

Press Release

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



March 25, 2023

Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Commercial Paper (CP)	100.00	-	ACUITE A1 Assigned
Commercial Paper (CP)	200.00	-	ACUITE A1 Downgraded
Total Outstanding Quantum (Rs. Cr)	300.00	-	-

Rating Rationale

Acuite has downgraded its short-term rating to '**ACUITE A1' (read as ACUITE A one)** from '**ACUITE A1+' (read as ACUITE A one 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 assigned its short-term rating of '**ACUITE A1' (read as ACUITE A one)** on the Rs.100.00 Cr. Commercial Paper Programme of Sterling & Wilson Renewable Energy Limited (SWREL; Erstwhile Sterling and & Wilson Solar Limited).

Rationale for downgrade

The rating downgrade reflects the continued deterioration in the business risk profile of the company marked by declining operating performance and profitability. The revenues of the company have declined significantly in last couple of years including 9MFY2023. The standalone revenues stood at ~Rs.1300 Cr. during 9MFY2023 against the corresponding 9MFY2022 standalone revenues of ~Rs. 2841 Cr and Rs. 3464 Cr. in FY2022. Further, the company is expected to report revenues of ~Rs.1,600 Cr. on a standalone basis in FY2023 marking a decline of ~54% compared against revenues of FY2022 which also stands significantly lower than Acuite's expectation. The decline in revenues was majorly on account of lower contributions from current EPC projects and lower orderbook execution. Further, the company continues to report operating losses during 9MFY2023 owing to increase in raw material costs and higher fixed overheads. Also, gross margin remains suppressed primarily on account of International EPC projects witnessing increase in labour cost, delays in commencement of certain projects along with increased logistic costs. The EBITDA margins stood at -8.62% for 9MFY2023 against -5.50% during corresponding 9MFY2022 and -3.32% in FY2022. At the same time, debt levels are likely to witness a sharp increase in FY2023 and may remain in the range of Rs.1,900 crore compared to Rs.1,117 crore as on September 30, 2022. Consequently, Acuite estimates the gearing levels to increase to ~1.3 times as on March 31, 2023 compared to 0.24 times as on March 31, 2022. Furthermore, the expected benefits from Reliance Group's acquisition have remained slower-than-anticipated resulting in limited order inflow for solar EPC segment. However, Acuite believes that company will continue to benefit from the established position in the solar industry with strong parentage. Also, the business risk profile of SWREL is expected to turnaround over the medium term with new orders coming in

from the domestic market and from planned reduction in overhead costs leading to better profitability levels. However, any further deterioration in the revenues and profitability of the company will remain a key monitorable.

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. Further, in FY2022 Reliance New Energy Limited acquired 40% stake in SWREL.

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 12.9 GW of EPC portfolio till Dec' 2022. 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. Further, in FY2022, there was an acquisition of stake in SWREL by Reliance New Energy Limited (REL), a subsidiary of Reliance Industries (RIL). Currently RIL owns 40% stake in SWREL. SWREL is one of the leading Solar EPC players globally. Further, as on December 2022, the company has executed more than 12.9 GW capacity across geographies including Australia, USA, Asia, Africa, Latin America and Middle East amongst others. 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 the Solar Industry has also helped SWREL to generate healthy and diversified order book. The unexecuted order book position stands at around ~Rs.4000 Cr. as on March 20, 2023, thereby providing healthy revenue visibility over the medium term. Further, SWREL has executed executing projects for reputed clientele such as Neoen, Light Source BP, Soft Bank, Marubeni, Total, Shell, and TAQA to name a few.

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.

Healthy order inflow

SWREL has a total order inflow of ~Rs. 4,000 Cr during FY2023, which it expects to almost execute in FY2024 completely. Out of the above, Rs. 2100 Cr. has been recently received from NTPC wherein the company emerged as successful bidder for a package comprising of four blocks of 300 MW each in 1200 MW Solar PV project at Khandva, Rann of Kutch. Also, company has signed an MOU with the Government of Nigeria and is in advanced stages of finalizing the EPC Agreement with Nigerian state-owned utility company Niger Delta Power Holdings Corporation (NDPHC) for a project valued over \$1.5 billion. The operating performance of the company is expected to revive from FY2024 supported by healthy order inflows and better emphasis on the O&M portfolio which constituted around 14.4% of revenue in Q3FY2023 and grew 55% sequentially. Further, post the 40% acquisition from REL, the company is expected to have significant operational synergies with Reliance group as Reliance has forayed into green energy space. Reliance is investing around Rs. 60,000 Cr. in

setting up Green Energy Giga Complex of over 5000 acres in Jamnagar to manufacture fully integrated solar photovoltaic modules, battery packs and electrolyzers. Going forward, Reliance is expected to act as a preferred solar modules supplier for SWREL. Apart from that, Acuité believes that SWREL will be the preferred EPC subcontractor for major Reliance projects with its high engineering capabilities, global presence and the company's experience of executing complex solar projects globally.

Indemnity Agreement with promoters ensuring adequate liquidity

During Q3FY22, SWREL has signed an Indemnity Agreement with Shapoorji Pallonji and Company Pvt. Ltd., Khurshed Yazdi Daruvala and Reliance New Energy Limited pursuant to which, the Promoter Selling Shareholders would indemnify and re-imburse the holding company (SWREL) 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. These amounts would be settled by 30th September of each year, on the basis of the final settlement amounts with customers/suppliers/other authorities. Consequently, trade receivables from the customer undergoing a resolution process under the supervision of the National Company Law Tribunal and bank guarantees encashed by certain customers would also be recoverable from the Promoter Selling Shareholders once crystallized, if not recovered from the customers. The Company expects to receive around Rs. 500 Cr. under the Indemnity Agreement in September 2023.

Acuité believes since all future crystallized claims beyond Rs.300.00 Cr. will be fully charged back and recovered from the Promoter Selling Shareholders, the liquidity damage risk is mitigated to a certain extent.

Weaknesses

Continued deterioration in business risk profile.

The company undertakes EPC and O&M for Solar Power Plants contracts across various countries. The operations of SWSL were significantly impacted in FY2022 on account of continued disrupts caused by Covid – 19 across the globe which has resulted in delays in commencement of projects. Further the revenues have been impacted due to lower contributions from current EPC projects and lower orderbook execution. On a standalone basis the company has achieved revenues of ~Rs.1300 Cr. for 9MFY2023 against the corresponding 9MFY2022 standalone revenues at ~Rs.2841 Cr. Further, on consolidated levels SWREL achieved revenues ~Rs. 1900 Cr. during 9MFY2023 against ~Rs. 4100 Cr. during the corresponding 9MFY2022. The standalone revenues are expected to close at around Rs. 1600 Cr. for FY2023 against Rs.3464 Cr. for FY2022 marking a deterioration of around 54%. Further, SWREL has reported deterioration in operating margins which stood at around -8.62% during 9MFY2023 against -5.50% for corresponding 9MFY2022 and -3.32% in FY2022. The drag in profitability is majorly on account of significant increase in module prices and freight prices. Further, the margins have remained suppressed on account of shortage of labour supply in the international market leading to increased overheads. However, Acuité believes that the improvement in business risk profile of the company will remain a key rating monitorable over the medium term.

Further expected deterioration in the financial risk profile.

SWREL's credit metrics deteriorated substantially in FY2022 due to its weak operating performance. The ICR & DSCR stood low at -0.36% and -0.10% during FY2022. Furthermore, the debt levels of the company are likely to witness a sharp increase in FY2023 and may remain in the range of Rs.1,900 Cr. compared to Rs.1,117 Cr. as on September 30, 2022. Consequently, Acuité estimates the gearing levels to increase to ~1.3 times as on March 31, 2023, compared to 0.24 times as on March 31, 2022. This includes long term loans to the tune of Rs. 1500 Cr and balance short-term working capital loans. The term loans are availed for a period of 1-4 years.

Acuité expects credit profile to remain modest over the near-to-medium term on the back of increased debt levels and increased finance cost.

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 lower contribution from current EPC projects and limited orderbook size. The standalone revenues for 9MFY2023 stood at ~Rs.1300 Cr. against the corresponding 9MFY2022 standalone revenues at ~Rs.2841 Cr. Further, the company has unexecuted order bookposition of around Rs. 4000 Cr. to be executed over the near to medium term. EBITDA margins have also been impacted with SWREL incurring operating losses from last two years majorly due to delay in completion and commencement of projects. Timely implementation of the projects depends on the acquisition of land & receipt of various other approvals. Secondly, with volatility in module prices, freight charges and aggressive bidding by EPC players is likely to continue to drag the operating profitability on Solar EPC players.

Acuité believes that the company's ability to maintain its operating profitability despite the disruptions will remain a key rating sensitivity.

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 operating & financial risk profile.
- Execution of orders in time.
- Support from Reliance group post-acquisition.
- Any further deterioration in revenues and profitability margins.

Material covenants

None

Liquidity Position

Adequate

SWREL's liquidity is adequate with free cash and cash equivalents of Rs.348 Cr as on March-2022. Further, SWREL's liquidity position improved due to an equity infusion of Rs. 1097 Cr. by REL towards issue of shares. Further, SWREL has signed an indemnity agreement with SPCPL. Khurshed Daruvala (jointly the promoter selling shareholders) and RNEL pursuant to which, the promoter selling shareholders would indemnify and reimburse the Holding Company and its subsidiaries for a net amount, if it exceeds Rs.300 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.

Outlook:

Not Applicable

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	3464.84	3181.32
PAT	Rs. Cr.	(167.52)	(111.44)
PAT Margin	(%)	(4.83)	(3.50)
Total Debt/Tangible Net Worth	Times	0.24	0.78
PBDIT/Interest	Times	(0.36)	(0.01)

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

"A member who participated in the rating committee holds interest in M/s Reliance Industries Ltd (RIL), which through its wholly owned subsidiary M/s Reliance New Energy Limited, holds 40% stake in STERLING AND WILSON RENEWABLE ENERGY LIMITED (SWREL)."

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Mar 2022	Commercial Paper Program	Short Term	200.00	ACUITE A1+ (Upgraded from ACUITE A2+)
09 Nov 2021	Commercial Paper Program	Short Term	200.00	ACUITE A2+ (Upgraded & Under rating watch with developing implications)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	Simple	200.00	ACUITE A1 Downgraded (from ACUITE A1+)
Not Applicable	Not Applicable	Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A1 Assigned (from ACUITE A1+)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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