Azure Power

Q1 Fiscal 2022 Earnings Conference Call

August 31, 2021 at 8:30 a.m. Eastern Time

CORPORATE PARTICIPANTS

Ranjit Gupta – *Chief Executive Officer*

Murali Subramanian – *Chief Operating Officer*

Pawan Kumar Agrawal – *Chief Financial Officer*

Vikas Bansal – *Investor Relations*

PRESENTATION

Vikas Bansal
Thank you, and good morning everyone, and thank you for joining us. On Monday evening, the company issued a press release announcing results for the first quarter of fiscal 2022 ended June 30, 2021. A copy of the press release and the presentation are available on the Investors' section of Azure Power's website at azurepower.com.

With me today are Ranjit Gupta, CEO; Murali Subramanian, COO; and Pawan Kumar Agrawal, CFO. Ranjit will start the call by going through recent key highlights. Murali with then follow with an update on our projects under construction, technological innovation, and an industry update. Pawan will then provide an update on the quarter and then we will wrap up the call with Ranjit providing Q2 FY'22 and FY'22 guidance. 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 furnished in our Form 6-K and presentation on our website for a more complete description.

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

It is now my pleasure to hand it over to Ranjit.

Ranjit Gupta

Thank you Vikas, and a very good morning everyone. As you all know, India faced Covid-19's ugliest wave in this first quarter during April /May. There were massive medical emergencies witnessed across the country during its peak around mid-quarter, which, along with local restrictions, greatly restricted man and material movement. The daily infection rates receded around end of June and in the meanwhile our vaccination drive also picked up pace. As we speak, well above 600 million doses have been administered in India till date and about a third of the eligible adult population has at least got one dose. At Azure, we have stood by our employees & stakeholders in this fight against the pandemic through several initiatives focused on supplementing medical supplies, tracking the health & well being of team members & their families, organizing awareness & mental wellness talks and providing whatever support was needed by team members. We also organized two vaccination drives for our employees and I am happy to report that 99% of our eligible employees are now vaccinated. I know that some countries across the world are still battling the pandemic and I wish them all the best in dealing with Covid-19.

Moving on, I am happy to report that we became signatory to UN Global Compact this quarter. We will fully align ourselves with its ten principles on human rights, labor, environment and anti-corruption. Our ESG risk score by Sustainalytics has further improved and Sustainalytics now puts us in the "Low Risk" category compared to "Medium Risk" category earlier. MSCI, the leading ESG rating agency, rates Azure Power as AA which places us in the top quartile of all global utilities they cover and probably the highest among our peers in the country. We also recently retired Verified Carbon Units (VCU) to offset our scope 1 & 2 emission of 2019-20 and we will continue to do so in future on our path towards carbon neutrality. We continue to strive hard to improve our ESG performance and demonstrate our leadership.

We have a couple of major organizational updates to report subsequent to quarter end.

IFC/IFC GIF, which have been long time supporters of Azure since our early days and had a major role to play in our journey, recently sold their entire balance 19.4% stake in the company to OMERs, one of the largest Canadian pension funds with Net assets of over C$ 100 bn. The confidence that global long term patient infrastructure capital investors like OMERS have placed in Azure, demonstrates strength of our company and cements our status as one of India's premier renewable energy power producers with strong governance and profitable growth track record. Presence of CDPQ and OMERS on our capital board, both with long term investment view, also strengthens our position in terms of meeting capital requirement for our pipeline of projects.

We also recently placed our 3rd Green Bond in the debt capital market, primarily to retire our 1st Green Bond. The issue received tremendous response from global investors resulting in participation from top global Asset Managers with book building in excess of 5x and well diversified order book across geographies. The issue closed at lowest ever coupon in the high-yield segment for any business out of India. Coupon is lower by 27.5 bps from the lowest offering from any Indian renewable energy company till date and shall result in over 200bps of annual savings in landed interest cost for our 611 MW of underlying assets.

Both these events have further solidified Azure's position as the destination of choice for both equity and debt capital investments.

We also reported last quarter on our agreement to sell our Rooftop Portfolio to Radiance Renewables, which is the first ever asset sale in Azure Power's history and signifies our commitment towards capital discipline whilst recycling capital into higher return committed projects. We are in the process of obtaining the consent of off-takers and lenders and see the transaction closing over the next few months

I had mentioned in my previous remarks how we are looking to increase our addressable market by foraying into Wind & Solar/Wind hybrid space. Continuing with that, we participated in a few auctions in last couple of months and have won some capacities for which we are awaiting letter of awards. We firmly believe that as the industry moves towards providing dispatchable renewable energy to the grid, wind & storage will be two important technology additions we have to plan for our portfolio. I had mentioned in my previous remarks how Green Hydrogen & plummeting storage costs have the potential to disrupt our industry. We continue to monitor developments in both these exciting technologies and will keep you posted as we take steps to deploy them to improve our returns.

On the 4GW projects for which we have Letter of Awards from SECI but are yet to sign PPAs, we had a positive update from SECI informing us that they have signed Power Sale Agreements with couple of discoms for a total of 800 MWs. This is part of the first tranche of 3,000 MW of PSAs that SECI is looking to close, as part of the manufacturing linked scheme. We expect to have PPA signed for about a 3rd of the 800 MWs soon.

As the second wave has eased, we have seen renewed interest in buying power from discoms. Despite the pandemic, power demand recovery in India has clearly bounced back with peak demand crossing 200 GW last month, which has encouraged discoms to invest in buying power for their future needs.

Today, we have 23% more MWs operating than we did at the same time last year, excluding the rooftop portfolio. There has been an 11% year on year increase in EBITDA from Operating Assets and a 12% increase in Cash Flow to Equity from Operating Assets during the quarter period. We continue to see steady improvement in this metric.

The Government continues to support the Renewable Energy sector in India. India recently achieved

100GW of installed Renewable Energy capacity in the country making us the 4th largest in the world. Hon'ble Prime Minister at his Independence Day speech from the ramparts of Red Fort reiterated Govt of India's mission of 450 GW renewable capacity by 2030 and more importantly, announced the path toward India's self-reliance in energy by 2047, i.e., 100th year of Indian independence. This is a significant announcement given that the climate change imperative coupled with energy self-reliance target, greatly enhances the renewable energy runway. Most of India's Oil & Gas needs are met through imports and the only way towards energy independence is to bank more heavily on renewable energy.

In another significant positive development, a recent landmark judgement from the Appellate Tribunal for Electricity in the country allowed compensatory tariff for solar power curtailments in the state of Tamil Nadu. This has provided a tremendous boost to investor confidence in the sector and bodes well for our growth trajectory towards 450GW installed capacity in the country by 2030. For the first time in India, the Appellate Forum for Electricity has laid down the law that the developer will have to be compensated on account of illegal curtailment even in absence of a compensation clause in the PPA.

We continue to look for suggestions from our investors and stakeholders on how we can further improve our disclosures and make it easier for you to understand and value our business.

With that, I would like to turn it over to Murali.

Murali Subramanian
Thank you Ranjit.

As we last reported, the second wave of COVID at its peak impacted our projects under construction, not only disrupting the supply chain but also impacting construction activities at several of our sites. Subsequently however, both Covid and the supply situation have improved significantly.

As of today, we have completed and commissioned 400 MW in our 600 MW Rajasthan – 6 project, and another 100 MW has also been completed and is awaiting commissioning. The remaining capacity in this project is expected to go live in the next quarter. Thanks to the MNRE notification granting extension to all projects with commissioning due dates on or after 1st April 2021, we don't expect to incur any penalties for delays. Construction work on 300 MW Rajasthan – 8 is now underway full-swing, and construction activity in 300 MW Rajasthan – 9 project has commenced in right earnest. Work in Assam, that had picked up after the initial COVID related delays, again took a hit due to the second wave of COVID and inclement monsoon weather. Despite this, after the initial 25 MW, we have commissioned another 12.5 MW capacity in May. The next 12.5 MW is currently under commissioning. The full 90 MW Assam project is expected to be commissioned by end of the calendar year.

We have provided some highlights of our ESG accomplishments on page 6. As Ranjit mentioned earlier, we received a strong AA rating from MSCI for ESG and our ESG risk score by Sustainalytics has improved to "low risk" category. We highlighted our ISO 45001 certification earlier this year which demonstrates Azure's focus on Occupational Health & Safety. I am happy to report we have also recently won the Greentech Effective Safety Culture Award for 2021 from Greentech Foundation which signifies the efforts we have put in to ensure safety culture is embedded across our project locations and sites.

Our carbon free generation has avoided about 1 million tons of CO_2 equivalent this quarter, bringing the total to 10.5 million tons equivalent since inception. We remain net carbon neutral. We have planned for planting of 15000 trees in the immediate vicinity of our 600 MW Rajasthan 6 project site during this year. We also remain actively engaged with the communities where we operate and provide pro-active support towards medical and health facilities especially on the pandemic front. We are now looking to roll out our

Sustainability charter this fiscal and shall continuously strive to implement best practices to enhance our sustainability.

On the technology front, Azure continues to be an early adopter: we were among the first companies in India to install a large scale project based on monoperc panels, and we have just started construction of a large scale project using bifacial tracker technology where we are expecting yields in excess of 30% for our Rajasthan 9 project. These are industry leading efforts to ensure our projects are built and operated with the best returns metrics.

Looking at industry and regulatory updates on page 7, India's achievement of 100 GW installed renewable energy capacity has been a big milestone and the country continues to offer solid growth opportunities alongwith adequate confidence measures for investors in this sector. Govt of India announced recently details of the USD 40 billion reforms-linked package for Discoms, which will improve the health of the financially weaker discoms. It is also expected to help clear the backlog of PSAs to be executed with DISCOMs who have not been signing PSAs, accentuated by the second COVID wave and falling tariffs. The good news is that overall power demand in India has started to grow now, as the country emerged from the second wave.

We are pursuing newer opportunities such as wind and hybrid and assure you that we shall only bid for projects at commercially viable tariffs. We continue to believe that we would be able to obtain the 4GW PPA's at value accretive tariffs: this would add to our Contracted pipeline and provide returns above the cost of capital.

With that, I will turn it over to Pawan to discuss the quarterly results.

Pawan Kumar Agrawal
Thank you Murali.

Turning to page 9, as of June 30, 2021, we were operating 2,052 megawatts on a PPA or AC basis, which is 23% higher than what we were operating a year before. Our portfolio of 6,955 MWs remained stable from the previous quarter.

While these portfolio MW numbers excludes rooftop portfolio, which is in the process of getting transferred to Radiance, our financial numbers continue to consolidate rooftop, till the transfer process is completed.

On page 10, looking at the quarter, our revenues continue to increase as we construct more projects. After adjusting for stock compensation expense, our EBITDA has been $50.7 mn, or 14% higher, against 13% increase in revenues, from the same quarter in the prior year.

Turning to G&A, on page 11, our G&A increased marginally by 5%. Excluding non-cash items, the G&A was flat y-o-y. As we remain focused on controlling our costs, we continue to expect our FY22 cash G&A to rise about 10% from FY'21 levels.

As already shared, we have recently issued a green bond of USD 414 Mn at the lowest ever coupon in high yield segment out of India. All our recent refinancings, both in domestic as well as overseas markets, have resulted in substantial savings in interest rates, thereby improving equity returns. Refinancing at lower costs reflects improved credit profile of the group supported by strong sponsors such as CDPQ and OMERs. We continue to expect lower interest rates for our ongoing as well as new financing.

Turning to stock compensation expenses, as the share price rises, our Stock compensation expenses will rise, inflating our G&A. For 1Q'22, we had SAR expense of US$ 1.3 million.

Despite the challenges in past few quarters, our DSOs have been fairly consistent at around 120 days on an average in the recent quarters. We believe there will be further improvements in the future with commissioning of projects with high credit worthy counterparty and as we continue to focus on improving our collections.

On page 12, you can see that EBITDA from operating assets increased about 11% YoY and that Cash Flow to equity from operating assets rose about 12%.

Net debt for operating assets was about $1.19 Billion and EBITDA for the last 12 months was about $182million resulting in a Net Debt/EBITDA ratio for operating assets of 6.6x as on June 30, 2021.

Finally looking at page 13 providing balance sheet information, we had about $90.6 million of cash and cash equivalents, and our Net Debt stood at approximately $1.34bn. As a reminder, for those that are calculating our debt ratios, the hedging assets of $105.8million included in Other Assets on our balance sheet should be netted against our total debt, as this is directly linked to the foreign exchange hedges we put in place related to our Green Bonds. During the second quarter, we have used part of this asset related to our first green bond to reduce the leverage on the green bonds.

Now, I pass on to Ranjit to provide some commentary on our guidance.

Ranjit Gupta

Thanks Pawan. I am very happy to report that despite major disruptions during the quarter due to Covid, we have been able to achieve upper end of both our revenue and PLF guidance for this quarter provided during last quarter. Even though we have just started on the recovery path from the second wave, as of now, we would reiterate our numbers for the current fiscal, but will keep the markets posted, in our coming updates. For 2Q 22, we expect the revenue to be between INR 3,600 and 3,800 million and the PLF to be between 20.5% to 21.5%.

With this, we will be happy to take questions.

QUESTIONS AND ANSWERS