

October 22, 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
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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/ Ma’am,

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

Instrument Type	Size of Issue (million)	Rating/ Outlook	Rating Action
Fund- based limits	INR 2,280	IND A-/RWP/IND A2+/RWP	Rating upgraded; rating watch revised to Positive from Evolving
Proposed fund-based limit	INR 720	IND A-/RWP/IND A2+/RWP	Rating upgraded; rating watch revised to Positive from Evolving
Non-fund-based limits	INR 72,590	IND A-/RWP/IND A2+/RWP	Rating upgraded; rating watch revised to Positive from Evolving
Proposed non-fund-based limits	INR 24,410	IND A-/RWP/IND A2+/RWP	Rating upgraded; rating watch revised to Positive from Evolving

The report published by India Ratings & Research is enclosed.

Request you to 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

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India Ratings Upgrades Sterling and Wilson Solar to 'IND A-'; Revises Rating Watch to Positive

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OCT 2021

By Harsh Shah

India Ratings and Research (Ind-Ra) has upgraded Sterling and Wilson Solar Limited's (SWSL) Long-Term Issuer Rating to 'IND A-' from 'IND BBB+' while revising the Rating Watch to Rating Watch Positive (RWP) from Rating Watch Evolving (RWE). The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits	-	-	-	INR2,280	IND A-/RWP/IND A2+/RWP	Rating upgraded; rating watch revised to Positive from Evolving
Proposed fund-based limits	-	-	-	INR720	IND A-/RWP/IND A2+/RWP	Rating upgraded; rating watch revised to Positive from Evolving
Non-fund-based limits	-	-	-	INR72,590	IND A-/RWP/IND A2+/RWP	Rating upgraded; rating watch revised to Positive from Evolving
Proposed non-fund-based limits	-	-	-	INR24,410	IND A-/RWP/IND A2+/RWP	Rating upgraded; rating watch revised to Positive from Evolving

Analytical Approach: Ind-Ra continues to take consolidated view of SWSL and its subsidiaries for the ratings, in view of the strong operational and financial linkages among the entities. Ind-Ra however does not factor in the support coming from the parent - Shapoorji Pallonji & Company Private Limited (SPCPL), like before. SWSL's rating would remain linked to the parent's credit profile, as it remains the majority shareholder of SWSL. 1QFY22 numbers are provisional in nature.

The upgrade reflects an improvement in SWSL's financial and liquidity profile at the standalone level, majorly on account of an inflow of INR7,400 million of intercorporate deposits (ICDs) payment from the promoters, which have been used to repay the entire outstanding term debt.

The RWP reflects an expected improvement in the business and financial profile and a further improvement in the liquidity profile of the company, as there would be a further cash inflow of INR11 billion subsequent to the acquisition of a 40% stake by Reliance New Energy Solar Limited (RNESL) in SWSL. Ind-Ra would assess the legal, operational and strategic linkages between RNESL and SWSL post the acquisition materialises and would simultaneously resolve the RWP.

KEY RATING DRIVERS

Likely Improvement in Business Profile Post RNESL Acquires Stake: SWSL announced on 10 October 2021 that Reliance Industries Ltd (IND AAA/Stable) through its wholly owned subsidiary RNESL has entered into a definitive agreement to acquire 40% stake (post-money) in SWSL through a combination of primary investment, secondary purchase and open offer. As per the agreement, RNESL would be allotted 29.3 million equity shares (15.46%) at INR375 through preferential allotment and a secondary purchase of 18.4 million equity share (9.70%) from SPCPL at INR375 per share. The balance 25.90% would be acquired through an open offer or follow on purchase from the promoters and SPCPL. Ind-Ra believes SWSL's operational and financial risk profile would benefit due to the strong parentage of Reliance Industries and this remains a key monitorable for the agency.

Likely Boost to Liquidity Profile Post Receipt of ICDs from SPCPL: 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-June 2021 stood at INR7,400 million. SWSL and its subsidiary Sterling and Wilson International Solar FZOC received the entire outstanding ICDs of INR7,400 million in September 2021 along with the interest thereon. The repayment was facilitated by SPCPL and promoter Khurshed Daruvala. The proceeds from the receipt were utilised towards the repayment of external borrowings and payment to vendors, resulting in a much improved liquidity.

Substantial Improvement in Credit Profile: Ind-Ra expects SWSL's credit profile to improve substantially on back of a huge debt reduction from the proceeds of ICDs. At end-June 2021, SWSL had an outstanding debt of INR4,380 million in the form of working capital limits and term debt, and the company repaid the entire outstanding term debt of INR1,380 million. Furthermore, the company is expecting an equity infusion of INR11 billion in 3QFY22 from an preferential issue to RNESL. SWSL's interest coverage and net leverage deteriorated substantially in FY21 to negative 3.8x (FY20: 1.50x) and negative 0.68x (FY20: 2.31x) respectively, on account of a subdued operating performance due to the COVID-19 led disruptions and EBITDA levels losses because of higher solar module prices and freight costs, bankruptcy of the subcontractor in Australia and lower absorption of overheads. Although Ind-Ra expects SWSL's operational profile to remain subdued with lower EBITDA margins in FY22, the credit profile would improve meaningfully in the near to medium term on the back of nil debt on consolidated level. Any substantial deterioration in the operating profitability due to further volatility in

commodity prices would still remain a key monitorable for the agency.

Asset Monetisation by Group Company: The Sterling and Wilson Private Limited ('IND BBB-/Negative') is planning to monetise the three Skypower assets, the proceeds from these assets are likely to improve the credit profile further.

Healthy Order Book Position: 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. SWSL had an order book of INR102.31 billion as on September 2021 (before adjustment of revenue post June 2021), which provides visibility to the extent of 2.01x FY21 revenue. SWSL's order book is diversified across geographies, i.e. Australia (32.5%), Americas (26.6%), India (8.4%), Africa (6.1%), MENA (9.2%) and Europe (17.2%). Moreover, majority orders have a project duration of around two years. During April-August 2021, the company received orders of INR19,730 million while the book amounted to INR79,360 million in FY21. As per the management, SWSL deferred the finalisation of orders to 2HFY22 due to a continuous increase in solar module prices and freight costs. Management expects to finalise these orders (2-3GW) amounting INR50 billion (70%-80%) in 2HFY22. Further in September 2021 SWSL received orders of INR15 billion in waste to energy segment from a leading developer in UK and Europe.

Liquidity Indicator - Adequate: SWSL's liquidity position improved significantly due to the receipt of ICD proceeds from group entities. SWSL had cash and cash equivalents of INR2,500 million as on 30 September 2021. The agency was informed that the company does not have any repayments in FY22. Also, the net working capital cycle (debtors including unbilled revenue plus inventory minus creditors including mobilisation advances) was negative 14 days in FY21 (1QFY22: negative at 22 days; FY20: negative 5 days), due to better collections from customers, and consequently an improving collection period. Ind-Ra believes working capital cycle could turn positive in the near to medium term due to payments to vendors through balance proceeds of ICDs; however, comfort is drawn from the improved financial flexibility of SWSL compared to FY21.

Proceeds of the INR11 billion preferential issue to RNESSL would further bolster the liquidity profile. The company is also tying up additional working capital facilities.

Leading Market Position: SWSL is one of the largest engineering, procurement and construction (EPC) players globally with a track record of commissioning 256 contracted solar power projects. During FY21, the company executed projects of 470MW and received the contracts for 1,977MW. SWSL also had a sizeable operations and maintenance portfolio of 8.1GW in FY21, 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 partially mitigates 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 ROCE of around 29% in FY20, mainly on account of lower capital-intensive operations. However, it deteriorated in FY21 due to volatility in commodity prices and COVID-19 led disruptions. Ind-Ra expects the ROCE to remain low in FY22 also on account of the above-mentioned factors before returning to the pre-pandemic levels.

Operating Performance Remains Subdued; Margins to Recover from FY23: SWSL's revenue declined in FY21 to INR50,808 million (FY21: INR55,753 million), due to a substantial decline in revenue in 4QFY21(34%) due to COVID-19 led disruptions, bankruptcy of prime subcontractor in Australia and delays in opening letters of credit for purchase of material. In 1QFY22, the revenue was INR11,946 million. Ind-Ra believes the revenue growth to remain subdued in FY22 due to sluggish order inflows in 1HFY22 and delays in order execution due to volatility in solar modules and freight costs. Ind-Ra expects growth recovery to start from FY23-FY24 due to order inflows in 2HFY22. Furthermore, the company's entry into new business segments such as hybrid energy, battery energy storage systems and waste to energy is likely to contribute to the revenue growth. It is also focusing on enhancing O&M portfolio by 1.5GW in near term (FY21: 5%-6% to the revenue).

SWSL reported EBITDA margins of negative 7.4% in FY21 (FY20: 5.9%) 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 the terms of agreements from a supplier and bankruptcy of a subcontractor in Australia. The EBITDA margins of 1QFY22 were impacted due to the increase in solar module prices and freight cost and accelerated mark-to-market losses on account of cancellation and rebooking of forward contracts on expiry relating to ongoing projects. Ind-Ra thus expects the margins to remain subdued in FY22.

Volatile Commodity and Freight Costs: Modules/panels and logistics are procured from overseas manufacturers and account for 45%-50% of the project costs. The recent rise in metals/commodity prices and intermittent lockdowns in project locations have resulted in a sharp increase in the costs and significant deterioration on the margins. With limited potential of passing on the prices, the company is exposed to significant unanticipated overheads. Ind-Ra expects the commodity prices to remain volatile in the near term due to a sharp increase in polysilicon prices because of the ongoing energy crisis in China. Any delay in normalisation of solar module prices may hamper the recovery path of SWSL for FY22.

Implementation of OTR in SPCPL: SPCPL did not pay their lenders (including subscribers of commercial paper) post application under one time restructuring (OTR) on 17 September 2020. All the eligible lenders had invoked OTR on 26 October 2020 and signed an inter-creditor agreements by 24 November 2020, consequently the company applied for an OTR. It has been approved and implemented on 31 March 2021. As per the OTR, SPCPL would monetise various assets, the proceeds of which would be utilised for debt reduction. SPCPL had an outstanding debt of INR125 billion at end-March 2021, SPCPL has targeted a debt reduction by around INR100 billion through the proceeds of the sale of assets.

SPCPL's stake sale to Advent International in Eureka Forbes Limited has been finalised for an enterprise value of INR44 billion out of which SPCPL would have a net inflow of INR30 billion from the transaction. Furthermore, as per the definitive agreement for the stake sale in SWSL, SPCPL will receive INR6.9 billion from RNESSL. SPCPL has also initiated the sale of the group's real estate portfolio and could recover about INR10 billion as ICDs repayment. Promoter fund infusion has enabled SPCPL to repay OTR debt of INR34.5 billion in 1HFY22. Ind-Ra would still be monitoring the implementation of the OTR of SPCPL as it remains the parent of the SWSL. However, Ind-Ra would reassess the parent-subsidiary linkages between SPCPL and SWSL post the acquisition gets completed and would incorporate the required changes accordingly.

RATING SENSITIVITIES

The RWP indicates that the rating may be affirmed or upgraded within six months or upon the materialisation of acquisition of 40% stake by RNESSL, whichever is earlier.

COMPANY PROFILE

SWSL was demerged from Sterling and Wilson 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 BSE 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.

FINANCIAL SUMMARY (CONSOLIDATED)

Particulars	1QFY22 (Provisional)	FY21	FY20
Revenue (INR million)	11,946	50,808	55,753
EBITDA (excluding interest income INR million)	-1,037	-3,889	3,289
EBITDA margins (%)	-8.68	-7.65	5.9
Total debt (INR million)	4,380	4,775	12,240

Interest coverage (x)	NM	NM	1.5
Adjusted net leverage (x)	NM	NM	2.3
Source: SWSL, Ind-Ra			

RATING HISTORY

Instrument Type	Rating Type	Current Rating/ Rating Watch		Historical Rating/ Rating				
		Rated Limits (million)	Rating	3 June 2021	8 October 2020	9 April 2020	25 November19	10 October 2019
Issuer rating	Long term	-	IND A-/RWP	IND BBB+/RWE	IND A/RWN	IND AA-/RWN	IND AA-/RWN	IND AA-/Stab
Fund-based limits	Long-term/Short-term	INR3,000	IND A-/RWP/IND A2+/RWP	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/IN A1+
Non-fund-based limits	Long-term/Short-term	INR97,000	IND A-/RWP/IND A2+/RWP	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/IN A1+

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital 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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Applicable Criteria

[Corporate Rating Methodology](#)
[Parent and Subsidiary Rating Linkage](#)

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