

POWER

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Takeaways from call with Azure Power

- **Robust outlook on new projects and inorganic opportunities to drive strong growth with double-digit equity IRRs**
- **Current portfolio is purely solar but AZRE open to focus on wind energy and storage. Backward integration in modules only if bids require it**
- **New effective debt cost at sub-8% vs. average existing cost of sub-9%. USPs include longstanding management experience and large shareholders**

Tarun Bhatnagar | Someel Shah
 researchreport@bobcaps.in

We spoke to the IR team of Azure Power (AZRE US, Not Rated). Key takeaways:

Outlook for renewables remains robust: Renewables generation will continue to gather pace and provide ample opportunities for growth. Current challenges facing the sector such as the large backlog of SECI bids awaiting PPAs are likely to be resolved as the Covid-19 impact recedes.

Focused on solar but looking at hybrid and storage: AZRE's current portfolio consists purely of solar projects (2.1GW existing, 0.85GW under construction and 4GW of bids won currently at different stages of planning). The company is open to wind energy – top management has significant experience in developing wind assets – and hybrid projects. It focuses mostly on SECI or NTPC bids. In the storage space, it is keen to explore the technology and opportunities.

Growth through organic and inorganic means: AZRE has largely focused on organic growth so far but is open to acquiring assets that meet return thresholds. The company aims to exercise capital discipline but has refrained from setting any specific generation capacity target.

Module manufacturing as part of manufacturing-linked tender: AZRE will be putting up a module line majority owned by a domestic manufacturer to fulfil the requirements on the manufacturing-linked SECI project it has won. The company has no plans to set up any facility of its own in India. It expects PLFs to touch ~30% at its new Rajasthan project which uses bifacial modules and trackers.

Average debt cost sub-9% but new debt raised at sub-8%: The company uses both bond and debt financing. It claims to have been able to raise US dollar green bonds at the lowest coupon for any renewable company in the country. AZRE believes that it is in a strong position to leverage opportunities offered by the Indian renewables sector given its lower cost of capital, decade-plus of experience in developing/operating assets and dealing with vendors, and support from large shareholders such as CDPQ (50.3% stake) and Omers (19.4% stake).

Recommendation snapshot

Ticker	Price	Target	Rating
NTPC IN	116	111	HOLD
TPW IN	479	461	HOLD
TPWR IN	132	161	BUY

Price & Target in Rupees | Price as of 6 Sep 2021



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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