Azure Power

Fiscal First Quarter 2019

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CORPORATE PARTICIPANTS

Inderpreet Wadhwa - *Founder, Chairman and Chief Executive Officer*

Sushil Bhagat - *Chief Financial Officer*

Nathan Judge - *Senior Vice President - Investor Relations*

PRESENTATION

Operator
Good morning and welcome to the Azure Power Fiscal First Quarter 2019 Conference Call. All participants are in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your touchtone phone, to withdraw your question, please press "*" then "2." Please note this event is being recorded.

I would now like to turn the conference over to Nathan Judge, Investor Relations. Please go ahead, sir.

Nathan Judge
Thank you, and good morning everyone, and thank you for joining us. After the close on Wednesday, the company issued a press release announcing its financial results for the first quarter of 2019 ended June 30, 2018. A copy of the press release and the presentation are available on the investor's section of the Azure Power's website at azurepower.com.

With me today are Inderpreet Wadhwa, Founder, Chairman, and Chief Executive Officer; and Sushil Bhagat, Chief Financial Officer.

Inderpreet will provide a business plan update and Sushil will discuss our fiscal first quarter financial performance. Inderpreet will finish our prepared remarks by reiterating our fiscal 2019 guidance. And after this, we will open up the call for questions.

Please note, our Safe Harbor statements are contained within our press release, presentation materials, and 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've furnished with our Form 6K and presentation on our website for a more complete description.

Also contained in our press release and presentation materials are certain non-GAAP measures that we've reconciled to the most comparable GAAP measures and those reconciliations are also available on our website and in the press release and presentation materials.

It is now my pleasure to hand it over to Inderpreet Singh Wadhwa, Founder, Chairman and Chief Executive Officer.

Inderpreet Wadhwa

Thank you, Nathan, and good morning, everyone. Slide four summarizes our mission and core values, which are critical to our long-term success. Our mission is to be the lowest cost power producer in the world. And this is not the same as having the lowest selling price of power in the world. Core to our culture of the company, our core values, excellence, honesty, social responsibility and entrepreneurship. We strive to uphold every one of these values in everything we do.

This has been the strongest quarter for project development for us and we have significantly expanded our portfolio in the first fiscal quarter of 2019. Further, solidifying our position as a leader in the attractive Indian solar market. With almost 1.2 gigawatts of wins since the end of the previous quarter, our portfolio stood at 3,043 megawatts at the beginning of August. We have over a gigawatt operating and our pipeline is about 2 gigawatts, of which we have received project awards for almost 1.7 gigawatts of projects and all but one, which is the 300 megawatt project win that we had recently. We still await final allocation and award on that project.

We are on track to deliver the projections we said at the beginning of the year. We expect somewhere between 1,300 to 1,400 megawatts operational by fiscal year end and we are well funded for projects that are currently under execution.

Of our 2 gigawatt pipeline, 806 megawatts are expected to be slated for FY20 and 900 megawatts for FY21. The Indian government, in their desire to meet their 100 gigawatt solar addition plans, have now started to allocate large scale projects with multi-year development horizons. This has helped us on the back of our strong development expertise to capitalize on this opportunity and develop a multi-year pipeline and visibility for the next two fiscal years, which is unprecedented in our business in India historically.

When looking at the revenues, we delivered $35 million in the first quarter, which was an increase of about 29 percent and also brought us to about $120 million of revenues for the last 12 months. On an annual revenue run rate basis, we expect that we will realize roughly 152 million in annual revenues from the 1 gigawatt portfolio that is currently operating and for the 29 million from plants that are under construction.

On top of this, a committed portfolio should generate an incremental $165 million of revenues on an annual basis once completed, leading to a total of $346 million of portfolio revenue run rate, which would be about triple the level of the last 12 months revenue that we have achieved.

We have received project awards for all but one project, as I mentioned earlier. We continue to be successful winning projects with the highest tariff in the market, which results in attractive returns that are well above our cost of capital.

Our integrated business model enhances returns in all types of tariff environments and provides us competitive advantages, including reduced cost and cost of capital, increases our access to capital, and improves our ability to sign contracts with the best counterparts in the Indian solar market.

We are a returns-focused company and have shown consistently that we are able to deliver high returns well above our cost of capital consistently over time. In addition, the abrupt slowdown in demand for solar panels in China has pushed module prices lower than when we bid for our pipeline projects. We are likely to exceed the original expectations of returns in our projects, especially the larger projects to be delivered over the next two years.

More importantly, the contracts that we have are with strong counterparties. One hundred percent of our fiscal year '21 pipeline is with sovereign offtake and 86 percent of the total projects in our pipeline are with customers that have domestic credit ratings ranging from A to AAA. Over 1.2 gigawatts of our pipeline is contracted with government of India backed entities, which we believe makes Azure the strongest asset portfolio for solar energy in India.

Our pipeline has some of the highest tariffs in the Indian solar market. Some of the highlights include a 90 megawatt win in Assam and a tariff of approximately 4.9 cents per kilowatt hour and a 50 megawatt project in Maharashtra with a tariff of about 4.5 cents per kilowatt hour, which are 37 and 30 percent above the lowest tariffs in the market.

We continue to make good progress in our Azure Roof Power business, which focuses on commercial, industrial, and government sites. We recently announced a 5 megawatt win with an average tariff of 6.7 US cents per kilowatt hour, almost 87 percent above the lowest rate in the large scale solar power generation in India. Overall, the pipeline has an average status of about 9 percent above the lowest rate in the Indian solar market, creating additional value for our shareholders and a continued demonstration of a strong project development skill in India to win projects at better tariff than the lowest bid in the market.

Recently, one project, we had won 160 megawatt in the state of Uttar Pradesh was cancelled within days of the auction. This project had a tariff of 5.2 US cents per kilowatt hour or 45 percent above the lowest bid in the Indian solar market. The Uttar Pradesh government was in its right to cancel this auction prior to the issuance of the letter of award. We believe that the government realized that they should have conducted this auction with a benchmark price cap. They have since retendered this project with a benchmark price cap of approximately 4.5 US cents per kilowatt hour and this was less than 5 percent of our total portfolio and did not have any material impact because of business model where we do not incur any significant costs unless we sign a contract with our customers.

In terms of the overall market, momentum remains extremely strong in India. Given that solar is the lowest cost of electricity in India, almost 90 percent of new capacity addition year-to-date in India came from solar power. And at the same time, we saw many thermal power projects being cancelled. We are actively tracking almost 20,000 megawatts of auctions in process in this financial year and we expect additional wins given our strong development expertise and ready access to low cost capital.

Recently, the DGTR imposed a safeguard duty on solar cell imports ranging from 15 to 25 percent over a two year period starting July 30, 2018. At the same time, we also saw that one of the high courts in Orissa stayed this duty on July 23rd and their next hearing of this case on August 20th. We reiterate that we do not expect any material impact to our business as the contracts have changing law provision that allows for changes such as these to be passed through to the consumers in our contracts. In addition, the government is considering exempting projects that were bid out prior to July 30, 2018 from such tariffs and a decision on that is awaited in the next couple of weeks.

On the construction side, we make good progress with our largest project, 260 megawatt Gujarat 2. This project is with the Gujarat state, which has a domestic credit rating--the offtaker has a domestic credit rating of AA- and has a tariff of about 3.9 cents per kilowatt hour. We are on track to meet the development timeline and construction schedule for this project and we expect this project to come in below budget given the recent decline in module prices.

We have a lot of experience of building projects in Gujarat. In fact, one of our first projects was developed in Gujarat and at the time of commissioning was one of India's largest solar projects in Gujarat.

With that, I would like to pass it on to our CFO, Sushil, who will review our first fiscal quarter performance. Over to you, Sushil.

Sushil Bhagat

Thank you, Inderpreet. Turning to our first quarter of fiscal 2019 performance, the continued record, strong growth with the number of operating and committed megawatts increasing to 2,141 megawatts or 100 percent increase from the past fiscal year. We had 1 gigawatt plus operating megawatt as of first quarter fiscal '19, which is 31 percent more than the fiscal first quarter of 2018. Our project costs per DC watt fell 11 percent year on year to 65 US cents per watt largely partly due to lower module and balance of system cost due to our value creation efforts.

Starting this fiscal year, we are optimizing our plants and installing more DC capacity to our projects. That gives us high generation and lower costs per watt for the system. You will see additional disclosure on page 20 and 21 relating to this.

Our fiscal first quarter '19 revenue was $35 million, which was a 29 percent increase from the prior year. We are pleased with our factors in capturing economies of scale of our integrated platform and G&A was up only 6 percent from last year. EBITDA rose 33 percent year on year, which was at a faster pace than our revenue growth of 29 percent.

Our interest expense during the first quarter was $15.7 million, or a 13 percent increase year on year as our portfolio grows. Our balance sheet remains well capitalized and continues to grow as we add new projects.

Property, plant and equipment increased to $856 million, reflecting a 27 percent increase from the prior fiscal year end as we added 214 megawatts from the prior year. Net Debt was $735 million as of June end, 2018.

Our liquidity position continues to remain very strong. We are beginning to see significant cash flow from operations as our portfolio grows. And for the quarter, we recorded about $9.7 million from cash flows from operations before our biannual interest payment for our Green Bond of $20.6 million, which is for a six month period.

We ended the quarter with $195 million of cash and cash equivalent, including restricted cash.

In addition, we also had undrawn debt project facilities of $185 million at the end of the quarter. And we also have $90 million of working capital that we can draw on.

We believe we are in a strong position to finance the project that we have recently won. In addition, the Green Bonds would release additional cash over its tenure, which can be used for funding of growth. We continue to have support of a large shareholder, CDPQ, which has ROFO on our assets where we can grow our portfolio by bringing in CDPQ as a minority equity investor in our projects without existing shareholder dilution.

In addition, we believe we have a full range of other options for funding growth, including follow on offerings or additional Green Bond issuances. I'll now pass it over to Inderpreet to disclose guidance.

Inderpreet Wadhwa

Thank you, Sushil. The outlook for the Indian solar market continues to be very attractive and we believe we offer investors the opportunity to invest in a company that has competitive advantages and can consistently earn returns that are attractive and well above cost of capital. Our business model is doing extremely well.

We believe we are on track to meet our guidance previously shared with you and will deliver high growth in fiscal year ended March 31, 2019. We continue to expect to have somewhere between 1,300 to 1,400 megawatts operating by end of the fiscal year and revenues between $143 and $151 million.

With this, we will now take questions.

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press "*" then "2."

At this time, we will pause momentarily to assemble our roster.

And our first question will come from Philip Shen of Roth Capital Partners

Philip Shen
Hi, Inderpreet, Sushil. Thanks for the questions. I'd like to start with your project costs. I think they've declined from 78 cents a watt in the prior quarter to 65 cents in this quarter. Just seems like a really nice and big step down. I think you noted in the last quarter that costs were higher because of domestic modules and purchased land. Can you give us some color as to how much--how you got that so low in the quarter? And then, what you expect the project cost--the unit cost to be as we go through fiscal '19. Thanks.

Inderpreet Wadhwa
Sure. So, I think, Phil, what you see now seems to be a good proxy for what you will see in the coming quarters, perhaps a slight improvement for panels that may be procured towards the last quarter of this year. And then largely, as we talked about the improvement is coming from the improved efficiency on balance of plant; that means larger blocks and other innovations that we put into the system. And reduction in panel prices and the fact that these panels are not from domestic sources. So, all of those sort of combined to this number.

But, I will also like to highlight that what we are now starting to report, as mentioned by Sushil, in our appendix on projects, we are breaking up the AC and DC capacity on our parts. So, historically, we have done limited addition of DC beyond the DPA capacity. But, going forward, you will see very high increment on our designs to add more solar panels to the same PPA capacity and that will lower your total per watt cost because you are not adding your incremental common infrastructure costs with every new megawatt being installed.

So, I think a couple of these things together help us lower our cost per watt DC to be much lower compared to last year because of the optimizations we talked about. But, as and when we roll out more optimizations, we will continue and share those views. But, for now, I would suggest you use what we have shared as a proxy for what's coming later in the year.

Philip Shen
Okay. Thanks for the color. As a quick follow up on that, Inderpreet, we talked about the potential for greater AC output versus DC in the past. Would the additional panels be on existing projects and not on--so, the expansion of the AC megawatts we've done existing projects and is there a way for you to quantify how much addition that could be by fiscal year as we look forward?

Inderpreet Wadhwa
Yeah, I think that's not something historically, Phil, we've talked about. So, what we are going to do is once the projects are completed--because every project may have a slightly different dynamic in terms of what works best in terms of optimization. So, we will start sort of putting these numbers out as we get closer to completing a project. So, what you would see in a project schedule is projects that are all operational, you will see that break up. So, for all new projects as and when they come online, you'll start seeing the levels in those projects as well. But, we believe that in some of our projects, we can go up to 50 percent, higher than PPA capacity on the DC side.

Philip Shen
Great. Thanks for the color. As for module pricing, if we can kind of get a little bit more color on this. It sounds like, one, you have the ability with the new tariffs that are in place for 15 to--25 to 15 percent. But, you have the ability to pass that cost on to your counterparties. And then number two, I think you have substantial amount of exemptions. So, based on some of the pricing that we track, it seems like pricing has jumped 20 to 24 percent across the board. So, week over week, recently, is it--so, is it fair to say that the vast majority of your projects will not be impacted in this year or next year? And if there is some that is impacted, what percentage of the projects that you expect to install could be impacted? Is it 5 percent or is it 25 percent? Some kind of directional perspective or quantification would be really great. Thanks.

Inderpreet Wadhwa
Sure, Phil. So, I think in terms of just the contract provisions, we believe that 100 percent of our contracts that are out there that have to move into construction and panel procurement needs to be done have provisions of a clear pass through. So, that's 100 percent. Having said that, there is also this discussion within the government that projects that were bid out prior to the issuance of the duties should be exempt. So, the--if they're exempt, then there's no question of any impact. If they're not exempt, then we have to go through the process for the pass through. So, it's literally out of those two options that we have to crystalize with our customers on what's going to work for them. So, this will be, unfortunately, a little time consuming process and there is no immediate impact. So, we will continue to foresee and report if there is any and what path the government takes on the existing projects.

And then it'll also be interesting that this tariff is a step down from 25 to 20 to 15 and then goes away after July of 2020. So, we actually now have some pipeline that goes beyond that in FY21 where we actually don't even have risk of duties where we stand. So, having the ability to now develop projects beyond that duty period is also working well for us.

Philip Shen
Good. Okay. So, it seems like there's literally no impact given the two potential options that you have between with exemption and then your contract provisions. Okay. So, shifting gears, I think recently--last quarter, you guys talked about a big 900 megawatt SECI project win, I think, broken down to two projects; 600 and 300. I think that has to be built within a couple of

years. When do you expect the location to be finalized for these projects for these megawatts? And what's the timing of this to ensure that you don't lose the 900 megawatts?

Inderpreet Wadhwa
Yeah. We have to finalize the location, actually, in 12 months time from the winning of the contract. So, we have a fairly long development cycle on this. But having said that, we already got site control--partial site control for one of the projects. And for obvious competitive reasons, we don't want to disclose that yet, but once it is fully permitted, then we can disclose it. And this is, again, an area of our strength and our ability to develop land and interconnect across almost 23 states in India. So, not something to be concerned of at this stage.

Philip Shen
Okay, great. I'll pass it on. Thank you.

Operator
Again, if you'd like to ask a question, please press "*" then "1" at this time. Our next question will come from Maheep Mandloi of Credit Suisse.

Maheep Mandloi
Hi, Inderpreet and Sushil. Thanks for answering our questions. Just looking at the projects and the construction, the 339 megawatts, could you talk about how much CapEx has already been spent on either procuring the modules or constructing the project or how much is still required for those projects?

Inderpreet Wadhwa
Maheep, I don't think we have that handy, but I'd say maybe 50 percent, roughly speaking. And this is just from the progress of the project because you'd appreciate that some of the expenses done on long-term credit or letters of credit and they will show up as restricted cash on the balance sheet until certain days post completion of the suppliers. But, roughly, I'd say about 50 percent is either done or committed.

Maheep Mandloi
That makes sense. And just on the previous question, sir, on optimization and thanks for the color, but could you start--if the incremental revenues from optimization, would they be additive to the $346 million of run rate revenue you expect from the portfolio? Or is that all incremental?

Inderpreet Wadhwa
It's actually included in the $346 million number from our assessment based on the optimizations we'll do, that's what we'll deliver, 346.

Maheep Mandloi
Got that. And one last question from me, could you help us understand the process for pass through, of how you would appeal against changes and taxes and tariffs or what the process is that we understand that could be potential exemption from the government for all projects bid before July 2018? But, in the event that doesn't happen, how should we think about the process, whom you appeal to, and how much time does it take?

Inderpreet Wadhwa
Yeah. So, I think we'll have to go to the respective authorities that we are contracting with. And you can have sort of largely, what I would say, distribution companies, which are governed by the respective state or central regulators, depending on where the contract is. And if I say

majority of our contracts that would fall into that bucket will be the central government, in this case, you would go to the central electricity regulatory commission and you will present to them the increase on your project cost on account of duty. And then they'll have to go through a process of hearing and then pass an order in terms of what should be that incremental tariff to be paid. It can take somewhere between six to 12 months, but I'm expecting that the government will try and streamline that process for these decisions to be made. And if, again, the exemptions are made, then of course, there's absolutely no financial impact, even in the short term.

Maheep Mandloi
Thanks for the color and answering the questions.

Inderpreet Wadhwa
Thank you, Maheep.

CONCLUSION

Operator
This concludes our question and answer session. The conference will now--has now concluded. Thank you for attending today's presentation. You may now disconnect.