



“Inox Wind Q4 & Full-Year FY18 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good day. And welcome to the Inox Wind Q4 and the Full-Year 2018 Earnings Conference 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 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. I now hand the conference over to Mr. Bhavin Vithlani from Axis Capital Limited. Thank you and over to you, sir.

Bhavin Vithlani: Thank you, Aniket. On behalf of Axis Capital, we would like to welcome you for the earnings call for Fourth Quarter and Full Year FY18 Conference Call for Inox Wind Limited. From the management team of Inox Wind, we have with us Mr. Devansh Jain – Executive Director, Inox Wind Limited; and Mr. Atul Soni – Head of Investor Relations at Inox Wind Limited. Without much ado I would like to hand over the call to Mr. Atul Soni for his opening remarks, post which we will open the call for Q&A. Over to you.

Atul Soni: Thank you, Bhavin. A very warm welcome to all the participants of this earnings call. The Board of Directors of Inox Wind has approved the Q4FY18 results in their meeting which concluded recently. I trust you would have had an opportunity to go through the results.

Just to give you an overall perspective of the year gone by, the sector saw a turbulent year on back of the painful transition to an auction regime which saw wind installations take a dip from 5.5 GW in FY17 to 1.7 GW in FY18. However, the silver lining in this year was the 7.5 GW of auctions which took place under various SECI and state auctions. This should provide a base for a strong execution cycle for the wind industry over the next 12 to 18 months. We look forward to FY19 being a strong turnaround year with stable execution for the whole wind sector.

During the quarter we won 350 MW from SECI (300 MW) and Maharashtra (50 MW) state auctions taking our total auction-based order book to a sector leading 950 MW. Effective April, we have also recommenced operations across our manufacturing facilities in Gujarat, Himachal Pradesh and Madhya Pradesh after a near four quarter gap for the execution of SECI orders in this year. We also concluded the Offer for Sale (OFS) in March 2018 to comply with the SEBI listing requirements of having the promoter holding reduced to 75% within three years of the IPO.

In terms of the financial results, we ended Q4 FY18 with revenues of Rs203 crores as compared to Rs1,019 crores in Q4 of FY17. We had an EBITDA loss of Rs30 crores in Q4 of FY18 as compared to an EBITDA profit of Rs230 crores in Q4 FY17. We had a PAT loss of Rs55 crores as compared to Rs127 crores profit in the preceding year quarter. We view the quarter’s result as a reflection of this downturn being witnessed in the wind sector and we expect the start of an upward trajectory for the sector over FY19.

Coming to the operational highlights, we achieved commissioning of 82 MW in the quarter taking our FY18 total commissioning to 172 MW.

Now on to the balance sheet front, we focused unrelentingly during the year on improving our key balance-sheet metrics, including reducing our receivables, reducing our working capital and debt levels. I would like to elaborate from Slide #9 and #10 of the investor presentation which has details of our focus on receivables reduction during the year. We started the year with Rs2,366 crores of net receivables and did Rs480 crores of sales during the year. Taking into account our closing net receivables of Rs1,060 crores, we collected approximately Rs1,800 crores during the year. Additionally, we have also collected over Rs200 crores since April of 2018.

Coming to the quarter; we have reduced our net receivables by Rs300 crores and by Rs1,306 crores in FY18. Additionally, we have reduced our net working capital by Rs470 crores in Q4 of FY18 and by Rs565 crores in FY18. At the end of Q4 FY18 in terms of working capital, inventory stood at Rs929 crores, net receivables stood at Rs1,060 crores, payables at Rs536 crores and others at about Rs214 crores. This translates into a net working capital of Rs1,239 crores. We expect the inventory levels to come down as execution picks up pace in the following quarters. We also expect the working capital levels to still ease going forward and stabilize going ahead in the auction regime as it ensures better coordinated production, inventory planning and execution of wind projects. On the net debt to equity front, we ended the quarter at the improved net debt to equity ratio of 0.35x versus 0.44x in the preceding quarter.

In terms of projects sites, we continue to be amongst the largest project site holders in Gujarat, Rajasthan and Madhya Pradesh. We have sufficient project site inventory at year-end for installation 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 typically low technology items which can also be outsourced. Hence, we would like to reiterate that we are fully geared to manufacture whatever the market demands in the auction regime. In our view the clarity on the quantum of auction pipeline, issuance of regulatory guidelines and a renewed focus on increasing the renewable energy footprint in the country, all combine to provide an upward trajectory for the sector.

Going ahead we see the journey towards an exciting period of significant and sustainable growth for the Indian wind power sector. So, that is a broad overview of our operational financial performance and how we see the sector going forward. We are now open to taking your questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Ayush Mittal from Mittal & Co. Please go ahead.

Ayush Mittal: Sir, I want to understand about the receivables that we have. Though there has been a reduction in the receivables but they are still higher than the turnover. So, can you tell us more details about this?

Devansh Jain: I would request you to focus on Slide #9 and 10 of the investor presentation. If you look at the opening receivables we had approximately Rs2,366 crores of net receivables. Over the course of the year we have done sales of about Rs480 crores which takes our total opening net receivables and sales to about Rs2,800 crores. Our closing net receivables are Rs1,060cr which means we have collected approximately Rs1,800 crores over the course of the year. Also, if you look at the note which we put on Slide #10, we have collected over Rs200 crores since the beginning of the current quarter which effectively means that we are sitting on about Rs. 860 crores of receivables which needs to be collected. Please keep in mind this includes Rs200 crores of sales which we did in Q4, which from an ageing perspective is absolutely live. So, if you reduce that you are down to Rs660 crores. You have to compare that with the approx Rs2,400 crores net receivables at the beginning of the year which got significantly tied up due to downturn in the sector wherein states stopped signing/honoring tied up PPAs and we have over the course of the year collected the majority of this through implementing projects across Karnataka, PSUs and Gujarat and some other states. So the balance Rs660 odd crores which you see is already been implemented across Gujarat and Karnataka and it is something which we will collect over the next two quarters.

Ayush Mittal: Can you tell us about the ageing of our receivables. Also what would be the share of private parties, state governments etc?

Atul Soni: Well, actually our receivables are not from the state governments since we do not sell power and typically power is sold to state governments by IPPs. Our turbines are sold to private sector IPPs as well as PSUs. I think of the Rs660 odd crores which are left, about 25-30% would be from PSUs and the rest would be from the private sector. From an ageing perspective when you look at it, a lot of these turbines have now been used in different projects because the projects in which these were intended to be used never got implemented because the states never went ahead with those signed PPAs over the course of last year. So for example, while we had signed PPAs in Karnataka, they got ratified only later in the year in Q4 and hence we were able to implement that project only in Q4. So, the Rs660 odd crores which is approximately 100-odd MW is something which we are implementing right now across Karnataka and Gujarat. And these have been re-churned from our original stuck up sales.

Ayush Mittal: And sir my second question is around the competitive bids that have now come in the wind sector, there is lot of concern that the profitability will be under pressure for all the value chain as the auction rates has come down substantially lower now. What will be your comments on the margin picture going forward for the company as and when we scale up and get back to the previous levels?

Devansh Jain:

So, Firstly, why tariffs have declined significantly is because under the previous FIT regime people had higher return expectations of IRR than what they would be getting now under the auction regime. The reason why people are willing to have lower IRRs or have brought down their expectations from let's say 14% odd equity IRR under the auction regime vis-à-vis 18% plus under the feed-and-tariff regime is because under the central auction regime you have got certainty of payments and you have got a central government guaranteed PPA which ensures payment comes in time. In fact, almost all of them have revolving LCs as well in most of these tenders. I am sure all of you are aware; in many of the states while there have been no defaults, in some cases there have been payment delays ranging from three months to over 18 months. So this risk is not there in the auction regime and you have the security of payments from an IPP perspective. Secondly, you have the security of the transmission network. In many states, there have been a lot of curtailments which have taken place in the state grids. Now if you start curtailing during the high generation days then you would see your profitability going down very significantly. Under the central auction the project is connected to the PGCIL network where availability is upwards of 99%, so the grid availability-risk also goes out of the equation for an IPP. Now, when you factor in complete stability of the grid and security of payments, a lot of the investors are willing to accept lower IRR returns. This is also the reason why you are now seeing a completely different class of investors including sovereign funds, pension funds and large private equity funds as opposed to customers who got attracted to the sector earlier for various tax incentives and benefits like accelerated depreciation (AD), Generation benefit (GBI) etc.

From a margin perspective, as you are well aware that we are one of the lowest cost manufacturers of wind turbines not just in India but even globally. Do keep in mind that to some extent we will have a reduction in our reported margins, but to a great extent that gets compensated due to the efficient working capital management which plays out under the auctioning regime. And secondly, even if there is a minor dip, let's say we were at 15% EBITDA margins historically and we are at 14% under the new regime, in terms of absolute EBITDA numbers, it will be much larger because the sector would move from historically being a 3GW - 3.5GW market per annum to a 7.5 GW to 10 GW per annum market. So when you have such large volumes any minor blip in percentage will be more than compensated by higher absolute profitability.

Ayush Mittal:

I have got another question. Going forward will we see smoother execution over the different quarters of a year as IPPs would not be rushing in the last quarter to avail the tax benefits?

Devansh Jain:

Yes, your understanding of a smoother execution cycle under the auctioning regime is correct. Now that we have begun operations I think over the next one to two quarters we will completely ramp-up and from H2 onwards, we will have a completely uniform execution quarter-on-quarter. So there would be no March syndrome as this sector used to have in the previous regime. We would have uniform execution going forward. But of course there is going to be a ramp-up over Q1 and Q2 because as you may be well aware for the past four quarters all our manufacturing plants were virtually shut down. We have kick started

operations effective April. So we are ramping up all our operations over this quarter and I think as I mentioned from H2 we should have an uniform execution cycle.

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

Deepak Agarwal: First question, can you help us understand the increase in the property, plant and equipment balance. Have you done any major capex during the year?

Atul Soni: There has been no major capex during the year. This increase is on back of common infrastructure development which would be used for execution of our SECI order wins.

Deepak Agarwal: My second question is that it is very good to see that you have managed to reduce your receivables significantly. So it could be fair to assume that bulk of the money that you have realized has gone for debt repayment?

Atul Soni: Absolutely. It has gone towards debt repayment as well as reducing payables. If you notice our payables has come down by almost Rs. 430 crores along with debt which has also reduced during the year.

Deepak Agarwal: And this balance non-current debt, essentially the long-term debt, when do you expect the repayment to happen?

Atul Soni: It is payable over the next 2-3 years.

Deepak Agarwal: And this is at what rate?

Devansh Jain: The approximate blended average would be around 10 percent.

Deepak Agarwal: I wonder why we need to raise this debt actually during the year.

Devansh Jain: Well, what we did was that we have reduced borrowings from approx Rs1,350 crores to Rs480 crores during the year. We have repaid almost Rs900 crores of short-term liabilities whereas long-term liabilities have only increased by approx Rs160 crores.

Deepak Agarwal: My third question is whether there is some condition which has been introduced which means that you cannot deliver, as in the IPP cannot commence the operation 15 months prior to the auction of the project though the outer limit is 18 months.

Devansh Jain: No, that is incorrect. Anyways, you complete your question and then I will answer further.

Deepak Agarwal: Sure. So, my feeling is that the SECI-1 LOA happened around May of last year but bulk of the ordering that we have seen to the equipment suppliers happened from December, 17 to March, 18. So, that would imply that basically first nine months of this year we will see more of an

execution and the actual commissioning of plants only for SECI-1 and more of it will be in Q4 and H1 of next year for SECI 2, 3, 4?

Devansh Jain: First and foremost, this point that you can only do the project commissioning between 15 to 18 months period is incorrect. While the outer limit is 18 months in SECI-1 and SECI-2, going forward in SECI-3 and SECI-4 it is 21 months. If you can commission your plant within one month, they are happy to take it even after one month. So it is not that you can only do it after 15 months. While the LOA of the February SECI-1 auction was awarded in May 2017 the ordering actually effectively started taking place from October 2017 onwards only because there were no connectivity guidelines prior to that. If you recall, the sector was shut and there were no new auctions till October, 17 because there were certain transmission and connectivity guidelines without which you could not implement projects. Those were announced by CERC on 29th September, 2017 and then there were lot of clarifications which had to be addressed. Lot of those things got addressed only in January when the draft procedures came out. In fact, the final connectivity guidelines were released on 15th of May, 2018. So, with that the whole loop is now closed. Having said that, with respect to implementation, you are now going to see, as I would believe over H1, a significant part of SECI-1 being executed; and over H2 you are probably going to see SECI-2 being implemented. I think from a SECI-3 and SECI-4 execution perspective it is probably going to go into the next financial year.

Deepak Agarwal: But the state auction execution can happen during this year itself?

Devansh Jain: Certainly, state auction execution can certainly happen because they were on state transmission networks and had nothing to do with the central guidelines.

Deepak Agarwal: In between all this, MNRE in the middle of Q4 relaxed this window for up to 25 MW projects to still continue in the FIT regime. So do you see some kind of order booking and inflows can come?

Devansh Jain: Just let me correct you here, MNRE sent out a recommendation to all the state governments to carry-on with feed-and-tariff regime for 25 MW projects. It was a recommendation. MNRE has no locus standi and no powers to direct states to honor or to do FIT regime but it can surely advise them on matters. It was up to the state governments to continue with the FIT regime. Now naturally speaking, no state government is going to buy power at Rs5.5/unit or Rs5/unit and so on when they can get power from the central pool at Rs2.5 to 3 per unit. That was more of a recommendation but obviously until now it did not find favor with the state governments.

Deepak Agarwal: Because some of your peers, both listed and unlisted with whom we interact, they are saying that this pie also can be a 1000 MW market.

Devansh Jain: We would be very happy if it happens. As you know our land bank is of almost 5 GW across India. So if this does happen obviously we will be very happy, but at least on the face of it and from what makes sense I do not think this is going to see light of the day.

Deepak Agarwal: My last question is again a bookkeeping question. Since most of the manufacturing was shut in FY18, but still our inventory levels have been increased substantially?

Devansh Jain: Correct. And I think we answered this in our Q1 as well as Q2 conference call. What had happened was that all the LCs had been opened in Jan, Feb and March 2017 when of course nobody knew that the sector is going to be shut down on back of transition to the auction regime. So our business was continuing on a normalized basis which meant that we had ordered inventory for future manufacturing since even at that time we had an order book of over 1000MW. Now, all of these consignments started coming over April-June, 17 on back of the orders given during Jan-Feb, 17. Post February we stopped opening new LCs for inventory because we could see the impact that a regime change could bring in. But over Jan and February all the LCs which had been opened earlier, those materials when they were shipped started hitting us in April, May and June and got added to the inventory. And that is the reason why our inventory levels went up in Q1 and then remained around Rs900cr levels for the rest of the year.

Deepak Agarwal: So these are basically all the generators and other equipments?

Devansh Jain: It includes gear boxes, castings, and electrical control systems and so on and so forth. But this is all something which is now going to be consumed and will be recognized as new sales once we start supplying under the SECI auctions.

Deepak Agarwal: On the technology side now, you had mentioned earlier that you are working on 3 MW turbines for potential launch in FY19. So are we on track for that?

Devansh Jain: We are working towards it. As I said, we have a 950MW order book currently and we are focused on executing that. We have a strong relationship with AMSC and we are working with them towards that. We are also evaluating other technologies and we should be able to get back to you on that over the course of the year.

Moderator: Thank you. The next question is from the line of Akash Ved from Emkay Fincap. Please go ahead.

Akash Ved: I have three questions. One, in this new SECI orders that you have gotten, is there any retention advances from the client? Two, on the new orders what are the EBITDA margins or gross margins that you're expecting, could they be same as what you have shown in history? And question number three is that on the 100 MW project the receivable that you mentioned, I just missed out, what project is that 100 MW project?

Devansh Jain: Question number one, was retention money. Effectively there is no retention but typically what happens is the customer let's say pays usually up to 90% till commissioning and then you get the remaining balance on achieving short-term performance tests and various punch point closures which effectively takes three to six months. But I think under the auction regime it is

going to be much smoother because there is enough and ample time to implement projects in an organized manner, vis-à-vis under the FIT regime where everybody was running and executing project effectively in Q4 which led to multiple issues. So, while there is no retention money, I think the last 10% odd which comes post STPT tests and punch-point closures would effectively happen in about a quarter's time, number one. Number two, with respect to margins, it is hard for me to give you a clear number with respect to where margin are. All I can say is historically we have maintained 15% to 16% margins; our endeavor is to maintain margins as close as we can to that. But having said that, there could be a slight blip in reported margins but that could be compensated in terms of absolute profitability by the absolute volumes going up, given the size of the market more than doubling going forward.

Akash Ved: And the third one that receivable related to 100 MW?

Devansh Jain: Three projects we are implementing include 50 MW in Gujarat, about 20 MW in Andhra Pradesh and about 20 MW in Karnataka.

Akash Ved: And these are all private execution?

Devansh Jain: 20 MW Karnataka is under the PPA which we have carried forward which we had got signed, 20 MW in Andhra Pradesh is under group captive and 50-odd MW across Gujarat is partly pending PSU orders, captive orders and some third-party.

Moderator: Thank you. The next question is from the line of Paras Nagda from Enam Holdings. Please go ahead.

Paras Nagda: Devansh, based on the reported balance-sheet that you submitted to the stock exchange, the trade receivables are close to Rs1338 crores on the consol balance sheet and whereas in the presentation it is close to Rs1060 crores.

Devansh Jain: That's correct Paras. If you look at the presentation net receivables are receivables minus the advances we have, because again there is a technicality, while we have got advances from certain customers effective until now we could not knock them up as receivables because there are certain milestones. But those are monies which customers have paid and now that the turbines are already there and the milestones mostly achieved this will sort of just knock off each other.

Paras Nagda: So, they were always there in the previous balance-sheets also?

Devansh Jain: When you look at the opening receivable balance of Rs2,382 crores at that point in time our advances were very less in the range of Rs5-10 odd crores whereas our advances currently are approx Rs. 280 crores.

Paras Nagda: And Devansh, second question from my side is. What is the kind of captive sales in last quarter as well as for the full-year?

- Devansh Jain:** Out of the 172 MW that we commissioned, captive would be less than 10 MW. Captive means third party captive, correct?
- Paras Nagda:** I mean to all the group companies.
- Devansh Jain:** Pure group companies would have been about 40 MW.
- Paras Nagda:** This is for last quarter?
- Devansh Jain:** No, This is for the full financial year. About 40 MW was sold to group companies.
- Moderator:** The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
- Mohit Kumar:** Sir, my first question pertains to NTPC bid, have you heard something on that and is there any timeline which you can share with us?
- Devansh Jain:** Well, NTPC had called out a bid for about 2000 MW. I think they were deferring it until now because the final connectivity guidelines had not come out and I think without that a lot of developers who did not have connectivity represented that they would rather bid once there was enough clarity, because until now there is already SECI 1, SECI 2, SECI 3, SECI 4 which has been carried out. Now that the final transmission guidelines have been announced on 15th of May, I would tend to think that NTPC will go ahead with their auction soon.
- Mohit Kumar:** And sir, have you heard from the other windy states about their auctions since some of the windy states have not even floated any bids till now.
- Devansh Jain:** Honestly, it does not matter at the end of the day since there is so much in the auction pipeline from the central government. Do note that we have ended the year with 7.5GW of total auctions under SECI and state auctions. This is 2x the volume which India did in any normalized year historically. As of now, we are looking at NTPC 2 GW auction, SECI-5 2 GW auction, Gujarat has another 500 MW plus 500MW auction. There is so much volume out there that one should not worry about when the remaining states would take out their bids.
- Atul Soni:** And Mohit, to add to that, some of the main windy states have come out with their wind auctions namely Gujarat, Tamil Nadu and Maharashtra. These three states have done 1.5 GW of wind auctions last year. So in our opinion this will be in any case the major portion of the windy states capacity and auctions will continue from such windy states.
- Mohit Kumar:** And sir, are you planning to participate in off-shore wind expression of interest?
- Devansh Jain:** No, I do not think so. At this point in time we do not plan to participate under the off-shore bidding.
- Mohit Kumar:** And have you heard anything on the SECI-5 bid?

Devansh Jain: They will be out sometime in June, because now that the transmission guidelines have been announced the auction process should kick start. Also, do note that between January, 18 to April, 18 they auctioned 4GW of capacity across SECI-3 and SECI-4. Over the past five months we have seen total SECI and State auctions of 4.5GW and that is very significant in our opinion.

Mohit Kumar: And sir, is there any transmission constraint which is leading to a delay in SECI-3 and SECI-4 letter of award (LOA)?

Devansh Jain: First and foremost, the LOA for SECI-3 has already been issued. SECI 4 auctioning was finished on 4th of April and LOA has not been issued so far since they were waiting for the final connectivity guidelines to come out. And from what we understand is that now since the guidelines have come out we should see the LOA being issued shortly. Number two, with respect to connectivity, those players or those IPPs which do not have connectivity surely are a worried lot or have been a worried lot. Inox Wind has over 1,500MW of PGCIL connectivity and with long-term open access agreements already in place for the major part which we are currently implementing. So, first and foremost, we are not affected, but yes going forward we would need more connectivity down the line. We are also implementing certain projects for Adani, and Adani also has connectivity. So at least for all the projects we are doing ourselves and for all the projects which we would be implementing for Adani there would not be a hindrance on connectivity.

Mohit Kumar: Sir, what is the connectivity situation in Gujarat as of now. Can it absorb 6 GW to 8 GW as of now?

Devansh Jain: As of now it can absorb approximately 4 GW. So if you add up SECI 1, 2, 3 and 4, and from the split up that we have of all the people who want to put projects in Gujarat, up till SECI 4 they have adequate transmission capacity. Beyond SECI-4 it does not exist today, but then again SECI-1 to SECI-4, is not going to be implemented in one year. PGCIL is already expanding base and building new substations and they are offering new connectivity two years from today.

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

Vipul Shah: Sir, what type of annuity income we can expect going forward on a regular basis?

Atul Soni: By annuity income are you referring to O&M revenues?

Vipul Shah: Yes, O&M revenues.

Atul Soni: This is something which basically will increase as the years go by, because as your fleet size will keep on increasing the O&M revenue will also keep on increasing. So at this point in time

we have about 2.4GW of operating fleet which keeps increasing as we keep on implementing future projects.

Vipul Shah: So what was that figure for March 2018?

Atul Soni: I can get back to you on that number.

Vipul Shah: And sir, since now the market is normalizing, what type of return ratios, I mean ROCE and ROE we can expect going forward over the next two, three years?

Atul Soni: As you know, we do not give any forward-looking guidance.

Vipul Shah: Roughly if you can give any ballpark figure.

Atul Soni: Stating roughly would also equate to guidance.

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

Chetan Gandhi: Sir, are we taking part in hybrid auction which has been announced by SECI recently?

Devansh Jain: Well, what the existing hybrid auction talks about is existing wind farm owners can set up solar plants in their facilities and existing solar park owners can set up wind farms in their facilities. So we do not own any solar facilities where we can put up wind turbines. And for all the wind farms which we operate for our customers we could put up solar panels there if our customers find the returns attractive. Going forward now that the wind-solar hybrid policy has been announced, there will be incremental auctions which will be specific to putting up solar panels within the wind farms. I think that is something where we will possibly be bidding to leverage on the common infrastructure which we control and making an incremental profit out of that.

Chetan Gandhi: So we are open to that area?

Devansh Jain: Sure.

Chetan Gandhi: Sir, what do you think effect of rupee depreciation recently has happened on the IPPs, especially foreign IPPs?

Devansh Jain: It is hard to answer on an IPP's behalf because it is a function of whether they have fully hedged loans or whether they have rupee term loan or other kinds of loans. Now, obviously, there are a lot of IPPs out there who have not completely hedged their foreign loans, depending on what rate at which they took their loans they are going to take a beating given the strengthening of the dollar.

- Chetan Gandhi:** I was asking about the future players, not the existing players.
- Devansh Jain:** See, the interest cost regime in the country has started hardening to a certain extent, so you have probably seen interest rates go up by about 50 basis points. This might go up by another 25 basis points or so on and so forth. I think at least the big guys use a mix of rupee term loan, bonds and foreign money which is hedged. So they possibly could have some increase in interest cost over a 15 year or a 17 year loan tenure period.
- Atul Soni:** Chetan, there are two ways to look at it. One is for a new IPP; if you have to bring in your dollar into the country obviously you will be getting more rupees for it. So, to that extent it is positive for them. The flip side of that is that you have to see how your hedging cost change for the new cost of the currency. So on the one side basically let's say you got Rs. 63 to a dollar earlier now you can get Rs. 68 to Rs. 70 or Rs. 75 whatever it is at that point of time. And on the other side, you have to see the impact on hedging as well as your funding and financing cost.
- Chetan Gandhi:** Sure. Sir, I have one more question. Out of total auctions how many are fully tied up and how many pending?
- Devansh Jain:** Well, as we have announced SECI 1 and SECI 2 are fully tied up, for SECI 3 we already have term sheets in place. It is too early to do the contracts because SECI 3 is a long way away from execution perspective. I do not think customers would pay us advances for SECI 3 today. And SECI 4, while we have in-principle tie-ups in place, we are waiting for letter of award to be issued, post that those are virtually tied up as well.
- Chetan Gandhi:** Okay. So if I look at it, we have 50 MW from SECI 1 and 50 MW from SECI 2 outside our auction wins. Do we see any chances of getting some other IPPs order for SECI 1, 2, 3 and 4?
- Devansh Jain:** Well, not for SECI 1 and 2, but for SECI 3 and 4 I think we would believe that we could get further orders.
- Chetan Gandhi:** Significant or minor?
- Devansh Jain:** Let us hope for the best.
- Chetan Gandhi:** And sir, what is the revenue recognition policy for O&M revenue, is it the ten year period or higher?
- Devansh Jain:** Contracts vary from customer to customer ranging from five years to 15 years.
- Chetan Gandhi:** I think there has been some change in accounting guidelines for O&M revenues. Can you elaborate on that?

- Atul Soni:** Sure. O&M revenues are being reported on a straight line method due to a shift to the IND-AS accounting standards.
- Chetan Gandhi:** I think last year we had O&M revenues of approx 3% of the total revenue.
- Atul Soni:** Yes, it was around 3%.
- Moderator:** Thank you. Our next question is from the line of Mayur Gajani from OSM Group. Please go ahead.
- Mayur Gajani:** Sir, can we look at Rs. 950 crores order book that we have, can we execute that in this coming year FY19?
- Devansh Jain:** If the question is can we execute it within the financial year, yes we can. But will we do it, no, not at this point in time.
- Mayur Gajani:** Please elaborate on the execution timelines for your current order book?
- Devansh Jain:** First and foremost, we need to complete SECI 1 and SECI 2 in 18 months from letter of award and for SECI 3 and SECI 4 execution needs to be completed in 21 months from letter of award. We have got SECI 1 letter of award which was issued in May 2017 which we are currently executing within this financial year. SECI 2 was conducted in October and the letter of award was issued in November, 17 so we have got 18 months from November 17 which takes you to middle of 2019. SECI 3 was conducted in February 2018 and LOAs were issued in March 2018 which means we get 21 months from March 2018. So you have time until December 2019 to do SECI 3. And SECI 4 LOAs are expected to be issued in June 2018 and 21 months from June 2018 would us time until March 2020 to implement these projects.
- Mayur Gajani:** But if I am just looking at the revenue contribution for this year, then it would include SECI-1 and SECI-2 execution. Would FY20 be a big year for us?
- Devansh Jain:** We are not going to give any forward-looking statements, but yes we will be having significant revenue recognition as well as execution over the course of this financial year as well as FY20.
- Mayur Gajani:** And sir on the margins front, you mentioned that you would look at 15% - 16% considering that is your historic range. But will it be so easy for you to get back to that number, I mean as soon as you start getting into execution?
- Devansh Jain:** It is not an easy task, but again, being the lowest cost producers of wind turbines globally is also not an easy task. We are constantly at it in terms of managing our costs, making ourselves more efficient, whether it is admin costs, fixed costs, supply chain costs etc. So while we would aim to achieve our historical numbers there could be a minor blip in terms of what we achieve vis-à-vis that. What I did mention was that volumes will definitely be larger than what

used to be under the previous regime. As a result, if there is a minor blip in terms of percentage it will be more than be compensated for by increase in absolute volumes.

Moderator: Thank you. Our next question is from the line of Kashyap Zaveri from Emkay Global. Please go ahead.

Kashyap Zaveri: Sir, just wanted to reconfirm, you mentioned SECI 1 execution will start in H1, SECI 2 will be H2 and SECI 3 will mostly likely be FY20, is that correct?

Devansh Jain: Well, I was referring for the timelines that we have in hand to be able to implement these projects Now, ideally we could even do all of them within this financial year, but what I am trying to say is that is not what we intend to do, we will have significant volumes which we will be implementing over the course of this year, but we are going to do it in an orderly and uniform manner, we are focused on reducing our working capital significantly over the course of this year. We expect to reduce this much more going further over the coming quarters. We want to make it a very lean operation with significant free cash flows.

Kashyap Zaveri: And another clarification about this Rs280 crores which you mentioned have been netted off from the receivables. Are these advances with reference to SECI 1 and SECI 2 orders?

Devansh Jain: Partly.

Kashyap Zaveri: And would you be able to quantify the number?

Devansh Jain: I cannot quantify that.

Moderator: Thank you. Our next question is a follow-up from the line of Mayur Gajani from OSM Group. Please go ahead.

Mayur Gajani: Sir, on the receivables you mentioned that as on date you will be looking at around Rs. 600 off crores net of receivables. Are these there since a long time? So on that do we see any write-offs, any bad debts or you feel over time we can collect that?

Devansh Jain: When you look at it optically it looks like it is from a long time, to elucidate we used to have approximately Rs. 2400 crores on 1st of April, 17 which was stuck up since nobody knew that the sector would be shut down for the whole year and no state will honor PPAs which had been signed.. So that major part of our orders which got stuck which we then put up somewhere else. We used these turbines in Karnataka, we used it in PSU orders, and we used it under some other third-party sales so on and so forth. And that is the reason why those stuck up assets were resold or let's say it was lying in the name of IPP X Power and that PPA never happened, and we sold it to IPP Y in Karnataka. Now when IPP Y took that turbine it did not lead to new sales for us, but that enabled us to get rid of our stuck-up turbines where PPAs were not being honored under different projects. So this Rs650-odd crores which still remains which optically is something which has been given to customers who are new, and these

projects are being implemented. And that is the reason how we have been able to collect approx Rs2,000 crores over the past 12 months. So to be honest, yes, there could be some stuck up amount, but I do not think that is anything significant which is left and we believe that over the course of next few months we should be able to collect majorly all of it from the customers.

Moderator: Thank you. Our next question is from the line of Manish Kanakya, an individual investor. Please go ahead.

Manish Kanakya: Just want to know is there any problem with regards to implementation in the Gujarat Kutch area due to some army issues?

Devansh Jain: Sorry, I am not aware about this, at least not with our projects.

Manish Kanakya: Just want to know have any installations been done in FY18 from the auction regime?

Devansh Jain: No, nothing. We have kick started executing the auction regime orders only effective April 2018.

Manish Kanakya: Alright. And with prices dropping so down do you see any uptick in orders for captive use? Are they negotiating price and are they giving orders?

Devansh Jain: Well, I am sure obviously with prices dropping to such levels or more importantly with tariffs for industrial consumers continuing to increase across states, there is more demand for captive power plants. But to be honest, we are not focused on that segment because we have a large order book pipeline from the auctions itself. We really do not want to go after those small retail orders for 1-2 turbines.

Manish Kanakya: Can you tell me now that the connectivity guidelines have been announced on 15th May, all issues are now in place. So now would the time gap between SECI-5 auction to awarding the final contract be shortened?

Devansh Jain: Number One, I would tend to assume that you have had multiple SECI auctions and all the IPPs and the customers who are already out there know exactly how the contracts are replicated, so they are not developing these contracts for the first time. Number two, everybody understands how the auctioning regime works, how the PGCIL connectivity works etc. The only point is that there is no urgency from the IPPs at this point in time, like I said we have closed contracts for SECI 1 and SECI 2, for SECI 3 we already have the term sheet in place but for SECI 4 we do not have the LOA in place as of now. No one is in a hurry and no one is even going to pay advances today, for a project which will be starting implementation say nine months or 12 months from today. So, while a contract can be closed very quickly by any IPP people still need to implement SECI 1, 2, 3 and 4.

Manish Kanakya: Alright. Just want to know, you said in SECI 3 and 4 there are chances of us winning orders, so I do not want the number of what we could win, but overall how many orders are still to be given to any player, any turbine player?

Atul Soni: Couple of IPP's have announced orders to OEM's for SECI-3 but for SECI-4 I am not aware of WTG contracts being awarded. Also, do note that SECI 4 just happened in first week of April.

Devansh Jain: LOAs have not been issued yet so there cannot be any orders.

Manish Kanakya: Sir, just to have an idea, do you think commissioning for FY19 overall for the industry commissioning will reach 4 GW?

Devansh Jain: I think so. Because I believe SECI-1 (1000MW) and SECI-2 (1000MW) will surely be implemented. Also, Tamil Nadu and Gujarat auctions which were also carried out last year will also be implemented, which was 500 megawatt each, so that puts about 3 GW on the table. And I am sure there will be some captive orders, PSU orders; old assets being commissioned etc which would lead the full year commissioning to be close to 4 GW.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Bhavin Vithlani for closing comments. Over to you.

Bhavin Vithlani: On behalf of Axis Capital, we would like to thank the management of Inox Wind for giving us the opportunity to host the call. Before we end the call I would like to hand the call back to the management for their closing remarks.

Devansh Jain: Thanks, Bhavin. To conclude, the year gone by was a year of painful transition to an auction regime for the Indian wind power sector. Over the course of the year we have focused unrelentingly on improving our key balance sheet metrics, including reducing our receivables, our working capital and our debt levels. Our biggest focus during the year gone by has been on reducing receivables which was a key concern for the larger investor community and banks. And I believe we have achieved significant success and brought this down by a significant quantity.

With the beginning of the new financial year we have recommenced manufacturing operations across all our manufacturing facilities in Gujarat, Himachal Pradesh and Madhya Pradesh. It has taken us the past couple of days to get manufacturing back in full shape. It involved about 1700 - 1800 employees across these three plants and given the fact that this was after a near four quarter gap. So we are now putting full focus to execute the SECI orders which we will be implementing over FY19. We are relieved, excited and looking forward to a year of normal operations with a still further efficient working capital cycle, due to the fact that under the auction regime we believe we will have a fairly well coordinated and uniform manufacturing

production plan and execution of the wind projects, as opposed to the earlier regime where you had a March syndrome under the feed in tariff (FIT) regime.

We continue to enjoy strong relationships with IPPs and are looking forward to working with all the IPPs and achieving India's target of 60 GW of wind power installations by 2022. We hope that with all the focus that we have put on reducing our receivables and strengthening and lightening our balance sheet, our investors who have been with us throughout this journey would be relieved and happy and certainly for the remaining Rs. 600 crores to Rs. 800 crores receivables which is left, we continue to remain focused and hope that we will be able to reduce this further over the next one to two quarters.

Thank you for being a part of our company. And we look forward to reporting back with profitable numbers with new supplies being done to customers going forward. Thank you.

Moderator: Thank you. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.