



Azure Power

2nd Quarter 2017 Earnings Conference Call

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CORPORATE PARTICIPANTS

Nathan Judge – *Investor Relations*

Inderpreet Wadhwa – *Chief Executive Officer*

S.K. Gupta – *Chief Financial Officer*

Robert Kelly – *Independent Board Director*

PRESENTATION

Operator

Good morning, everyone, and welcome to the Azure Power Global Earnings Call. This call is being webcast live on the Investor section of Azure Power's website at azurepower.com. At this time, all participants are in a listen-only mode. As a reminder, today's call is being recorded.

Now, it is my pleasure to hand the conference call over to Nathan Judge, investor relations. Sir, the floor is yours.

Nathan Judge

Thank you, Carrie. Good morning, everyone, and thank you for joining us. Today, the company issued a press release announcing its financial results for the second fiscal quarter of 2017, as well as guidance for fiscal year 2017. A copy of the press release and the presentation are available on the Investor section of Azure Power's website at azurepower.com.

With me today are Inderpreet Wadhwa, Chief Executive Officer; S.K. Gupta, Chief Financial Officer; and Bob Kelly, Former Chief Financial Officer of SolarCity, and on Azure Power's Board of Directors as an Independent Director.

Inderpreet will provide the business update, and S.K. will discuss our second quarter fiscal financial performance. Then, Inderpreet will discuss guidance, after which, we will then open up the call for questions. We have allocated an hour for the call.

Please note, our Safe Harbor statements are contained within our presentation materials and are available on our website. These statements are important and integral to all our remarks. There are risks and uncertainties that could cause our results to differ materially from those expressed or implied by such forward-looking statements, so we encourage you to review the press release we filed today with our Form 6-K and presentation on our website for a more complete description.

Also contained in our presentation materials are certain non-GAAP measures that we reconcile to the most likely comparable GAAP measures, and these reconciliations are also available on our website and in the presentation materials.

It is now my pleasure to introduce Inderpreet Wadhwa, Chief Executive Officer. Over to you, Inderpreet.

Inderpreet Wadhwa

Thank you, Nathan, and good morning, everyone. Welcome to our first earnings call as a publicly-listed company. I'm pleased to share with you today our business update.

Our overarching mission is to be the lowest cost power producer in the world, and core to our company's culture are our values in excellence, honesty, social responsibility, and entrepreneurship. We strive to uphold each of these values in everything we do.

We sell solar power from large distributed utility scale solar projects, as well as from rooftop projects on commercial and industrial buildings across 15 states Pan India. All of our contracts are long-term, typically 25 years at fixed prices, which is to say that our tariffs are not subject to variable commodity prices. Given where the current tariffs are for solar power in India, in many instances, we are starting to see our contract prices at or below prevailing alternatives for our customers. A majority of our contracts are with strong credit-solvent counterparties like NTPC and Solar Energy Corporation of India. The company does not have any exposure to distribution companies that have been recently in the news for delaying payments to or curtailing off-take from some of the wind developers in India.

We have witnessed tremendous growth in the last few years. The company's differentiated development strategy and strong execution has resulted in a 111% year-over-year increase in operating and committed megawatts. This represents a compound annual growth rate of 114% since September 2012. Today, we are operating 358 megawatts of distributed solar projects, with another 663 megawatts of committed and under construction. Our growth outlook remains robust, and new contracts and financings have been secured ahead of schedule.

We would highlight that even in a liquidity-constrained environment, we have ready access to capital. In fact, about two weeks ago we announced that we have secured \$470 million of financing, one of the largest on record in the solar sector in India. When combined with the IPO proceeds and other sources of funds, we have secured financing for our entire calendar year 2017 construction plans ahead of schedule. Our total commitment to the solar sector in India is now over one billion dollars.

Azure Power has been involved with the Indian solar power sector from nearly the beginning, and we developed India's first private utility scale project in 2009. Our operations have grown significantly, and we are now operating 24 large scale distributed solar projects across India. Our rooftop initiative has generated a lot of traction, and we now have solar panels on over 500 rooftops across the country. We believe solar is most competitive and economical for our customers at the point of consumption.

Our success is tied with the communities we serve, and we are firm believers of inclusive growth of the communities where we build our projects. We prefer to hire and train staff locally and lease land from communities. The jobs and discretionary cash flow that our projects create for communities, which are often in remote locations in India, foster support for our projects and growth for the local communities.

Our integrated platform drives our competitive advantage. Over the past four years, our growth has outpaced the market. In the last four years, the Indian solar industry grew on an average of 57%, while Azure Power has grown 114% during the same period.

We continue to see strong momentum in the Indian solar market. Twenty gigawatts of new solar capacity is expected to be auctioned in the country between now and 2018. And, we expect to grow in line with, and possibly faster than, the market by executing on a differentiated strategy that encompasses effective bidding, reductions in project and capital costs, and improvements in power yield.

We have a strong track record of not just winning auctions, but winning projects at tariffs above the lowest bid in the market. Our 663 megawatt of committed and under construction portfolio today has 27% higher weighted average tariff than the lowest bid in the market. This discipline and our proprietary skillset

provides superior returns for all our shareholders.

Through value engineering, design and procurement expertise, complemented by strong supplier relationships, we have been able to reduce project costs by an average of 83% from fiscal year 2011 to fiscal year 2017. Our in-house EPC expertise allows us to benefit from falling global solar module prices, which not only result in project cost reductions, but also enhances our returns on capital employed. We believe that prices for modules will continue to fall for the next several years given the recent commentary from global solar panel manufacturers. This could be a notable tailwind for us.

We are benefiting from declining cost of capital as well. We have already seen the cost of debt reduced by 200 basis points in long-term project finance costs since 2011 in the Indian market. A further 25 basis point reduction was announced by Reserve Bank of India in October that we believe will provide opportunities for further cost savings for us. Our in-house operations and maintenance division and systems monitoring help us to improve our yield on a continuous basis and gives us an added cost advantage.

The company looks to continue strong growth aided by an extremely supportive industry and regulatory backdrop in India. For the first time ever, solar installations in India have outpaced all other renewables during the first six months of this fiscal year. Solar power represented 55% of all new renewable generation added so far this fiscal year, compared to wind, which represented only 41% of new renewable capacity added in the country.

The government of India is requiring utilities to purchase power from companies like Azure Power with an aim of increasing the amount of solar installation to 100 gigawatts by the year 2022, from just only 8.5 gigawatts installed today. This translates to an industry-wide growth rate of 53% per year. And recently the government of India took yet another step to reinforce its commitment to green energy by ratifying the Paris Climate Change Agreement and committing to 40% renewables by 2030, which is up from the current 15% share.

It is also clear that India needs solar power. By 2020, India needs to add 134 gigawatts of new generation capacity. The need is a result of a historical power generation deficit of about 5%, robust economic growth of almost 7% to 8%, and the electrification of 300 million people who are currently not connected to the grid.

Of new generation options in India, we believe solar is the most compelling option. The price at which we can deliver solar electricity is far cheaper than imported alternatives. With over 300 days of sunshine in India, and the highest insolation levels of any leading global solar market, the sun is one of the largest untapped natural resources in the country. We believe that solar's distributed generation characteristics should allow for further market penetration given current limitations of the transmission and distribution in the existing grid infrastructure. It is important to note that falling prices of solar panels, improvements in technology efficiency, and reduction in balance of plant costs will likely lead to lower solar power prices in the coming years, thus making solar energy the most economic energy source and increasing the probability of hitting the 100 gigawatt target sooner rather than later.

Regarding our second quarter fiscal 2017 results, the company has had another good quarter with operating

and committed megawatts growing at 111% to 1,021 megawatts over the corresponding quarter of last fiscal year. We now have 358 megawatts operating, a 48% increase over the same period in the prior year. This increase in operating capacity has helped us achieve a higher revenue of \$13 million during the quarter, an increase of almost 40% over the corresponding quarter of last year.

During the first six months of our fiscal year 2017, we generated 275 million kilowatt-hours of electricity through solar energy, almost 70% higher than the same period last year. Relative to our internal budget and seasonality, the second quarter of 2017 generation was in line with our budgets. Once our committed and under construction portfolio is complete, we estimate that the annual portfolio run-rate revenue will be almost \$159 million in just one year from the completion of these projects, a 95% increase from the same period last fiscal year.

We have been able to reduce our project costs by 4.5% compared to the first six months of last year. We expect to realize further reduction in project costs from the projects that are currently under construction. As we noted earlier, the falling solar module prices and declining capital costs and improved balance of plant costs should make our projects more competitive and provide for higher returns.

I'm also pleased to share with you progress on one of our largest projects in our portfolio and also one of the largest projects in North India. It's the 150 megawatt Punjab 4 project that is in advanced stages of construction. We have signed a 25-year power purchase agreement at a tariff of \$0.085 US per kilowatt hour with Punjab State Power Corporation Limited, a distribution company that CRISIL, an S&P company in India, has assigned an A debt rating to.

For this project, we have leased 710 acres of land from local communities that creates discretionary long-term cash flows for them for the next 33 years. In addition, the project is providing approximately 1,000 jobs to local community. With the financing and permits in place, the project is expected to be commissioned on time and on budget.

I will now turn the call over to S.K. Gupta, our CFO, to discuss the financial performance of our second fiscal quarter.

S.K. Gupta

Thank you, Inderpreet, and good morning. Our focus is to deliver affordable power to highest rated customers with the lowest possible capital and operating cost structure. Revenue grew by 40% to INR 895 million, or just over US \$13 million, over the corresponding quarter of last year due to commissioning of new projects. By controlling costs and the benefits of scale on an integrated platform, we delivered on a greater adjusted EBITDA growth of 44% compared to the same quarter of last year. We grew the number of megawatts operating by 48% year over year to 358 megawatts.

Property, plant and equipment increased to INR 28.4 billion, equivalent to US \$426 million, and the total debt to INR 26.3 billion, equivalent to US \$394 million, as of September 30, 2016, primarily due to an increase in commissioned and under construction projects at the end of the quarter.

We ended the quarter with INR 6.1 billion, equivalent to US \$92 million in cash, which is up from INR 3 billion on March 31, 2016. The company has raised equity of INR 1.67 billion, equivalent to US \$25

million, during the quarter ending September 30, 2016, from a pre-IPO funding round. Subsequent to this quarter, the company has raised INR 9.1 billion, equivalent to US \$136.4 million, from an initial public offering and concurrent private placement, which further improved our liquidity.

The company has drawn INR 4.9 billion, equivalent to US \$74.7 million, of project debt during the quarter and has undrawn project debt commitment of INR 17.5 billion, equivalent to US \$263.7 million, at the end of this quarter to be drawn for the ongoing projects. The company has secured financing for all CY 2017 committed and under construction projects of 663 megawatts.

Now, let me turn it over to Inderpreet for Guidance. Thank you, Inderpreet.

Inderpreet Wadhwa

Thank you, S.K. So, as a public company, we will be issuing guidance for operating capacity and revenues. For the calendar year ending December 31, 2016, the company expects its operating capacity to be 520 megawatts. For the next calendar year ending December 31, 2017, the company expects to have operating capacity of between 950 to 1,050 megawatts.

Our quarterly revenues are subject to seasonality and hence, we will guide to annual revenues. Megawatt hours generated during our first fiscal quarter that is summer here in India is generally higher than the remaining three quarters, which are fairly similar to each other. In addition, we typically bring new capacity online towards the end of the quarter, so the revenue growth is reflected from the new capacity in the following quarter. We are providing annual revenue guidance of between \$64 million to \$68 million for fiscal year 2017, ending March 31, 2017.

Now, this brings us to the end of our formal presentation. We will now take questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Philip Shen of Roth Capital Partners. Please go ahead.

Philip Shen

Hi, everyone. Thank you for the questions. Recently, I think, SECI went through a conversion to a commercial entity and may now be renamed the Renewable Energy Corporation of India. Can you talk about what impact this might have on your business, if at all, and just your perspective in general about the change?

And then, in turn, can you talk about how much they might be funded and, with the reports out there now where the World Bank might fund them an additional, I think, \$300 (million) or \$400 million? So, can you talk about if that might be coming, the timing of when, and the consequences of not hitting that

funding, and if they do get it, the benefits for you and others in India? Thanks.

Inderpreet Wadhwa

Thanks, Phil, for that question. So, in terms of the Solar Energy Corporation of India changing its name or following a different naming structure doesn't really impact the underlying financials or underlying program for solar energy in India. And, I don't believe they've announced anything publicly at this point, so as far as we're concerned, they're still Solar Energy Corporation of India.

In terms of the capital from World Bank that you mentioned, that is largely being sourced for development of additional solar parks. When National Solar Mission was announced in 2010, there were no plans for solar parks. When the new government took office a couple of years ago, they announced solar parks to the tune of 20,000 megawatts, which are underway as we speak. Now recently, the government has increased that target from 20,000 megawatts to 40,000 megawatts, where the land and power transmission is made available by the government of India, and it is in line with these increases that the additional capital that Solar Energy Corporation of India will get from World Bank, would be used towards development of these additional facilities.

Now, if there is any delay on such funding, which we don't believe it would be, it could possibly just maybe reduce the solar parks from 40,000 to, let's say, a smaller number than what Solar Energy Corporation of India and government of India can fund themselves. But, beyond that, in terms of the viability gap funding, that is all coming from government of India, and it is already fully funded for the projects that are running on the ground.

Operator

Our next question comes from Maheep Mandloi of Credit Suisse. Please go ahead.

Maheep Mandloi

Hi. Thanks for taking this question, and welcome to the public markets. This first question, on the system cost, where do you see them trending for the projects in backlog, which would be built in the next year, compared to the \$0.87 reported in the quarter? And, are you still comfortable with greater than 16% unlevered project returns on those projects?

Inderpreet Wadhwa

So, we don't talk about forecasts on costs in our earnings, but what I can guide you to is, if you see what the solar panel manufacturers have been reporting of late in terms of where they see their reductions in the solar panels, we expect to continue to drive our cost structure at the lower end of the ASPs that you see being reported publicly. And in terms of the returns on our projects, we believe that we continue to maintain high-teen unlevered returns on projects that are under construction.

Maheep Mandloi

Thanks. And, just as a follow-up, could you throw some light on the ongoing or upcoming bidding opportunities in the country and the project returns on those, given your visibility into cost structure and increasing competition in the country.

Inderpreet Wadhwa

Sure. So, I think, in terms of the auctions, we mentioned that we see almost 20 gigawatts of auctions in the next 12 to 18 months. In the near term, we have visibility almost to 2.4 gigawatts of new auctions coming up, and we believe that the tariffs will move in line with the cost structures where we see. We do not expect a lot of deviation from what we have seen historically in the market, how the cost structures and tariffs have moved.

Maheep Mandloi

Thanks, that's helpful. I'll get back in the line.

Inderpreet Wadhwa

Thank you, Maheep.

Operator

The next question comes from William Griffin of Barclays. Please go ahead.

William Griffin

Hi, guys. Thanks for taking my question. I just wanted to see, how are you guys currently thinking about your floating rate debt exposure, and what options do you have that would allow you to potentially fix those rates going forward?

Inderpreet Wadhwa

Thanks, William, for that question. As you rightly pointed out, our interest rates are floating on rupee debt that we have, and we've historically seen these rates get better for us. I think I mentioned in my presentation, we've seen almost 200 basis points reduction since 2011, and the trend continues to be downward on the interest rates, so it's generally good for business. We have been looking at the Masala Bond options for projects that are operational. They will give us an opportunity to fix the interest rates for our projects for longer duration, but that is something we will talk more about as we progress the year.

William Griffin

Got it. Thank you very much.

Inderpreet Wadhwa

Thank you.

Operator

Once again, if you have a question, please press star then one.

Our next question comes from Cratipha Dajaj of International Finance Corp. Please go ahead.

Pratibha Bajaj

Hi, Inderpreet. Thank you for taking my call. My question is on, there has been three times increase on the restricted cash compared to March 31st under the current assets. What are the reasons for that increase?

And, the second question I have is on [audio disruption] currency debt. What is the expectation on—we have seen the rupee depreciating quite a lot in the last one month, so how would Azure's financials be

affected by that move?

Inderpreet Wadhwa

Thanks, Cratipha, for those questions. In terms of the restricted cash that you see on the balance sheet, it is primarily on account of letters of credit that we opened for construction of some of the new projects. So, we earmark capital for projects under construction, and that's the reason you see that number increase, because our construction activity is also increasing.

And then, with regards to the impact on the depreciation of the rupee, as we have stated in the past, we've seen historically the rupee at 4% to 5% depreciation year-over-year, and we have very minimal exposure to foreign currency denominated debt. We expect that to continue to go down. I believe at the end of this financial year, we should be about 10% to 12% of our total debt exposure would be foreign currency denominated, and we'll continue to follow the hedging policy we have in place where we ensure our protection through such movements in the currency. So for current quarter that we are in, we have all our exposure covered, so we will not see any significant cash losses on account of the depreciation of the rupee.

Pratibha Bajaj

Thank you.

Inderpreet Wadhwa

Thank you.

CONCLUSION

Operator

And this concludes our question and answer session. I would now like to turn the conference back over to Nathan Judge for any closing remarks.

Nathan Judge

Thank you, Carrie. And thanks again, everyone, for joining us today. If you have any additional questions, please feel free to reach out and give me a call or e-mail me at ir@azurepower.com. Thank you.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a great day.