

Press Release
Sterling & Wilson Private Limited

May 22, 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**) to the Rs.400.00 Cr Standalone Commercial Paper Programme of STERLING & WILSON PRIVATE LIMITED (SWPL).

The rating reflects the long track record of operations, demonstrated execution capabilities and its strong market position in EPC segment. The rating also factors in the strong credit profile of its parent, Shapoorji Pallonji and Company Private Limited (SPCPL) (rated ACUITE A1+), SWPL'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 leveraged financial risk profile, operating losses incurred by the company in the previous years, elongated working capital cycle, repayment of dues to group companies in the near term. The rating also factors near term challenges in the operating environment triggered by the global outbreak of COVID – 19.

About the company

Sterling and Wilson Private Limited (SWPL) is a part of Shapoorji Pallonji Group (SP Group) and is promoted by Shapoorji Pallonji and Company Private Limited (SPCPL) and Mr. Khurshed Daruvala. The company has a presence in EPC industry for almost 100 years. Later, in 2017, the Solar EPC business was demerged from Sterling & Wilson Private Limited. SWPL undertakes EPC contracts for majorly four divisions, i.e., Mechanical, Electrical & Public Health and Safety (MEP), Transmission & Distribution, Data Centers and Hybrid Energy & Storage.

Analytical Approach

Acuite has considered the consolidated business and financial risk profile of SWPL to arrive at the rating. However, it has also factored in an expectation of strong support from its parent, SPCPL. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• **Established presence in EPC segment and strong parentage**

Sterling and Wilson Private Limited (SWPL) is a part of Shapoorji Pallonji Group and is promoted by Shapoorji Pallonji and Company Private Limited (SPCPL) and Mr. Khurshed Daruvala. SWPL has a strong established presence of almost 100 years in EPC segment. The company is engaged in EPC business which is majorly divided into four segments, i.e., Mechanical, Electrical & Public Health and Safety (MEP), Transmission & Distribution, Data Centers and Hybrid Energy & Storage. The company has domestic as well as international presence through its subsidiaries as well. The company caters to a reputed clientele which includes private players as well as Public Sector Undertakings (PSUs). The reputed clientele includes Power Grid Corporation of India Limited, Larsen & Tubro Limited, Amazon Data Services India Private Limited, Delhi Metro amongst other. The extensive experience of the promoter group in the infrastructure sector and its established position in EPC Industry has also helped SWPL build up a healthy and diversified order book. SWPL has a healthy order book position of around Rs.6,500 Cr as on December, 2019. These comprises of both domestic as well as international EPC orders.

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.

SP Group is currently availing debt realignment exercise as a part of it is also undertaking monetisation of its non-core assets to align debt repayment with the project lifecycle. This is expected to generate additional liquidity within the group and the same is to be utilized for repayment of debt. The additional fund raising exercise is currently undertaken by the Group is also expected to generate sufficient liquidity to cover the lack of revenue during the lockdown period. Thus further improving the liquidity position of SP Group.

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

- **Strong parent support in the form of fund infusion**

Prior to FY2017, Sterling and Wilson Solar Limited (ACUITE A1+) was a part of Sterling and Wilson Private Limited. Post demerger, Sterling and Wilson Private Limited has availed unsecured loans from Sterling and Wilson Solar Limited (SWSL) to the tune of Rs.1,285 Cr outstanding as on 31 March 2019 to support its working capital (including Skypower receivables) requirements. The repayment of these unsecured loans have been made by equity infusion by the promoters companies. The infusion of equity has also been utilized for working capital management, thus the company's reliance on external debt has remain moderate. The promoters have infused capital to the tune of more than Rs.2,000 Cr in last 3 years ending FY2020. Acuité believes, the promoters have supported SWPL in the past in the form of timely infusion of funds and going ahead, the same is likely to continue whenever required.

Weaknesses

- **Overseas operations continue to drag the profitability, albeit revenue growth leading to moderate credit profile**

The company undertakes EPC contracts for construction for majorly four divisions, i.e., Mechanical, Electrical & Public Health and Safety (MEP), Transmission & Distribution, Data Centers and Hybrid Energy & Storage across geographies which stipulates timelines for the completion of the project as per the agreed schedule and cost. The operating income of SWPL stood at Rs.3,801 Cr in FY2019 as compared to Rs.3,300 Cr in FY2018. SWPL has unexecuted order book position of around Rs.6,500 Cr to be executed over the near to medium term, thus giving a healthy revenue visibility in near to medium term. The company on a consolidated basis has been incurring EBITDA losses for past two years ending FY2019. Further, the company is also expected to incur EBITDA loss in FY2020. The loss is majorly on account of high cost of acquiring new clients across different geographies. However, Acuité expects the company to generate operating profits from FY2022. The company's ability to generate operating profile will remain a key credit monitorables.

The EBITDA losses has led to moderation in the credit profile of SWPL. Further, SWPL has been supported by the promoters in form of infusion of equity in FY2019, and FY2018. Further, the promoters have also infused capital in FY2020. The tangible net worth of the company stood at Rs.377 Cr (including quasi equity of Rs.235 Cr). Despite infusion of capital, the gearing (debt-equity) has remained high at 4.59 times as on 31 March 2019 (PY: 3.56 times). The high gearing is majorly on account of unsecured loans from Sterling and Wilson Solar Limited and SPCPL which stood at Rs.1,285 Cr as on 31 March 2019. Acuité expects the credit profile of SWPL is expected to improve on account of infusion of equity by the promoters and repayment of unsecured loans to SWSL coupled with expected operating level profits.

- **Working Capital Intensive**

The company operates in a working capital intensive nature of business marked by high Gross Current Asset (GCA) days of 504 in FY2019 as against 480 in FY2018. This is on account of high other current asset which includes unbilled revenues, advances received, and balances with government authorities. Further,

the stretched debtor days has also led to working capital intensive nature of operations. The debtor days stood at 320 in FY2019 as against 305 in the previous year. The debtors also includes receivables from legacy project (SkyPower Group) to the tune of Rs.1,400 Cr is outstanding. Acuite believes that the timely realization of sky power receivable will be a key rating sensitivity. However, the liquidity has been support in form of infusion of capital and unsecured loans from promoters which has led to moderate bank lines. Further, the company's ability to maintain healthy liquidity will remain a key monitorables.

Liquidity position: Strong

The liquidity of SWPL is driven by continuous support from promoters in form of infusion of equity and unsecured loans. The company has unsecured loans payable to SWSL which stood at around Rs.1150 Cr in H1FY2021. The repayment of these unsecured loans is expected from equity infusion from the promoters. Post H1FY2021 the company has repayment of Rs.1.50 Cr. The company has debtors outstanding to the tune of Rs.3200 Cr as on 31 March 2019. Further, the company is in process to tie up for additional working capital limits amounting to around Rs. 450 Cr thereby providing healthy liquidity cushions over the near to medium term.

Rating Sensitivities

- Liquidity position and credit profile of SPCPL
- Any significant delays in project execution

Material Covenants

- None

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	3801.07	3296.48
PAT	Rs. Cr.	(316.98)	(137.84)
PAT Margin	(%)	(8.34)	(4.18)
Total Debt/Tangible Net Worth	Times	4.59	3.56
PBDIT/Interest	Times	(0.06)	(0.38)

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. Cr)	Ratings/Outlook
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE A1+ (Assigned)

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About Acuité Ratings & Research:

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