STERLING & WILSON

June 04, 2021

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400 001 **Scrip Code: 542760**	**National Stock Exchange of India Limited** Exchange Plaza Bandra Kurla Complex Bandra (East), Mumbai – 400 051 **Symbol: SWSOLAR**

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 2,280 (increased from INR 1,920)	IND BBB+/RWE/ INDA2/RWE	Rating downgraded; Rating Watch Revised to Evolving from Negative
Proposed fund-based limits	INR 720 (reduced from INR 1,080)	IND BBB+/RWE/ INDA2/RWE	Rating downgraded; Rating Watch Revised to Evolving from Negative
Non-fund based limits	INR 72,590 (increased from INR 72,440)	IND BBB+/RWE/ INDA2/RWE	Rating downgraded; Rating Watch Revised to Evolving from Negative
Proposed non-fund based limits	INR 24,410 (reduced from 24,560)	IND BBB+/RWE/ INDA2/RWE	Rating downgraded; Rating Watch Revised to Evolving from Negative

The report published by India Ratings & Research is enclosed.

Please take the same on records.

Thanking you.

Yours faithfully,
For Sterling and Wilson Solar Limited

VENKATA JAGANNADHA RAO CHUNDURU
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India Ratings & Research
A Fitch Group Company

India Ratings Downgrades Sterling and Wilson Solar to 'IND BBB+'; Revises Rating Watch to Evolving

03

JUN 2021

By Harsha Rekapalli

India Ratings and Research (Ind-Ra) has downgraded Sterling and Wilson Solar Limited's (SWSL) Long-Term Issuer Rating to 'IND BBB+' from 'IND A' while revising the Rating Watch to Rating Watch Evolving (RWE) from 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		-	-	-	INR2,280 (increased from INR1,920)	IND BBB+/RWE/IND A2/RWE	Rating downgraded; Rating Watch Revised to Evolving from Negative
Proposed fund-based limits		-	-	-	INR720 (reduced from INR1,080)	IND BBB+/RWE/IND A2/RWE	Rating downgraded; Rating Watch Revised to Evolving from Negative
Non-fund based limits		-	-	-	INR72,590 (increased from INR72,440)	IND BBB+/RWE/IND A2/RWE	Rating downgraded; Rating Watch Revised to Evolving from Negative
Proposed non-fund based limits		-	-	-	INR24,410 (reduced from INR24,560)	IND BBB+/RWE/IND A2/RWE	Rating downgraded; Rating Watch Revised to Evolving from Negative

Analytical Approach: Ind-Ra continues to analyse SWSL and its subsidiaries on a consolidated basis, in view of the strong operational and financial linkages among the entities. Ind-Ra however continues to analyse SWSL without factoring in the support coming from the parent - Shapoorji Pallonji & Company Private Limited (SPCPL). SWSL's rating would remain linked to the parent's credit profile, given that SPCPL continues to be the majority shareholder of SWSL, and any further deterioration in the credit profile of SPCPL will be negative for SWSL's ratings. 9MFY21 numbers are provisional in nature.

The downgrade reflects Ind-Ra's expectations that the consolidated operating performance might have deteriorated in FY21 and FY22 cash flows could be significantly weaker than the agency's earlier expectations. Moreover, SPCPL's financial flexibility has significantly reduced, as evident from the approval obtained for one-time restructuring (OTR) under COVID-19-related debt restructuring.

The downgrade and RWE also reflect the uncertainty with regards to the improvement in the credit profile of SPCPL in FY22 and beyond; however, the agency believes the sanction of OTR has offered the much-needed buffer for SPCPL to manage its liquidity challenges. Similarly, the timely asset monetisation of a group entity would result in a recovery of inter-corporate deposits (ICDs) which along with a tie-up bank limits would be the key monitorables.

KEY RATING DRIVERS

Volatile Commodity and Freight Costs Could Impact Margin Profile: In FY21, a rise in metals/commodity prices coupled with the cost overruns caused on account of the pandemic significantly deteriorated SWSL's consolidated margins. Ind-Ra believes that any further fluctuations may result in a lower-than-expected margin profile of the company in FY22-FY23. Modules/panels, inverters and trackers and logistics account for 40%-50% of the project costs. SWSL procures them from overseas manufactures for 60%-70% of the orders. The company generally does not have price variation clauses as the tenure of the contracts ranges from nine to 12 months. However, SWSL hedges the same by fixing the price of panels post receipt of project commencement approvals from developers which reduces the timing risk.

Management has provided an update in regards to the one-off events of insolvency of sub-contractor, issues with module suppliers and continued increase in commodity prices and freight costs at exchanges however the quantum of actual one-off is still uncertain until 4QFY21 results are out. Any higher-than-anticipated one-off may result in further deterioration in credit profile. A couple of module suppliers of SWSL have reneged on earlier signed contracts at a contracted price for few projects. SWSL is actively working out on a solution as the replacement of module suppliers has become challenging, also as the same impacts the project designs and associated costs thus impacting the profitability of these few contracts. SWSL is pursuing a legal option against these suppliers; the outcome of which is uncertain. However, the agency draws comfort from SWSL's strong global market position and its ability of the company to execute such contracts successfully across geographies in the past decade.

Consistently Muted Operating Performance: Ind-Ra believes that SWSL's credit profile would improve over FY22-FY23, given a strong closing order book and the expected execution of the same. However, the same depends on the ability of the company to tie the required bank limits (majorly non-fund-based limits), which remain a key monitorable. SWSL's revenue increased marginally by 5.7% yoy to INR37,163 million in 9MFY21 (FY20: INR55,753 million), largely following partial receding of COVID-19 globally; however, the EBITDA and margins deteriorated sharply to INR354 million and 1.0%, respectively, in 9MFY21 (9MFY21: INR1,700 million and 4.85%) on account of the lower absorption of overheads and rise in commodity prices, border restrictions and freight costs on account of the pandemic-related disruptions and change in terms of agreements from supplier, which could continue in FY22. The revenue declined by 32.3% yoy in FY20 on account of a deferment of large projects in Montenegro coupled with COVID-19 led disruptions in March 2020. In FY20, SWSL's EBITDA margin declined to 5.9% (FY19: 8.0%) on account of increased competition from the onset of Chinese engineering, procurement and construction (EPC) players in geographies such as MENA which earlier contributed to high margins.

Subdued Credit Metrics: SWSL's net leverage (total debt less unrestricted cash / trailing twelve months EBITDA) increased to 3.0x in 9MFY21 (FY20: 2.3x; FY19: 2.7x), on account of the reduced profitability. The overall debt at FYE21 reduced significantly to INR4,710 million at consolidated level (FY20: INR12,240 million) and INR3,586 million at the standalone level, through a mix of internal accruals, receipts of ICDs from promoters, infusion of funds by promoters from asset and stake sales.

In 9MFY21, SWSL's interest cover (EBIDTA/interest cost) fell to 0.5x (FY20: 1.5x, FY19: 6.6x), attributed to the reduced absolute profitability and reduced margin. However, net interest coverage (EBIDTA/ net interest cost) had remained at about 1.0x on account of the receipt of interest income on ICDs.

Strong Order Book: The management expects to continue to expand its global footprints in Europe and the Americas over the medium term, given the potential for renewable power in the region and to improve its profitability margins. At end-9MFY21, SWSL had an unexecuted order book of about INR96,739 million (1.8x FY20 revenue). It received new orders worth around INR73,000 million in FY21; previous year corresponding order inflows were around INR66,986 million. These have resulted in maintaining SWSL's revenue visibility, despite deferment of orders from Saudi Arabia and Montenegro in line with its revised policy to only include orders where the notice to proceed has been received , contracts have been signed and financial closure from the developer's side has been achieved. The current order book is spread across Australia (45.6%), Americas (23.4%), India (11.2%), Africa (6.7%), MENA (10.5%) and Europe (2.7%).

Leading Market Position: SWSL is one of the largest EPC players globally with a track record of commissioning 232 contracted solar power projects, while 10,134MW EPC projects have been commissioned or under construction in FY20. SWSL also had a sizeable operations and maintenance portfolio of 8.1GW in 9MFY21, which it intends to expand over the existing geographies, given the high and stable profitability associated with this segment. The company has also gradually, successfully demonstrated its ability to replenish its order book with large sized projects across various geographies. This has resulted in partial mitigation of the limited revenue visibility associated with solar EPC projects, given their limited execution timeframe of nine to 12 months. The company also had a high return on capital employed of around 29% in FY20, mainly on account of lower capital intensive operations. Ind-Ra expects the return on capital employed to have taken a hit in FY21 on account of the above mentioned before returning to the pre-pandemic levels.

Asset Monetisation: At end-FY21, one of the group entities sold two SPVs having an enterprise value of INR4,460 million and infused about INR2,500 million towards repayment of ICDs. Furthermore, one of the promoters diluted his stake in SWSL and infused the same for repayment of ICDs. The outstanding ICDs at end-May 2021 stood at INR7,400 million, and the agency was informed that approximately INR2,500 million would be recovered by end-1QFY22 on account of third asset monetisation by its group entity. Similarly, the group entity is planning to monetise the remaining fourth and fifth assets and expects to recover the ICDs completely by end-September 2021 to improve the credit profile. Ind-Ra in its base case had already factored the recovery proceeds of ICDs from the sale of the third asset and thus any delay in the same may be negative for the ratings.

Liquidity Indicator - Stretched: SWSL's liquidity may get stretched further significantly, if the promoters or the group entity defer repayment of the balance ICDs to SWSL, especially if its own operating performance remains muted over FY22. Ind-Ra also expects SWSL's working capital cycle to remain between 4-8 days in near to medium term. The working capital cycle (debtors including unbilled revenue plus inventory minus creditors including mobilisation advances) was negative 4 days in 9MFY21 (FY19: negative 5 days), which had turned positive during 1QFY21, primarily on account of an increase in unbilled revenue and inventory days resulting from COVID-19 led disruptions. Moreover, there has been a delay in tying of the required bank limit due to the significant challenges faced on account of SP Group going into OTR. During the 12 months ended February 2021, the average utilisation of fund based limits stood at 80.4% (limits: INR3,920 million) and that of non-fund-based limits stood at 81.5 % (Limits: INR72,440 million). Ind-Ra expects the utilisations to have remained at similar levels for March 2021.

SWSL had cash and cash equivalents of INR1,944 million at end-March 202,1 of which the standalone free cash stood at about INR972 million. SWSL had term-debt (including commercial papers) obligations of INR1,439 million at FYE21, repayable by end-FY22, out of which INR940 million is at standalone level. The agency was informed that SWSL had serviced around INR150 million in May 2021 and the balance INR790 million at standalone level would be serviced during FY22.

Reduced Financial Flexibility of Parent SPCPL: Though the agency still evaluates SWSL independently on account of the ring fencing arrangement in its cash flows, any lower-than-expected financial flexibility or deterioration in the credit profile of the parent may hinder seeking the required bank limits.

SPCL did not pay their lenders (including subscribers of commercial paper) post application under OTR on 17 September 2020. All the eligible lenders invoked OTR on 26 October 2020 and signed an inter-creditor agreement by 24 November 2020. Management of SWSL has confirmed of OTR being approved at end-March 2021. It is under legal process and compliance stage, and expects it to be completed by end-1QFY22. Similarly, the agency believes that the financial flexibility of the parent had reduced in the past few years where the market cap of the shares held by SPCPL had reduced to INR18.6 billion on 28 May 2021 since the launch an initial public offering from INR58.8 billion. Furthermore, out of the 50.6% shareholding held by SPCPL (on 31 March 2021), 73.6% of its own holding remains pledged with respect to the loans availed by SPCPL and any further fluctuations in the share price may result in margin calls and would further lower the financial flexibility profile of SPCPL.

RATING SENSITIVITIES

The RWE indicates that the rating may be affirmed, downgraded or upgraded upon resolution on the following factors:

- delays in the receipt of ICDs provided to the group entity resulting in SWSL's deteriorated liquidity profile
- any further impact of SWSL's execution profile on account of delay in tie-up of bank facilities
- any further impact on SWSL's credit profile on account of a lower-than-expected margin profile due to volatile raw material prices
- any breach of bank covenant which would impact SWSL's credit profile
- Ind-Ra's assessment of any further material deterioration in SPCPL's credit strength post OTR
- timely asset monetisation by the group entity and subsequent recovery of ICDs leading to an improvement in credit profile

COMPANY PROFILE

SWSL was demerged from Sterling and Wilson Private Limited ('IND BBB-'/Negative) in March 2018. It is one of the largest non-original equipment manufacturers solar EPC players globally, 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 17.9% stake, while the balance is held by public as on FYE21.

FINANCIAL SUMMARY

Particulars	9MFY21	FY20	FY19
Revenue (INR million)	37,163	55,753	82,404
EBITDA (excluding interest income; INR million)	353	3,289	6,575
EBITDA margin (%)	1.0	5.9	8.0
Total debt (INR million)	9,070	12,240	22,278
Gross Interest coverage (x)	0.5	1.5	6.6
Net adjusted leverage (x)	3.4	2.3	2.7
Source: SWSL, Ind-Ra			

RATING HISTORY

Instrument Type	Rating Type	Current Rating/ Rating Watch		Historical Rating/ Rating Watch/ Outlook					
		Rated Limits (million)	Rating	8 October 2020	9 April 2020	25 November 2019	10 October 2019	16 August 2019	31 Dec 201
Issuer rating	Long term	-	IND BBB+/RWE	IND A/RWN	IND AA-/RWN	IND AA-/RWN	IND AA-/Stable	IND AA/RWE	IND AA/
Fund-based limits	Long-term/Short-term	INR3,000	IND BBB+/RWE/IND A2/RWE	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	Provisior AA/Stable/ IND
Non-fund- based limits	Long-term/Short-term	INR97,000	IND BBB+/RWE/IND A2/RWE	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/St A1

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fund-based limits	Low
Non-fund-based limits	Low

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

SOLICITATION DISCLOSURES

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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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For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

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