

Press Release

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

April 08, 2024



| Product | Rating | Upgraded (Rs. Cr) | Withdrawn Rating | Short Term Rating |
|---|--------|-------------------|------------------|----------------------------|
| Commercial Paper (CP) | | 100.00 | - | ACUITE A4+ Upgraded |
| Commercial Paper (CP) | | 200.00 | - | Not Applicable Withdrawn |
| Total Outstanding Quantum (Rs. Cr) | | 100.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | | 200.00 | - | - |

Rating Rationale

Acuite has upgraded its short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 100 crore of short-term commercial papers of STERLING AND WILSON RENEWABLE ENERGY LIMITED (ERSTWHILE STERLING AND WILSON SOLAR LIMITED) (SWREL). Further, Acuite has withdrawn the short-term rating on the Rs. 200 Cr. Commercial papers of SWREL without assigning any rating. The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating as applicable to the respective facility / instrument. The rating is being withdrawn on account of request received from the company and Nil outstanding confirmation received from IPA agent.

Rationale for rating upgrade

The rating upgrade takes into account the regularisation of the delays in the debt obligations in December 2023 by SWREL along with an improved liquidity position with the infusion of funds through QIP. The company has raised Rs. 1500 Cr. by way of a qualified institutions placement (QIP) in December 2023 and these proceeds along with indemnity money from the promoters and the claim receipts have been majorly utilised to pay the outstanding dues (including the CPs). Besides, the company has also partially prepaid the outstanding debt (~Rs. 341 Cr.) and earmarked Rs. 75 Cr. against repayment obligations of Rs. 156.83 Cr. in FY2025. The rating continues to positively factor in the company's established presence in solar segment and its strong parentage. The ratings are however, constrained by the decline in the revenues and weak earning profile during FY2021 to FY2023. Nonetheless, Acuite takes note of the improvement in the 9MFY2024 financials as compared to 9MFY2023 and a healthy order inflow that is expected to derive the revenue growth in FY2025. The ratings are however, constrained by susceptibility of the profits to the price volatility and completion of the projects on time.

About the Company

Mumbai based Sterling and Wilson Renewable Energy Limited (SWREL) was promoted by Shapoorji Pallonji and Company Private Limited (SPCPL) and Mr. Khurshed Daruvala and was a part of Shapoorji Pallonji Group (SP Group) and. 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 (currently 32.6%) 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 17 GW of EPC portfolio till Mar ' 2024. SWREL is listed on BSE and NSE

Unsupported Rating

Not applicable

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) was 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 REL owns 32.6% stake in SWREL. SWREL is one of the leading Solar EPC players globally. Further, the company has executed more than 17 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. 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.

Healthy order book expected to drive revenue growth in FY2025

SWREL has an unexecuted order value of over ~Rs. 8863 Cr. as on December 2023. Out of the above, Rs. 4960 Cr. has been received from NTPC's Solar PV projects. The operating performance of the company is expected to improve in FY2025 supported by healthy order book and better emphasis on the domestic orders that will garner higher EBITDA. Acuité believes continuous and timely conversion of orders along with improvement in the overall operating performance of SWREL will remain critical to SWREL's future growth.

Regularisation of the debt servicing

The company has regularised the delays in the debt obligations in December 2023. It has raised Rs. 1500 Cr. by way of a qualified institutions placement (QIP) in December 2023 and these proceeds along with indemnity money from the promoters and the claim receipts have been majorly utilised to pay the outstanding dues. The company has also partially prepaid the debt (~Rs. 341 Cr.) Besides, the company has repayment obligation of Rs.156.83 Cr. due in FY2025 against which it has earmarked fixed deposits of Rs. Rs. 75 Cr. Besides, the company has buffer in the sanction fund based limits (Rs. 272 Cr.) as the company has not utilised the fund-based limits during the last three months ending February 2024.

Weaknesses

Weak earning profile albeit improvement witnessed in 9M FY2024

The operations of SWREL were significantly impacted in the last three fiscals i.e., FY2021 to FY2023. In FY2023, the company reported revenues of Rs. 1459.10 Cr. marking a 58% decline as compared to FY2022. The company reported operating and PAT losses in the past three years from FY2021 to FY2023. 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. The losses along with the stretched liquidity has impacted the company's financial risk profile during the said period. However, during 9MFY2024, the company's revenues stood improved at 1566.53 Cr. against Rs. 1299.86 Cr. in 9MFY2023. Furthermore, the EBITDA during 9MFY2024 has turned positive to Rs. 47.62 Cr against losses of Rs. 112.40 Cr. during 9MFY2023. Acuite believes with the improved liquidity, the revenues and earning profile will witness a sequential growth going forward.

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. 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. 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

- Sustainable improvement in the revenues and profitability along with improved financial risk profile while maintaining an adequate liquidity.
- Delays in execution of orders resulting in decline in scale and profitability and elongation in the working capital cycle.
- Any movement in the contingent liability impacting the credit risk profile

Liquidity Position Adequate

The liquidity position is adequate as the company raised Rs. 1500 Cr. through QIP and received ~Rs. 600 Cr. from the indemnity and the customer claims. These funds have been utilised towards the payment of the overdue debt and partially towards the prepayment of term loans. Further, the scale of operations and the earning profile of the company is expected to improve in FY2025 with healthy order book. Also, the company has also earmarked Rs. 75 Cr. towards the payment of debt obligations of Rs. 156.83 Cr in FY2025. Besides, the liquidity is supported by free cash and bank balance of Rs. 159 Cr. as on Feb 2024 end and cushion in the fund-based limits with nil utilisation during the last three months ending February 2024.

Outlook: Not applicable

Other Factors affecting Rating

None

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 32.6% 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 |
|-------------|--------------------------------|------------|-----------------|--|
| 31 Oct 2023 | Commercial Paper Program | Short Term | 100.00 | ACUITE A4 (Reaffirmed) |
| | Commercial Paper Program | Short Term | 200.00 | ACUITE A4 (Reaffirmed) |
| 13 Oct 2023 | Commercial Paper Program | Short Term | 200.00 | ACUITE A4 (Downgraded from ACUITE A3) |
| | Commercial Paper Program | Short Term | 100.00 | ACUITE A4 (Downgraded from ACUITE A3) |
| 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 | 100.00 | ACUITE A2+ (Downgraded from ACUITE A1) |
| | Commercial Paper Program | Short Term | 200.00 | ACUITE A2+ (Downgraded from ACUITE A1) |
| 25 Mar 2023 | Commercial Paper Program | Short Term | 200.00 | ACUITE A1 (Downgraded from ACUITE A1+) |
| | Commercial Paper Program | Short Term | 100.00 | ACUITE A1 (Assigned) |
| 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 from ACUITE A2) |
| 01 Jul 2021 | Commercial Paper Program | Short Term | 200.00 | ACUITE A2 (Downgraded from ACUITE A1+) |

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 avl. / Not appl. | Commercial Paper Program | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 100.00 | ACUITE A4+ Upgraded (from ACUITE A4) |
| Not Applicable | Not avl. / Not appl. | Commercial Paper Program | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 200.00 | Not Applicable Withdrawn |

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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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