crores in the preceding year quarter. We view the quarter's results as a reflection of the temporary downturn being witnessed in the sector and we expect things to pick up in second half of FY18.

Coming to the operational highlights of the Company for the quarter, we achieved commissioning of 40MW in the quarter taking H1FY18 commissioning to 86MW. As per MNRE data, the industry has added 421MW during the first half of FY18 which means we have achieved a 20% installation market share in the industry.

At the end of the first half FY18, in terms of working capital, inventory stood at Rs955 crores, receivables at Rs1658 crores, payables at Rs506 crores and others at about Rs181 crores. This translates into a net working capital of Rs1927 crores. We have reduced our receivables sharply by Rs326cr on a net of sales basis during the quarter and by Rs724cr in the first half of FY18. We expect inventory levels to come down when execution starts in the second half of the year. We expect the working capital levels to ease going forward in the auctioning regime as it ensures better-coordinated production and inventory planning with PPA signed upfront leading to secured financial closure at the IPP's end. On the net debt/equity front, we ended the quarter at a Net Debt Equity ratio of 0.49x.

In terms of project size we continue to be amongst the largest project site holders in Gujarat, Rajasthan and Madhya Pradesh. We have sufficient project site inventory as of Sept 30th, 2017 for installation of an aggregate capacity of more than 5000MW. In terms of manufacturing capacities, our blade manufacturing capacity stands at 1600MW. With minor capex we can debottleneck our nacelle and hub capacity from the current 1100MW. Towers can also be expanded with minimum capex as towers are low technology items which can also be outsourced. Hence we are fully geared to manufacture whatever the market demands in the auction regime.

So that ladies and gentlemen is a broad overview of our operational and financial performance and how we see the sector going forward. Thank you and we would be ready to take questions now.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Deepak Agarwal from Elara Capital. Please go ahead.

**Deepak Agarwal:** My question is, if you can help us understand the broad assumptions that you have made regarding the tariff bidding of Rs2.64/unit that you have won in the second round.

**Devansh Jain:** There are a couple of assumptions on key parameters which determine the equity returns to an investor namely tenure of debt, interest rate of debt, debt-equity ratio of the project, PLFs of the project site and lastly the turbine cost. The tenure of debt from discussions with various IPPs ranges anywhere from 15 years to 20 years and interest cost ranges anywhere from about 9% to 10%. The PLF of the sites being used now are in the range of 37% to 40% depending on which region it is and what variant of turbine we are using. With respect to the turbine price obviously we cannot disclose the turbine pricing but it is a price which gives us a healthy return.

**Deepak Agarwal:** So, it is fair to assume that these 250MW in second round could also be at the same location as was in the first round?

**Devansh Jain:** Yes, it is the same location.

**Deepak Agarwal:** So basically, the execution will now depend on how the power grid line progresses because that was you are mentioning one of the bottleneck in the earlier con-call actually.

**Devansh Jain:** Well it is not a bottleneck since the PGCIL line is expected to be commissioned between March to June,18 and hence our supplies would be back-ended from H2 for executing the SECI-1 order win. In any case what we closed in SECI-1 was pending for the CERC clarification which finally got released on the 29th of September providing clarifications around how transmission line network can be used and how connectivity can be used by SPVs. We are now in a position to start moving with our contracts with the customers.

**Deepak Agarwal:** So basically, we will see the execution of the first round happening in 4Q

**Devansh Jain:** Well you will see execution picking up in Q4 and continuing over Q4 and Q1 of the next financial year.

**Deepak Agarwal:** My third question is, if you can help us understand the new auctions that are coming up in the market. So, is it fair to assume that most of the sites will still again be located in Gujarat and Tamil Nadu given the way tariffs are moving?

**Devansh Jain:** There are 2 types of auctions which are going to come out in the market. One is the SECI auctions, which are central auctions which are expected to be in the excess of 4GW per annum and then there are the state specific auctions. So, it is natural that in the state specific auctions the project site would be located in that particular state. For example if it is a Rajasthan auction it will be specific to sites in Rajasthan, If it is a Maharashtra auction it will be specific to sites in Maharashtra and so on and so forth. Thus state specific auctions will require us to set up capacities within in those respective states.

Under the SECI auctions it would be natural to expect that for the foreseeable future most of the capacities would be set up in Gujarat and Tamil Nadu simply because these are the two states which have some of the highest PLF sites and only once we exhaust these sites would people start shifting to other states. So, I think for the next at least 10GW-15GW, I would tend to expect majority of the investments happening in these two states.

**Deepak Agarwal:** And my last question is, if you can give us the update on the orders that you are negotiating for 250MW won in the SEC-2 round. So, is there any movement that is happening that order?

**Devansh Jain:** Well, all we can say is that we are in advance stages of discussions. I think it would not be possible for us to give you more details since we have just been issued the letter of award last week. Having said that, we are in very advanced stages of discussions and over the next couple of weeks you should be hearing closure of that as well.

**Moderator:** Thank you. Our next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

**Mohit Kumar:** Sir, why inventory has gone up despite no orders and when can we expect revenue booking from these 550MW?

**Devansh Jain:** You have to understand that we were undergoing a regime change in the wind sector in the past six months. We have not opened any new LCs for raw materials as such but whatever LCs had been opened until March, obviously kept coming in and started getting booked under inventory. So, you saw a fair chunk of inventory coming in June, approximately Rs180 crores, and then the final left over quantities which were in transit and hence were not reflected in Q1 finally came in Q2 and that is the reason why you see inventory go up slightly this quarter. So, these were all those quantities for which LCs had been opened earlier and hence we could not do anything above that.

Now with respect to how will you see this inventories go down, as soon as we start supplying goods into the market, inventories will keep going down. It is natural that we will first be liquidating the entire inventory that we are sitting on. Also, I would like to point out that historically at all points in time we carry about Rs450 crores of infrastructure inventory which includes various substations, lines, networks, project sites etc. which are available and built across the country in different states. So, net of that we have turbine inventory of approx 400 crores to 500 crores which would translate to approx 80MW-100MW and that is something which we will use towards supplying for the SECI auctions and that will be reflected in revenue booking going forward.

**Mohit Kumar:** My next question is regarding the delay in issuance of wind bidding guidelines for the state by the center and have you heard anything about auctions being conducted by the other states especially Maharashtra, Karnataka, Andhra Pradesh and if you can give an update on the Rajasthan bid?

**Devansh Jain:** Honestly, I wish I was the government then I could respond to you as to why there is a delay but from what we understand the bidding guidelines are finally being firmed up. I believe they have been sent by MNRE to the Ministry of Power and I think over the next couple of weeks we should probably see the final state bidding guidelines being issued. Post that this whole debate of new PPAs under feed in tariffs not being honored by states will completely close down. I think we would expect those guidelines to be issued within the month of November-December and that has also been spoken about by many government officials on the record.

With respect to the other auctions in the other states, the Tamil Nadu auctions have been conducted and the Gujarat auctions, which were earlier planned to be held in the 1st week of November would be conducted shortly. The Gujarat auctions were delayed due to the court order restraining holding of auctions before the issuance of the final bidding guidelines. I think the hearings have been done, the order has been reserved and we expect that order to be announced at any point in time. So you may just see the Gujarat auction happening immediately or as soon as we have the intrastate bidding guidelines which should have happen over the course of this month. With respect to the other states, I think at this point in time the Rajasthan tender document is in the public domain and that is something which we think would be bided out over the course of this financial year. With respect to the other states, I think different states are working towards it. It is hard for us to tell you which state is exactly at what stage but we do know that multiple states are working on bidding guidelines and I think once the interstate bidding guidelines come out it will only give a bigger push to all the states to come out with their respective state biddings.

**Mohit Kumar:** Sir, my last question. What's happening with regards to the Tamil Nadu auctions and whether they have issued the LOI and have the winning IPP's placed the orders?

**Devansh Jain:** Mohit, we are not privy to this information but from our limited understanding we know that the winning IPPs are looking to place orders for wind turbines in the market. As you are aware we chose not to participate in that bid because from all our IPPs perspective most of them were not comfortable going to Tamil Nadu given the transmission issues as well as discom payment issues in that state.

**Moderator:** Thank you. Our next question is from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.

**Ketan Gandhi:** Can you just give the breakup of the receivables?

**Devansh Jain:** Well as we explained earlier, a big chunk of that comes from the 100MW to150MW of turbines for which we have PPA signed but which are on the ground and need to be erected. We said this in March as well as in the June quarter that in Karantaka we have got PPA signed but we are awaiting ratification of the PPAs. As was mentioned at the beginning of our call the Karnataka government has finally invoked section 108 where they have directed KERC to honor past signed PPAs so as to enable commissioning of turbines till 31st March 2018. As soon as we hear back from KERC which is expected shortly, we would be able to utilize that 100MW and realize those receivables from our IPPs. Having said that we now have the sector leading auction based order book and if at any point in time those signed PPAs do not see light of day in that case we will be using these turbines across the SECI auctions which we have won. So, yes we have about 150MW for which we have PPAs in different states which as soon as is honored will be realized. Other than that, we have about Rs400 crores to Rs500 crores of receivables which we are collecting on a quarter-to-quarter basis.

**Ketan Gandhi:** So, approximately Rs900 crores on 150MW which are yet to be signed PPAs and around 500 crores to 600 crores which are pending, right?

**Devansh Jain:** Well, those PPAs have been signed earlier in the year, so the Rs900crores for which we need to collect money got stuck due to the ongoing transition in the sector. So, as soon as the Karnataka issue is resolved, which we believe will be resolved now, thanks to section 108 being invoked by Karnataka those receivables will get cleared for us. Having said that, if at any point in time, these states do not honor the PPAs then we will be using this inventory in executing our SECI orders. So, we will not have any stranded assets in our system and yes the remaining 500 odd crores are for projects which are ongoing and for which we are collecting money. As you may have seen we have collected almost Rs950 crores from 1st of April until 30th of September on a gross basis and with approx Rs200 crores of sales over H1 which obviously get added to the kitty will lead to about Rs750 crores of reduction in our net receivables.

**Ketan Gandhi:** Sir, is it safe to assume that the receivables which were pending since more than one year have been collected?

**Devansh Jain:** I do not have the exact number with me but I do not think we would have anything significant which should be over one year.

**Moderator:** Thank you. Our next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

**Vipul Shah:** You have down-sold the SECI-1 250MW order win, so how does it work meaning it will not be on our books?

**Atul Soni:** No, this would not be on our balance sheet.

**Vipul Shah:** But we will still manufacture it and supply it

**Atul Soni:** Yes, we would be manufacturing and supplying the turbines for the projects but the projects will not be on our balance sheet.

**Vipul Shah:** And have we made any profit on this down selling?

**Atul Soni:** Well obviously, we will have healthy profitability on those supplies.

**Vipul Shah:** Can you quantify sir?

**Atul Soni:** We will not be able to quantify that.

**Vipul Shah:** And sir what is the yield difference between in Rajasthan and Tamil Nadu versus other states? In Gujarat and Tamil Nadu you said 37% to 40% PLF we are getting, right?

**Devansh Jain:** 37%-40% is the expected PLF using the latest turbines in Gujarat and a comparison of that, if that is your question, as to how that would pertain to in Rajasthan then that would probably be 30% approximately. Of course one has to keep in mind that this is site dependent, but ballpark would be about 30% versus 38%.

**Vipul Shah:** And sir last question is regarding the 100-150MW where PPAs have been signed. Incase there is some issue in implementation in Karnataka, would you use the turbines for SECI auction execution.

**Devansh Jain:** Well we see the probability of having to use it for the SECI auctions is very limited because now the Karnataka government has invoked section 108 which gives them the power to direct the regulatory commission to follow their orders. The KERC has to honor what the government of Karnataka has mandated them to do. So, we believe finally we will be able to collect our receivables against these turbines which had been supplied for which we had PPA signed but were not ratified by the KERC

**Vipul Shah:** And finally what is our land bank which can and it can cater to how many megawatts of installation?

**Atul Soni:** Over 5,000MW of project site inventory.

**Moderator:** Thank you. Our next question is from the line of Puneet Garg from Axis Capital. Please go ahead.

**Puneet Garg:** My query is related to execution timeline of the SECI-1 and SEC-2 auctions. So, how do we see that panning out in H2 or do we see the commissioning and execution going forward in FY19 as well?

**Devansh Jain:** We have stated that we expect closure of the contracts in Q3 and we expect to begin full focused execution from Q4 onwards. So, you will start seeing the supply of turbines for SECI-1 auctions from Q4 onwards. Execution will keep happening in parallel for SECI-1 and SECI-2 orders. We have already started construction of the transmission line and about to start the construction of the substation for our Kutch project and execution will play out over Q4, Q1 and Q2 for SECI-1 and SECI-2.

**Puneet Garg:** And one more question regarding the recent SECI-2 bid and the price per unit that has been discovered. So, broadly if I can ask you that how would the profitability look like at these prices

**Devansh Jain:** We do not give guidance on future numbers but we would be having healthy profitability levels for our SECI-1 and SECI-2 orders.

**Moderator:** Thank you. Our next question is from the line of Srinidhi Karlekar from HSBC. Please go ahead.

**Srinidhi Karlekar:** Sir, I just wanted to understand with KERC now getting mandated that PPA has to be honored, so out this Rs1,658 crores receivable that you have, where do you yourselves ending by the year end? So, how much of this Rs1,658 crores you think you will be able to recover in the rest of the year?

**Devansh Jain:** We have got PPA signed in Karnataka for almost 100MW which we should be able to knock off here as soon as the final order comes out post the Karnataka government issuing these orders to KERC. It would not be possible to give you a number at this point but I can assure you that the trajectory of receivables would continue to in the same direction as shown in H1.

**Srinidhi Karlekar:** And sir, is it only 150MW related receivables which are kind of struck which are beyond your control, rest of the receivables are largely operational like day-to-day business operational receivables?

**Devansh Jain:** So, we have got about Rs600 crores of other routine receivables and as you may have seen we have collected on average about Rs450 crores of receivable every quarter on a gross basis. Net is lesser because if we do Rs100 crores of sales in a quarter that gets added to receivables. So, if you do the math, I believe the remaining routine operational receivables we should be able to collect going ahead.

**Srinidhi Karlekar:** And can you share the profitability on the SECI-1 and SECI-2 in terms of EBITDA?

**Devansh Jain:** I hope you all appreciate for confidentiality reasons as well as competitive reasons we cannot elaborate further.

**Moderator:** Thank you. Our next question is from the line of Bharat Bhagnani from Tasha Invesco. Please go ahead.

**Bharat Bhagnani:** I have a couple of questions. Firstly, I want to ask, what kind of expenses have we done over the last couple of years on research and development?

**Devansh Jain:** I am not sure how familiar you are with the company, but I think this has been stated multiple times across our presentations. We have a technology partner by the name of AMSC. We pay them royalties and license fees for the various turbine technologies which we have taken. So, we do not have any R&D expenses internally.

**Bharat Bhagnani:** I am aware of that but I am seeing you have mentioned in your presentation that you have 120-meter wind turbines as your product offering.

**Devansh Jain:** We have already launched that in the market.

**Bharat Bhagnani:** So, you think you are adequately buffered for any kind of technological advances which may be required?

**Devansh Jain:** We think so, absolutely.

**Bharat Bhagnani:** In the new regime which is the auction based regime what kind of market share do you think you would be targeting for?

**Devansh Jain:** So, we are not running after numbers and again it would be wrong for us to tell you that we are targeting 10% or 20% or 40% or 50%. I think we are looking at a sizeable number which we can execute. If the market is going to be in excess of 5GW to 6GW, naturally the most competitive player will be ideally positioned to take a fairly large chunk of that market. As you may have seen in SECI-1 and SECI-2 we have almost got a 30% market share in SECI-1 and 25% in SECI-2 which translates into a 550MW order book almost gives you approx Rs4,000 crores of revenue visibility. I would not like to comment on a specific number of market share which we are chasing. I think we would continue to win and down-sell those projects and the volumes which we think we can execute comfortably. I would also like to bring to your notice that our current manufacturing capacity is of 1600MW.

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

**Deepak Agarwal:** I just have one follow up question. In the balance sheet, we have seen the long-term borrowings going up from Rs186 crores to Rs437 crores and the short term is down by a sizeable amount. So is there some reclassification that is happen or otherwise why do we need such a high long-term borrowings because our intent was to reduce the borrowing as early as possible.

**Atul Soni:** Let me get back to you on that.

**Devansh Jain:** But just to add we have seen short term borrowings go down by about Rs550 crores and long-term borrowings go up by about Rs250 crores. So, from an overall perspective we have actually paid off net Rs300 crores. Now of course, Atul can get back to you with more details.

**Deepak Agarwal:** And likewise, on the asset side we have a CWIP of Rs125 crores because now almost all our factories are fully completed and operational, so what is this CWIP? Is it pertaining to your own evacuation infrastructure that you create at site or what is it like?

**Atul Soni:** Yes, It largely pertains to our evacuation infrastructure.

**Moderator:** Thank you. We will take the next question from the line of Ankit Babel from Shubhkam Ventures. Please go ahead.

**Ankit Babel:** Sir, my question is on your profitability. Given the fact that the tariffs have reduced by around 30% to 50% during this transition period from FIT to auction based market, I wanted to understand with no commensurate increase in your PLFs on a historic basis how you will be able to do a double-digit kind of margin, sir?

**Devansh Jain:** I think that view is fundamentally wrong of us not showing any increase in PLFs. Historically the projects which we set up earlier were at almost 22%-30% PLFs using our earlier models of turbines having 93m and 100m rotor diameters. The projects which we are installing now are showing PLFs between 38% to 40% using our latest wind turbines having 113m rotor diameter and 120m hub height. There are four fundamental reasons as to how a manufacturer makes profit and the IPP also justifies its return at these tariffs. Number one, the technology up gradation has led to PLF jumping in the past couple of years. We are using sites which until now had been unutilized because the entire Kutch area of Gujarat for example could not be utilized because there were no state evacuations systems available there earlier. Only the central PGCIL network was there and until now you had to connect to state network for signing the preferential tariffs. So, thanks to auctions, we are now connecting to the central PGCIL network. As a result of which the whole Kutch area has become accessible for the wind energy industry. So, you are seeing a huge jump in PLF to 40%. Number two, you are seeing central PPA security as supposed to depending on state governments to make discom payments which historically have been delayed by 3 months to 4 months to 5 months depending on which state you are in. You also have the Central Government security under the central auctions which gives a lot more comfort to investors which enables them to reduce the return expectations. And number three, the investors themselves have bought their return expectations down because under the auction regime the project risks associated with these projects are far lower than the earlier FIT based projects on back of upfront signing of PPAs, evacuation and payment by central grid. And fourth and most importantly what is also happened is interest costs have gone down significantly. If you look at the interest costs prevailing in the country about a year ago, a lot of our investors were borrowing at about 12% which is now down to almost 9% to 10%. So, these factors – PLF, Central PPA security, interest costs coming down and the tenure of the debt also becoming longer because this is a 25 years central PPA is leading to return expectations dropping for investors which is leading to these kind of tariffs.

**Ankit Babel:** But you have mentioned earlier that the technology improvements which you people are doing will result in higher PLFs would also increase the cost of that turbines.

**Devansh Jain:** Correct. The absolute cost of turbines goes up but the unit cost of energy produced from the these newer turbines actually goes down since the number of units produced increases on back of higher PLFs.

**Ankit Babel:** And last one and one-half years the raw material prices have also increased for you.

**Devansh Jain:** Not really, I cannot answer about every other manufacture but at least with respect to Inox Wind, if you look at our five-year trajectory we have been reducing our WTG manufacturing cost year-on-year and I think that has reflected in our raw material cost numbers. And I think we continued to work on that because let's not forget that if returns of investors are going to go down along with the interest cost of bankers then we would have to work with our suppliers for keeping our cost structure lean.

**Ankit Babel:** So, you are fairly confident that the next year you will be doing somewhere around 1,000 megawatts with your similar 14%-15% kind of margins?

**Devansh Jain:** I am not going to make any forward-looking statement and I do not want to give guidance with respect to same. There is a large enough auction pipeline which is in the public domain and which is visible based on what the Central Government and various state governments are saying. We have a manufacturing capacity of almost 1,600MW. We are probably the lowest cost producers of wind turbines not just in India but probably amongst the lowest globally. So, I think having put that together and looking at what we have taken in SECI auction 1 and auction 2, I think it is natural for us to do a fairly decent volume in the coming financial year.

**Ankit Babel:** Starting from Q4 now?

**Devansh Jain:** Well, we always maintained H1 is going to be dead in this sector and I think that is actually what is played out across the industry and I think we are now in the final stages of closing contracts which we have done for all the auctions which we won and as we have mentioned we expect execution to begin full swing from Q4 onwards.

**Ankit Babel:** And sorry for my ignorance this 550MW of order book which you have are all PPA signed for this?

**Devansh Jain:** For the first 300MW the PPAs have been signed.

**Ankit Babel:** And tariff is also decided?

**Devansh Jain:** This is an auction price, so there is no tariff to be decided.

**Ankit Babel:** And the remaining 250MW?

**Devansh Jain:** For the remaining 250MW, the letter of awards has been issued as I mentioned only last week and we believe that over the next 10 days to 15 days the PPAs for this would be executed.

**Management:** In any case they would be carrying out the next auctions once these PPAs are signed before the third auction comes out which is expected within November.

**Ankit Babel:** So, do you see a further correction in the tariffs in the future biddings from the current ones of Rs2.65/unit?

**Devansh Jain:** Honestly, I am not in a position to answer that question. At the end of the day it is a function of the returns investors need to make. If you look at the second auction barring Inox Wind, there were 7 other IPPs who bid. All of them bid between Rs2.64/unit to about Rs2.75/unit. The auction prices depends what kind of returns these people want and what kind of debt and interest cost they have. Also some people hedge**,** some people do not hedge, so net net it is not possible for me to answer this directly.

**Ankit Babel:** So, considering all these things, what kind of realization drop you will witness say in FY19 on your turbines, I mean considering all the facts?

**Devansh Jain:** Again as I mentioned for competitive reasons and confidentiality reasons we cannot share exact specifics but I would like to add that any margin decrease on a percentage basis would be more than compensated by the volume increase that we would see going ahead. So, let's say our margin goes down by X%, my volumes would compensate by increasing way more than X%. Also it is wrong to assume that the absolute realization will go down of our wind turbines on back of these auction prices. Actually, if you look at it the selling price of turbines, it has only increased with time because as you come out with a newer variant or a higher technology version of wind turbine, the price actually goes up. So, I think there is some misunderstanding of yours in this in terms of realizations

**Ankit Babel:** The reason I was asking that is in this scenario how your profitability would be?

**Atul Soni:** We will not be able to share forward-looking statements and as we have said multiple times for confidentiality and competitive reasons we would not be able to put a number to that at this point in time.

**Moderator:** Thank you. Our next question is from the line of Srinidhi Karlekar from HSBC. Please go ahead.

**Srinidhi Karlekar:** In SECI-1 and SECI-2 you participated as a developer and then you sold down SECI-1 and attempting to sell down in the SECI-2 project that you won, right. So, I am asking which all states you would you think you will be following this strategy bidding as a developer initially and then attempting to sell it down. So that is my first question and sir apart from like few of the states you will not be participating as a developer, but you would still be in a position to supply as a turbines manufacturer. So, I want to know in which all state do you think you are largely competitive to supply wind turbines?

**Atul Soni:** Let me just take that question. See for competitive and strategic reasons we obviously cannot divulge at this point of time which states would we be going for and which state would not be going for. I hope you understand this because this is highly sensitive and competitive information. Obviously, when it comes to supplying of wind turbine we are happy to supply turbines across all the windy states of the country. We have done that in the past also. So, over there you act like a normal vendor to a client when it comes to participating in auctions, I think we have to see the rules and whatever regulations come through for each state. It will be very difficult to give as of today which states would we want to go to and which states would we not want to go to.

**Srinidhi Karlekar:** Would it be possible to answer like how much of threshold in terms of size at least like you would do like 250MW or 500MW per year as a developer?

**Atul Soni:** It is going to be a function of the respective states and what the auction guidelines are for that respective state. And we will continue to participate across different state auctions and depending on where we see demand coming in from our customers. We are competitive to supply on a pan-India basis. We are present in every state of this country today where wind exists.

**Srinidhi Karlekar:** If market is expanding and if it is growing into 4GW or 6GW plus market Do you see Inox Wind participating only as a vendor as against now?

**Devansh Jain:** How the sector used to work earlier was the turbine manufacture was doing turnkey development. 90% of the Indian wind market was turnkey development so the turbine manufacturer used to provide end to end solutions.

**Srinidhi Karlekar:** I mean owning the project not the turnkey.

**Atul Soni:** We are not looking to become asset owners. I think we have repeated that multiple times in all our interactions across all our investor communication, we do not intend to become asset owners. So, that is as far as being asset owners is concerned. Our strategy is to go into auction, win in an auction as a means to get order book and then down-sell it to our clients. We do not intent to hold any assets in the future.

**Moderator:** Thank you. Our next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

**Mohit Kumar:** Sir, my question pertains to the down-selling of the wind asset. Are you sharing the name of the IPPs?

**Atul Soni:** Well we have already put out one in the public domain which was Adani Green Energy and I think at this point in time we cannot mention the name of the second IPP for confidentiality reasons.

**Mohit Kumar:** And sir my follow up is that in this case when do you expect the entire asset to be sold off in the sense that the tender will require you to hold the asset for one year

**Devansh Jain:** Well, again there are certain ways in which these can be structured but as I mentioned earlier none of these would be on our balance sheet and as we mentioned we would begin execution of this in Q4 and I think over Q4 and Q1 we should be able to close the entire SECI-1 supplies.

**Mohit Kumar:** And we can expect that the entire thing will be sold or down-sold completely?

**Devansh Jain:** We have already down-sold SECI-1.

**Moderator:** Thank you. Our next question is from the line of Giriraj Daga from K. M. Visaria Family Trust. Please go ahead.

**Giriraj Daga:** Just want to understand like from the SECI-1 perspective has your customer or has any of the bidders able to do the financial closure so far?

**Devansh Jain:** These are some of the largest IPPs in the country who have got thousands of megawatts operational and honestly we are not privy to their internal working. I do not think we are really worried about that since these guys have the financial might to do much larger deals.

**Giriraj Daga:** You mentioned about your 100MW in Karnataka where you have PPAs signed. Is it sitting in your inventory?

**Devansh Jain:** The 100MW is not in our inventories but in our receivables. We had got PPAs signed with the Karnataka Government before 31st March 2017.

**Giriraj Daga:** So, the tariff of Rs4.5/unit will have to be applicable for those orders? That is the assumption which you believe is going to be there? My simple understanding is that the tariff has been reduced to Rs3.74/unit?

**Devansh Jain:** We signed the PPAs at Rs4.5/unit but the order revised it to Rs3.74/unit for those projects which were not commissioned. So, finally we do not know whether it is going to be Rs4.5/unit or Rs3.74/unit post the government of Karnataka order. In either case we have already closed the commercials with our customers for this entire volume.

**Giriraj Daga:** So, that means that Rs3.74/unit tariff the customer will be taking?

**Atul Soni:** Well absolutely because now Rs3.74/unit to be honest is the golden egg because today energy prices in India have crashed to Rs2.64/unit.

**Moderator:** Thank you. Ladies and gentlemen, that was our last question. I now hand the floor back to Mr. Puneet Garg for closing comments. Over to you, sir.

**Puneet Garg:** 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 participant to join in. Before we close, I would like to hand over the call to Devansh for any closing comments.

**Devansh Jain**: Thank you everybody. Thank you for your keen interest in our Company. The past six months has been a fairly challenging period for the company as well as for the sector. The good news is that we are in the final stages of the transition period coming to an end, with the SECI auctions now under way and all the regulatory confusion around connectivity so on and so forth clarified by the CERC. Going forward we see very solid momentum in this sector. We have seen multiple statements from various officials of the central government, for bidding out almost 4500MW in the next 4 to 5 months. We are very excited about that. We have demonstrated our ability to participate and win successfully both in SECI-1 and SECI-2 auctions as well as down-sell our capacities. We are also very enthused by the fact that multiple states are now working towards bringing out auction guidelines. It began with the first auction in Tamil Nadu which will be followed with auctions in Gujarat and we believe other states will follow soon over the next couple of months. As has been stated in our presentation and over this call, we believe we are now focusing on closing a lot of the contracts for SECI-2 over this quarter. We have down sold SECI-1 volumes, we hope to be able to sell SECI-2 volumes in the next few weeks and then we can full-fledged focus on execution over Q4. In the past week another good news was that the Karnataka government has invoked section 108 to overrule the KERC order. This helps us to a great extent because we have approx 100MW to 150MW of our capacities which were sold which were pending under receivables because PPAs were not being ratified. This will hopefully get cleared in the coming days and we will be able to collect all our receivables outstanding against those supplies. So all in all, I think we have probably gone through the worst phase over the past six months which was the transition period. This transition period is coming to an end and we believe FY19 will be a year of very robust growth for the wind sector and we are ideally positioned to play a significant role in that going forward. Thank you and we look forward to connecting with you in our next quarters call.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, with that we conclude this conference. Thank you for joining us and you may now disconnect your lines.