RG Group II Combined Financial Statements

For six months period ended 30th September 2021

Restricted Group II Ind AS Special Purpose Combined Financial Statements as of September 30, 2021

S.R. BATLIBOI & CO. LLP
Chartered Accountants

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Review Report to the Board of Directors
Azure Power Solar Energy Private Limited

1. We have reviewed the accompanying special purpose Ind AS unaudited interim condensed combined financial statements of Restricted Group-II which consist of the Azure Power Solar Energy Private Limited (the "Company"), a wholly owned subsidiary of Azure Power Global Limited (the "Parent") and certain entities under common control of the Parent, as listed in note 1 to the special purpose Ind AS unaudited interim condensed combined financial statements (collectively known as "the Restricted Group-II"), and which comprise the special purpose unaudited interim condensed combined balance sheet as at September 30, 2021 and the related special purpose unaudited interim condensed combined statement of Profit and Loss, special purpose unaudited interim condensed combined statement of changes in equity and special purpose unaudited interim condensed combined Cash Flows for the half year ended September 30, 2021, and selected explanatory information (together hereinafter referred to as the " special purpose Ind AS unaudited interim condensed combined financial statements"). The special purpose Ind AS unaudited interim condensed combined financial statements has been prepared for the purpose of complying with financial reporting requirements under the indenture governing the Senior Notes and have been prepared in accordance with the basis of preparation as set out in note 3 to the unaudited interim condensed combined financial statement.

2. This special purpose Ind AS unaudited interim condensed combined financial statement, which is the responsibility of the Management and approved by the Board of Directors, has been prepared in accordance with the basis of preparation as set out in note 3 to special purpose Ind AS unaudited interim condensed combined financial statements and have been approved by the Board of Directors.

3. We conducted our review in accordance with Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." issued by Institute of Chartered Accountants of India. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the Statement is free of material misstatement. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

4. Based on our review conducted as above, nothing has come to our attention that causes us to believe that the accompanying special purpose Ind AS unaudited interim combined financial statement have not been prepared in all material respects in accordance with the basis for preparation as set out in the Note 3 to the special purpose Ind AS unaudited interim condensed combined financial statements.

5. We draw attention to Note 2 and 3 to the special purpose Ind AS unaudited interim condensed combined financial statements, which describes that the Restricted Group-II has not formed a separate legal group of entities during the period/year ended September 30, 2021 and March 31, 2021, which also describes the basis of preparation, including the approach to and purpose of preparing them. Consequently, the Restricted Group-II's special purpose lnd AS unaudited interim condensed combined financial statements may not necessarily be indicative of the financial performance and financial position of the Restricted Group-II that would have occurred if it had operated as a single standalone group of entities during the periods presented. The special purpose Ind AS unaudited interim condensed combined financial statements has been prepared for the purpose of complying with financial reporting requirements under the indenture governing the Senior Notes. As a result, the special purpose Ind AS unaudited interim condensed combined financial statements may not be suitable for another purpose.

   Our conclusion is not modified in respect of this matter.

6. The comparative Ind AS financial information of the Restricted Group-II for the corresponding half year ended September 30, 2020, included in these special purpose lnd AS unaudited interim condensed combined financial statements, were reviewed by the predecessor auditor and the Combined Financial Statement of the Company for the year ended March 31, 2021, were audited by predecessor auditor who expressed an unmodified conclusion and unmodified opinion on those financial information on November 19, 2020 and July 28, 2021 respectively.

For S.R. BATLIBOI & CO. LLP
ICAI Firm registration number: 301003E/E300005
Chartered Accountants

RAJEEV SAWHNEY

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Date: 2021.12.15 15:40:57 +05'30'

Per Rajeev Sawhney
Partner
Membership No.: 096333
UDIN: 21096333AAAABE1458
Place: Gurugram
Date: December 15, 2021

Restricted Group - II
Special Purpose Combined Balance Sheet
(INR amount in millions, unless otherwise stated)

Particulars	As at September 30, 2021 (Unaudited)	As at March 31, 2021 (Audited)
Assets		
Non-current assets		
Property, plant and equipment	32,320	33,215
Right-of-use assets	763	780
Capital work-in-progress	2	63
Financial assets		
- Investments	221	221
- Loans	794	493
- Other financial assets	1,204	782
Deferred tax assets (net)	300	314
Income tax assets (net)	26	14
Other non-current assets	325	463
Total non-current assets	**35,955**	**36,345**
Current assets		
Financial assets		
- Trade receivables	1,407	1,001
- Cash and cash equivalents	294	451
- Other bank balances	1,400	1,333
- Loans	41	41
- Other financial assets	72	37
Other current assets	104	32
Total current assets	**3,318**	**2,895**
Total assets	**39,273**	**39,240**
Equity and liabilities		
Equity		
Equity share capital	73	73
Other equity	5,677	6,055
Total equity	**5,750**	**6,128**
Non-current liabilities		
Financial liabilities		
- Borrowings	26,240	25,939
- Lease liabilities	733	731
- Other financial liabilities	4,531	4,354
Provisions	270	260
Deferred tax liabilities (net)	396	280
Other non-current liabilities	389	405
Total non-current liabilities	**32,559**	**31,969**
Current liabilities		
Financial liabilities		
- Lease liabilities	69	68
- Borrowings	-	-
- Trade payables		
Total outstanding dues of micro and small enterprises	1	2
Total outstanding dues of creditors other than micro and small enterprises	175	394
- Other financial liabilities	562	603
Other current liabilities	108	71
Provisions	3	3
Current tax liabilities (Net)	46	2
Total current liabilities	**964**	**1,143**
Total liabilities	**33,523**	**33,112**
Total equity and liabilities	**39,273**	**39,240**

The accompanying notes are an integral part of the special purpose combined financial statements.

For and on behalf of Restricted Group II

Muhammad Khalid Peyrye
Director
Place: Ebene Mauritius
Date:15 December 2021

Yung Oy Pin Lun Leung
Director
Place: Ebene Mauritius
Date:15 December 2021

Restricted Group - II
Special Purpose Combined Statement of Profit and Loss
(INR amount in millions, unless otherwise stated)

	Six months period ended September 30, 2021 (Unaudited)	Six months period ended September 30, 2020 (Unaudited)
Revenue		
Revenue from operations	2,505	2,270
Other income	-	3
Total income (I)	**2,505**	**2,273**
Expenses		
Employee benefits expense	17	18
Other expenses	217	207
Total expenses (II)	**234**	**225**
Earnings before interest, tax, depreciation and amortisation (EBITDA) (I)-(II) (A)	**2,271**	**2,048**
Depreciation and amortisation expense- (B)	1,005	1,011
Interest income-(D)	57	26
Finance cost- (E)	1,432	1,464
Loss before tax (A-B-C+D-E)	**(109)**	**(401)**
Tax expense:		
Current tax expense	120	87
Deferred tax (benefit)/expense	95	111
Total tax (benefit)/expense	**215**	**198**
Profit/(Loss) after tax	**(324)**	**(599)**
Other Comprehensive Income		
Items that will be reclassified to profit or loss		
Effective portion of cash flow hedge	238	(221)
Income tax effect	(36)	33
	202	(188)
Exchange differences in translating the financial statements of foreign operations	(256)	536
Income tax effect	-	-
Items that will not be reclassified to profit or loss		
Re-measurement gains/(losses) on defined benefit plans	-	-
Income tax effect	-	-
Total other comprehensive (loss)/Income	**(54)**	**348**
Total comprehensive income/(loss)	**(378)**	**(251)**

The accompanying notes are an integral part of the special purpose combined financial statements.

For and on behalf of Restricted Group II

Muhammad Khalid Peyrye
Director
Place: Ebene Mauritius
Date:15 December 2021

Yung Oy Pin Lun Leung
Director
Place: Ebene Mauritius
Date:15 December 2021

Restricted Group - II
Special Purpose Combined Statement of Changes in Equity
(INR amount in millions, unless otherwise stated)

(a) Equity share Capital: *

Shares (Aggregate of Restricted Group - II entities):	Number of shares	Amount (In million)
At March 31, 2020	**7,126,399**	**73**
Addition during the period	-	-
At March 31, 2021	**7,126,399**	**73**
Addition during the period	-	-
At September 30, 2021	**7,126,399**	**73**

* Equity share capital represents the aggregate amount of share capital of Restricted Group - II entities as at the respective year ends and does not necessarily represent legal share capital for the purpose of the Restricted Group - II.

(b) Other equity**

For the period ended September 30, 2021:

Particulars	Reserves and surplus		Items of other comprehensive income			Total equity
	Deficit in the combined statement of profit and loss	Securities premium reserve	Exchange differences on translating the financial statements of foreign operations	Defined benefit plans (Refer note 39)	Effective portion of Cash flow hedges (refer note 8)	
At April 01, 2021	(3,295)	9,872	(1,202)	(1)	681	6,055
Loss for the year	(324)	-	-	-	-	(324)
Other comprehensive income/(loss)	-	-	(256)	-	202	(54)
At September 30, 2021	**(3,619)**	**9,872**	**(1,458)**	**(1)**	**883**	**5,677**

For the year ended March 31, 2021:

Particulars	Reserves and surplus		Items of other comprehensive income			Total equity
	Deficit in the combined statement of profit and loss	Securities premium reserve	Exchange differences on translating the financial statements of foreign operations	Defined benefit plans (Refer note 39)	Effective portion of Cash flow hedges (refer note 8)	
At April 01, 2020	(1,678)	9,872	(1,842)	-	909	7,261
Loss for the year	(1,617)	-	-	-	-	(1,617)
Other comprehensive income/(loss)	-	-	640	(1)	(228)	411
At March 31, 2021	**(3,295)**	**9,872**	**(1,202)**	**(1)**	**681**	**6,055**

For the period ended September 30, 2020:

Particulars	Reserves and surplus		Items of other comprehensive income			Total equity
	Deficit in the combined statement of profit and loss	Securities premium reserve	Exchange differences on translating the financial statements of foreign operations	Defined benefit plans (Refer note 39)	Effective portion of Cash flow hedges (refer note 0)	
At April 01, 2020	(1,678)	9,872	(1,842)	-	909	7,261
Loss for the year	(599)	-	-	-	-	(599)
Other comprehensive income/(loss)	-	-	536	-	(188)	348
At September 30, 2020	**(2,277)**	**9,872**	**(1,306)**	**-**	**721**	**7,010**

** Other equity represents the aggregate amount of other equity of Restricted Group - II entities as at the respective year ends.

Note:
Deficit in the statement of profit and loss are the losses of the Restricted Group - II incurred till date net of appropriations.
Securities premium reserve is used to record the premium on issue of shares. The reserve can be utilised only for limited purposes such as issuance of bonus shares in accordance with the provisions of the Companies Act, 2013.
Exchange differences arising on translation of the foreign operations are recognised in other comprehensive income as described in accounting policy and accumulated in a separate reserve within equity.

Restricted Group - II
Special Purpose Combined Statement of Cash Flows
(INR amount in millions, unless otherwise stated)

	Particulars		Six months period ended September 30, 2021 (Unaudited)	Six months period ended September 30, 2020 (Unaudited)
A	**Cash flows from operating activities**			
	Loss before tax		**(109)**	**(401)**
	Adjustment to reconcile loss before tax to net cash flows			
	Depreciation and amortisation expense		1,005	1,011
	Interest income		(57)	(26)
	Government grants related to assets		(3)	(3)
	Deferred viability gap funding income		(13)	(12)
	Provision for doubtful debts/advances		-	7
	Bad debts written off		-	2
	Finance cost		1,432	1,464
	Operating profit before working capital changes		**2,255**	**2,042**
	Movements in working capital:			
	(Increase)/decrease in trade receivables		(406)	19
	(Increase) in other current financial assets		5	(2)
	(Increase) in other current assets		(72)	(89)
	(Decrease)/Increase in other current/non-current financial liabilities		(53)	6
	Increase in other current liabilities		37	10
	Decrease in trade payables		(88)	(95)
	Increase in other non-current liabilities		-	9
	Increase in other non-current assets		5	8
	Increase in current provisions		-	1
	Increase in non-current provisions		1	1
	Cash generated from operations		**1,684**	**1,910**
	Income taxes paid (net of refunds)		(88)	(83)
	Net cash flow from operating activities	**(A)**	**1,596**	**1,827**
B	**Cash flows from investing activities**			
	Purchase of property, plant and equipment (including capital work in progress, capital advances and capital creditors)		(40)	(129)
	Security deposit received		-	(3)
	Interest received		26	29
	Investment in term deposits with banks		(158)	(851)
	Loan to holding/fellow subsidiary companies		(300)	(11)
	Net cash flows (used in) investing activities	**(B)**	**(472)**	**(965)**
C	**Cash flows from financing activities**			
	Repayments of non-current borrowings other than senior notes		-	(6)
	Payment of lease rent		(36)	(47)
	Payment for hedging arrangements		(522)	(674)
	Finance cost paid		(737)	(1,136)
	Net cash flows (used in) financing activities	**(C)**	**(1,295)**	**(1,863)**
	Effect of exchange rate changes on cash and cash equivalents	**(D)**	**14**	**(14)**
	Net (decrease) in cash and cash equivalents	**(A+B+C+D)**	**(157)**	**(1,015)**
	Cash and cash equivalents at the beginning of the year		451	1,261
	Cash and cash equivalents at the end of the year		**294**	**246**
	Components of cash and cash equivalents			
	Balances with schedule banks:			
	- On current accounts		49	37
	- Deposits with original maturity of less than 3 months		245	209
	Total cash and cash equivalents		**294**	**246**

Notes:

1 The Statement of Cash Flows has been prepared under the indirect method as set out in Indian Accounting Standard (Ind AS 7) on "Statement of Cash Flows" referred to Section 133 of Companies Act 2013.

2 The accompanying notes are an integral part of the special purpose combined financial statements.

For and on behalf of Restricted Group II

Muhammad Khalid Peyrye	Yung Oy Pin Lun Leung
Director	Director
Place: Ebene Mauritius	Place: Ebene Mauritius
Date:15 December 2021	Date:15 December 2021

(INR amount in millions, unless otherwise stated)

1. General Information

Azure Power Solar Energy Private Limited ("APSEPL" or "the Company") was incorporated on April 02, 2018 as a private company limited by shares incorporated under laws of Mauritius and a wholly-owned subsidiary of Azure Power Global Limited (the "Parent") and has its registered office at C/o. AAA Global Services Ltd., 1st Floor, The Exchange 18 Cybercity, Ebene, Mauritius.

The Parent and its subsidiaries (herein collectively referred to as the "Group" carry out business activities relating to generation of electricity through non-conventional renewable energy sources engaged in the ownership, maintenance and management of solar power plants and generation of solar energy based on long-term contracts (power purchase agreements or "PPA") with Indian government entities as well as other non-governmental energy distribution companies and commercial customers.

APSEPL and 10 Indian subsidiaries (as listed below) of Azure Power Global Limited (APGL) form part of "Restricted Group – II". During the year ended March 31, 2020, the Company had issued US$ Senior Notes to institutional investors and is listed on Singapore Exchange Securities Trading Limited (SGX-ST). APSEPL invested the proceeds, net of issue expenses in Non-Convertible Debentures ("NCDs") and External Commercial Borrowings ("ECBs") to replace existing Rupee and external debt of Restricted Group entities-II. Restricted entities are directly or indirectly under common control of the parent.

The Restricted Group - II entities which are all under the common control of the Parent company comprise the following entities:

Entities	Principle Activity	Country of Incorporation	% Held by Parent		
			September 30, 2021	March 31, 2021	September 30, 2020
Azure Power Solar Energy Private Limited	Debt financing	Mauritius	100%	100%	100%
Azure Power Earth Private Limited	Generation of Solar power	India	100%	100%	99.99%
Azure Power Makemake Private Limited	Generation of Solar power	India	100%	100%	99.99%
Azure Power Mercury Private Limited	Generation of Solar power	India	100%	100%	99.99%
Azure Power Uranus Private Limited	Generation of Solar power	India	100%	100%	99.99%
Azure Power Venus Private Limited	Generation of Solar power	India	100%	100%	99.99%
Azure Power Saturn Private Limited	Generation of Solar power	India	100%	100%	99.99%
Azure Power Thirty Three Private Limited	Generation of Solar power	India	100%	100%	99.99%
Azure Power Thirty Four Private Limited	Generation of Solar power	India	100%	100%	99.99%
Azure Power Thirty Six Private Limited	Generation of Solar power	India	100%	100%	99.99%
Azure Power Forty Four Private Limited	Generation of Solar power	India	100%	100%	99.99%

2. Purpose of the special purpose combined financial statements

These are special purpose combined financial statements, which have been prepared for the purpose of complying with financial reporting requirements under the indenture governing the US$ Senior Notes. These special purpose combined financial statements presented herein reflect the Restricted Group – II's results of operations, assets and liabilities and cash flows for the period presented. The basis of preparation and significant accounting policies used in preparation of these special purpose combined financial statements are set out in note 3 and 4 below.

3. Basis of preparation

The indenture governing the US$ Senior Notes requires Restricted Group II to prepare Ind AS combined financial statements of the Restricted Group - II for the purpose of submission to the bond holders. The special purpose combined financial statements of the Restricted Group – II have been prepared in accordance with recognition and measurement principles laid down by the Indian Accounting Standards (Ind AS) (except Ind AS - 33 on Earnings Per Share) prescribed under section 133 of the Companies Act, 2013, read with rule 3 of the Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) (Amendment Rules), 2016 issued thereunder and other accounting principles generally accepted in India and the guidance note on Combined and Carve-out Financial Statements issued by the Institute of Chartered Accountants of India (ICAI). Further for computation of depreciation, the Restricted Group - II entities based upon legal opinion have charged depreciation as per CERC regulations.

The special purpose combined financial statements have been prepared in accordance with Ind AS 34, Interim Financial Reporting. The special purpose combined financial statements do not include all the information and disclosures required in the annual financial statements.

The items in the special purpose combined financial statements have been classified considering the principles under Ind AS 1, Presentation of Financial Statements.

As per the Guidance Note on Combined and Carve Out Financial Statements, the procedure for preparing combined financial statements of the combining entities is the same as that for consolidated financial statements as per the applicable Indian Accounting Standards. Accordingly, when combined financial statements are prepared, intra-group transactions and profits or losses are eliminated. All the inter group transactions are undertaken on Arms Lengths basis. There is no allocation of expenses within the Restricted Group - II. The information presented in the special purpose combined financial statements of the Restricted Group – II may not be representative of the position which may prevail after the transaction. The resulting financial position may not be that which might have existed if the combining businesses had been a stand-alone business.

Share capital and reserves disclosed in the special purpose combined financial statements is not the legal capital and reserves of the Restricted Group - II and is the aggregation of the share capital and reserves of the individual combining entities. Income taxes are arrived at by aggregation of the tax expenses actually incurred by the combining businesses, after considering the tax effects of any adjustments which is in accordance with the Guidance Note on Combined and Carve-Out Financial Statements issued by the ICAI.

Accordingly, the procedures followed for the preparation of the special purpose combined financial statements:

(a) Combined like items of assets, liabilities, equity, income, expenses and cash flows of the combining entities.
(b) Eliminated in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Restricted Group - II (profits or losses resulting from intragroup transactions that are recognised in assets, such as fixed assets, are eliminated in full).

These special purpose combined financial statements may not necessarily be indicative of the financial performance, financial position and cash flows of the Restricted Group – II that would have occurred if it had operated as a separate stand-alone Group of entities during the period presented or the Restricted Group – II's future performance.

The special purpose combined financial statements include the operation of entities in the Restricted Group - II, as if they had been managed together for the period presented.

Summary of significant accounting policies

4. The special purpose combined financial statements have been prepared in accordance with the accounting policies adopted in the Restricted Group - II's last audited annual financial statements for the year ended March 31, 2021. The presentation of the Special purpose combined financial statements is consistent with the audited Combined Financial Statements for the year ended March 31, 2021.

5. During the year ended March 31, 2020, APSEPL has issued 5.65% US$ denominated Senior Notes ("5.65% Senior Notes" or "Green Bonds") and raised INR 24,400 million net off of discount on issue of INR 7 million at 0.03% and issuance expense of INR 397 million. The discount on issuance of Green Bonds and the issuance expenses have been recorded as Finance cost based on effective interest rate method and the unamortized balance is netted with the carrying value of Senior Notes. These Notes are listed on Singapore Exchange Securities Trading Limited (SGX-ST). In accordance with the terms of the issue, APSEPL invested the proceeds in INR denominated Non-Convertible Debentures (NCDs) and External Commercial Borrowings (ECBs) within the Restricted Group - II. The interest on the Senior Notes are payable on a semi-annual basis and the principal amount is payable in December 2024.

6. The Company designates the derivative contracts for mitigating the foreign exchange fluctuation risk as a cash flow hedge. The changes in fair value of the derivatives are included in other comprehensive income to the extent the hedge continues to be effective. The related other comprehensive income amounts are allocated to the Combined Statements of Profit and Loss in the same period in which the hedged item affects net earnings. To the extent the change in fair value of the derivative financial instruments is not completely offset by the change in the fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in the Combined Statements of Profit and Loss.

7. Contracts designated as Cash flow hedge: The Company has hedged the foreign currency exposure risk related to certain investments in Restricted Group - II entities denominated in foreign currency through call spread option with full swap for coupon payments. The foreign currency forward contracts and options were not entered for trading or speculative purposes.

The Company documented each hedging relationship and assessed its initial effectiveness on inception date and the subsequent effectiveness was tested on a quarterly basis using dollar offset method. When the relationship between the hedged items and hedging instrument is highly effective at achieving offsetting changes in cashflows attributable to the hedged risk, the Company records in other comprehensive income the entire change in fair value of the designated hedging instrument that is included in the assessment of hedge effectiveness. The gain or loss on the hedge contracts shall be reclassified to interest expense when the coupon payments and principal repayments are made on the related investments. The hedge contracts were effective as of September 30, 2021.

Ind AS 109, Financial Instruments, permits recording the cost of hedge over the period of contract based on the effective interest rate method. The Restricted Group - II determined the cost of hedge at the time of inception of the contract was INR 4,064 million and recorded an expense of INR 408 million and INR 415 during the period ended September 30, 2021 and September 30, 2020 respectively.

The following table presents outstanding notional amount and balance sheet location information related to foreign exchange derivative contracts as of September 30, 2021 and March 31, 2021:

	Foreign currency option contracts	
	As at September 30, 2021 (Unaudited)	**As at March 31, 2021 (Audited)**
Notional Amount (USD in millions)	350	350
Non-current – Other financial assets (INR in millions)	1,109	769

(INR amount in millions, unless otherwise stated)

8. Fair values

Set out below, is a comparison by class of the carrying amounts and fair value of the Restricted Group - II's financial instruments :

Particulars	**Carrying value**		**Fair value**	
	As at September 30, 2021	**As at March 31, 2021**	**As at September 30, 2021**	**As at March 31, 2021**
Financial assets at amortised cost				
Non-current security deposits	4	4	4	4
Performance bank guarantee receivable	7	6	7	6
Loan to holding company (including interest accrued)	772	477	772	477
Loan to subsidiary company (including interest accrued)	15	19	15	19
Non-current term deposits (including interest accrued)	91	-	91	-
Financial assets at fair value				
Derivative instruments at fair value through OCI*	1,109	769	1,109	769
Total	**1,998**	**1,275**	**1,998**	**1,275**
Financial liabilities at amortised cost				
5.65% Senior Notes (including accrued interest) **	26,106	25,805	27,889	27,771
Loans from holding company (including accrued interest) **	513	494	513	494
Loans from fellow subsidiary (including accrued interest) **	171	165	171	165
Payable for purchase of capital goods to related parties (including accrued interest) **	4,356	4,184	4,356	4,184
Payable to fellow subsidiary companies	17	37	17	37
Total	**31,163**	**30,685**	**32,946**	**32,651**

The management assessed that cash and cash equivalents, term deposits, interest accrued on term deposits, other bank balances, trade receivables, unbilled revenue, viability gap funding receivable (VGF), loan to related parties, receivable from related parties, security deposits received, current borrowings, interest accrued, payable for capital goods, trade payables and security deposits paid approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the price that would be received on selling of assets or paid to transfer a liability in an orderly transactions between market participants at measurement date.

Investments in subsidiaries are classified as equity investments have been accounted at historical cost. Since these are scope out of Ind AS 109 for the purposes of measurement, the same have not been disclosed in the tables above.

The following methods and assumptions were used to estimate the fair values :
Measured at fair value:
* The respective companies under the Respective Group - II enter into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign currency option derivatives are valued using valuation techniques, which employs the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying instruments. The Restricted Group - II uses the derivatives option pricing model based on the principles of the Black-Scholes model to determine the fair value of the foreign exchange derivative contracts. The inputs considered in this model include the theoretical value of a call option, the underlying spot exchange rate as of the balance sheet date, the contracted price of the respective option contract, the term of the option contract, the implied volatility of the underlying foreign exchange rates and the risk-free interest rate as of the balance sheet date.

At amortised cost:
** The fair values of the interest-bearing borrowings and loans of Restricted Group - II are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 30 September 2021 was assessed to be insignificant.

(INR amount in millions, unless otherwise stated)

9. Fair value hierarchy

The following table provides the fair value measurement hierarchy of the assets and liabilities of the Restricted Group - II.

Quantitative disclosures fair value measurement hierarchy for assets as at September 30, 2021:

	Total	Fair value measurement using		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets at amortised cost				
Non-current security deposits	4	-	-	4
Performance bank guarantee receivable	7	-	-	7
Loan to holding company (including interest accrued)	772	-	-	772
Loan to subsidiary company (including interest accrued)	15	-	-	15
Non-current term deposits (including interest accrued)	91	-	-	91
Financial assets at fair value				
Derivative instruments at fair value through OCI	1,109	-	1,109	-

There have been no transfers between Level 1 and Level 2 during the year.

Quantitative disclosures fair value measurement hierarchy for assets as at March 31, 2021:

	Total	Fair value measurement using		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets at amortised cost				
Non-current security deposits	4	-	-	4
Performance bank guarantee receivable	6	-	-	6
Loan to holding company (including interest accrued)	477	-	-	477
Loan to subsidiary company (including interest accrued)	19	-	-	19
Financial assets at fair value				
Derivative instruments at fair value through OCI	769	-	769	-

There have been no transfers between Level 1 and Level 2 during the year.

Quantitative disclosures fair value measurement hierarchy for liabilities as at September 30, 2021:

	Total	Fair value measurement using		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial liabilities at amortised cost				
5.65% Senior Notes	27,889	-	-	27,889
Loans from holding company (including accrued interest)	513	-	-	513
Loans from fellow subsidiary (including accrued interest)	171	-	-	171
Payable for purchase of capital goods to related parties (including accrued interest)	4,356	-	-	4,356
Payable to fellow subsidiary companies	17	-	-	17

There have been no transfers between Level 1 and Level 2 during the year.

Quantitative disclosures fair value measurement hierarchy for liabilities as at March 31, 2021:

	Total	Fair value measurement using		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial liabilities at amortised cost				
5.65% Senior Notes	27,771	-	-	27,771
Loans from holding company (including accrued interest)	494	-	-	494
Loans from fellow subsidiary (including accrued interest)	165	-	-	165
Payable for purchase of capital goods to related parties (including accrued interest)	4,184	-	-	4,184
Payable to fellow subsidiary companies	37	-	-	37

There have been no transfers between Level 1 and Level 2 during the period.

The management assessed that cash and cash equivalents, term deposits, interest accrued on term deposits, other bank balances, trade receivables, unbilled revenue, viability gap funding receivable (VGF), receivable from related parties, security deposits received, short term borrowings, interest accrued, payable for fixed assets, trade payables and security deposits paid approximate their carrying amounts largely due to the short-term maturities of these instruments.

Investments in subsidiaries are classified as equity investments have been accounted at historical cost. Since these are scope out of Ind AS 109 for the purposes of measurement, the same have not been disclosed in the tables above.

10. Segment Reporting: The activities of Restricted Group - II entities mainly involve sale of electricity. Considering the nature of Restricted Group – II entities' business and operations, there are no separate reportable operating segments in accordance with the requirements of Indian Accounting Standard 108, 'Operating Segments' referred in to Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) Amendment Rules, 2016 and hence, there are no additional disclosures provided.

11. During the six months period ended September 30, 2021, some of the entities in the Restricted Group – II have given loan (net of repayments) to Azure Power India Private Limited amounting to INR 300 million (INR 483 million during year ended March 31, 2021) and carries interest rate of ~ 10%-11% per annum.

12. During the current period, the Parent and it's subsidiaries have entered into an sale agreement with Radiance Renewables Pvt. Ltd. ("Radiance") to sell certain subsidiaries in rooftop business with an operating capacity of 153 MWs. As per the terms of the Rooftop Sale Agreement in respect of the 33.2 MWs operating capacity that is part of the Restricted Group-II, 48.6% of the equity ownership will be transferred to Radiance on the closing date, and pursuant to the terms of the Green Bond Indentures, the remaining 51.4% may only be transferred post refinancing of our Green Bonds. Further, in the event the above sale transaction does not occur, the Group must reimburse Radiance the equity value of the assets not transferred along with an 10.5% per annum equity return.

During the previous year ended March 31, 2021, the Restricted Group - II had recognised an impairment loss of INR 644 million in relation to the Property, plant and equipment. Further, the Restricted Group - II had adjusted capex payable amounting to INR 166 million, payable to group company in reference to the above sale agreement and accordingly had adjusted carrying value of assets.

We are in the process of obtaining requisite approvals from off takers and lenders for disposal of investment in Rooftop portfolio pursuant to agreement entered into with the buyer.

13. During the current period, the Group received complaints and anonymous whistle-blower reports, which made various claims against certain of the Group's Key Managerial Personnel, related to their and the Group's actions in relation to the acquisition of and use of land in Rajasthan, Assam, and Uttar Pradesh, as well as certain other corporate actions. The Group through its Audit Committee, and with the assistance of external counsel and forensic auditors, has completed its investigation to determine whether the allegations made in the complaints or contained in the whistle-blower reports are substantive. The issues raised, including those raised against Key Management Personnel, have been resolved or found to be groundless; however, the Group has determined that its ethics policies regarding external consultants should be enhanced. The Group, through its Audit Committee, and with the assistance of external counsel will be taking remedial steps (including training and policy review).

14. During current period, Supreme Court of India while passing an order for a petition filed under public interest litigation (PIL) aimed at the conservation of two species of birds, the Great Indian Bustard and the Lesser Florican directed the states of Rajasthan and Gujrat to take necessary steps for conversion of overhead power lines to underground lines and in the interim install bird diverters on the overhead lines. In the order SC had also intimated for formation of a committee for evaluating feasibility of conversion of overhead lines to underground and issues thereof, wherever considered feasible by committee conversion of overhead and underground is to take place within a period of one year. The order mentioned the pass through of such expenses incurred by the Group to the ultimate consumer, subject to approval of the Competent Regulatory Authority. In line to the SPDA application, Union of India (Ministry of New and Renewable (MNRE), Ministry of Environment, Forest and Climate Change (MoEF&CC), Ministry of Power (MoP) has also submitted a modification application seeking allowance for laying of over-head cables outside priority areas as well as inside priority areas if the cables are of high/extra high voltage of 66KV or above. The application further recommends that even for 33 kV and below lines, if there is constraints on availability of land and safety concerns, this should be referred to the committee formed by recommendation of the court, which could assess the feasibility of the undergrounding. Management has preliminarily assessed that any costs incurred to comply with the said order are likely to be substantially or wholly recoverable by the Group under provisions of change in law and/or force majeure of their respective PPAs.

15. The Enforcement Directorate of India filed a Prosecution Complaint with a special court in New Delhi on October 1, 2021, in respect of an earlier Enforcement Case Information Report wherein Mr. Pawan Kumar Agrawal, the current Chief Financial Officer of the Group, is one of those named and charged with the commission of offences under Sections 3 and 4 of the Prevention of Money Laundering Act, 2002 of India in relation to Mr. Agrawal's prior employment. The relevant transactions that are the subject of the complaint predated Mr. Agrawal's tenure as an employee and as Chief Financial Officer of the Group, and the criminal charges are not directed at, and do not concern the Group. The Group will continue to monitor the proceedings as Mr. Agrawal defends the charges made against him.

16. COVID-19 update: The Restricted Group - II has considered internal and external information in the preparation of financial statements including the economic outlook and believes that it has taken into account the possible impact of currently known events arising out of the COVID-19 pandemic. The power plants have remained operational as electricity generation is designated as an essential service in India. Based on the current collection experience, the Restricted Group - II has not seen a material impact on accounts receivables collections due to COVID-19. However, the impact assessment of COVID-19 is a continuing process given the uncertainties associated with its nature and duration. The Restricted Group - II will continue to monitor any material changes to future economic conditions.

17. Previous period figures have been regrouped/ rearranged wherever considered material and necessary to conform to the current period presentation.

Six Months Period Ended September 30, 2021 Special Purpose Combined Financial Results:

Operating Results

Revenue from Operations

Operating revenue for the six months period ended September 30, 2021 were INR 2,505 million, an increase of 10% from INR 2,270 million over the same period in 2020. The increase is primarily due to additional revenue of INR 316 million from sale of carbon credits, to the extent where revenue recognition criteria are met.

Other Income

Other income for the six months period ended September 30, 2021 and September 30, 2020 is Nil and INR 3 million respectively.

Operating expenses (exclusive of depreciation and amortization)

Operating expenses for the six months period ended September 30, 2021 increased marginally by 4% to INR 234 million from INR 225 million in the same period in 2020.

Depreciation and Amortization Expenses

Depreciation and amortization expenses for the six months period ended September 30, 2021 decreased marginally by 1% to INR 1,005 million from INR 1,011 million in the same period in 2020 majorly on account of impairment of Property, Plant and Equipment and adjustment of payable of purchase of capital goods in the year ended March 31, 2021 offset by increase due to additions during the 12 months after September 30, 2020 (Also refer note 10 above).

Finance Income

Finance income mainly consist of interest income. Finance income for the six months ended September 30, 2021 were INR 57 million, an increase of 119% from INR 26 million over the same period in 2020. The increase of INR 31 million is primarily attributed to increase in interest income on loans given to Holding Company.

Finance cost

Finance cost for the six months period ended September 30, 2021 decreased marginally by 2% to INR 1,432 million from INR 1,464 million in the same period in 2020.

Tax Expenses

Income tax expense for the Restricted Group - II during the six months period ended September 30, 2021 was INR 215 million, compared to Income tax expenses of INR 198 million for the period ended September 30, 2020

Liquidity and Capital Resources

Cash Flow from operating activities

Cash generated from operating activities for the six months period ended September 30, 2021 was INR 1,596 million, compared to INR 1,827 million in the same period in 2020. The cash flow from operating activities during current period was lower on account of increase in receivables and higher payouts, partially offset by increase in operating profit by INR 212 million (to INR 2,255 million in six months ended September 30, 2021 from INR 2,042 million in same period in 2020). Subsequent to period end, the Group has received proceeds of INR 354 million from sale of carbon credits.

Cash Flow used in investing activities

Cash used in investing activities for the six months period ended September 30, 2021 was INR 472 million, compared to INR 965 million in the same period in 2020, primarily due to net decline in investments in term deposits with banks and loan given to Holding Company during the current period. The Group has invested INR 158 million on bank deposits during the six months ended September 30, 2021 compared to INR 851 million in the same period in 2020. Further, the Restricted Group-II has given loan of INR 300 million to Holding Company during the current period.

Cash Flow from financing activities

Cash used in financing activities was INR 1,295 million for the six months period ended September 30, 2021, compared to cash used in financing activities INR 1,863 million in the same period in 2020. The reduction in cash used in financing activities is majorly attributed to interest payments relating to bond transactions.

Liquidity Position

As of September 30, 2021, Restricted Group – II had INR 294 million of cash, cash equivalents and other bank balances.

Combined Earnings before interest, tax, depreciation and amortization (EBITDA)

Combined EBITDA of Restricted Group – II was INR 2,271 million for the six months period ended September 30, 2021, compared to INR 2,048 million for the same period in 2020. This was primarily due to the increase in revenue during the current period on account of additional revenue from sale of carbon credits.

Subsequent event

The Company/ Group evaluated all other events or transactions that occurred after September 30, 2021. Based on this evaluation, the Company/ Group is not aware of any event or transactions that would require recognition or disclosure in the Ind AS Special Purpose combined financial statements.