

August 03, 2023

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| BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400 001 Scrip Code: 542760 Scrip Code: 725032 (CP) | 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 BBB+’ and has placed it on Rating Watch with Developing 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)

Regd. Office: Universal Majestic, 9th Floor, P. L. Lokhande Marg, Chembur (W), Mumbai - 400043

Phone: (91-22) 25485300 | Fax: (91-22) 25485331 | CIN: L74999MH2017PLC292281

Email: info@sterlingwilson.com | Website: www.sterlingandwilsonre.com

India Ratings Downgrades Sterling and Wilson Renewable Energy to 'IND BBB-'; Revises Rating Watch to Developing Implications

Aug 03, 2023 | Civil Construction

India Ratings and Research (Ind-Ra) has downgraded Sterling and Wilson Renewable Energy Limited's (SWREL) Long-Term Issuer Rating to 'IND BBB-' from 'IND BBB+' while revising the Rating Watch to Rating Watch with Developing Implications from 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 | - | - | - | INR2,720 (reduced from INR6,020) | IND BBB-/Rating Watch with Developing Implications/IND A3/Rating Watch with Developing Implications | Rating downgraded; Rating Watch revised to Developing Implications from Negative Implications |
| Non-fund-based working capital facilities | - | - | - | INR58,460 (reduced from INR62,660) | IND BBB-/Rating Watch with Developing Implications/IND A3/Rating Watch with Developing Implications | Rating downgraded; Rating Watch revised to Developing Implications from Negative Implications |
| Term loan | - | - | March 2027 | INR15,500 (increased from INR12,500) | IND BBB-/Rating Watch with Developing Implications | Rating downgraded; Rating Watch revised to Developing Implications from Negative Implications |
| Proposed fund-based working capital facilities | - | - | - | INR780 (increased from INR480) | IND BBB-/Rating Watch with Developing Implications/IND A3/Rating Watch with Developing Implications | Rating downgraded; Rating Watch revised to Developing Implications from Negative Implications |
| Proposed non-fund based working capital facilities | - | - | - | INR35,540 (reduced from INR18,340) | IND BBB-/Rating Watch with Developing Implications/IND A3/Rating Watch with Developing Implications | Rating downgraded; Rating Watch revised to Developing Implications from 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. Ind-Ra also continues to factor 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 (IND AAA/Stable/IND A1+).

The downgrade reflects the potential adverse impact on SWREL's near-term liquidity of the invocation of two bank guarantees (BGs), totalling INR3,859 million, at its overseas subsidiary in relation to its two overseas projects. The Rating Watch with Developing Implications reflects the uncertainty in the source of cashflows to honour BGs within the stipulated time which accentuates debt repayment risks for FY24. SWREL's financial obligations is likely to be met through a mix of additional debt, project advances, collection of receivables, early request of claim receipt under the indemnity agreement and refinancing.

Key Rating Drivers

Liquidity Indicator - Stretched: During 1QFY24, the overseas subsidiary received the intimation of invocation of two BGs amounting to INR1,997 million and INR1,862million, which management believes are wrongful in nature as the projects have successfully achieved commercial operations and the subsidiary has fulfilled all its obligations under the contracts. The subsidiary has filed liens of INR3,589 million and INR4,983 million on the project towards amounts due and recoverable, respectively.

SWREL had free cash and cash equivalents of INR630 million at 30 June 2023 (FYE23: INR479 million). During FY23, the company availed INR15 billion of additional debt, and the major portion of it is due for repayment in FY24. It has scheduled principal repayments of around INR10.9 billion in FY24 (including commercial paper), INR3.7 billion in FY25 and INR2.2 billion in FY26. The invocation of aforementioned BGs will further impact the stretched liquidity position of the company.

While Ind-Ra expects a recovery in the operating performance in FY24 with the company's gross margin turning positive in1Q, accruals from operations will not be sufficient to meet the entire FY24 obligations. Management intends to honour these BGs within the stipulated timelines set by the respective lenders and the scheduled repayment, through a mix of additional debt, project advances, expected early receipt of crystallised claim under the indemnity agreement, receivables and debt refinancing.

The average month-end use of the fund-based and non-fund-based limits stood at around 92% and 55%, respectively, over the 12 months ended May 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).

Weak Operating Performance in FY23, Signs of Recovery in 1QFY24: During FY23, the consolidated revenue plunged to INR20 billion in FY23 (FY22: INR51.9 billion, FY21: INR50.8 billion) leading EBITDA losses, due to industry headwinds caused by the extended impact of COVID-19, leading to a sharp increase in module price and labour shortages. The consolidated EBITDA margins remained negative at around 54% in FY23 (FY21: negative 16%, FY21: negative 6.3%).

However, Ind-Ra expects SWREL's operating performance to recover in FY24, supported by healthy order inflows from the domestic market which has a 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). During 1QFY24, the company has shown signs of revival, supported by improved domestic order intake. The consolidated revenue was INR5.15 billion with gross margin of 11.4% in 1QFY24 (FY23: negative 35%). 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 a 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). Moreover, during 1QFY24, company raised a commercial paper of INR1 billion, and the net debt as on 30 June 2023 stood at INR21 billion. Ind-Ra expects the credit metrics to remain weak during FY24 as a material reduction in debt is likely only by end-FY24.

Gradual Improvement in Order Book: Ind-Ra expects SWREL's order book to improve further in FY24, resulting in improved near-to-medium term revenue visibility. The order book remained at healthy levels of INR49 billion as on 30 June 2023 (FY23: INR49 billion). During 1QFY24, company secured two projects, one each located in Rajasthan and Uttar Pradesh, cumulatively amounting at around INR4.7 billion.

Also, the company signed a memorandum of understanding with the government of Nigeria in FY23, and is in the advanced stages of finalising a engineering, procurement and construction (EPC) agreement with an estimated project value of more than USD1.5 billion. In addition, company has signed a contract for NTPC Khavda-II project. Furthermore, post the acquisition of SWREL by RNEL, Ind-Ra expects the company to become a preferred EPC and O&M contractor for the net-zero carbon vision of the Reliance group by 2035.

However, the order book concentrated geographically, with India accounting for 94%, followed by Australia (4%), the US (1%) and some small portion in Latin America. Most of the orders have a project duration of 12-18 months.

Indemnification Against Claims/Non Recovery of Receivables from Certain Identified Projects: On 29 December 2021, SWREL signed an indemnity agreement with Shapoorji Pallonji and Company Private Limited, Khurshed Daruvala (jointly the promoter selling shares) and RNEL pursuant to which, the promoter selling shares would indemnify and reimburse the holding company and its subsidiaries/branches for a net amount, if it exceeds INR3,000 million, upon the 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 shares once crystallised, if not recovered from the customers. As on 30 June 2023, the crystallised claim was at around INR2.7 billion, against which management is requesting an early payment.

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 electrolyzers. 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 its strong portfolio of 14.7GW 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 than 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 past two years, the company has witnessed large operating losses due to price increases and delays 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 is competitive as it is a tender-based business. Ind-Ra expects the company to improve its profitability as the newly bagged orders from NTPC are pertaining to balance of supply, wherein the procurement of solar panels is under the scope of project owner. The company's ability to improve its operating profitability will remain a key monitorable.

Standalone Performance: On a standalone basis, SWREL reported revenue of INR3.8 billion in 1QFY24 (FY23: INR14.5; FY22: INR34.6 billion) and EBITDA loss (excluding other income) of INR0.2 billion (negative INR4.1 billion and negative INR2.2 billion).

Rating Sensitivities

The Rating Watch with Developing Implications indicates that the ratings may be either downgraded, affirmed or upgraded upon resolution. The Rating Watch will be resolved upon honouring of BGs within the stipulated timeline by the respective lenders of the overseas subsidiary, 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 players globally with a diversified presence across geographies. It was demerged from Sterling and Wilson Private Limited (IND BBB-/Stable/IND A3) in March 2018. SWREL has been listed on the BSE Limited and National Stock Exchange of India Limited since August 2019.

FINANCIAL SUMMARY - CONSOLIDATED

| Particulars | FY23 | FY22 |
|--------------------------|----------------|----------------|
| Revenue (INR billion) | 20.15 | 51.99 |
| EBITDA (INR billion) | -10.80 | -8.28 |
| EBITDA margins (%) | Not meaningful | Not meaningful |
| Total debt (INR billion) | 20.15 | 4.35 |
| Interest coverage (x) | Not meaningful | Not meaningful |
| Net leverage (x) | Not meaningful | Not meaningful |
| Source: SWREL Ind-Ra | | |

Non-Cooperation with previous rating agency

Not applicable

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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

| Instrument Type | Current Rating/Rating Watch | | | Historical Rating/Outlook | | | | |
|---------------------------------------|-----------------------------|------------------------|--|---|-----------------------------|--|---|--|
| | Rating Type | Rated Limits (million) | Rating | 2 May 2023 | 27 May 2022 | 21 October 2021 | 3 June 2021 | 8 Oct |
| Issuer rating | Long-term | - | IND BBB-/Rating Watch with Developing Implications | 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 Wa Ne Imp |
| Fund-based working capital limits | Long-term/Short-term | INR3,500 | IND BBB-/Rating Watch with Developing Implications/IND A3/ Rating Watch with Developing Implications | 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 Wa Ne Implic A1 Wa Ne Imp |
| Non-fund-based working capital limits | Long-term/Short-term | INR94,000 | IND BBB-/Rating Watch with Developing Implications /IND A3/Rating Watch with Developing Implications | 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 Wa Ne Implic A1 Wa Ne Imp |
| Term loan | Long-term | INR15,500 | IND BBB-/Rating Watch with Developing Implications | 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>.

Contact

Primary Analyst

Sushant Singh

Senior Analyst

India Ratings and Research Pvt Ltd

Unit# 614 - 616, 6th Floor, B Wing, Mittal Tower, M G Road, Bengaluru - 560 001

+91 80-46666824

For queries, please contact: infogrp@indiaratings.co.in**Secondary Analyst**

Pritha Preshi Sharma

Associate Director

Chairperson

Abhash Sharma

Senior Director

+91 22 40001778

Media Relation

Ameya Bodkhe

Marketing Manager

+91 22 40356121

APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage**Evaluating Corporate Governance****Policy for Placing Ratings on Rating Watch****The Rating Process****Short-Term Ratings Criteria for Non-Financial Corporates****Corporate Rating Methodology****DISCLAIMER**

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