Press Release

Sterling & Wilson Solar Limited

July 01, 2021

Rating Downgraded

Total Instruments Rated*	Rs. 200.00 Cr.
Short Term Rating	ACUITE A2 (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded its short-term rating to **'ACUITE A2' (read as ACUITE A two)** from **'ACUITE A1+ (read as ACUITE A one plus)** on the Rs.200.00 Cr Commercial Paper Programme of STERLING & WILSON SOLAR LIMITED (SWSL).

Rationale for Rating Action:

The downward revision in the rating is driven by the ongoing challenges faced by SWSL in maintaining adequate liquidity buffers. The company's operations have been severely impacted in FY21 on account of the outbreak of Covid – 19. This had led to a significant deterioration in the operating cash flows of the company on the back of the disruption in execution activities across some of its project sites. While the operations of SWSL are geographically diversified, the impact of the pandemic driven disruption has been much higher than Acuité's expectations. SWSL has been facing challenges for timely completion of projects particularly in Australia. This is majorly on account of the bankruptcy filed by the sub-contractor in that specific project and to the unavailability of labor due to the lockdown. Further, the significant increase in solar module prices (~30 percent) and freight charges (~120 percent) are also likely to impact the profitability margins in FY2021 and partly in FY2022. While SWSL continues to conduct negotiations with its clients for a pass through of the sharply increased raw material prices, the risks in project delays have increased along with unfavourable operating costs, leading thereby to a substantial erosion in operating margins.

The outbreak of Covid pandemic and the associated lockdowns since early FY2021 has affected both the domestic and the global operations of SWSL. The operating revenues was significantly impacted in 9MFY2021 which stood at Rs. 1,875 Cr. as against Rs.3,493 Cr. in 9MFY2020, more importantly, the profitability has been under severe pressure with an operating loss of ~Rs.49 Cr. for 9MFY2021 as against operating profit of ~Rs. 145 Cr. (~4.15 percent) in 9MFY2020. Acuité expects a continuation of such profitability pressures not only in Q4FY21 but also in a significant part of FY22. Due to these operating losses in 9MFY2021, the company has heavily relied upon the interest income on ICDs extended to its group companies. Further, the debtors outstanding as on 31 March 2021 stood at ~Rs.796 Cr. of which ~Rs.401 Cr. (~50 percent of total debtors) is outstanding for more than a year. The realization of these debtors remains uncertain over the near term.

During the previous rating review, Acuité had expected a significant inflow of ICDs extended to its group companies. While Acuité takes note of the partial reduction of ICDs in FY2021 and Q1FY2022, the outstanding ICDs continue to be high at Rs.885 Cr. as on 31 March 2021 as compared to Rs.1160 Cr. as on 31 March 2020. The redemption timelines for these ICDs have been extended twice by the management of SWSL in the past two years. The timely inflow of these ICDs will remain a key rating monitorable.

Acuité also understands that the company has approached its consortium lenders for the release of additional limits to tide over the current liquidity pressures. The timely release of these additional lines by the lenders will partially mitigate the near-term liquidity pressures of SWSL. Further, in order to maintain a healthy liquidity profile, timely inflows of ICDs, reduction in legacy debtors, and a significant recovery in profitability will be critical.

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

Acuité has considered the standalone business and financial risk profile of SWSL to arrive at the rating. Acuité had earlier factored in an expectation of support from its parent, SPCPL, if required. However, Acuité does not expect any support from 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 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.9,674 Cr as on February 2021, 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 more than Rs.35,000 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

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

Weaknesses

- **Significant decline in profitability margins leading to expected deterioration in credit profile**

  The company undertakes EPC and O&M for Solar Power Plants contracts across various countries. The operations of SWSL were significantly impacted in FY2021 on account of outbreak of Covid – 19 led disruptions across the globe. During the previous rating action, Acuité had expected a decline in profitability, however, the liquidity was expected to be managed by timely inflows of ICDs which were extended to its group companies. However, the profitability achieved by the company in FY2021 is lower-than-expected and the inflows has remained at around Rs.275 Cr.

  The company has achieved revenues of Rs.1,875 Cr. for 9MFY2021 as against Rs.3,492 Cr. for 9MFY2022. Further, the company has incurred operating losses of Rs.49 Cr. in 9MFY2021 as against operating profit margin of 4.15 per cent in 9MFY2020. The drag in profitability is majorly on account of bankruptcy filed by one of the sub-contractor in Australian region, significant increase in module prices and freight prices. This is expected a continued drag in operating profitability in Q4FY2021 and Q1FY2022 as well. The drag in profitability has led the company to rely over other income, which is interest on ICDs extended to group companies and inflows of ICDs from group companies. Going ahead, the company's ability to adequately manage its liquidity will remain a key to maintain healthy credit profile.

- **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. 885 Cr as on 31 March 2021 as against Rs.1160 Cr as on 31 March 2020. 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 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 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. Acuité 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 has been significantly impacted on account of outbreak of Covid – 19 led disruptions across the globe. The revenues stood at Rs. 1874 Cr. in 9MFY2021 as against Rs.3,493 Cr in 9MFY2020. SWSL has implemented and is currently implementing a total of over 10 GW of solar power projects till September 2020. Further, the company has unexecuted order book position of more than Rs.9,000 Cr to be executed over the near to medium term. EBITDA margins has also been impacted with SWSL incurring operating loss in 9MFY2021 as against 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, with increasing module prices, freight charges and strong competition from Chinese EPC players is leading to competitive bidding, is likely to continue to drag the operating profitability on Solar EPC players. The company's ability to maintain its operating profitability despite these disruption will remain key to maintain healthy credit profile.

Liquidity position: Stretched

The stretched liquidity of SWSL is marked by negative cash accruals in 9MFY21 and increased debtor levels. The cash losses of the company stood at Rs.2.93 Cr in 9MFY21 from cash profit of ~Rs. 174 Cr in 9MFY20 primarily due to weaker execution and margins. SWSL has legacy debtors of Rs 401 Cr which is outstanding for more than a year and comprise 50% of the total debtors, thereby increasing its working capital intensity significantly. It also continues to have high outstanding ICDs of Rs 885 Cr as on March 2021, the repayment of which is uncertain at this stage. The utilisation of fund and non fund based limits is high and limits the operational and financial flexibility of SWSL. The company needs to also redeem the outstanding Commercial Paper of Rs 40 Cr which is due in Dec 2021. SWSL's ability to recover the outstanding ICDs and older debtors in a timely manner as well as the receipt of additional credit limits from its lenders will have a critical bearing on its liquidity profile.

Rating Sensitivities

- Timely receipt of ICDs from group companies
- Improvement in the debtor position
- Any further deterioration in revenues and profitability margins

Material Covenants

- None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	4557.99	8212.95
PAT	Rs. Cr.	311.44	196.15
PAT Margin	(%)	6.83	2.39
Total Debt/Tangible Net Worth	Times	0.92	2.68
PBDIT/Interest	Times	3.20	3.78

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)

Date	Name of the Instruments	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Oct-2020	Commercial Paper	Short Term	200.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper	Short Term	200.00	ACUITE A1+ (Withdrawn)
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 A2 (Downgraded)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel:022-49294041 aditya.gupta@acuite.in Kashish Shah Assistant Manager - Rating Operations Tel: 022-49294042 kashish.shah@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
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