

October 09, 2020

<p>BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400 001</p> <p>Scrip Code: 542760</p>	<p>National Stock Exchange of India Limited Exchange Plaza Bandra Kurla Complex Bandra (East), Mumbai – 400 051</p> <p>Symbol: SWSOLAR</p>
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Sub.: Credit Rating - Disclosure under Regulation 30 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 (“Listing Regulations”)

Dear Sir/ Madam,

Pursuant to Regulation 30 of the Listing Regulations, please find enclosed the instrument-wise rating actions issued by India Ratings & Research as under:

Instruments Type	Size of Issue (million)	Rating/Rating Watch	Rating Action
Fund-based limits	INR 1,920	IND A/ RWN/ IND A1/RWN	Downgraded; maintained on RWN
Proposed fund-based limits*#	INR 1,080	IND A/ RWN/ IND A1/RWN	Downgraded and assigned; maintained on RWN
Non-fund based limits	INR 72,440	IND A/ RWN/ IND A1/RWN	Downgraded; maintained on RWN
Proposed non-fund based limits*#	INR 24,560	IND A/ RWN/ IND A1/ RWN	Downgraded and assigned; maintained on RWN

* The provisional ratings of the proposed bank facilities have been converted to final ratings as per Ind-Ra’s updated policy. This is because the agency notes that debt seniority and general terms and conditions of working capital facilities are likely to be the same as that of the existing ones

Downgraded to ‘Provisional IND A/RWN’/‘Provisional IND A1/RWN’ before being assigned ‘IND A/RWN’/‘IND A1/RWN’

Please take the same on records.

Thanking you.

Yours faithfully,

For Sterling and Wilson Solar Limited

Jagannadha Rao Ch. V.

Company Secretary and Compliance Officer

Sterling and Wilson Solar Limited

An Associate of Shapoorji Pallonji Group

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India Ratings Downgrades Sterling and Wilson Solar to 'IND A'; Maintains RWN

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By **Sudeep Arekar**

OCT 2020

India Ratings and Research (Ind-Ra) has downgraded Sterling and Wilson Solar Limited's (SWSL) Long-Term Issuer Rating to 'IND A' from 'IND AA-' while maintaining it on Rating Watch Negative (RWN). The instrument-wise rating actions are as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Fund-based limits		-	-	-	INR1,920	IND A/RWN/IND A1/RWN	Downgraded; maintained on RWN
Proposed fund-based limits*#		-	-	-	INR1,080	IND A/RWN/IND A1/RWN	Downgraded and assigned; maintained on RWN
Non-fund based limits		-	-	-	INR72,440	IND A/RWN/IND A1/RWN	Downgraded; maintained on RWN
Proposed non-fund-based limits*#		-	-	-	INR24,560	IND A/RWN/IND A1/RWN	Downgraded and assigned; maintained on RWN

* The provisional ratings of the proposed bank facilities have been converted to final ratings as per Ind-Ra's updated policy. This is because the agency notes that debt seniority and general terms and conditions of working capital facilities are likely to be the same as that of the existing ones

Downgraded to 'Provisional IND A/RWN'/Provisional IND A1/RWN' before being assigned 'IND A/RWN'/IND A1/RWN'

Analytical Approach: Ind-Ra continues to analyse SWSL on a standalone basis, without factoring in parent support. However, given that Shapoorji Pallonji & Company Private Limited (SPCPL) continues to be the majority shareholder of SWSL, the latter's rating would remain linked to the former's credit profile, and any further deterioration in the credit profile of SPCPL will be negative for SWSL's ratings.

The downgrade reflects Ind-Ra's view that SWSL's operating performance in FY21 is likely to be significantly weaker than the agency's earlier expectations, and the tightened financial flexibility of SPCPL, as reflected in the latter's application for Reserve Bank of India-prescribed COVID-19-related debt restructuring.

The RWN reflects the further uncertainty with regards to the credit profile of SPCPL, given the pending OTR approval by SPCPL's lenders, post which the timelines and covenants for restructuring will be known. This is likely to result in delayed deleveraging for SWSL, since it has provided inter-company deposits (ICDs) to one of its promoters group entities. SWSL expects the ICDs to be repaid fully by end-1HFY22, against the earlier expected timeline of end-1HFY21.

The promoters of SWSL are in the process of creating securities worth INR12,000 million against the outstanding ICDs. Furthermore, the interest that SWSL would receive from its promoters would be 4% higher than the rate that it is being charged against the outstanding term debt that it has availed to fund these ICDs.

KEY RATING DRIVERS

Consistently Muted Operating Performance: SWSL's revenue declined by 14.2% yoy in 1QFY21, largely on account of the impact of the pandemic-led lockdown in countries like India, Kenya and Jordan. In FY20, the company's revenue had declined by 32.3% yoy to INR55,753 million owing to the deferment of large projects in Saudi Arabia (1,090MM/ INR44,450 million) and Montenegro (200MM/ INR16,300 million) and of the pandemic-related disruptions in March 2020. The project in Saudi Arabia was impacted by delays in the signing of the power purchase agreement between the Saudi government and the project developer due re-negotiations of tariff following other low tariffs discovered in the Middle-East and North African (MENA) region. Meanwhile, the Montenegro project was deferred on account of issues related to land acquisition.

Furthermore, SWSL's EBITDA margin declined to 1.5% in 1QFY21 (1QFY20: 5.3%) due to lower absorption of overheads owing to the fall in revenue base and also because the company had executed certain high-margin projects during 1QFY20. In FY20, SWSL's EBITDA margin had declined to 5.9% (FY19: 8.0%) on account of the deferment of large projects, resulting in a lower revenue base and overheads absorption, COVID-19-led disruptions in 4QFY20, and increased competition in geographies such as MENA, which had earlier contributed to high margins.

The agency expects SWSL's profitability to improve over the rest of FY21 on account of the execution of high-margin projects in Australia, various cost-reduction initiatives undertaken by the company, and a likely rise in revenue on a yoy basis owing to brisk execution of the existing order book,

Subdued Credit Metrics: SWSL's net leverage (total debt less unrestricted cash / trailing twelve months EBITDA) increased to 3.8x in 1QFY21 (FY20: 2.3x; FY19: 2.7x) because of stable debt levels and lower profitability (EBITDA– 1QFY20: INR162 million, 1QFY20: INR655 million, FY20: INR3,289 million, FY19: INR6,575 million). In 1QFY21, SWSL's interest coverage (gross interest expenses / EBITDA) weakened to 0.7x (FY20: 1.5x, FY19: 6.6x) because of the decline in the absolute profitability. SWSL's interest income was higher than its interest expenses over FY19-1QFY21. The net leverage (total debt less unrestricted cash / EBITDA) is likely to improve in FY21 upon the repayment of the ICDs granted to its promoters' group entity. Any delay in the repayment of these ICDs coupled with muted operating performance, resulting in further deterioration of SWSL's credit metrics, would remain a keyrating monitorable.

Strong Order Book: As of mid-September 2020, SWSL had an unexecuted order book of INR102,230 million (1.8x of FY20 revenue). The company has received new orders worth INR56,970 million in FY21 till date (previous year's corresponding order inflows were around INR8,280 million). This has helped maintain SWSL's revenue visibility despite the removal of orders from Saudi Arabia and Montenegro from its order book, in line with its revised policy to only include orders that have received notice to proceed, signed contract with customer and have been financially closed from the developer's side. The order book is spread across Australia (51.9%), Americas (21.5%), India (13.8%), Africa (6.6%), MENA(3.6%) and Europe (2.7%). The management expects to expand its global footprint further in Europe and the Americas over the medium term, given the potential for renewable power in the region, and intends to maintain its focus on Australia in order to improve its profitability margins.

Leading Market Position: As on 31 March 2020, SWSL had commissioned 232 contracted solar power projects globally, while 10,134MW EPC projects had been commissioned or were under construction. SWSL also has a sizeable operations and maintenance (O&M) portfolio of 7,467MW, which it intends to expand over the geographies in which it is executing projects, given the high and stable profitability associated with this segment. The company has also, over a period of time, successfully demonstrated its ability to replenish its order book with large projects across various geographies. This has resulted in partial mitigation of the inherent risk of limited revenue visibility associated with solar EPC projects, given their limited execution timeframe of 9-12 months. The company also had a high return on capital employed of around 29% in FY20, mainly on account of the quick working capital turnaround.

Liquidity Indicator - Adequate: SWSL's working capital cycle (debtors including unbilled revenue plus inventory minus creditors including mobilisation advances) stretched to eight days in 1QFY21 (FY20: negative five days; FY19: negative three days), primarily on account of an increase in unbilled revenue and inventory days at the end of the quarter, resulting from COVID-19 led disruptions. The company utilised around 59% of its INR3,000 million fund-based limits (including INR1,080 million outside consortium limits) and 72.3% of its non-fund-based limits of INR72,440 million during the 12 months ended August 2020.

SWSL had cash and cash equivalents of INR1,840 million at end-June 2020, which are likely to have increased to around INR4,000 million at end-1HFY21 due to the receipts of mobilisation advances. As on 1 October 2020, SWSL had term-debt obligations of INR6,050 million, repayable by end-FY21. SWSL's liquidity might be stretched if the promoters defer the repayment of the balance ICDs to SWSL, especially if its own operating performance remains muted over the rest of FY21. SWSL had not availed the Reserve Bank of India-prescribed debt moratorium.

RATING SENSITIVITIES

The RWN indicates that the rating may be downgraded or affirmed based on the following factors:

- upcoming refinancing/rollover of the short-term debt
- receipt of ICDs provided to group entity and the consequent deleveraging over FY21-FY22
- the agency's assessment of the credit profile of SPCPL, given the uncertainty regarding implementation and terms of the one-time restructuring being applied for by the company.

COMPANY PROFILE

SWSL was demerged from SWPL in March 2018. It is one of the largest non-original equipment manufacturers solar EPC player. The company is a leading global solar EPC contractor, with a diversified presence across geographies. SWSL was listed on the Bombay Stock Exchange Limited and National Stock Exchange Limited in August 2019. SPCPL owns 50.6% stake in the company, Khurshed Daruvala holds 25.7% stake, while the balance is held by public.

FINANCIAL SUMMARY

Particulars	1QFY21	FY20	FY19
Revenue (INR million)	10,679	55,753	82,404
EBITDA (excluding interest income; INR million)	162	3,289	6,575
EBITDA margin (%)	1.5	5.9	8.0
Total debt (INR million)	12,540	12,240	22,278
Gross Interest coverage (x)	0.7	1.5	6.6
Net adjusted leverage (x)	3.8	2.3	2.7

Source: SWSL, Ind-Ra

RATING HISTORY

Instrument Type	Current Rating/ Rating Watch			Historical Rating/ Rating Watch/ Outlook				
	Rating Type	Rated Limits (million)	Rating	9 April 2020	25 November 2019	10 October 2019	16 August 2019	31 December 2018
Issuer rating	Long term	-	IND A/RWN	IND AA-/RWN	IND AA-/RWN	IND AA-/Stable	IND AA/RWE	IND AA/Stable
Fund-based limits	Long-term/Short-term	INR3,000	IND A/RWN/IND A1/RWN	IND AA-/RWN/IND A1+/RWN	IND AA-/RWN/IND A1+/RWN	IND AA-/Stable/IND A1+	Provisional IND AA/RWE/Provisional IND A1+/RWE	Provisional IND AA/Stable/Provisional IND A1+
Non-fund based limits	Long-term/Short-term	INR97,000	IND A/RWN/IND A1/RWN	IND AA-/RWN/IND A1+/RWN	IND AA-/RWN/IND A1+/RWN	IND AA-/Stable/IND A1+	IND AA/RWE/IND A1+/RWE	IND AA/Stable/IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

[Corporate Rating Methodology](#)

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