

Press Release

Sterling & Wilson Private Limited

May 03, 2021

Rating Downgraded and Withdrawn



| | |
|-------------------------------------|---------------------------------------|
| Total Bank Facilities Rated* | Rs.400.00 Cr. |
| Short Term Rating | ACUITE A3 (Downgraded & Withdrawn) |

* Refer Annexure for details

Rating Rationale

Acuite has downgraded and withdrawn the short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 400.00 Cr. Commercial Paper of Sterling & Wilson Private Limited (SWPL). The rating is withdrawn based on the request received from the company and No Commercial Paper outstanding confirmation by Auditors.

The downward revision in rating is on account of continuous operating losses incurred by SWPL along with deferment in payment to Sterling and Wilson Solar Limited (SWSL) by another 1 year and expected lower support from Shapoorji Pallonji and Company Private Limited (SPCPL). SWPL has incurred operating loss of Rs.248 Cr. in FY2020 as against Rs.45 Cr. in FY2019. The company's high fixed overhead costs and lower revenues in FY2020 has led to increase in operating loss in FY2020 and the same is expected in FY2021. However, the management is working towards lowering its fixed cost by winding down its overseas segments that are incurring losses.

Further, during the previous rating assignment, Acuite had envisaged support from SPCPL in case of liquidity pressures. However, currently SPCPL has undergone a One Time Restructuring (OTR) as per RBI Guidelines. Acuite believes, going head, SPCPL will accord higher priority to its on balance sheet debt over off balance sheet commitments.

Further, SWPL continues to operate in a working capital intensive nature of operations marked by Gross Current Asset days of 530 in FY2020 as compared to 504 days in the previous year. The company has a legacy debtors of SkyPower which was expected to be resolved in FY2021, however, as per the management, SWPL has agreed for settlement of claim with SkyPower at ~Rs.1217 Cr. of which Rs.462 Cr. has been received by March 2021.

About the company

Incorporated in 1974, 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 Power Solutions.

Analytical Approach

Acuite has now considered the consolidated business and financial risk profiles of the SWPL to arrive at this rating. Acuite had initially factored in strong support from SPCPL, however, while arriving at the current rating, Acuite has not factored in any support from 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 Power Solutions. 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 Nextra Data Centre, Colt India, Power Grid Corporation of India Limited, Larsen & Toubro Limited, Kanpur Metro, and Ahmedabad Metro amongst others. 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.7223 Cr as on December, 2020. 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 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.

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 Power Solutions 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.3,807 Cr in FY2020 as compared to Rs.3,801 Cr in FY2019. SWPL has order book position of around Rs.7223 Cr to be executed over the 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 FY2020. Further, the company is also expected to incur EBITDA loss in FY2021. However, the management is working towards lowering its fixed cost by winding down its overseas segments that are incurring losses.

The EBITDA losses has led to moderation in the credit profile of SWPL. SWPL has been supported by the promoters in form of infusion of equity since FY2018. The promoters have also infused capital to the tune of Rs.2002 Cr. from FY2018 to H1FY2020 and unsecured loans of Rs.629 Cr. to support the company's operations. The tangible net worth of the company stood at Rs.1239 Cr (including quasi equity). The gearing (debt-equity) has moderated at 1.80 times as on 31 March 2020 (PY: 4.59 times). The high gearing is majorly on account of unsecured loans from Sterling and Wilson Solar Limited and SPCPL.

- **Working Capital Intensive**

The company operates in a working capital intensive nature of business marked by high Gross Current Asset (GCA) days of 530 in FY2020 as against 504 in FY2019. This is on account of high other current assets 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 311 in FY2020 as against 320 in the previous year. The debtors also includes receivables from legacy project (SkyPower Group). The receivables from Skypower projects stood at Rs.1430 Cr. at FY2020. As per the management, SWPL has agreed for settlement of claim with SkyPower at ~Rs.1217 Cr. of which Rs.462 Cr. has been received by March 2021.

Liquidity position: Stretched

The liquidity is stretched marked by working capital intensive nature of business marked by high Gross Current Asset (GCA) days of 530 in FY2020 as against 504 in FY2019. Further, the company has been incurring operating losses on a y-o-y basis. However, the management is working towards lowering its fixed cost by winding down its overseas segments that are incurring losses.

Rating Sensitivities

- Any further time taken to turnaround the business model

Material Covenants

- None

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 3807.00 | 3801.07 |
| PAT | Rs. Cr. | (503.19) | (316.98) |
| PAT Margin | (%) | (13.22) | (8.34) |
| Total Debt/Tangible Net Worth | Times | 1.80 | 4.59 |
| PBDIT/Interest | Times | (0.55) | (0.06) |

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>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.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 Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-----------|---------------------------------|------------|-----------------|-----------------------|
| 22-May-20 | 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. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|------------------------------------|
| Commercial Paper | Not Applicable | Not Applicable | Not Applicable | 400.00 | ACUITE A3 (Downgraded & Withdrawn) |

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About Acuite Ratings & Research:

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