

Press Release

Sterling & Wilson Solar Limited

October 01, 2020

Rating Reaffirmed & Withdrawn



Total Instruments Rated*	Rs. 200.00 Cr.
Short Term Rating	ACUITE A1+ (Reaffirmed)
Total Instruments Rated*	Rs. 200.00 Cr.
Short Term Rating	ACUITE A1+ (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the short-term rating to '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs.200.00 crore Commercial Paper Programme of Sterling & Wilson Solar Limited (SWSL).

Further, Acuite has withdrawn the short-term rating to '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs.200.00 crore Commercial Paper Programme of Sterling & Wilson Solar Limited (SWSL). This rating withdrawal is in accordance with the Acuite's policy on withdrawal of rating. The rating is being withdrawn at the company's request and based on confirmations received as per Acuite's policy.

Reason for Reaffirmation:

The reaffirmation of rating is primarily on account of healthy order book position which is expected to generate healthy cash flows in near to medium term, expected improvement in liquidity on account of extension in repayment and expectation of inflow of ICDs from Group Company would further strengthen the liquidity position of the company.

On account of the outbreak of COVID-19 crisis, the operations of SWSL has been impacted in India, Kenya and Jordan. This has temporarily impacted the cash flows of SWSL; however, with unexecuted order book position of over Rs.10,000 crore is likely to generate healthy cash flows in near term. Additionally, as per the last board meeting announcement on the extension of timelines with regards to the settlement of loans and advances extended to its group companies. As per the revision extension received, the loans and advances to the tune of ~Rs.1126 Cr. were to be settled by September 30, 2020. However, as on September 30, 2020 only Rs.103 Cr. has been settled. Acuite has taken note of Cash and cash equivalent of Rs.184 Cr. as on 30 June, 2020. The company does not have any Commercial Paper outstanding as on 28 September 2020 and does not intend to raise CP over Rs.200 Cr. in the near to medium term.

The shortfall in the settlement is likely to impact the liquidity profile of SWSL. On account of the outbreak of COVID – 19 led to lockdowns across the world has impacted the domestic as well as certain overseas operations of SWSL (as mentioned above). The operating revenues for Q1FY2021 stood at Rs. 1068 Cr. as against Rs.1245 Cr. in Q1FY2020, however, the profitability has significantly impacted with operating margin at 1.55 per cent for Q1FY2021 as against 5.30 per cent in Q1FY2020. Shapoorji Pallonji Group (SP Group) has announced its willingness to divest its ~18% stake in Tata Sons, the timelines and closure of the transaction depend on a successful resolution of the matter with Tata Group. Acuite believes on receipt of these funds and settlement of ICDs, the liquidity position of SWSL will further strengthen.

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 and under execution a total of more than 10 GW capacity projects till June 2020. 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 support from its parent, SPCPL, if required.

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 and under execution of more than 10 GW capacity across geographies including Australia, USA, 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.10,223 Cr as on September 2020, thereby providing healthy revenue visibility over the medium term. The company has executed and is currently executing projects for reputed clientele such as Neoen, Light Source BP, Soft Bank, Marubeni, Total, Shell, and TAQA to name a few. The Company has also currently managed to reduce its customer concentration risk as compared to two years ago.

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.5,597 Cr for FY2020. The company operates at a healthy profitability margin in the range of 9-10 per cent over the last three years. However, the operating revenues and the profitability margins of the company has been impacted in Q1FY2021 on account of the outbreak of COVID – 19 followed by lockdowns across the globe. Despite this, the company has achieved revenues of Rs.1068 crore in Q1FY2021. O&M services have played a major role in revenue generation as the same was classified under essential services.

Healthy profitability levels coupled with the absence of any major long term debt, has led to healthy coverage indicators, marked by interest coverage of 2.57 times in FY2020 as compared to 6.25 times for FY2019. Debt/EBITDA stood at 1.81 times for FY2020 as against 2.44 times for FY2019. Acuite believes the company's revenue performance for FY2021 may be 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. Further, the interest spread on the ICDs has been increased to 4% from 1%, thus leading to additional profitability of the Company. The promoter group companies have also committed to service interest on a quarterly basis. The Promoter Group companies have also provided securities of Rs. 460 crore and are in the process of creating securities for Rs. 740 crore.

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. 1160 Cr as on 31 March 2020 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 a further extension from the board of SWSL to repay the outstanding ICDs until September 2021. As per the new framework for repayment of these ICDs, SWSL is expected to receive the 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 the 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. 5597 Cr. in FY2020 as against Rs.8244 Cr in FY2019. SWSL has implemented and is currently implementing a total of over 10 GW of solar power projects till September 2020. Further, the company has an unexecuted order book position of more than Rs.10,000 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 FY2020.

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 the lowering of capital cost has resulted in a 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 the form of repayment of ICDs by the group companies. The company has maturing debt obligations of Rs.535 Cr in FY2021 as against cash and cash equivalent of Rs. 184 crore (as per the consolidated figures) and no Commercial Paper o/s as on 28 September 2020 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	5597.51	8243.68
PAT	Rs. Cr.	304.27	638.23
PAT Margin	(%)	5.44	7.74
Total Debt/Tangible Net Worth	Times	1.15	2.68
PBDIT/Interest	Times	2.57	6.25

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>
- Commercial Paper Programme- <https://www.acuite.in/view-rating-criteria-54.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of the Instruments	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-April-2020	Commercial Paper	Short Term	400.00	ACUITE A1+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ (Reaffirmed)
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ (Withdrawn)

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