



Press Release

STERLING AND WILSON RENEWABLE ENERGY LIMITED (ERSTWHILE STERLING WILSON SOLAR LIMITED)

October 13, 2023

Rating Downgraded

Product	Amt(Cr)	Long Term Rating	Short Term Rating
Commercial Paper (CP)	300.00	-	ACUITE A4 Downgraded
Total Outstanding Quantum (Rs. Cr)	300.00	-	-

Rating Rationale

Acuite has downgraded its short-term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.300.00 Cr. Commercial Paper Programme of Sterling & Wilson Renewable Energy Limited (SWREL; Erstwhile Sterling and Wilson Solar Limited).

Rationale for downgrade

Acuite vide its press release dated September 1st 2023 had downgraded its short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) on account of sighting an irregularity in the servicing of the dues payable towards the Bank Guarantee invocation at one of its subsidiaries Sterling & Wilson International Solar FZCO (SWFZCO) along with its expected potential impact on the near term liquidity of SWREL since, it remained corporate guarantor for this subsidiary.

In this regard, Acuite now notes that there has been further delay in servicing the obligations for the month of September-23. The invocation already had a potential impact on the near-term liquidity of SWREL and has resulted in breach in honouring the existing standalone obligations of SWREL for the month of September-23. SWREL on a standalone basis had pending dues of around ~Rs. 250 Cr. from one of the lenders out of which only ~Rs. 115 Cr. have been honoured while balance ~Rs. 135 Cr. have not been serviced due to SWREL's inability to meet the same. Although the company had informed that a mix of the funds lying in the account of its overseas subsidiary, collections from receivables and receipt of funds under indemnity agreement from promoters along with additional debt if required, would be used to facilitate repayment of the near-term obligations, the same have remained inadequate to honour the maturing obligations.

Further, with regards to the Commercial Paper rated by Acuite the maturity for the same falls due in January 2024. As per the discussion company is planning on raising funds by way of a qualified institutions placement (QIP) for an amount of around Rs. 1500 Cr. expected to be placed by November-23 and same has been approved by its board. Acuite will closely track the developments with regards to this as it will have significant bearing towards the payment of outstanding CP and SWREL's liquidity profile.

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, 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.4500 Cr. as on June 2023, thereby providing healthy revenue visibility over the medium term. Further, SWREL has executed 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.

Sequential improvement in the quarterly performance and healthy order inflow

SWREL has reported an improvement in its performance over the last three quarters. During Q1FY2024 the standalone revenues stood improved at 383.87 Cr. against Rs. 158.05 Cr. and Rs. 292.56 Cr. in the previous Q4FY2023 and Q3FY2023. Further, the EBITDA during Q1FY2024 also improved to Rs. (17.40) Cr. against Rs. (116.33) Cr in the previous quarter. SWREL has an unexecuted order value of over ~Rs. 4,500 Cr. Out of the above, Rs. 3500 Cr. has been 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. Additionally, 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 domestic orders that will garner higher EBITDA in the range of 10-11%. 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.

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.

Weaknesses

Delays in servicing of debt obligations

During Q1FY2024 two bank guarantees (BGs), totalling USD 47.04 Million (INR. 390 Cr.) at one of its overseas subsidiaries Sterling & Wilson International Solar FZCO (SWFZCO) were invoked. SWREL had extended corporate guarantee towards these BGs and hence is under obligation to repay this amount by December-23. In order to meet necessary funds to service the BG encashment obligations SWFZCO has in-principle short term loan approval to the tune of USD 41.5 million. However, the monthly obligations towards the same have not been serviced

regularly. Further, on a standalone level SWREL had repayments to the tune of Rs. 250 Cr. due, to be paid in the month of September-23 out of which company has been able to honour only ~Rs. 115 Cr while balance remains outstanding. Furthermore, SWREL has availed debt to the tune of Rs. 1500 Cr. in FY2023 and has scheduled principal repayment of over ~Rs. 1000 Cr. due towards the same to be paid by December-23. The invocation of BGs has further impacted the stretched liquidity position of SWREL.

Acuite believes timely infusion of funds and regularization of debt will remain critical towards SWREL's rating.

Susceptibility of the profits linked to risks associated with price volatility and timely completion 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 during FY2023 on account of lower contribution from current EPC projects. Further, timely implementation of the projects depends on the acquisition of land & receipt of various other approvals. Additionally, the profitability is susceptible to volatility in module prices. Furthermore, freight charges and aggressive bidding by EPC players is likely to drag the operating profitability on Solar EPC players.

Acuite 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

- Timely infusion of funds and confirmation of regularising of the debt obligations.
- Successful placement of the QIP.
- Timely repayments of the outstanding CP.
- Improvement in operating & financial risk profile.
- Timely execution of orders.

All Covenants

Not Applicable.

Liquidity Position

Poor

SWREL had a scheduled repayment of ~ Rs. 83 Cr. towards its invoked BG of the overseas subsidiary along with its standalone obligations of around ~Rs. 250 Cr. which have been only partially met due to insufficient funds. Payments for the month of September-23 towards the invoked BG have been missed and out Rs. 250 Cr that were supposed to be paid by September-23 only ~Rs. 115 Cr. have been met. Further, the internal cashflows would be

inadequate to meet the immediate repayments due in October 2023.

During 1QFY2024, the overseas subsidiary received the intimation of invocation of two BGs amounting to USD 47.04 million (Rs. 390 Cr.). SWREL has to make repayments towards this encashment by December-23. Further, SWREL has availed debt to the tune of Rs 1500 Cr. in FY2023 and repayment of ~Rs. 1000 Cr. is to be paid by December-23. As per the management the financial obligations are likely to be met through a mix of project advances, collection of receivables, and receipt of funds under indemnity agreement along with qualified institutions placement to the tune of ~Rs.1500 Cr. as approved by the company's board on 27th September 2023. Timely placement of the QIP will remain critical as burden of additional debt will further impact the liquidity of SWREL.

Outlook: Not Applicable

Other Factors affecting Rating

Not Applicable.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1459.10	3464.84
PAT	Rs. Cr.	(355.02)	(167.52)
PAT Margin	(%)	(24.33)	(4.83)
Total Debt/Tangible Net Worth	Times	1.58	0.24
PBDIT/Interest	Times	(0.94)	(0.36)

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

Not Applicable.

Any other information

"All members who participated in the rating committee hold 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
01 Sep 2023	Commercial Paper Program	Short Term	200.00	ACUITE A3 (Downgraded from ACUITE A2+)
	Commercial Paper Program	Short Term	100.00	ACUITE A3 (Downgraded from ACUITE A2+)
29 Aug 2023	Commercial Paper Program	Short Term	200.00	ACUITE A2+ (Downgraded from ACUITE A1)
	Commercial Paper Program	Short Term	100.00	ACUITE A2+ (Downgraded from ACUITE A1)
25 Mar 2023	Commercial Paper Program	Short Term	100.00	ACUITE A1 (Assigned)
	Commercial Paper Program	Short Term	200.00	ACUITE A1 (Downgraded from ACUITE A1+)
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 A4 Downgraded (from ACUITE A3)
Not Applicable	Not Applicable	Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A4 Downgraded (from ACUITE A3)

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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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