

September 05, 2023

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400 001 Scrip Code: 542760 (Equity) 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 revised the long term issuer rating to ‘IND BB-’ for the Company’s long term fund and non-fund facilities. 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 BB-'; Revises Rating Watch to Negative Implications

Sep 04, 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 BB-' from 'IND BBB-' while revising the Rating Watch to Rating Watch with Negative Implications from Rating Watch with Developing 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	IND BB-/Rating Watch with Negative Implications/IND A4+/Rating Watch with Negative Implications	Rating downgraded; Rating Watch revised to Negative Implications from Developing Implications
Non-fund-based working capital facilities	-	-	-	INR61,460	IND BB-/Rating Watch with Negative Implications/IND A4+/Rating Watch with Negative Implications	Rating downgraded; Rating Watch revised to Negative Implications from Developing Implications
Term loan	-	-	March 2027	INR15,500	IND BB-/Rating Watch with Negative Implications	Rating downgraded; Rating Watch revised to Negative Implications from Developing Implications
Proposed fund-based working capital facilities	-	-	-	INR780	IND BB-/Rating Watch with Negative Implications/IND A4+/Rating Watch with Negative Implications	Rating downgraded; Rating Watch revised to Negative Implications from Developing Implications
Proposed non-fund based working capital facilities	-	-	-	INR32,540	IND BB-/Rating Watch with Negative Implications/IND A4+/Rating Watch with Negative Implications	Rating downgraded; Rating Watch revised to Negative Implications from Developing 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.

The downgrade reflects SWREL's poor liquidity situation, resulting from the delay in tying up of the required funding to honour the near-term debt commitments, exacerbated by the invoked bank guarantees at the foreign subsidiary i.e. Sterling and Wilson Solar Solutions Inc. Apart from INR3.9 billion of invoked BG repayments, the company has principal and interest repayment obligations aggregating INR5.8 billion over September-October 2023, which the company plans to meet though a mix of timely tie-up of additional debt facilities, project advances (contingent on project wins), collection of receivables, early request of claim receipt under the indemnity agreement and refinancing. The Rating Watch with Negative Implications reflects the lack of visibility in funding sources to meet the debt commitments in FY24. The Rating Watch will be resolved once the funding to meet the near-term liabilities has been tied up.

Key Rating Drivers

Liquidity Indicator - Poor: During 1QFY24, the overseas subsidiary received an intimation regarding the invocation of BGs amounting to INR3.9 billion (USD47.2 million) with respect to two projects, which the 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 INR3.6 billion and INR4.9 billion on the project towards amounts due and recoverable, respectively.

The company has partially honoured the BGs; however, as on 1 September 2023, around INR2.7 billion (USD33.1 million) was yet to be honoured, which is taking longer than Ind-Ra's expectation. The management has stated that the final sanction of short-term loan is likely to happen shortly and the company has already paid the first installment of INR281 million (USD3.42 million) and INR413 million (USD5 million) to two lenders.

On the addition of these new loans, the scheduled principal repayment for September 2023 to March 2024 will increase to around INR12 billion, out of which around INR7.7 billion is likely to be paid during September-October 2023. While Ind-Ra expects a recovery in the operating performance in FY24, with the company's gross margin having turned positive in 1QFY24, the accruals from operations will not be sufficient to meet the repayment obligations. The management intends to honour the balance BGs and the scheduled repayments through a mix of additional debt, issuance of commercial paper, project advances, likely early receipt of crystallised claims under the indemnity agreement, receivables and debt refinancing.

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 two days), mainly due to a reduction in trade payables to INR6.5 billion (INR14 billion).

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, the 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.

Delays in Expected Operational Benefit from RNEL Acquisition: Ind-Ra expects SWREL's business risk profile to benefit from the Reliance Group's strong focus on the clean energy segment. Reliance Group is creating a 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. However, there has not been any positive development in this respect over the last year. The securing of any project from the Reliance group and an improvement in operational synergy will remain key rating monitorables.

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 to 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. In addition, the company has secured one large order of 600MW from Gujarat Industrial Power Company Limited amounting to INR11.3 billion in August 2023. 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.

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, the company secured two projects, one each located in Rajasthan and Uttar Pradesh, cumulatively amounting to around INR4.7 billion. In addition, the company has secured one large order of 600MW amounting to INR11.3 billion from Gujarat Industrial Power Company Limited in August 2023.

Also, the company signed a memorandum of understanding with the government of Nigeria in FY23, and is in the advanced stages of finalising an engineering, procurement and construction (EPC) agreement with an estimated project value of more than USD1.5 billion. 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.

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 Negative Implications indicates that the ratings might be either downgraded or affirmed upon resolution. The Rating Watch will be resolved once there is an improvement in the company’s liquidity and financial flexibility, and improved visibility of operational turnaround.

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-/RWN/IND A3/RWN](#)) 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	3 August 2023	2 May 2023	27 May 2022	21 October 2021	3 June
Issuer rating	Long-term	-	IND BB-/Rating Watch with Negative Implications	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- Watch Develc Implica

Fund-based working capital limits	Long-term/Short-term	INR3,500	IND BB-/Rating Watch with Negative Implications/IND A4+/ Rating Watch with Negative Implications	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 Dev Implications
Non-fund-based working capital limits	Long-term/Short-term	INR94,000	IND BB-/Rating Watch with Negative Implications /IND A4+/Rating Watch with Negative Implications	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 Dev Implications
Term loan	Long-term	INR15,500	IND BB-/Rating Watch with Negative Implications	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>.

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Policy for Placing Ratings on Rating Watch

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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