



Press Release

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

September 04, 2023

Rating Downgraded

Product	Qtm Rs(Cr)	Long Term Rating	Short Term Rating
Commercial Paper (CP)	300.00	-	ACUITE A3 Downgraded
Total Outstanding Quantum (Rs. Cr)	300.00	-	-

Erratum: In this version of PR, under the Rationale for rating section, the statement towards payment dues has been revised from the original PR dated September 1, 2023.

Rating Rationale

Acuite has downgraded its short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.300.00 Cr. Commercial Paper Programme of Sterling & Wilson Renewable Energy Limited (SWREL; Erstwhile Sterling and & Wilson Solar Limited).

Rationale for rating

Acuite vide its press release dated August 29th 2023 had downgraded its its short-term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) from '**ACUITE A1**' (read as **ACUITE A one**) on account of the Bank Guarantee invocation at one of its subsidiaries Sterling & Wilson International Solar FZCO (SWFZCO). Acuite also stated that it will closely monitor the payment situation and shall take further action if any delay is observed in meeting the obligations or if there remains a shortfall in arranging the required funds to meet the obligations, in accordance with the payment schedule shared by the company.

In this regard, Acuite now notes that whilst there are emails from bankers affirming their intent to work out financing, the actual term sheets have not been signed. This can cause pressure in meeting expected obligations. The invocation has also had a potential impact on the near-term liquidity of SWREL since, it has remained corporate guarantor for this subsidiary.

Further, SWREL has scheduled principal repayments to the tune of over Rs. 1000 Cr. to be paid by December 2023. Further, SWREL's revenue during FY2023 declined significantly primarily on account of lower contribution from ongoing EPC projects. The standalone revenues stood at Rs. 1459 Cr, in FY2023 against Rs. 3464 Cr. in FY2022. Further, the company continues to report operating losses during FY2023 linked to increased raw material & module prices along with logistic costs. The invocation of BGs has further impacted the stretched liquidity position of SWREL. Acuite learns from its discussion with the management that through a mix of the funds lying in the account of its overseas subsidiary, along with additional debt, collections from receivables and receipt of funds under indemnity agreement from promoters will help facilitate repayment of its near-term obligations for the bank guarantees. However, timely infusion of funds and repayment of the obligations without any delays will remain critical factor for the rating.

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.

Indemnity Agreement with promoters ensuring adequate liquidity

During Q3FY2022, 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. 268 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

BG Invocation impacting near term liquidity of SWREL

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. Also, customer advances of USD 24 million from its NTPC II project, would be utilised towards repayment of the encashment obligations. However, timely repayments as per the schedule will remain critical. Further, 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. SWREL plans to meet the financial obligations through a mix of receivables from promoters under indemnity agreement, project advances, collection of receivables, and additional debt if required. However timely receipt of funds from the promoters will remain key monitorable. Further any delay in collections may lead to serious shortfall in meeting repayment obligations. Also, additional debt is likely to affect the financial risk profile of SWREL. However, 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 the order valuing over \$1.5 billion. The advances (around 10%) shall be utilized towards repayment of the debt.

Acuite believes timely infusion of funds and repayment of the obligations will remain critical for SWREL.

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.

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

- Timely infusion of funds and repayment of obligations without any delays.
- Any further deterioration in the liquidity profile
- Improvement in operating & financial risk profile.
- Timely execution of orders.

All Covenants

None

Liquidity Position Stretched

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 October-23. To meet these obligations, SWREL has an in principal approval for short term loans of USD 41.5 million. 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. The financial obligations are likely to be met through a mix of project advances, collection of receivables, and receipt of funds under indemnity agreement. Further, additional debt would be raised if required, which is further expected to 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

"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
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 A3 Downgraded
Not Applicable	Not Applicable	Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A3 Downgraded

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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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