

May 02, 2023

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 note that India Ratings and Research (Ind-Ra) has downgraded Sterling and Wilson Renewable Energy Limited’s Long-Term Issuer Rating to ‘IND BBB+’ from ‘IND A+’ and has placed it on Rating Watch with Negative Implications. The report published by India Ratings and Research Private Limited is enclosed.

Request you to take the same on records.

Thanking you,

Yours faithfully,
For Sterling and Wilson Renewable Energy Limited

Jagannadha Rao Ch. V.
Company Secretary and Compliance Officer

Sterling and Wilson Renewable Energy Limited
(Formerly known as Sterling and Wilson Solar Limited)

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India Ratings Downgrades Sterling and Wilson Renewable Energy to 'IND BBB+'; Places on Rating Watch with Negative Implications; Rates Additional Loans

May 02, 2023 | Civil Construction

India Ratings and Research (Ind-Ra) has downgraded Sterling and Wilson Renewable Energy Limited's (SWREL; erstwhile Sterling and Wilson Solar Limited) Long-Term Issuer Rating to 'IND BBB+' from 'IND A+' and has placed it on Rating Watch with Negative Implications. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Fund-based working capital facilities	-	-	-	INR6,020 (increased from INR3,120)	IND BBB+/Rating Watch with Negative Implications/ IND A2/Rating Watch with Negative Implications	Downgraded and placed on Rating Watch with Negative Implications
Non-fund-based working capital facilities	-	-	-	INR62,660 (reduced from INR71,320)	IND BBB+/Rating Watch with Negative Implications/IND A2/Rating Watch with Negative Implications	Downgraded and placed on Rating Watch with Negative Implications
Term loan	-	-	March 2027	INR12,500	IND BBB+/Rating Watch with Negative Implications	Assigned and placed on Rating Watch with Negative Implications
Proposed fund-based working capital facilities	-	-	-	INR480	IND BBB+/Rating Watch with Negative Implications/IND A2/Rating Watch with Negative Implications	Assigned and placed on Rating Watch with Negative Implications
Proposed non-fund based working capital facilities	-	-	-	INR18,340 (reduced from INR24,410)	IND BBB+ /Rating Watch with Negative Implications /IND A2/ Rating Watch with Negative Implications	Downgraded and placed on Rating Watch with Negative Implications

Analytical Approach: Ind-Ra continues to take a consolidated view of SWREL and its subsidiaries on account of the strong strategic and operational linkages among them. While arriving at the ratings, Ind-Ra has factored in the presence of a strong promoter Reliance New Energy Limited (RNEL; formerly Reliance New Energy Solar Limited; a wholly-owned subsidiary of Reliance Industries Limited). The agency has also factored in an improvement in the financial risk profile of SWREL's promoter Shapoorji Pallonji & Company Private Limited (SPCPL), which continues to hold a material stake (20.9%) in SWREL.

The downgrade reflects a continuous deterioration in the consolidated credit profile with a further widening of EBITDA losses in 4QFY23 and a stretched liquidity position. The Rating Watch with Negative Implications reflects uncertainty in cash flows to meet the large scheduled repayment obligations in FY24, which is likely to be met through a mix of receivables, project advances from new orders, claim receipt under the indemnity agreement and debt refinancing.

Ind-Ra had estimated SWREL's business and financial profile to improve in FY23 post the collection of the entire inter-corporate deposits given to the group entities and equity infusion by RNEL. However, a slower-than-anticipated order inflows and operational loss from the legacy international projects resulted in a weak operating and financial performance in FY23.

Key Rating Drivers

Weak Operating Performance in FY23, Although Likely to Recover in FY24: SWREL's operations were severely impacted due to the supply chain disruptions caused by COVID-19, a sharp increase in module price and labour shortages in FY22, effects of which have continued in FY23. This continued to elevate the project cost, leading to large operating losses. This had also led to a decline in new solar auctions, which were deferred by one-to-two years, leading to a reduced order book and lower revenue visibility for FY23. As a result, the consolidated revenue plunged to INR20 billion in FY23 (FY22: INR51.9 billion, FY21: INR50.8 billion). On a consolidated basis, the EBITDA margins remained negative at around 54% in FY23 (FY21: negative 16%, FY21: negative 6.3%) mainly on account of increase in modules prices, liquidated damages, lower absorption of overheads and increased provisioning towards the legacy international projects. The drag in profitability was also aggravated on account of bankruptcy filed by a sub-contractor in an international project in the previous year.

However, SWREL's order book improved to around INR49 billion at end-March 2023 from INR32.5 billion at end-March 2022. Ind-Ra expects the order book to improve further in FY24 owing to the strong order pipeline. The company has also signed a memorandum of understanding with the government of Nigeria in FY23 and is in the advanced stages of finalising the engineering, procurement and construction (EPC) agreement. Ind-Ra expects SWREL's operating performance to recover from FY24 supported by healthy order inflows from the domestic market which has balance of supply as scope of work, overhead rationalisation and increased focus on the operations and maintenance (O&M) portfolio (constituted around 9% of FY23 revenue). An improvement in the company's business risk profile will remain a key rating monitorable.

Credit Metrics Likely to Remain Weak During FY24: On a consolidated basis, the credit metrics deteriorated in FY23 as the company availed large debt to meet working capital requirements and fund the operating loss, which are mainly towards the legacy international projects. The gross debt increased to around INR20 billion at FYE23 (FYE22: INR4.35 billion). Ind-Ra expects credit metrics to remain weak during FY24 as a material reduction in debt is likely by end of FY24.

Liquidity Indicator - Stretched: SWREL's had free cash and cash equivalents of INR479 million at FYE23 (FYE22: INR4,575 million). During FY23, the company availed INR15 billion of additional debt, which is largely to be repaid in FY24. It has scheduled principal repayments of around INR9.8 billion in FY24, INR3.7 billion in FY25 and INR2.2 billion in FY26. Ind-Ra expects a recovery in operating performance in FY24, however, the accruals from operations will not be sufficient to meet the entire FY24 obligation. Management expects the major portion of obligations to be met through a mix of receivables collection, project advances from new orders, claim receipt under the indemnity agreement and debt refinancing.

The average month end use of the fund-based and non-fund-based limits stood at around 94% and 54%, respectively, over the 12 months ended March 2023. The net working capital cycle (debtors including unbilled revenue plus inventory and security deposits less creditors including advances) elongated to around 58 days in FY23 (FY22: negative 2 days), mainly due to a reduction in trade payables to INR6.5 billion (INR14 billion).

Gradual Improvement in Order Book: SWREL had an order book of INR32.5 billion at end-March 2022. During FY23, the order book improved to around INR49 billion, primarily on account of receipt of two major orders from NTPC Limited ('IND AAA/Stable'), which improves revenue visibility for FY24. Geographically, the order book concentrated with India accounting for 90% of the orders in FY23, followed by Australia (7%), the US (2%) and Latin America (1%). Most of the orders have a project duration of 12-18 months. The company has signed a memorandum of understanding with the government of the Federal Republic of Nigeria, along with its consortium partner Sun Africa. The agreement is likely to be finalised in the near term with an estimated project value of more than USD1.5 billion. Furthermore, post the acquisition from RNEL, Ind-Ra expects the company to become a preferred EPC and O&M contractor for net-zero carbon vision of the Reliance group by 2035. Ind-Ra believes a gradual improvement in order inflows over FY24, resulting in an improved revenue visibility over the near-to-medium term.

Indemnification Against Claims/Non-Recovery of Receivables from Certain Identified Projects: On 29 December 2021, SWREL signed an indemnity agreement with SPCPL, Khurshed Daruvala (jointly the promoter selling shareholders) and RNEL pursuant to which, the promoter selling shareholders would indemnify and reimburse the holding company and its subsidiaries/branches for a net amount, if it exceeds INR3,000 million, on settlement of liquidated damages pertaining to certain identified past and existing projects, old receivables, direct and indirect tax litigations as well as certain legal and regulatory matters. These amounts would be claimed by 30 September of each year on the basis of the final settlement amounts with customers, suppliers, among others. 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 crystallised, if not recovered from the customers. Management expects to crystallise INR4 billion-4.5 billion under the indemnity agreement by September 2023.

Expected Operational Benefit from RNEL Acquisition: SWREL's business risk profile is likely to benefit from the Reliance Group' strong focus on the clean energy segment. Reliance Group is creating an entire clean energy ecosystem, for which, it has already spent over USD1.5 billion for foraying into the solar, battery and hydrogen segments. Reliance Group is also setting up giga factories in Jamnagar to manufacture solar photovoltaic modules, wafers, fuel cells, electric vehicles and grid storage batteries, and electrolyser. Ind-Ra believes SWREL will be the preferred EPC and O&M contractor for the Reliance Group. Furthermore, the acquisition of stake in SWREL will enable the group to strengthen its presence in the clean energy segment in the global market through SWREL's strong portfolio of 12.9GW in the solar EPC segment for a comprehensive range of solar energy turnkey solutions including design, procurement, construction, project management and O&M.

Established Presence in Solar Segment: SWREL is one of the largest EPC players globally with a track record of commissioning 256 contracted solar power projects. As of March 2023, the company has executed more than 14.7GW capacity across geographies including Australia, the US, Asia, Africa, Latin America and the Middle East. The company has set up its largest single location solar photovoltaic plant of 1,177MW in Abu Dhabi. The extensive experience and established brand presence have helped the company to bag large orders and enjoy a higher bargaining power compared with other small-scale competitors.

Exposure to Volatility in Raw Material Prices and Project Execution Risk: Solar modules and logistics account for 50%-60% of the project costs. Over the last two years, the company has witnessed large operating losses due to price increase and delay in project execution due to COVID-19-induced disruptions. While the company has recovered cost increases from certain customers, it has a limited potential to pass on the prices to customers, and the consequential overheads. In addition, the EPC sector tends to be more competitive as it is a tender-based business. Ind-Ra expects the company to improve its profitability as the newly bagged orders from NTPC is balance of supply, wherein the procurement of solar panel is under the

scope of project owner. The company's ability to improve its operating profitability will remain key monitorable.

Standalone Performance: On a standalone basis, SWREL reported revenue of INR14.5 billion in FY23 (FY22: INR34.6 billion) and EBITDA loss of INR4.1 billion (loss of INR2.2 billion).

Rating Sensitivities

The Rating Watch with Negative Implications indicates that the ratings may be either downgraded or affirmed upon resolution. The Rating Watch will be resolved upon improved visibility of operational turnaround and improvement in SWREL's financial flexibility and liquidity.

Company Profile

SWREL is one of the largest non-original equipment manufacturers and solar EPC player globally with a diversified presence across geographies. It was demerged from Sterling and Wilson in March 2018. SWREL was listed on the BSE Limited and National Stock Exchange of India Limited in August 2019.

FINANCIAL SUMMARY

Particulars	FY23	FY22
Revenue (INR million)	20,150	51,989
EBITDA (INR million)	-10,801	-8,278
EBITDA margins (%)	Not meaningful	Not meaningful
Total debt (INR million)	20,150	4,351
Interest coverage (x)	Not meaningful	Not meaningful
Net leverage (x)	Not meaningful	Not meaningful
Source: SWREL, Ind-Ra		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating	27 May 2022	21 October 2021	3 June 2021	8 October 2020	
Issuer rating	Long-term	-	IND BBB+/ Rating Watch with Negative Implications	IND A+/Stable	IND A-/ Rating Watch with Positive Implications	IND BBB+/ Rating Watch with Developing Implications	IND A/ Rating Watch with Negative Implications	It
Fund-based working capital limits	Long-term/Short-term	INR6,500	IND BBB+/ Rating Watch with Negative Implications /IND A2/ Rating Watch with Negative Implications	IND A+/Stable/IND A1+	IND A-/ Rating Watch with Positive Implications /IND A2+/ Rating Watch with Positive Implications	IND BBB+/ Rating Watch with Developing Implications /IND A2/ Rating Watch with Developing Implications	IND A/ Rating Watch with Negative Implications /IND A1/ Rating Watch with Negative Implications	It /It
Non-fund-based working capital limits	Long-term/Short-term	INR81,000	IND BBB+/ Rating Watch with Negative Implications /IND A2/ Rating Watch with Negative Implications	IND A+/Stable/IND A1+	IND A-/ Rating Watch with Positive Implications /IND A2+/ Rating Watch with Positive Implications	IND BBB+/ Rating Watch with Developing Implications /IND A2/ Rating Watch with Developing Implications	IND A/ Rating Watch with Negative Implications /IND A1/ Rating Watch with Negative Implications	It /It
Term loan	Long-term	INR12,500	IND BBB+/ Rating Watch with Negative Implications	-	-	-	-	

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loan	Low
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>.

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

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