RG Group Combined Financial Statements

For six months period ended 30th September 2020

Restricted Group Ind AS Unaudited Interim Condensed Combined Financial Statements as of September 30, 2020

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Review Report to The Board of Directors
Azure Power Energy Limited ("APEL")

1. We have reviewed the accompanying Unaudited Interim Condensed Combined Financial Statement of Restricted Group (consisting of certain subsidiaries of Azure Power Global Limited (the "Parent"), as listed in note 1 to the Unaudited Interim Condensed Combined financial statement (collectively known as "the Restricted Group"), which comprise the Unaudited Interim Condensed Combined Balance Sheet as at September 30, 2020 and Unaudited Interim Condensed Combined Statement of Profit and Loss including Other Comprehensive Income, Unaudited Interim Combined Statement of Changes in Equity and Unaudited Interim Condensed Combined Cash Flows for the six months period then ended and a summary of the significant accounting policies and other explanatory information (together hereinafter referred to as "Unaudited Interim Condensed Combined Financial Statement"). These Unaudited Interim Condensed Combined Financial Statement have been prepared in accordance with the basis of preparation as set out in note 3 to the Unaudited Interim Condensed Combined Financial Statement.

2. This financial statement, which is the responsibility of the Management and approved by the Board of Directors, have been prepared in accordance with the basis of preparation as set out in note the 3 of the Unaudited Interim Condensed Combined Financial Statement. Our responsibility is to express a conclusion on this Unaudited Interim Condensed Combined Financial Statements based on our review.

3. We conducted our review of the Unaudited Interim Condensed Combined Financial Statement in accordance with the International Standard on Review Engagements (ISRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

4. Based on our review conducted as above, nothing has come to our attention that causes us to believe that the accompanying Unaudited Interim Combined Financial Statement have not been prepared in all material respects in accordance with the basis for preparation as set out in the Note 3 to the Unaudited Interim Condensed Combined Financial Statement.

5. We draw attention to:

    a. Note 2 and 3 to the Unaudited Interim Condensed Combined Financial Statement, which describes that the Restricted Group has not formed a separate legal group of entities, which also describes the basis of preparation, including the approach to and purpose of preparing them. Consequently, the Restricted Group's Unaudited Interim Condensed Combined Statement may not necessarily be indicative of the financial performance and financial position of the Restricted Group that would have occurred if it had operated as a single standalone group of entities during the period presented. The Unaudited Interim Condensed Combined Financial Statement have been prepared for the purpose of complying with financial reporting requirement under the indenture governing the Senior Notes. As a result, the Unaudited interim Condensed Combined Financial Statement may not be suitable for another purpose.

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b. Note 12 of the accompanying unaudited Interim Condensed Combined Financial Statement which, describes the uncertainties related to COVID-19 and its consequential effects on the affairs of the Restricted group.

Our conclusion is not modified in respect of these matters.

Ernst & Young Associates LLP

ERNST & YOUNG ASSOCIATES LLP
INDIA

Ernst and Young Associates LLP
Place: Gurugram, India
Date: November 19, 2020

Restricted Group
Unaudited Interim Condensed Combined Balance Sheet
(INR amount in millions, unless otherwise stated)

	As at September 30, 2020 (Unaudited)	As at March 31, 2020 (Audited)
Assets		
Non-current assets		
Property, plant and equipment	32,181	33,294
Right-of-use assets	773	789
Capital work-in-progress	-	13
Financial assets		
- Loans	2,168	2,167
- Other financial assets	5,261	5,916
Deferred tax assets (net)	291	286
Income tax assets (net)	158	200
Other non current assets	478	470
Total non current assets	**41,310**	**43,135**
Current assets		
Financial assets		
- Trade receivables	2,844	2,749
- Cash and cash equivalents	1,552	2,033
- Other bank balances	676	100
- Loans	3,575	3,926
- Other current financial assets	756	582
Other current assets	61	24
Total current assets	**9,464**	**9,414**
Total assets	**50,774**	**52,549**
Equity and liabilities		
Equity		
Capital	115	115
Other equity	8,204	7,779
Total equity	**8,319**	**7,894**
Non-current liabilities		
Financial liabilities		
- Lease liabilities	767	760
- Borrowings	36,596	37,617
Provisions	196	189
Deferred tax liabilities (net)	1,448	1,505
Other non current liabilities	1,824	1,827
Total non current liabilities	**40,831**	**41,898**
Current liabilities		
Financial liabilities		
- Lease liabilities	57	54
- Borrowings	-	975
- Trade payables		
Total outstanding dues of micro and small enterprises	1	3
Total outstanding dues of creditors other than micro and small enterprises	160	268
- Other current financial liabilities	1,200	1,307
Provisions	5	3
Current tax liabilities (net)	92	34
Other current liabilities	109	113
Total current liabilities	**1,624**	**2,757**
Total liabilities	**42,455**	**44,655**
Total equity and liabilities	**50,774**	**52,549**

The accompanying notes are an integral part of the unaudited interim condensed combined financial statements.

Restricted Group

Unaudited Interim Condensed Combined Statement of Profit and Loss

(INR amount in millions, unless otherwise stated)

	Six months period ended September 30, 2020 (Unaudited)	Six months period ended September 30, 2019 (Unaudited)
Revenue		
Revenue from operations	3,143	3,163
Non-operating income	12	1
Total revenue (I)	**3,155**	**3,164**
Expenses		
Employee benefits expense	25	2
Other expenses	260	337
Total expenses (II)	**285**	**339**
Earnings before interest, depreciation and amortization (EBITDA) (I)-(II) (A)	**2,870**	**2,825**
Depreciation expense- (B)	1,180	1,185
Interest income-(C)	369	348
Finance cost- (D)	1,754	1,759
Profit before tax (A-B+C-D)	**305**	**229**
Tax expense:		
Current tax expense	207	198
Deferred tax expense / (credit)	20	(29)
Total tax expenses	**227**	**169**
Net profit after tax	**78**	**60**
Other comprehensive income		
Items that will be reclassified to profit or loss		
Effective portion of cash flow hedge	(540)	1,379
Income tax effect	83	(208)
	(457)	1,171
Foreign currency translation reserve	804	(819)
Other comprehensive income	**347**	**352**
Total comprehensive income	**425**	**412**

The accompanying notes are an integral part of the unaudited interim condensed combined financial statements.

Muhammad Khalid Peyrye
Director
Date:19 November 2020

Yung Oy Pin Lun Leung
Director
Date:19 November 2020

Restricted Group
Unaudited Interim Condensed Combined Statement of Changes in Equity
(INR amount in millions, unless otherwise stated)

Other equity*

For the period ended September 30, 2020:

Particulars	Reserves and surplus		Equity component of Compulsorily Convertible Debentures	Items of Other Comprehensive Income		Total equity
	Surplus/(deficit) in the statement of profit and loss	Securities premium account		Foreign currency translation reserve	Cash flow hedges #	
At April 01, 2020	**(2,792)**	**11,374**	**5**	**(5,787)**	**4,979**	**7,779**
Profit for the period	78	-	-	-	-	78
Other comprehensive income/(loss)	-	-	-	804	(457)	347
At September 30, 2020	**(2,714)**	**11,374**	**5**	**(4,983)**	**4,522**	**8,204**

For the year ended March 31, 2020:

Particulars	Reserves and surplus		Equity component of Compulsorily Convertible Debentures	Items of Other Comprehensive Income		Total equity
	Surplus/(deficit) in the statement of profit and loss	Securities premium account		Foreign currency translation reserve	Cash flow hedges #	
At April 01, 2019	**(2,356)**	**11,374**	**5**	**(2,633)**	**2,160**	**8,550**
Loss for the year	(436)	-	-	-	-	(436)
Other comprehensive income/(loss)	-	-	-	(3,154)	2,819	(335)
At March 31, 2020	**(2,792)**	**11,374**	**5**	**(5,787)**	**4,979**	**7,779**

For the period ended September 30, 2019:

Particulars	Reserves and surplus		Equity component of Compulsorily Convertible Debentures	Items of Other Comprehensive Income		Total equity
	Surplus/(deficit) in the statement of profit and loss	Securities premium account		Foreign currency translation reserve	Cash flow hedges #	
At April 01, 2019	**(2,356)**	**11,374**	**5**	**(2,633)**	**2,160**	**8,550**
Profit for the period	60	-	-	-	-	60
Other comprehensive income/(loss)	-	-	-	(819)	1,171	352
At September 30, 2019	**(2,296)**	**11,374**	**5**	**(3,452)**	**3,331**	**8,962**

* Other equity represents the aggregate amount of other equity of identified subsidiaries of Restricted Group as of the respective period and does not necessarily represent legal other equity for the purpose of the Restricted Group.

Refer note 5, 6 & 7

Restricted Group
Unaudited Interim Condensed Combined Statement of Cash Flows
(INR amount in millions, unless otherwise stated)

	Particulars		**Six months period ended September 30, 2020 (Unaudited)**	**Six months period ended September 30, 2019 (Unaudited)**
A	**Cash flows from/(used in) operating activities**			
	Profit before tax		**305**	**229**
	Adjustment to reconcile loss before tax to net cash flows			
	Depreciation expense		1,180	1,185
	Interest income		(369)	(348)
	Exchange difference (net)		(6)	6
	Contract assets		(18)	(12)
	Deferred revenue		8	15
	Loss on sale of property, plant and equipment (net)		1	0
	Provision for doubtful debts/advances		23	33
	Viability Gap funding income		(41)	(42)
	Finance cost		1,754	1,759
	Operating profit before working capital changes		**2,837**	**2,825**
	Movements in working capital:			
	(Increase) in trade receivables		(118)	(619)
	(Increase) in other financial assets		(9)	(2)
	(Increase)/Decrease in other current assets		(37)	5
	(Decrease)/Increase in other current financial liabilities		(214)	6
	(Decrease) in trade payables		(107)	(7)
	(Decrease)/Increase in other current and non current liabilities		(4)	43
	Decrease/(Increase) in other non current assets		12	(20)
	Increase in current provisions		2	-
	Increase in non current provisions		2	-
	Cash generated from operations		**2,364**	**2,231**
	Income tax paid (net of refunds)		(107)	(156)
	Net cash flow from operating activities	**(A)**	**2,257**	**2,075**
B	**Cash flows from/(used in) investing activities**			
	Property, plant and equipment (including capital work in progress, capital advance and capital creditors)		(197)	(23)
	Security deposit		(1)	(2)
	Interest received		180	54
	Purchase of current investments		-	(479)
	Proceeds from sale/maturity of current investments		-	241
	Investment in/ (Proceeds from) in bank deposits		(558)	171
	Loan given to holding/fellow subsidiary companies		(206)	(1,654)
	Proceeds from repayment of loan to holding/fellow subsidiary companies		557	713
	Net cash flows used in investing activities	**(B)**	**(225)**	**(979)**
C	**Cash flows from/(used in) financing activities**			
	Proceeds from current borrowings		-	2,705
	Repayment of currrent borrowings		(981)	(1,968)
	Repayments of current borrowings from holding/fellow subsidiary companies		-	(226)
	Payment for hedging arrangements		(443)	(537)
	Payment of lease rent		(30)	(28)
	Interest paid		(1,058)	(1,094)
	Net cash flows used in financing activities	**(C)**	**(2,512)**	**(1,148)**
	Effect of exchange rate changes on cash and cash equivelants	**(D)**	**(1)**	**4**
	Net increase in cash and cash equivalents	**(A+B+C+D)**	**(481)**	**(48)**
	Cash and cash equivalents at the beginning of the period		2,033	498
	Cash and cash equivalents at the end of the period		**1,552**	**450**
	Components of cash and cash equivalents			
	Balances with schedule banks:			
	- In current accounts		246	94
	- Deposits with original maturity of less than 3 months		1,306	356
	Total cash and cash equivalents		**1,552**	**450**

Notes:

1 The Statement of Cash Flows has been prepared under the indirect method as set out in Indian Accounting Standard (Ind AS 7) on "Statement of Cash Flows" referred to Section 133 of Companies Act 2013.

2 The accompanying notes are an integral part of the unaudited interim condensed combined financial statements.

(INR amount in millions, unless otherwise stated)

1. General Information

Azure Power Energy Limited ("APEL" or "the Company") was incorporated on June 15, 2017 as a public company limited by shares incorporated under laws of Mauritius and a wholly-owned subsidiary of Azure Power Global Limited (the "Parent") and has its registered office at C/o. AAA Global Services Ltd., 1st Floor, The Exchange 18 Cybercity, Ebene, Mauritius. The Company and certain subsidiaries of Azure Power India Private Limited (APIPL), collectively "The Restricted Group Entities" and "Restricted Entity" individually (as listed below) carry out business activities relating to generation of electricity through non-conventional renewable energy sources engaged in the ownership, maintenance and management of solar power plants and generation of solar energy based on long-term contracts (power purchase agreements or "PPA") with Indian government entities as well as other non-governmental energy distribution companies and commercial customers. APEL is duly registered as Foreign Portfolio Investor Entity with the Securities Exchange Board of India for investing in debt instruments in India on July 7, 2017.

During the financial year 2017-18, the Company issued US$ Senior Notes to institutional investors and is listed on Singapore Exchange Securities Trading Limited (SGX-ST). APEL invested the proceeds, net of issue expenses in Non-Convertible Debentures ("NCDs") and External commercial borrowings ("ECBs") to replace their existing Rupee and external debt. Restricted entities are directly or indirectly under common control of the parent. APEL and Restricted Entities have been considered as "Restricted Group" for the purpose of financial reporting.

The Restricted Group entities which are all under the common control of the Parent company comprises of the following entities:-

Entities	Principle Activity	Country of Incorporation	% Held by Parent		
			September 30, 2020	March 31, 2020	September 30, 2019
Azure Power Energy Limited	Bond Issuance	Mauritius	100%	100%	100%
Azure Power (Punjab) Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Power (Haryana) Private Limited	Generation of Solar power	India	99.17%	99.17%	99.17%
Azure Urja Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Surya Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Power (Karnataka) Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Photovoltaic Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Power Infrastructure Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Power (Raj.) Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Green Tech Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Renewable Energy Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%

(INR amount in millions, unless otherwise stated)

Entities	Principle Activity	Country of Incorporation	% Held by Parent		
			September 30, 2020	March 31, 2020	September 30, 2019
Azure Clean Energy Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Sunrise Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Sunshine Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Power Eris Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Power Mars Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Power Pluto Private Limited	Generation of Solar power	India	99.99%	99.99%	99.99%
Azure Power Thirty Seven Private Limited	Generation of Solar power	India	99.84%	99.84%	99.84%

2. Purpose of the Ind AS Unaudited Interim condensed combined financial statements

These are special purpose Ind AS unaudited interim condensed combined financial statements, which have been prepared for the purpose of complying with financial reporting requirements under the indenture governing the US$ Senior Notes. These Ind AS unaudited interim condensed combined financial statements presented herein reflect the Restricted Group's results of operations, assets and liabilities and cash flows for the period presented. The basis of preparation and significant accounting policies used in preparation of these special purpose Ind AS unaudited interim condensed combined financial statements are set out in note 3 and 4 below.

3. Basis of preparation

The indenture governing the US$ Senior Notes requires Restricted Group to prepare Ind AS unaudited interim condensed combined financial statements of the Restricted Group for the purpose of submission to the bond holders. The Ind AS unaudited interim condensed combined financial statements of the Restricted Group have been prepared in accordance with recognition and measurement principles laid down by the Indian Accounting Standards (Ind AS) (except Ind AS - 33 on Earnings Per Share) prescribed under section 133 of the Companies Act, 2013, read with rule 3 of the Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) (Amendment Rules), 2016 issued thereunder and other accounting principles generally accepted in India and the guidance note on Combined and Carve-out Financial Statements issued by the Institute of Chartered Accountants of India. Further for computation of depreciation the company based upon legal opinion has charged depreciation as per CERC regulations.

The Ind AS unaudited interim condensed combined financial statements have been prepared in accordance with Ind AS 34, Interim Financial Reporting. The Ind AS unaudited interim condensed combined financial statements do not include all the information and disclosures required in the annual financial statements.

The items in the Ind AS unaudited interim condensed combined financial statements have been classified considering the principles under Ind AS 1, Presentation of Financial Statements.

As per the Guidance Note on Combined and Carve Out Financial Statements, the procedure for preparing combined financial statements of the combining entities is the same as that for consolidated financial statements as per the applicable Accounting Standards. Accordingly, when combined financial statements are prepared, intra-group transactions and profits or losses are eliminated. All the inter group transactions are undertaken on Arms Lengths basis. There is no allocation of expenses within the Restricted Group. The information presented in the Ind AS unaudited interim condensed combined financial statements of the Restricted group may not be representative of the position which may prevail after the transaction. The resulting financial position may not be that which might have existed if the combining businesses had been a stand-alone business.

The non-controlling interest held by outsiders amounts to INR 3 million and INR 3 million as of September 2020 and March 2020 respectively. Share capital and reserves disclosed in the Ind AS unaudited interim condensed combined financial statements is not the legal capital and reserves of the Restricted Group and is the aggregation of the share capital and reserves of the individual combining entities. Income taxes are arrived at by aggregation of the tax expenses actually incurred by the combining businesses, after considering the tax effects of any adjustments which is in accordance with the Guidance Note on Combined and Carve-Out Financial Statements issued by the ICAI.

Accordingly, the procedures followed for the preparation of the Ind AS unaudited interim condensed combined financial statements:

(a) Combined like items of assets, liabilities, equity, income, expenses and cash flows of the combining entities.
(b) Eliminated in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Restricted Group (profits or losses resulting from intragroup transactions that are recognised in assets, such as fixed assets, are eliminated in full).

These Ind AS unaudited interim condensed combined financial statements may not necessarily be indicative of the financial performance, financial position and cash flows of the Restricted Group that would have occurred if it had operated as a separate stand-alone Group of entities during the period presented or the Restricted Group's future performance.

The Ind AS unaudited interim condensed combined financial statements include the operation of entities in the Restricted Group, as if they had been managed together for the period presented.

Summary of significant accounting policies

4. The Ind AS unaudited interim condensed combined financial statements have been prepared in accordance with the accounting policies adopted in the Restricted Group's last audited annual financial statements for the period ended March 31, 2020. The presentation of the Ind AS unaudited interim condensed combined financial statements is consistent with the audited Combined Financial Statements for the period ended March 31, 2020.

5. During August 2017, APEL has issued 5.5% US$ denominated Senior Notes ("5.5% Senior Notes" or "Green Bonds") and raised INR 31,260 million net off of discount on issue of INR 9 million at 0.03% and issuance expense of INR 586 million. The discount on issuance of Green Bonds and the issuance expenses have been recorded as Finance cost based on effective interest rate method and the unamortized balance is netted with the carrying value of Senior Notes. These Notes are listed on Singapore Exchange Securities Trading Limited (SGX-ST). In accordance with the terms of the issue, APEL invested the proceeds in INR denominated Non-Convertible Debentures (NCDs) and External Commercial Borrowings (ECBs) within the Restricted Group. The interest on the Senior Notes are payable on a semi-annual basis and the principal amount is payable in November 2022. The Parent had guaranteed the principal and interest repayments to the investors; however, the guarantee was cancelled upon satisfying certain financial covenants, on the basis of the financial statements for the year ended March 31, 2019.

6. The Company designates the derivative contracts for mitigating the foreign exchange fluctuation risk as a cash flow hedge. The changes in fair value of the derivatives are included in other comprehensive income to the extent the hedge continues to be effective. The related other comprehensive income amounts are allocated to the Combined Statements of Profit and Loss in the same period in which the hedged item affects net earnings. To the extent the change in fair value of the derivative financial instruments is not completely offset by the change in the fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in the Combined Statements of Profit and Loss.

7. Contracts designated as Cash flow hedges: The Company hedged the foreign currency exposure risk related to certain investments in Restricted Group entities denominated in foreign currency through call spread option with full swap for coupon payments. The foreign currency forward contracts and options were not entered for trading or speculative purposes.

The Company documented each hedging relationship and assessed its initial effectiveness on inception date and the subsequent effectiveness was tested on a quarterly basis using dollar offset method. When the relationship between the hedged items and hedging instrument is highly effective at achieving offsetting changes in cashflows attributable to the hedged risk, the Company records in other comprehensive income the entire change in fair value of the designated hedging instrument that is included in the assessment of hedge effectiveness. The gain or loss on the hedge contracts shall be reclassified to interest expense when the coupon payments and principal repayments are made on the related investments. The hedge contracts were effective as of September 30, 2020.

Ind AS 109, Financial Instruments, permits recording the cost of hedge over the period of contract based on the effective interest rate method. The Restricted Group determined the cost of hedge at the time of inception of the contract was INR 4,931 million and recorded an expense of INR 1,585 million and INR 1,477 million during the period ended September 30, 2020 and September 30, 2019 respectively.

The following table presents outstanding notional amount and balance sheet location information related to foreign exchange derivative contracts as of September 30, 2020 and March 31, 2020:

	Foreign currency option contracts	
	As at September 30, 2020 (Unaudited)	**As at March 31, 2020 (Audited)**
Notional Amount (US$ denominated) (INR in millions)	499.60	499.60
Non-current – Other financial assets (INR in millions)	4,856	5,506

8. Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the Restricted Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying value		Fair value	
	As at September 30, 2020 (Unaudited)	**As at March 31, 2020 (Audited)**	**As at September 30, 2020 (Unaudited)**	**As at March 31, 2020 (Audited)**
Financial assets at amortised cost				
Non-current security deposits	7	7	7	7
Performance bank guarantee receivable	7	6	7	6
Non-current loans to holding company	2154	2154	2,154	2,154
Non-current term deposits (including interest accrued)	405	410	405	410
Financial assets at fair value				
Derivative instruments at fair value through OCI*	4,856	5,506	4,856	5,506
Total	**7,429**	**8,083**	**7,429**	**8,083**
Financial liabilities at amortised cost				
Foreign currency loan from bank (including current maturities)**	296	303	296	303
5.5% Senior Notes***	36,596	37,314	38,761	35,754
Total	**36,892**	**37,617**	**39,057**	**36,057**

The management assessed that cash and cash equivalents, term deposits, interest accrued on term deposits, other bank balances, trade receivables, unbilled revenue, viability gap funding receivable (VGF), receivable from related parties, security deposits received, current borrowings, interest accrued, payable for capital goods, trade payables and security deposits paid approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the price that would be received on selling of assets or paid to transfer a liability in an orderly transactions between market participants at measurement date.

The following methods and assumptions were used to estimate the fair values :

Measured at fair value:

* The respective companies under the Respective Group enter into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign currency option derivatives are valued using valuation techniques, which employs the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying instruments. The Restricted Group used the derivatives option pricing model based on the principles of the Black-Scholes model to determine the fair value of the foreign exchange derivative contracts. The inputs considered in this model include the theoretical value of a call option, the underlying spot exchange rate as of the balance sheet date, the contracted price of the respective option contract, the term of the option contract, the implied volatility of the underlying foreign exchange rates and the risk-free interest rate as of the balance sheet date.

At amortised cost:

**Fair value of long-term loan having floating rate of interest approximate the carrying amount of those loans as there was no significant change in the Restricted Group's own credit risk during the period.

***The fair values of the interest-bearing borrowings and loans of Restricted Group are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at September 30, 2020 was assessed to be insignificant.

(INR amount in millions, unless otherwise stated)

9. Fair value hierarchy

The following table provides the fair value measurement hierarchy of the assets and liabilities of the Restricted Group.

Quantitative disclosures fair value measurement hierarchy for assets as at September 30, 2020:

		Fair value measurement using		
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets at amortised cost				
Non-current security deposits	7	-	7	-
Performance bank guarantee receivable	7	-	7	-
Non-current loans to holding company	2,154	-	2,154	-
Non-current term deposits (including interest accrued)	405	-	405	-
Financial assets measured at fair value				
Derivative instruments at fair value through OCI	4,856	-	4,856	-

There have been no transfers between Level 1 and Level 2 during the period.

Quantitative disclosures fair value measurement hierarchy for liabilities as at September 30, 2020:

		Fair value measurement using		
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial liabilities at amortised cost				
Foreign currency loan from bank (including current maturities)	296	-	296	-
5.5% Senior Notes	38,761	-	38,761	-

There have been no transfers between Level 1 and Level 2 during the period.

Quantitative disclosures fair value measurement hierarchy for assets as at March 31, 2020:

		Fair value measurement using		
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets at amortised cost				
Non-current security deposits	7	-	7	-
Performance bank guarantee receivable	6	-	6	-
Non-current loans to holding company	2,154	-	2,154	-
Non-current term deposits (including interest accrued)	410	-	410	-
Financial assets measured at fair value				
Derivative instruments at fair value through OCI	5,506	-	5,506	-

There have been no transfers between Level 1 and Level 2 during the period.

Quantitative disclosures fair value measurement hierarchy for liabilities as at March 31, 2020:

		Fair value measurement using		
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial liabilities at amortised cost				
Foreign currency loan from bank (including current maturities)	303	-	303	-
5.5% Senior Notes	35,754	-	35,754	-

There have been no transfers between Level 1 and Level 2 during the period.

The management assessed that cash and cash equivalents, term deposits, interest accrued on term deposits, other bank balances, trade receivables, unbilled revenue, viability gap funding receivable (VGF), receivable from related parties, security deposits received, current borrowings, interest accrued, payable for capital goods, trade payables and security deposits paid approximate their carrying amounts largely due to the short-term maturities of these instruments.

10. Segment Reporting: The activities of Restricted Group entities mainly involve sale of electricity. Considering the nature of Restricted Group entities' business and operations, there are no separate reportable operating segments in accordance with the requirements of Indian Accounting Standard 108, 'Operating Segments' referred in to Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) Amendment Rules, 2016 and hence, there are no additional disclosures provided.

11. During the six months period ended September 30, 2020, some of the entities in the Restricted Group received back loan from Azure Power India Private Limited (Holding Company) amounting to INR 557 million and have given loan (net of repayments) to other fellow subsidiaries outside the Restricted Group amounting to INR 206 million and carries an interest rate of 10.6% p.a.

12. COVID-19 update: The Restricted Group has considered internal and external information in the preparation of special purpose combined financial statements including the economic outlook and believes that it has taken into account the possible impact of currently known events arising out of the COVID-19 pandemic. The Ministry of New and Renewable Energy (“MNRE”) had sent a directive to all state DISCOMs to reiterate that all renewable energy facilities in India have been granted "must run" status and this status of "must run" remains unchanged. The power plants have remained operational as electricity generation is designated as an essential service in India. Based on the current collection experience, the Restricted Group has not seen a material impact on accounts receivables collections due to COVID-19. However, the impact assessment of COVID-19 is a continuing process given the uncertainties associated with its nature and duration. The Restricted Group will continue to monitor any material changes to future economic conditions.

13. Previous period figures have been regrouped/ rearranged wherever considered material and necessary to conform to the current period presentation.

Six Months Period Ended September 30, 2020 Unaudited Interim Condensed Combined Financial Results:

Revenue from operations

Operating revenue for the six months period ended September 30, 2020 was INR 3,143 million, a decrease of 0.6% from INR 3,163 million over the same period in 2019.

Other Income

Other income for the Restricted Group for the six months period ended September 30, 2020 was INR 12 million, an increase of INR 11 million from INR 1 million during the same period in 2019. The increase was primarily due to foreign exchange gain due to appreciation of INR against U.S. dollar in the current period.

Operating expenses (exclusive of depreciation and amortization)

Operating expense for the six months period ended September 30, 2020 decreased by 16% to INR 285 million from INR 339 million in the same period in 2019. The decrease was primarily due to lower cost of operations and administrative expenses due to COVID-19, resulting in lower module cleaning, plant maintenance cost, legal and professional and other expenses.

Depreciation and Amortization Expenses

Depreciation and amortization expenses during the six months period ended September 30, 2020 increased by 0.4%, to INR 1,180 million from INR 1,185 million compared to the same period in 2019.

Finance Income

Finance income mainly consist of interest income. Finance income during the six months period ended September 30, 2020 increased by INR 21 million, or 6%, to INR 369 million compared to the same period in 2019 as a result of an increase in interest income on inter corporate deposits during the period.

Finance cost

Net interest expense during the six months period ended September 30, 2020 decreased by 0.3%, to INR 1,754 million from INR 1,759 million compared to the same period in 2019. This was primarily due to debt amortisation.

Tax Expenses

Income tax expense for the Restricted Group during the six months period ended September 30, 2020 increased by INR 58 million to INR 227 million, compared to the period ended September 30, 2019. The increase in income tax expense was primarily on account of increase in taxable profits in RG entities.

Liquidity and Capital Resources

Cash Flow from operating activities

Cash generated from operating activities for the six months period ended September 30, 2020 was INR 2,257 million, compared to INR 2,075 million in the same period in 2019, primarily due to better collection of trade receivables.

Cash Flow used in investing activities

Cash used in investing activities for the six months period ended September 30, 2020 was INR 225 million, compared to INR 979 million in the same period in 2019.The Group has invested in inter corporate and bank credits of INR 207 million in the period ended September 30, 2020 against INR 1,008 million in the same period in 2019.

Cash Flow from financing activities

Cash used in financing activities was INR 2,512 million for the six months period ended September 30, 2020, compared to cash used in financing activities amounting to INR 1,148 million for the prior comparable period. This was primarily due to repayment of short term loans during the period.

Liquidity Position

As of September 30, 2020, Restricted Group had INR 2,228 million of cash, cash equivalents and current investments and other bank balances.

Combined Earnings before interest, tax, depreciation and amortization (EBITDA)

Combined EBITDA of Restricted Group was INR 2,870 million for the six months period ended September 30, 2020, compared to INR 2,825 million for the same period in 2019. This was primarily due to the decrease in operating expenses during the period due to COVID- 19.

Subsequent event

The Company evaluated all other events or transactions that occurred after September 30, 2020. Based on this evaluation, the Company is not aware of any event or transactions that would require recognition or disclosure in the Ind AS Unaudited Interim condensed combined financial statements.