

Azure Power

Q4 Fiscal 2021 Earnings Conference Call

June 16, 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 Tuesday evening, the company issued a press release announcing results for the fourth fiscal quarter of 2021 ended March 31, 2021. A copy of the press release and the presentation are available on the Investors' section of Azure Power's website at [azurepower.com](http://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 will 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 with additional discussion on the performance of the quarter and then we will wrap up the call with Ranjit updating FY'22 guidance and providing Q1 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. I would like to start today's call offering condolences to everyone impacted by COVID. We faced pandemic's ugliest phase in India during April /May when almost no family was left untouched in some way or the other by COVID. Good part is that we are now seeing daily infections recede and our vaccination drive has picked up pace with over 260 million doses administered till date.

At Azure, we have stood by our employees & stakeholders in the fight against the pandemic and have been following all COVID protocols with vigor. During this second wave, we undertook a number of initiatives to supplement the medical infrastructure in and around the areas we operate. We donated 30+ oxygen concentrators to health care facilities in Rajasthan, U.P, Karnataka and other states; supplied 30 BIPAP machines to a health care facility at Bikaner, supplied Oximeter, PPE Kits, Mask and other essential medical items to a number of facilities as per their requirement.

Within the company, to help our team members, we strengthened our preparedness to respond to medical emergencies faced by our employees or their family members by implementing a cohort-based support group, procurement of 15 Oxygen cylinders - distributed across our various sites and purchasing a number of oxygen concentrators for our own use placed at strategic locations. We continue to retain support of qualified medical practitioner, for any medical advice to our employees and their family members. We have also implemented a company subsidized term insurance scheme to support the economic needs of our family in case of any unfortunate event. I am especially proud of the cohort-support group wherein we created a pyramid of contacts thereby reaching out to every team member every day to track their & their family's health, providing help where needed. The way the team came

together on several occasions to help a team member in his or her hour of need was exemplary and truly demonstrated the strength of Azure.

Sustainability and ESG are key to the success of our business at Azure. We highlighted our ISO 45001 certification last quarter which demonstrates Azure's focus on Occupational Health & Safety and validates additional efforts we put in to make our work places safe for our team members and contractors. In December, MSCI, the leading ESG rating agency, rated Azure Power as double AA for ESG which places us in the top quartile of all global utilities they cover and probably among the highest ratings among our peers in the country. We continue to strive towards improving further on this rating.

I am happy to report that we have entered into an agreement to sell our Rooftop Portfolio to Radiance Renewables for an EV of approximately US\$ 73 million. This 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.

Continuing with this philosophy, I am happy to report that Azure is seeking to increase size of our addressable market by foraying into other areas of renewable energy, especially Wind & Solar/Wind hybrid projects. We have participated in a couple of auctions already and will look to have something more concrete sooner than later. As the share of renewable energy in the grid increases, we realize that the business will move towards more dispatchable energy. As the industry moves towards providing firm power 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 are in the process of critically examining our business and growth strategy as we go along our endeavor to be on the right side of the evolving renewable industry landscape. We are continuously evaluating deploying new techniques and technology at our projects to improve returns. We assure our valued investors that we will continue to be disciplined in our approach and will keep all of you posted as we take steps in this territory.

Today, we have 20% more MWs operating than we did at the same time last year, excluding the rooftop portfolio. Our operating assets have performed well and not only have we been able to continue collecting revenues during this pandemic, we even improved our collections with our DSO at 116 days at the end of the quarter compared to 122 days at the same time last year.

We have controlled our costs and our cash G&A, excluding stock compensation expenses and one-time expense, in the previous period, increased marginally by 8% from the same quarter last year. We had promised to reduce our cash G&A expenses by 10% in FY'21 versus FY20 and I am happy to report that we have reported a reduction of 26% in G&A from previous period, excluding the impact of Stock appreciation rights. Growth and our actions to improve returns have resulted in a 23% year on year increase in EBITDA from Operating Assets and a 75% increase in Cash Flow to Equity from Operating Assets. Since we started reporting CF<sub>e</sub>, we have seen a steady improvement in this metric due to our focus on sweating our assets, capex infusion in operating assets, reducing our costs and collection of long outstanding dues.

On the flip side, despite significant progress made prior to second wave of Covid towards signing PPAs on our 4 GW for which we have a letter of award but no PPAs, we have not much to report yet. We still remain optimistic that we will have positive news to deliver shortly as there is a definite movement towards the finish line. In spite of the pandemic, peak power demand recovery is underway which should encourage discoms to invest in buying power for their future needs. It may be noted that there is backlog of 15-20 GW awarded capacity which is awaiting PSA to be tied with Discoms. SECI has been supportive by not coming out with any new solar ISTS bid till this backlog is cleared. As the second wave has eased, we have seen renewed interest in buying power from discoms.

We have seen global polysilicon prices escalate in the recent past and it has impacted our supplies, and our commissioning timelines. We continue to monitor the situation, and are hopeful that the recent increase in prices is only temporary.

The government continues to support the Renewable Energy sector. The Hon'ble Prime Minister recently reiterated Govt. of India's commitment to climate actions at the G7 summit and he has been the driving force behind India's vision of 450 GWs Renewable Energy operational by 2030.

Apart from the push on setting up generation assets, the government has been talking about promoting Make in India. There has been talk of measures to encourage solar cell and solar panel manufacturing domestically. Two important measures were announced in the last few weeks to enable local manufacturing industry. First was the imposition of basic custom duty from 1<sup>st</sup> April 2022, with 40% on modules and 25% on cells. The other was the notification of the ALMM list which is the Approved List of Models & Manufacturers. Any project auctioned after April 10<sup>th</sup> 2021 will necessarily have to buy solar panels that appear on ALMM list. Our current pipeline will continue to enjoy the benefit of passthrough since our projects were auctioned before the imposition of both these notifications.

Further, as per a recent judgement by the Honorable Supreme Court of India, all transmission lines, in certain regions of Rajasthan and Gujarat, have been asked to be converted from overhead wires to underground. We believe this would be cost neutral to us, as we should be allowed a pass through of the same, if we incur the costs.

Given the turmoil of the last year, FY21 has been all about Efficiency & Prudence. We have invested in our operating projects to improve generation and living facilities of our team members at site. We are moving rapidly to deploy the latest bifacial modules and trackers to increase efficiency of insolation capture on our projects which are going into construction. If I look back at this difficult year, some of our achievements are that we were able to keep operating through the various lockdowns & pandemic surges, the work we were able to do to support our team & our communities, that we were able to largely protect returns on our under construction projects through covid induced delays, the sale of rooftop assets and the patience we have shown by staying away from the temptation of bidding aggressively through the year, have been huge successes and very satisfying. With almost two years behind me, I look forward to the coming fiscal with great hope & optimism. We believe in waiting for the right opportunity to earn our shareholders a return higher than our cost of capital and the philosophy of building a sustainable business rather than simply chase scale.

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 our business.

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

**Murali Subramanian**

Thank you Ranjit.

On page 5, we provide an update on our projects under construction. Second wave of COVID at its peak, severely impacted our construction activities, not only disrupting the supply chain but also impacting several of our sites. High local demand for solar modules in the past several months or so in China, coupled with a rising yuan and rising raw material costs, resulted in module suppliers trying to renegotiate their contracted price and delivery commitments despite signed supply contracts. The module prices for new orders are at levels that were last seen years ago. We had earlier anticipated that by fiscal year end, in our Rajasthan 600 MW project, we would operationalize 450MW and the final 150 MWs finished by

May. As of today, we have finished 300 MWs in FY2021 and 300 MWs has been pushed by another quarter, due to the second COVID wave related challenges. Thanks to the MNRE notification, granting extension to all projects with commissioning due date on or after 1<sup>st</sup> April 2021, we don't expect to incur any penalties for delays. Project construction work in Assam too had picked up after poor weather and COVID related delays, however, due to the second wave of COVID, it has again taken a hit. After the initial 25 MW, we commissioned another 12.5 MW of the project in May and expect another 12.5 MW to be done shortly. The entire project is expected to be fully commissioned by end of the calendar year, as we are already in the midst of the monsoon season. We have sought a COD extension from the regulator & procurer.

As mentioned in the past, we have made several incremental improvements in operations and construction practices to squeeze out better returns. Our recently operationalized analytics platform has been instrumental in identifying faults quicker, leading to lower downtime at the string level. Our ability to target, determine and rectify electrical losses during operations have also been enhanced considerably. On the construction side, we are installing tracker-based systems in one of our projects under construction, to combat the impact of increased panel prices.

We have provided some highlights of our ESG accomplishments on page 6. As Ranjit mentioned earlier, we got a strong double AA rating from MSCI for ESG and obtained the ISO 45001 certification which verifies that Azure Power provides a safe and healthy workplace. Our carbon free generation has avoided about 3.0 million tons of CO2 equivalent this fiscal, bringing the total to 9.5 million tons equivalent since inception. We remain net carbon neutral. We have been focusing on our water neutrality, having installed 84 ground water recharge structures across 15 sites this fiscal. Another environmental focus this year is safe disposal, even recycling where possible, of damaged solar modules and we have made very good progress this fiscal year with 555 tons of module disposals. We also remain actively engaged with the communities in which we operate with support towards medical and health facilities and active response on the pandemic front. On the governance side, we are already complying with World Bank equator principles and governance standards of NYSE, SEC, SGX. Majority of our Directors on the Board are independent with increased gender diversity. During the fiscal, we introduced policies for Human Rights & Equal Employment Opportunity along with Diversity and Inclusion, which highlights our efforts towards upholding highest governance standards. We are continuously striving to implement best practices to enhance our sustainability.

Looking at industry and regulatory updates on page 7, there is a build-up of allocated solar projects with Letters of Award but without PPAs, at the moment. In the last couple of quarters, DISCOMs have not been signing PSAs, accentuated by the second COVID wave and falling tariffs. However, our discipline has protected us from entering at the recently bid out low tariffs: developers may find it difficult to build projects at recently bid out tariffs given the rise in input costs coupled with COVID related delays. The good news is that overall power demand in India is expected to grow now, as the country emerges from the second wave.

With the challenge in supplies and pricing, we do expect that there should be an increase in tariffs as compared to the ones discovered earlier, however, we all have been surprised in the past. We have seen that there have been periods of intense competition followed by moderation. We are pursuing newer opportunities such as wind and hybrid and assure 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, which 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 March 31, 2021, we were operating 1,990 megawatts on a PPA or AC basis, which is 20% higher than what we were operating a year before.

Our portfolio of 6,955 MWs remained stable from the previous quarter, excluding rooftop portfolio. Since our last update, we have entered into Definitive Agreements to sell our rooftop portfolio and have therefore excluded these assets from our portfolio.

Our construction costs have continued to fall in FY21, and were about 19% lower than the previous year.

On page 10, looking at the quarter, our revenues continue to increase as we construct more projects, some of which have been affected by the second wave of COVID and supply related challenges on modules front as noted by Murali.

After adjusting for stock compensation expense, our EBITDA has been \$44.3 mn, or 18% higher, against 16% increase in revenues, from the same quarter in the prior year.

Turning to G&A, on page 11, save for stock appreciation rights, or SARs, which added about \$18 million to G&A, for the year, our cash G&A were below internal expectations. We remain very focused on reducing our costs as we had outlined earlier this year, and are pleased to report that our G&A was 26% lower than the prior year, excluding stock compensation expense.

When looking out into FY'22, we expect that cash G&A will rise about 10% from FY'21 levels, primarily reflecting inflation and an increase in MWs operating.

We are progressing well on refinancing of about \$185 million long term debt facilities outside green bond pool, as well as \$500 mn Green Bond RG1. We expect substantial savings in interest costs once these refinancing are completed.

Turning to stock compensation expenses, as the share price rises, our Stock compensation expenses will rise, inflating G&A. To help with modeling, the impact of SAR expenses on our G&A is directly linked to the share price. For 4Q'21, we had a reversal in expense of around US\$ 7.7million, primarily reflecting reduction in share price from \$40.77 as of December 31, 2020 to \$27.19, as of March 31, 2021. Going forward, for every \$1 change in the stock price above and below our previous quarter's close will have about an \$800,000 impact, both positive and negative.

We are particularly proud of our ability to improve our DSO despite the challenges this year. Our 4Q'21 DSO was at 116 days, which is better than the 122 days about a year ago. We continue to make progress in collecting our payments, and believe there will be further improvement in the future with commissioning of projects with high credit worthy counter party this year.

On page 12, you can see that EBITDA from operating assets increased about 18% YoY and that Cash Flow to equity from operating assets rose about 55%. Net debt for operating assets was about \$1,130 million and EBITDA for the last 12 months was about \$179 million resulting in a Net Debt/EBITDA ratio for operating assets of 6.3x, better than last year's ratio of 6.6x.

Finally looking at page 13 providing balance sheet information, we had about \$152mn of cash and cash equivalents and our Net Debt stood at approximately \$1.19bn. As a reminder, for those that are

calculating our debt ratios, the hedging assets of \$75mn 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.

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

### **Ranjit Gupta**

In February 2021, when we had reiterated our revised guidance for FY21, I had mentioned the caveats of timely commissioning, normal weather, and no curtailment. We are 1.5% lower on our Q4 revenue and 0.5% lower on FY21 revenue compared to our projected number, primarily reflecting lower insolation due to weather conditions. 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 1Q 22, we expect revenue to be between INR 4,100 and 4,300 million and the PLF to be between 23% to 24%.

With this, we will be happy to take questions.

### **QUESTIONS AND ANSWERS**