

Press Release

Sterling & Wilson Solar Limited

April 02, 2020

Rating Assigned



Total Instruments Rated*	Rs. 400.00 Cr.
Short Term Rating	ACUITE A1+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs.400.00 Cr Commercial Paper Programme of STERLING & WILSON SOLAR LIMITED (SWSL).

The rating reflects the long track record of operations, demonstrated execution capabilities and its strong market position in Solar EPC segment. The rating also factors in the strong credit profile of its parent, Shapoorji Pallonji and Company Private Limited (SPCPL) (rated ACUITE A1+), SWSL's healthy order book position both in India and overseas markets, providing adequate revenue visibility over the medium term. The above-mentioned rating strengths are partly offset by a highly leveraged financial risk profile, the short term challenges in the operating environment triggered by the global outbreak of COVID – 19 and significant exposure to group companies in the form of loans and advances.

About the company

Sterling and Wilson Solar Limited (SWSL) is a part of Shapoorji Pallonji Group (SP Group) and is promoted by Shapoorji Pallonji and Company Private Limited (SPCPL) and Mr. Khurshed Daruvala. In 2017, the Solar EPC business was demerged from Sterling & Wilson Private Limited and hence Sterling and Wilson Solar Limited was formed. SWSL is engaged in EPC and O&M for Solar Power Plants. The company has a presence over 25 countries including India, Africa, USA, Australia and the Middle East among other countries. The company has executed a total of 9.2 GW capacity projects till December 2019. SWSL is listed on BSE and NSE.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SWSL to arrive at the rating. However, it has also factored in an expectation of strong support from its parent, SPCPL.

Key Rating Drivers

Strengths

- **Established presence in solar segment and strong parentage**

Sterling and Wilson Solar Limited (SWSL) is a part of Shapoorji Pallonji Group and is promoted by Shapoorji Pallonji and Company Private Limited (SPCPL) and Mr. Khurshed Daruvala. Post demerger from Sterling and Wilson Private Limited (SWPL), SWSL was incorporated in 2017 and is engaged in EPC and O&M for Solar Power Plants. As on 31 December 2019, the company has executed a total of 9.2 GW capacity across geographies including Asia, Africa, and Middle East amongst others. SWSL is one of the leading Solar EPC player in India and Middle East. The company has set up its largest single location Solar Photovoltaic Plant of 1177 MW in Abu Dhabi. The extensive experience of the parent company in the infrastructure sector and its established position in Solar Industry has also helped SWSL generate healthy and diversified order book. The order book position stands at Rs.12,227 Cr as on December 2019, thereby providing healthy revenue visibility over the medium term. The company has executed projects for reputed clientele such as Soft Bank, Marubeni, Total, Shell, and TAQA to name a few.

SPCPL is the flagship company of SP group, which acts as both a holding company for the key companies of the group, and also an operating company engaged in construction business. SPCPL on a standalone basis has an unexecuted order book of Rs.37,813 Cr. The order book is fairly diversified with orders from both state and central government undertakings, private players and overseas orders. The orders are spread across different sectors (Engineering and Construction and EPC) and geographies covering India and overseas. The current order book is around three times the standalone revenues of Rs.12,827 Cr for FY2019.

SPCPL has established presence in both commercial and residential real estate segment since 1865, over the years the group has constructed marquee projects both in India and globally. SPCPL's residential real estate business has also received moderate traction in their key projects, as can also be witnessed from the low levels of unsold inventory compared to overall market conditions. SP Group's key projects like 'Northern Lights', 'Vicinia', 'Parkwest' have received good sales traction despite the tepid market conditions.

Acuite believes, SWSL will continue to benefit from its established position in the solar segment backed by strong parentage and the group's presence of more than 200 years.

- **Healthy profitability led to adequate coverage indicators**

SWSL has a healthy scale of operations marked by revenues of Rs.8,244 Cr for FY2019 as compared to Rs.6872 crore for FY2018. Further, the company has achieved revenues of Rs.3515 Cr for 9MFY2020. The company operates at a healthy profitability margin in the range of 9-10 per cent over the last three years. Healthy profitability levels coupled with absence of any major long term debt, has led to healthy coverage indicators, marked by interest coverage of 6.25 times for FY2019 as compared to 7.94 times in FY2018. Debt/EBITDA stood at 2.44 times for FY2019 continued to be adequate although it increased from 0.30 times in the previous year. Acuite believes the company's revenue performance for FY2020 will be adversely impacted on account of slower than anticipated traction in the Solar EPC segment given the global slowdown and disruption triggered by COVID – 19. Nevertheless, the interest burden is likely to reduce commensurately with the reduction of short term loans from the recovery of ICDs, thereby leading to minimal impact on the coverage indicators.

Weaknesses

- **Timely receipt of loans and advances from group companies**

Post demerger, SWSL had extended loans and advances to its group companies which stood at Rs. 1626 Cr as on 31 December 2019 as against Rs.1953 Cr as on 31 March 2019. These ICDs were proposed to be repaid through the Offer for Sale (OFS) issue of SWSL that mobilised Rs.2,850 Cr in August 2019. The promoters of SWPL i.e. SPCPL and Mr. Khurshed Daruvala have sought an extension from the board of SWSL to repay the outstanding ICDs which stood at Rs. 1626 Cr as on 31 December 2019. As per the new framework for repayment of these ICDs, SWSL is expected to receive full amount by September 2020. Further, SWSL has raised bank debts for extension of these ICDs and on the receipt of these ICDs from its group companies, SWSL is expected to repay these bank debts. However, timely receipt of these loans and advances will remain a key rating monitorable for maintaining healthy liquidity. Acuite will be closely monitoring the developments with regards to the same. Any delays in recovery of loans and advances from its group companies, is likely to impart a negative bias to the rating.

- **Susceptibility of the operating revenues to risk associated with timely completion and funding of the projects**

The company undertakes EPC contracts for construction of solar power projects across geographies which stipulates timelines for the completion of the project as per the agreed schedule and cost. The operating income of SWSL stood at Rs.8244 Cr in FY2019 as compared to Rs.6872 crore in FY2018. SWSL has implemented over 9.2GW+ of solar power projects till December 2019. Further, the company has unexecuted order book position of around Rs.12,227 Cr to be executed over the near to medium term. EBITDA margins have remained healthy at around 9.0 – 10.0 per cent over the last three years through FY 2019.

Timely implementation of the projects depends on the acquisition of land & receipt of various other approvals. Secondly, the increased investment in the sector following the government push in the renewable energy coupled with lowering of capital cost has resulted in significant decline in solar tariffs. This has impacted the profitability of the players. The financial health of the discoms and the stance of certain states to renegotiate existing tariffs will continue to have a major impact on the performance of the solar projects. Going ahead, this in turn is likely to influence the policy of the lenders towards financing the solar sector.

Liquidity position: Strong

The liquidity of SWSL is driven by healthy net cash accruals and the expected cash flows in form of repayment of ICDs by the group companies. The company has maturing debt obligations of Rs.1000 Cr in FY2021 as against which the company is expecting repayment of ICDs from its group companies to the tune of Rs.1126 Cr. and net cash accruals in a range of Rs.600 Cr to Rs.650 Cr. Post FY2021, SWSL does not have any term loan

repayment obligations.

Rating Sensitivities

- Timely receipt of loans and advances from group companies
- Liquidity position of SPCPL and any changes in the group's stance on supporting SWSL
- Any significant delays in project execution

Material Covenants

- None

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	8243.68	6872.00
PAT	Rs. Cr.	638.23	450.54
PAT Margin	(%)	7.74	6.56
Total Debt/Tangible Net Worth	Times	2.68	0.95
PBDIT/Interest	Times	6.25	7.94

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE A1+ (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Kashish Shah Senior Analyst - Rating Operations Tel: 022-49294042 kashish.shah@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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