ReNew Power

Q3 Fiscal 2022 Earnings Conference Call

February 25, 2022 at 8:30 a.m. Eastern Time

CORPORATE PARTICIPANTS

Sumant Sinha – *Chairman, Chief Executive Officer*

Kailash Vaswani – Interim CFO, *President Finance*

Nathan Judge, CFA – *Investor Relations*

PRESENTATION

Nathan Judge
Thank you, and good morning everyone, and thank you for joining us. On Thursday evening, the company issued a press release announcing results for the first nine months and third quarter of fiscal 2022 ended December 31, 2021. A copy of the press release and the presentation are available on the Investor Relations section of ReNew's website at www.renewpower.in

With me today are Sumant Sinha, Founder, Chairman, and CEO; and Kailash Vaswani, President of Finance. Sumant will start the call by going through an overview of the company and recent key highlights. Kailash will then provide an update on the quarter and then we will wrap up the call with Sumant reiterating our adjusted FY'22 EBITDA, excluding the impact of weather, forecast of $810mn. 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-IFRS measures that we reconcile to the most comparable IFRS 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 Sumant.

Sumant Sinha

Thank you Nathan, and a good morning everyone.

RNW has been publicly listed on Nasdaq for six months and a lot has happened since our last earnings call in November that we are excited to recap for you. We continue to believe RNW is one of the most compelling investment opportunities in the renewable energy sector today.

We realise that many investors are new to the story so I would like to provide a quick recap on page 5. ReNew is one of the leading renewable energy companies in India and also one of the largest renewable energy companies globally. More than 70% of our portfolio is operating and most of the assets that are in development have PPAs that are for 25 years with fixed tariffs providing predictability. Our portfolio is also balanced between solar and wind. Our scale and vertical integration differentiates us in multiple ways including being more efficient and lower cost, having greater access to cheaper capital, and investing for the future to retain our competitive edge in a young and rapidly evolving market whilst maintaining higher EBITDA margins. We have a long track record of execution and have delivered equity IRRs of 16 – 20% consistently over time. We are emphatic about capital discipline as evidenced by our recently announced share buyback.

India is one of the largest and fastest growing renewable energy markets globally and is committed to increasing the installed capacity of renewable energy by over four fold through 2030. Renewable energy makes sense for the consumer as it is the lowest cost source of new electricity capacity in the country today.

The Indian renewables market continues to mature which is playing to our strengths. On page 6, we have provided a broad segmentation of how we view the market today broken into the "plain vanilla" RE which currently has the most competition and return opportunities at the lower end of the targeted range, and the higher return segments in intelligent energy solutions, M&A, and Corporate PPAs that provide higher returns and lower competition. More of our growth will be from segments that have higher returns which ReNew has a differentiated advantage in. Focusing on the intelligent energy solutions segment for a moment, distribution companies are increasingly needing electricity that has a more consistent, or firm, profile. With our expertise across renewable energy technologies including wind, solar, and storage, we believe we are one of the few India renewable energy providers that can provide base load power in the market today. In addition, given our expertise and past investments in the intelligent energy solutions segment, we believe we are the lowest cost provider of firm power from renewable energy in India.

Our locked in growth remains robust and on track with our previously announced guidance as seen on page 7. As of today, we have 7.3 GWs operating, up from 5.6 GWs we had operating nine months ago. We continue to expect our FY'22 Adjusted EBITDA, excluding the impact of weather which was approximately $55 million in the first nine months of this fiscal year so far, to be approximately $810 million. We want to point out that all of our expected FY'22 EBITDA is coming from operating and completed capacity.

We expect to deliver EBITDA of over $1.1bn annually from our 10.2 GW portfolio, which is nearly double our EBITDA that we reported last year. We have confidence in achieving this growth as about $1.0 bn of EBITDA should be generated from commissioned projects or have a signed PPA and are in the construction phase.

Moving on to page 8 on recent developments since our last earnings call, there has been some progress in resolving the Andhra Pradesh Discom court case. We have also got favourable rulings from the court and regulator in Karnataka & Maharashtra. Final hearings occurred earlier this month and we anticipate a ruling on this shortly. Please note that a favourable ruling would improve our financial position relative to our guidance.

Despite all of the interest rate dislocations, we just completed a $400 million Green Bond issuance with a USD coupon of 4.5%. Net of hedging costs, the landed interest rate in INR terms was ~8.4%. The initial use of proceeds are expected to refinance near term maturities saving the company about $5 million of interest expense annually. We continue to see favourable terms to continue refinancing at rates better than we currently have, which we will discuss shortly.

We also announced this quarter the sale of our rooftop business for ~$90 million at an EV/run rate EBITDA multiple of ~9.5X. We decided to monetize this business for several reasons. Structurally, the rooftop business is a different business than our large scale ground mount focus and the sale allows us to allocate capital to higher return, larger utility scale projects. In addition, we saw an attractive opportunity to redeploy capital to buy back our stock at a EV/run rate adjusted EBITDA multiple of only 7.6x, creating significant value.

Which is a good segue to our $250 million share repurchase program. Earlier this month, we announced a share buyback as we found the value of the stock to be our highest return opportunity of scale. We are committed to capital discipline and will allocate capital to the highest return opportunities whether it is organic growth, M&A or our shares.

Turning to accounts receivable on page 9, as of December 31, 2021, our outstanding accounts receivable stood at $606 million which we recognize as high. We believe that the DSO peaked at the end of the second quarter 2022 and will continue to improve going forward.

When you look into what constitutes our past due accounts receivables, four state discoms account for the vast majority of the overdue receivables. We believe we can improve our payment cycles with these states. In particular, we have, for the first time, taken our customers in Karnataka, Maharashtra and MP to court to accelerate recovery. The increase in receivables was understandable during COVID. However, electricity demand is at new highs and payments to the DISCOMs are being made in a more timely manner.

We have made some progress towards improving our DSOs. In Karnataka, the High Court directed the DISCOMs in the state to clear all outstanding dues payable, which is about $90 million. In Maharashtra, the state electricity regulator directed the state distribution company to submit a plan to clear all outstanding receivables. Our court case in Madhya Pradesh is proceeding and we expect a ruling later this year. Please note that full recovery from the states that we win a favourable court ruling is likely to be over a year or so.

Turning to the court case in Andhra Pradesh, or AP, the drawn out case has concluded hearings and we expect a ruling by no later than March. We believe we have a solid case and if we win this case, we look to recover about $200mn over time.

Recovery of past due receivables is upside to our long term guidance provided last year and we will not need to issue new shares if an outcome in any of these cases is unfavourable.

The combination of company initiatives, legal and regulatory proceedings, government support, improvement in electricity demand for distribution companies, and a shift towards central government agencies that have a strong record of on time payment will result in a major improvement in DSOs over the next several years.

With regard to partnerships, we recently announced joint ventures with L&T, India’s leading engineering and EPC company, and Fluence, a global leader in battery technology. These initiatives are consistent with our past practices of making small investments now to be a leader in future large opportunities. We believe they will provide competitive advantages to us and position us extremely well for the next stage of growth in India renewables.

India has recently announced a Green Hydrogen Policy and is only one of a few countries to have announced such a policy. The Policy includes major incentives such as free transmission, open access and provisions to bank power. We believe Government of India wants major industries to commit to green energy and decarbonization and an important step would be a Green Hydrogen Purchase Obligation. Overall, we think green hydrogen represents about $60bn market opportunity by 2030.

Approximately 70% of the cap ex required for a green hydrogen plant is renewable energy where we expect to contribute our expertise to the joint venture. L&T has a depth of knowledge on the last mile, the electrolyzer, connecting to the plant, storage, etc. We believe this partnership is one of the lowest cost providers of Green Hydrogen in India. We expect that there will be numerous bids over the coming years and we will provide updates as events unfold.

We also entered into an agreement with Fluence to provide a market leading energy storage solution in India. Fluence brings significant intellectual property leadership in the battery segment and currently is the only company that has an operational utility scale battery operating in India at the moment. The projected market size is equivalent to about 27 GWs by 2030.

Before I turn it over to Kailash, I would like to say a word on Muthu’s announcement to move on from ReNew Power to pursue other interests. Since joining us in August 2019, Muthu has been a valuable member of the ReNew leadership team and played an instrumental role in the company’s listing on Nasdaq. We wholeheartedly express our sincere gratitude for his great contribution, and wish him all the very best for his future endeavours.

His resignation shall be effective on or around 31 March 2022. Kailash will be the interim Chief Financial Officer till the board appoints the next CFO.

As an introduction to Kailash who most of you have previously met, Kailash has been a member of ReNew’s senior management since inception. Kailash is directly responsible for ReNew’s fundraising and

M&A activities as well as treasury management.

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

Kailash
Thank you Sumant.

Looking at page 12 which provide highlights of the third fiscal quarter, we have 7.3 GWs operating as of today after the addition of 1.1 GWs this quarter. The 1.7 GW addition this fiscal year was particularly commendable given the challenges of COVID and supply chain disruptions. Our revenues, or labeled total income under IFRS, in the first nine months of fiscal 2022 rose 26% year on year, while our adjusted EBITDA increased more than 27% and Cash Flow to equity jumped almost 116%.

Turning to page 13 which provides a reconciliation of weather adjusted EBITDA to our reported results, weather adjusted EBITDA in the first nine months of FY22 was ~$626 million, or about 77% of our FY'22 weather adjusted EBITDA of $810 mn which puts us on track to achieve our guidance.

Weather improved from last year although it remains below normal levels and had about a $55mn negative impact in the first nine months of this fiscal year.

We do expect that our operating capacity will be around our 8.2 GW target by year end although it is possible that commissioning of some small amount of capacity may slip into April. We have recently signed binding term sheets for about 500 MWs of acquisitions

One of the frequent questions we get asked is about supply cost inflation which we discuss on page 14. The project costs for MWs added during the first nine months of this fiscal year had very little impact for higher supply costs. Whilst there has been some increase in costs relative to budget for projects we are delivering for the remainder of the year, after considering the lower financing costs that we are realizing in the market today, we continue to expect that our projects under construction will deliver an equity IRR within our targeted range of 16 – 20%.

Turning to slide 15 which highlights our interest rate risk management strategy. The majority of our debt is fixed and only about 15% of our debt funding could have a near term impact from interest rate increases. Every 100bps change in short-term borrowing rates for all this debt will equal only about 2% in CFe annually.

Despite the recent increase in rates globally, we are still seeing very favourable debt sanctions below 8% in the Indian market and from overseas lenders which is less than our average cost of debt. We have financed & refinanced debt in excess of $1.5 billion over the past 12 months resulting in a decline in our average cost of debt to ~ 8.9% going forward compared to the ~9.4% we recorded over the past 9 months. In recent transactions, we have seen rates as low as 6.5-7.5% as well. We are working towards refinancing our floating rate debt to fixed rates for the long term,

With that, I will turn it over to Sumant for guidance and closing remarks.

Sumant Sinha

Thanks Kailash. I am very happy to report that despite the uncertainty around supply and Covid, we continue to be on track with our adjusted EBITDA guidance. For this year, we continue to expect to achieve $810 mn of EBITDA after excluding the negative impact of weather which has been about $55 million so far through the first nine months of fiscal year 2022. As it looks currently, we should have 8.2 GWs operational by around April or May depending on when acquisitions close.

Turning to slide 17, we are also reiterating our guidance on a run rate EBITDA basis. Once our 10.2 GW portfolio is completed over the next 18 months or so, we expect EBITDA will be at least $1.1bn. We expect that we will have about $5.7bn of net debt on our books, or a 4.9x debt to run rate EBITDA leverage ratio, once the 10.2 GWs is completed. We expect our cash flow to equity run rate to improve meaningfully as well to ~$400 million on an annualized basis once the 10.2 GWs are operational.

Importantly, our portfolio is fully equity funded. In fact, we do not need to issue any new shares to reach 18 GWs. At 18 GWs, our cash flow generation should self-fund 3.5 - 4 GWs of growth annually without raising external equity.

With this, we will be happy to take questions.

QUESTIONS AND ANSWERS