

Press Release

Sterling And Wilson Renewable Energy Limited (Erstwhile Sterling And Wilson Solar Limited)

March 25, 2022



Rating Upgraded

Product			Short Term Rating
Commercial Paper (CP)	200.00	-	ACUITE A1+ Upgraded
Total Outstanding Quantum (Rs. Cr)	200.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its short-term rating to '**ACUITE A1+**' (read as **ACUITE A one plus**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.200.00 Cr. Commercial Paper Programme of Sterling & Wilson Renewable Energy Limited (SWREL; Erstwhile Sterling and & Wilson Solar Limited). Further, Acuite has also removed the rating from '**Rating watch with developing implications**'.

Rationale for rating upgrade

The rating upgrade is driven by completion of acquisition of 40 percent stake of the company by Reliance New Energy Limited (RNEL), a wholly owned subsidiary of Reliance Industries Limited (RIL) and Acuite's expectations that the acquisition by Reliance Group is likely to lead to marked improvement in the business and financial risk profile of the company over the medium term. RNEL through giga factories plans to manufacture critical components for renewable energy such as solar photovoltaic modules, energy storage battery unit, fuel cell manufacturing and electrolyzers. Acuite believes that SWREL is likely to play a key role and is poised to be one of the key beneficiaries of RNEL's expansion plans, while acting in the capacity of preferred O&M and EPC contractor for RNEL. SWREL's global exposure in EPC and O&M is likely to aid the company for future growth across geographies with increasing impetus on renewable energy generation in both developing and developed economies.

Further, the rating also takes into account the improvement in the liquidity position of the company majorly on account of timely receipt of total outstanding ICD's from its promoters and proceeds received from preferential allotment to RNEL. However, SWREL continues to face challenges with respect to executing some of its project due to covid-19 pandemic and significant price volatility across components and commodities. The company is however negotiating terms with counterparties and a timely resolution to specific project challenges remains critical to the sustenance of the business risk profile of the company.

Further, Acuite has removed the rating on watch with developing implication based on the completion of sale of stake to Reliance New Energy Ltd (RNEL), a wholly-owned subsidiary of Reliance Industries Ltd (RIL). The transaction was completed in Feb' 2022.

About the Company

Mumbai based Sterling and Wilson Renewable Energy Limited (SWREL) 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 Renewable Energy Limited was formed. SWREL is engaged in EPC and O&M for Solar Power Plants. The company has a presence over 25 countries including India, Africa, USA, Australia, Latin America and the Middle East among other countries. The company has executed and under execution a total of more than 11.1 GW of EPC portfolio till Dec' 2021. SWREL is listed on BSE and NSE.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SWREL to arrive at the rating.

Key Rating Drivers

Strengths

Established presence in solar segment and strong parentage

Sterling and Wilson Renewable Energy Limited (SWREL) 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), SWREL was incorporated in 2017 and is engaged in EPC and O&M for Solar Power Plants. As on 31 Dec 2021, the company has executed more than 11.1 GW capacity across geographies including Australia, USA, Asia, Africa, Latin America and Middle East amongst others. SWREL is one of the leading Solar EPC player globally. The company has set up its largest single location Solar Photovoltaic Plant of 1177 MW in Abu Dhabi. The extensive experience of one of the promoters in the infrastructure sector and its established position in Solar Industry has also helped SWREL to generate healthy and diversified order book. The unexecuted order book position stands at Rs.5,559 Cr. as on 14 Feb 2022, and thereby providing healthy revenue visibility over the medium term. However, the order book position also includes order inflow of Rs.1,500 Cr. relating to Waste To Energy (WTE) project in UK for which the board of the company have taken a decision for not to pursue this contract at this moment as the company plans to focus on its core business. 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.

Acuité believes, SWREL 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.

Expected Improvement in business and financial risk profile after acquisition due to operational synergies

Reliance New Energy Ltd (RNEL), 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 Renewable Energy Ltd (SWREL) and has acquired 40.0% stake in SWREL through a series of transactions. Reliance group is now a part of the promoter group from SWREL. Also, the board of SWREL will be reconstituted and to include two directors from Reliance group and additional independent directors.

RNEL was allotted ~2.93 Cr. equity shares (15.46%) of SWREL through preferential allotment aggregating to ~Rs.1100 Cr. and also acquired ~3.81 Cr. equity shares by RNEL from SPCPL & Mr. Khurshed Daruvala (20.07%) at a price of Rs.375.0 per share.

After completion of this acquisition, RNEL currently holds ~40.0% of the equity capital of SWREL while SP group and KYD group holds 25.71 and 12.85% respectively. The proceeds of ~Rs.1100 Cr. from the equity infusion by RNEL was utilized and helped the company to reduce the bank borrowings which improved the financial risk profile of SWREL. Also, the company has no long term debt outstanding as on 31 Dec' 2021.

SWREL is expected to have significant operational synergies with Reliance group as Reliance has forayed into green energy space with multiple acquisition. Post this acquisition, Reliance is expected to act as a preferred supplier for supply of solar modules. Apart from that, SWREL will also become an important part of Reliance's vision towards solar power with its high engineering capabilities, global presence and the company's experience of executing complex solar projects globally.

Receipt of Inter Corporate Deposits (ICD's) from promoter and promoter entity has led to improvement in liquidity

Post demerger, SWREL 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. The promoters of SWREL had sought extension from the board of SWREL to repay the outstanding ICDs until September 2021. SWREL 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 SWREL on 30th Sep 2021 and all the loans related to ICD's and commercial paper has been repaid fully as on date.

Weaknesses

Significant decline in profitability margins and legacy debtors continue

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 and has incurred operating losses of Rs.145.36 Cr. in FY2021 as against operating profit margin of 6.82% 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 9MFY2022 as well.

Furthermore, the legacy debtors of the company continues reflected by debtor's outstanding for more than one year of ~Rs.403 Cr. as on Dec, 2021. The legacy debtors includes ~Rs.61 crore of receivables are pending under NCLT, Rs.119 Cr. receivables are from Argentina, Related party receivables are of Rs.168 Cr. and other receivables of Rs.55 Cr. However, the impact of such legacy receivables are mitigated to large extent as the company has signed an Indemnity Agreement with all its promoters including RNEL pursuant to which, the SP Group and KYD Group would indemnify and re-imburse the holding company and its subsidiaries for a net amount, if it exceeds Rs.300.00 Cr., on settlement of liquidated damages pertaining to certain identified past and existing projects (as on the date of signing the aforementioned agreements), old receivables, direct and indirect tax litigations as well as certain legal and regulatory matters.

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 SWREL 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. Further, the company has unexecuted order book position of more than Rs. 5559 Cr to be executed over the near to medium term. EBITDA margins has also been impacted with SWREL 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 aggressive bidding by EPC players 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.

ESG Factors Relevant for Rating

SWREL is a renewable power producer based on solar photo voltaic technology and therefore, directly contributes to the reduction of carbon emissions. The other material factors from the environmental perspective are green supply chain and waste management. On the social front, occupational and workforce health & safety management are of primary importance to this industry given the nature of operations. The policies on responsible procurement and product safety as well as quality are of utmost significance.

On governance front, the company has adopted requirement of Corporate Governance from Provision of Companies Act 2013 and SEBI (LODR) Regulations 2015. The board of directors comprises of professionals having expertise and experience in diverse backgrounds such as construction, finance, banking, regulatory affairs, administration and management and technical operations of power plants. Hence, diverse board of directors ensures pooling of knowledge and balanced board. The governance factors that play an important role are ethical business practices, board oversight and management compensation. Further, risk management practices to minimize corruption associated with electricity distribution plays a crucial role. Additionally, regulatory compliance, shareholder's rights and audit control are other material issues in the power generation industry.

Rating Sensitivities

- Improvement in financial risk profile after acquisition of stake by RNEL
- 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 receipt of all outstanding ICD's from the promoters and group entities followed by proceeds from acquisition of stake by RNEL through equity infusion. The company has repaid all its long term debt against the ICD's and reduced borrowings from lenders from the proceeds against collection of ICDs and preferential issue made to RNEL. There are no long term debt obligations over the medium term. The liquidity is further strengthen 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.

Outlook: Stable

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (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)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Nov 2021	Commercial Paper Program	Short Term	200.00	ACUITE A2+ (Upgraded from ACUITE A2)
01 Jul 2021	Commercial Paper Program	Short Term	200.00	ACUITE A2 (Downgraded from ACUITE A1+)
01 Oct 2020	Commercial Paper Program	Short Term	200.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper Program	Short Term	200.00	ACUITE A1+ (Withdrawn)
02 Apr 2020	Commercial Paper Program	Short Term	400.00	ACUITE A1+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ Upgraded (from ACUITE A2+)

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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.

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