Azure Power

Q3 Fiscal 2022 Earnings Conference Call

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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. Good morning, everyone and thank you for joining us today. On Friday evening, the company issued a press release announcing results for the third quarter of fiscal 2022 ended December 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.

With me today are Ranjit Gupta, CEO; Murali Subramanian, COO; and Pawan Kumar Agrawal, CFO. Ranjit will start the call by going through key highlights and business updates. Murali will then follow with an update on our projects under construction and an industry update. Pawan will then provide an update on the quarter and then we will wrap up the call with Ranjit providing Q4 FY'22 guidance and the initial FY'23 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. Very good morning, everyone.

It's almost two years since COVID first broke out globally. Since then, the world has started to move on, and we all have learnt ways to co-exist in this new normal. The fact that India came out of the third wave recently in less than a month and without much scare, underlines this progress and the importance of vaccination and COVID appropriate behavioral changes.

ESG has always been at the core of our business success. We recently released our third Sustainability Report for period 2020-2021, in which we have highlighted number of significant steps taken towards improving our ESG standards. We significantly reduced net water consumption across our plants from 122 liter per MWh in 2017-18 to 49 liter per MWh in 2020-21 and is further improved to 30 liter per MWh in the current year. This has been possible with active deployment of robotic and dry-cleaning technologies at our plants. We continue to aim for net water neutrality in our operations by 2023. We have maintained our Carbon Neutral status since 2019 and expect to further create significant positive impact as we look to migrate to 100% EV by 2030 under our Electric Vehicle policy.

The biggest news for us since the last call has been signing of 2,333 MW of PPA taking the total PPA signed to 2,933 MW of the 4,000 MW SECI Manufacturing capacity. This 2.9 GW capacity assures sustained base growth for Azure over the next 4 fiscal years and the attractive tariffs provide a long runway of profitable, value accretive growth for our shareholders. We continue to participate in auctions beyond the 4 GW capacity and have received 470 MW of LOA. These include one plain vanilla wind project and two wind-solar hybrid projects. We are developing 1,000 MW of wind sites across the best wind regions in India to construct projects we have won and prepare for projects we intend to win. As we begin to implement these projects starting next fiscal, we reached out to our shareholders around end of this quarter to raise USD 250 million via our first rights offering which was completed post quarter end.

Our Capital team has been unstoppable this year. In addition to our first solar green bond refinancing in August, with the lowest coupon dollar Green bond till date by any renewable company in India, we have refinanced 1 GW of our operating projects, saving more than 200 bps in interest cost. These are long tenor refinancing with interest rates fixed for at least 3 years on average. This 200 basis points reduction in interest for these 1 GW projects is expected to release approximately 10 million dollars of EBIDTA towards free cash flow annually.

We continue to see steady improvements on key operational parameters we report. We had 37% more MWs operating in Q3 this year than we did at the same time last year. There has been a 27% year on year increase in EBITDA from our Operating Assets and a 58% increase in Cash Flow to Equity from Operating Assets during the quarter.

From an industry perspective, the renewable energy sector in India continues to be high priority for the Government. India recently announced Green Hydrogen and Green Ammonia policy, which will help boost development of renewable energy capacity. Hydrogen and Ammonia are envisaged to be “fuels of the future” which will help mitigate India’s fossil fuel dependency. Industry is also expecting a Green Hydrogen Purchase Obligation which may push Green Hydrogen production. The budget allocated an additional 2.6 billion dollars towards production linked incentive program to boost domestic solar manufacturing as we move towards reducing dependency on imports in the solar value chain. After notifying rules for overhauling of transmission system planning and easier access through General Network Access, Government has recently approved second phase of the Green Energy Corridor program which will aim to add over 10 thousand circuit kms at a cost of 1.6 billion dollars to support evacuation of 20 GW of RE capacity from seven states. The budget also envisages sovereign green bonds to be launched for funding green infrastructure development. These proactive measures underline the importance with which RE sector is growing in the country and focus of policy makers in ensuring that it delivers the promised growth and objectives for India’s goal of self-reliance in energy by 2047, i.e., 100th year of Indian independence. This also presents a reassuring scenario for global investors who are keenly tracking and increasing investments in this sector.

As I mentioned last time, we have been strengthening our capabilities in clean energy domain in India and are in the initial phase of deep engagements with value chain players in the Green Hydrogen space. Further, to address and capitalize on a growing sense of urgency in corporate consumers to walk the decarbonization pathway, Azure has structured a new business unit to drive this energy transition under dedicated and capable leadership. The Energy Transition business is focused on delivering innovative solutions for power & heat for large energy consumers including steel, cement, metals, glass & other companies to accelerate their sustainability goals & targets. These solutions include Round the Clock or RTC power, Peak & dispatchable power based on storage, Green steam & green hydrogen.

I wanted to update about the change in our Board, as we announced earlier in the day today. Ms. Christine McNamara joins the Board effective tomorrow, as an Independent non-executive Director. She will take over the Chair of the Audit Committee. An integral part of the Board for 6 years, Mr. Arno Harris indicated his desire to pursue other commitments. We express our gratitude to Arno for his guidance at the Board and for the Management over these years. I wish him all the best and I personally look forward to stay in touch with him. We welcome Christine to the Board. Her extensive experience speaks volumes of her leadership strengths, and we look forward to working with her.

I joined Azure almost 3 years back when we took up the task of consolidating and realigning our strategy towards business growth. I am very excited to see that we have crossed that bridge in positioning Azure strongly and firmly with a super value accretive pipeline for not months but years to come and add significant potential growth with our strides in Energy Storage, Green Hydrogen and Energy Transition space.

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.

This is probably the shortest time between our two reportings but as you heard Ranjit, we have significant updates from our business.

Against all odds and navigating through a brief third wave of Covid in India subsequent to the quarter end, our Engineering, Procurement & Construction teams have worked tirelessly to bring us to the finish line on our construction projects. We commissioned 273 MWs since we last reported and requisite materials for balance MWs are already at site or in transit. That places us well to be in the range of MW guidance for this fiscal.

Our largest project, SECI 600 MW Rajasthan 6, is now fully commissioned and we expect it to deliver superior performance to our portfolio from next fiscal onwards. The SECI 300 MW Rajasthan 8 is also in line to be fully commissioned shortly, and even though Rajasthan – 9 was impacted due to supply related challenges, we will persevere.

While this is about our under-construction projects, we are very excited about our 4 GW projects where we now have signed PPAs for almost 3 GW and we will look to bring them up to shovel ready stage very quickly. We have provided a scheduled timeline for these projects on page 5. We are at an advance stage of our developmental work and depending upon timing of material procurement, we would be looking to prepone some of these timelines. As Ranjit pointed out, these projects gives us ample space to work our way through on implementation and ensure much superior returns comparative to current market.

We have provided some highlights of our ESG updates on page 6 and 7. Our focus on reducing our water consumption has really paid off in conserving this scarce natural resource. Our net consumption has further reduced to 30 liter per MWh in the current year and we are well placed to be net water neutral by 2023.

We have completed majority of CSR related projects we undertook this year related to Covid Support, education and Health, positively impacting over 2,000 beneficiaries. We are extremely proud of the role we play in ensuring a better world for our communities which are so important for our business. Similarly, safety is one aspect that is paramount to us. The awards that we won for our safety culture, as I reported last time, demonstrate our efforts in this area. We continue to be rated highly on ESG with AA rating by MSCI and low-risk categorization by Sustainalytics.

I would like to keep it short this time and let Pawan discuss the quarterly results, but as said earlier, we are very excited about our next phase of growth at Azure. We have travelled in our journey so far with lot of hard work and learning accumulated by the teams. We continue to aggressively pursue digitalization and automation at our plants and construction sites. With large under-construction projects now operationalized, next few years of growth firmly in hand with the one of largest and most value accretive pipeline in the industry and additions of new businesses in the form of energy transition, storage and Green Hydrogen, we truly think Azure is a top, compelling investment story.

Handing it over to Pawan.

Pawan Kumar Agrawal

Thank you Murali.
I am happy to report that, we have exceeded upper end of our revenue guidance for this quarter as well, with revenues of 60.2 million dollars, or 58.8 million dollars excluding rooftop, against the guidance range of USD 55.3 to 58 million.

As of December 31, 2021, we were operating 2,523 MWs on a PPA or AC basis, which is 37% higher than what we were operating a year before. Our portfolio was at 7,425 MWs at the quarter end which includes signed PPAs for 2,933 MWs and 1,537 MWs for which PPAs are awaited.

We have updated our run rate metrics with 5,888 MW contracted capacity now in the portfolio, i.e., 2,955 MW that will be in operations and 2,933 MW PPAs recently signed. For this contracted capacity, we expect the run rate revenue to be 581.2 million dollars with gross margin in the range of 530 to 560 million dollars and Cash Flow to equity of around 125 to 200 million dollars.

On our rooftop sale update, we have closed transfer of 64 MW assets across seven SPVs, subsequent to quarter end, and are in process to complete transfer of balance 89 MW capacity as well which is awaiting requisite approvals and is likely by March end. This sale will enable freeing up of substantial management bandwidth in addition to capital recycling and discipline for future growth.

While these rooftop capacities are excluded from discussion on our portfolio MW numbers, we continue to consolidate rooftop financials, till the transfer process is completed.

On page 12, after adjusting for stock compensation expense reversal, our EBITDA has been $50 million, or 29% higher, against 27% increase in revenues, from the same quarter in the prior year. Turning to G&A, on page 13, our G&A increased by 10% in line with our expectation we communicated earlier.

We made substantial progress on refinancing operational projects this year. Prime example is our largest project, Rajasthan 6, SECI 600 MW, which we have fully refinanced in just over a month of commissioning at the lowest interest rate for any project in our portfolio at 7.2% p.a., fixed for next 42 months. Our overall average interest rate continues to see substantial decline this year, from 9.2% at last fiscal closing to 8.8% at this quarter end. The average further improves to ~8.5% considering refinancings already done subsequent to quarter end

These are tremendous savings on largest cost item in our P&L. Indicatively, a 100-bps reduction in our average interest cost would release approximately 15 million dollars annually in the system. These refinancing at lower coupon and fixed rates reflects strong credit profile of the group. We now have about a GW of our operating projects, outside the bond portfolio, having at least 200 bps less interest cost than before, and which will not change for 3 years on an average. This is a significant actualization that we bring amidst market concerns on interest cost.

We firmly believe that as India progresses economically in this decade, we expect India to significantly gain from long term inflow of global capital, much larger than previous decades, which may be expected keep the rates in check.

Our DSO remains consistent and has held up very well even in the last two years of turmoil demonstrating the inherent strength of the Azure strategy and portfolio. Our days receivable as on December 31, 2021, were at 113 days compared to 116 days as of March 31, 2021. These are industry leading DSO numbers, which we believe will further improve substantially, with the commissioning of our SECI projects and favorable orders received in Karnataka from the regulator in GESCOM and CESCOM matters, and from the Hon'ble High Court in the HESCOM matter. We are also hopeful of a favorable judgement very soon in Andhra Pradesh, where hearings have now been concluded and order is reserved.

On page 14, you can see that our EBITDA from operating assets increased by about 27% YoY and that Cash Flow to equity from operating assets rose about 58% owing to incremental operational capacity that we added compared to prior year period.

Net debt for operating assets was about USD 1.24 Billion and EBITDA for the last 12 months was about $205 million resulting in a Net Debt/EBITDA ratio for operating assets of 6.1x as on December 31, 2021. This important metric continues to see substantial improvement as MWs we add contribute significantly to our EBIDTA growth.

Finally looking at page 16, providing balance sheet information, we had about USD 115 million of cash and cash equivalents, and our Net Debt stood at approximately USD 1.48bn.

We are very excited about the growth path ahead of us with strongest pipeline, strongest counterparty and strongest credit to work with. We are thankful to our investors and shareholders for continuing to support this journey, and helping us successfully raise 250 million dollars equity under the rights issue. We are always looking out for valuable and critical advise, suggestions and dialogue from our stakeholders.

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

Ranjit Gupta

Thanks, Pawan. We are happy to report that we have been able to achieve higher revenue compared to our guidance for this quarter while being in the range on our PLF guidance.

As noted, despite supply related challenges in our SECI 300 MW Rajasthan 9 project, we still expect to close this fiscal at higher end of our MW range provided earlier i.e., 2,750 – 2,955 MW. We have therefore narrowed our range at 2,855 – 2,955 MW for fiscal year ending March 31, 2022.

For 4Q 22, we expect revenue to be between INR 5.1 and 5.2 billion or USD 68 – USD 70 million at the exchange rate as on December 31, 2021, and the PLF to be between 22.5 and 23.5%.

For our initial guidance for the next fiscal, as of now we do not expect that we would commission incremental MWs (in AC terms) by the end of March 31, 2023, while we expect revenues to be between INR 22 and 23 billion or USD 295.7 – USD 309.2 million at the exchange rate as on December 31, 2021.

On our long-term outlook at page 18, with 2.93 GW firmly in place with signed PPAs, we have updated our contracted portfolio for run rate Gross margin and CFe.

With this, we will be happy to take questions.

QUESTIONS AND ANSWERS