

Press Release

Sterling & Wilson Solar Limited

November 09, 2021

Rating Upgraded; On Watch with Developing Implications



Total Instruments Rated*	Rs. 200.00 Cr.
Short Term Rating	ACUITE A2+ (Upgraded & Under rating watch with developing implications)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded and placed its short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) from '**ACUITE A2** (read as **ACUITE A two**) on the Rs.200.00 Cr Commercial Paper Programme of Sterling & Wilson Solar Limited (SWSL) on '**Rating watch with developing implications**'.

Rationale for Rating Action

The rating upgrade is driven by an improvement in the liquidity position of the company mainly on account of the receipt of the outstanding ICD's from its promoters. It also factors in, to an extent the expectations of a further improvement in the financial risk profile of the company after the proposed acquisition of 40% stake in SWSL by Reliance New Energy Solar Ltd. The company, nevertheless continues to face challenges with respect to some of its large projects and is negotiating terms with counterparties; a timely resolution to specific project challenges remains critical to the stability in the business risk profile of the company.

Acuite has also placed the rating on watch with developing implication based on publicly available information regarding the sale of stake in SWSL to Reliance New Energy Solar Ltd (RNESL), a wholly-owned subsidiary of Reliance Industries Ltd (RIL). Acuite understands that the transaction is currently under process and is subject to approvals. Acuite will remain engaged with the management to track the status of the stake sale transaction and will resolve the rating watch once clarity emerges.

About the company

Mumbai based 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 2021. 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.

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 30 June 2021, the company has executed 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.8, 479 Cr as on June 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

Acuite 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.

- **Timely receipt of Inter Corporate Deposits (ICD's) from promoter and promoter entity**

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 SWSL had sought extension from the board of SWSL to repay the outstanding ICDs until September 2021. SWSL has received the total outstanding amount of Rs.741 Cr as on 30 June, 2021 against the ICD's from its promoters, Shapoorji Pallonji and Company Private Limited and Khurshed Daruvala, ahead of the deadline of September 30, 2021, provided by the board of the company. The promoters had paid a substantial part of the loan in various tranches as per the schedule approved by the board of the company. The promoters in their last tranche have repaid Rs. 741 Cr along with the interest due to SWSL on 30th Sep 2021. All the loans related to ICD's and commercial paper has been repaid.

- **Expected improvement in business and financial risk profile over the medium term**

Reliance New Energy Solar Ltd (RNESSL), a wholly-owned subsidiary of Reliance Industries Ltd (Reliance), has executed definitive agreements with Shapoorji Pallonji and Company Private Ltd (SPCPL), Khurshed Daruvala and Sterling and Wilson Solar Ltd (SWSL) to acquire 40.0% stake post-money in SWSL through a series transactions. As per the agreement RNESSL would be allotted 2.93 crore equity shares (15.46%) and acquisition of 1.84 crore equity shares by RNESSL from SPCPL (9.70%) at a price of Rs. 375.0 per share. The remaining up to 4.91 crore equity shares (25.90%) will be acquired through open offer or follow-on acquisition of shares from SPCPL and Khurshed Daruvala, and sell down, if any required. RNESSL will hold 40.0% of the equity capital of SWSL, consequent to acquisition. Hence, equity infusion of Rs.1098 Cr by RNESSL will further boost the business and financial risk profile of the company.

Acuite believes, SWSL will benefit from the strong parentage i.e. Reliance Industries Limited.

Weaknesses

- **Significant decline in profitability margins albeit expected to improve in H2FY2022**

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.

The company has achieved revenues of Rs.3181.32 Cr. for FY2021 as against Rs.4550.99 Cr. for FY2020. Further, the company has incurred operating losses of Rs.145.36 Cr. in FY2021 as against operating profit margin of 6.82 per cent in FY2020. 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. The drag in profitability has continued in Q1FY2022 as well. This had 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 management of the company will entering into contracts where in the module prices will be pass through.

Further, the company will be expanding its operation by undertaking EPC solutions for Hybrid and Energy Storage and Waste to Energy (WTE) which will help in increasing the operating income and also support the operating margins. WTE projects have higher execution timeframe of 24 to 36 months compared to solar projects and will thereby provide good visibility on the order book and revenue going forward.

- **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. 3181.32 Cr. in FY2021 as against Rs.4550.99 Cr in FY2020. SWSL has implemented 10 GW of solar projects and is currently implementing a total of over 5 GW of solar power

projects. Further, the company has unexecuted order book position of more than Rs. 8479 Cr to be executed over the near to medium term. EBITDA margins has also been impacted with SWSL incurring operating loss in FY2021 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.

Rating Sensitivities

- Materialisation of acquisition of stake by RNSL
- Improvement in the debtor position
- Any further deterioration in revenues and profitability margins

Material Covenants

None

Liquidity position: Adequate

The liquidity of the company has improved significantly on account of the redemption of all outstanding ICD's from the promoters and group entities. The company has repaid all its debt against the ICD's given earlier. There are no debt obligations over the medium term. The liquidity is further strengthened by improved collection from the customers. The average working capital utilisation of non-fund based limits for the past six months ended Sept, 2021 stood at 62 per cent which gives enough headroom to bid for new projects. The company also expects to get the bank limits enhanced over the next few months. Any fresh fund infusion from the new shareholder may further improve SWSL's liquidity position.

Outlook: Not Applicable

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	3181.32	4550.99
PAT	Rs. Cr.	(111.44)	316.70
PAT Margin	(%)	(3.50)	6.96
Total Debt/Tangible Net Worth	Times	0.78	0.87
PBDIT/Interest	Times	(0.01)	3.21

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 - <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
01-Jul-2021	Commercial Paper	Short Term	200.00	ACUITE A2 (Downgraded)

01-Oct-2020	Commercial Paper	Short Term	200.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper	Short Term	200.00	ACUITE A1+ (Withdrawn)
02-Apr-2020	Commercial Paper	Short Term	400.00	ACUITE A1+ (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Commercial Paper	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A2+ (Upgraded & Under rating watch with developing implications)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Dipti Ahire Rating Analyst - Rating Operations Tel: 022-49294042 dipti.ahire@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.