

April 30, 2024

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

Ref: Disclosure under Regulation 30 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”)

Dear Sir/ Ma’am,

We are pleased to inform you that India Ratings and Research (Ind-Ra) has upgraded the ratings on Sterling and Wilson Renewable Energy Limited’s bank facilities to ‘IND BB’/Stable/‘IND A4+’ from ‘IND D’.

The report published by Ind-Ra 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
Encl: as above

India Ratings Upgrades Sterling and Wilson Renewable Energy's Bank Facilities to 'IND BB'/Stable/'IND A4+'

Apr 30, 2024 | Civil Construction

India Ratings and Research (Ind-Ra) has upgraded the ratings on Sterling and Wilson Renewable Energy Limited's (SWREL) bank facilities to 'IND BB'/Stable/'IND A4+' from 'IND D' as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Term loan	-	-	October 2026	INR4,030 (reduced from INR15,500)	IND BB/Stable	Upgraded
Fund-based working capital facilities	-	-	-	INR2,720	IND BB/Stable/IND A4+	Upgraded
Non-fund-based working capital facilities	-	-	-	INR61,460	IND BB/Stable/IND A4+	Upgraded
Proposed fund-based working capital facilities	-	-	-	INR780	IND BB/Stable/IND A4+	Upgraded
Proposed fund-based working capital facilities	-	-	-	INR32,540	IND BB/Stable/IND A4+	Upgraded

Analytical Approach

Ind-Ra continues to take a consolidated view of SWREL and its subsidiaries, while arriving at the ratings, on account of the strong strategic and operational linkages among them.

Detailed Rationale of the Rating Action

The upgrade reflects SWREL's demonstrated track record of timely debt repayments and satisfactory conduct of account for over 90 consecutive days from 21 December 2023. The company has raised long-term funds of INR15 billion through the qualified institutions placement (QIP) route. It has also received INR4.2 billion of indemnity amount from its erstwhile promoters and INR2.5 billion (USD30.54 million) from Jinko Solar Company Limited under a settlement agreement. The company has used these proceeds to repay all the loans it defaulted on, prepaid a significant amount of term debt and created earmarked fixed deposits of INR0.75 billion, which will cover all scheduled principal repayments till November 2024. The above-stated transaction has helped the company to significantly deleverage its balance sheet with the gross debt reducing to INR4.8 billion as on 31 March 2024 from INR20.1 billion as on 31 March 2023.

List of Key Rating Drivers

Weaknesses

Turnaround in gross profit; albeit negative PBT in FY24

Overhang of contingent liability

Exposure to volatility in raw material prices and project execution risk

Strengths

Improved credit metrics

Healthy order book

Indemnification against claims/non-recovery of receivables

Lean working capital cycle

Established presence in solar segment

Detailed Description of Key Rating Drivers

Turnaround in Gross Profit; albeit Negative PBT in FY24: During FY24, SWREL's operating performance showed early signs of recovery, supported by a healthy domestic order inflow and completion of majority of loss-making international legacy projects. The gross profit turned positive to INR3.1 billion in FY24 (FY23: negative INR6.9 billion, FY22: negative INR3.7 billion; excluding other income and bank charges from direct project cost). The profit before tax (PBT) however was still at negative INR1.7 billion in FY24. SWREL's operations were severely impacted during FY21-FY23 on account of the supply chain disruptions caused by COVID-19, with the increase in modules prices resulting in operating losses; liquidated damages; lower absorption of overheads and increased provisioning towards legacy international projects. The revenue for FY24 grew 51% yoy to INR3.03 billion. Ind-Ra expects the company's gross margins to remain in the range of 10% to 11% and EBITDA margin to gradually recover to 4% to 5% in the near to medium term, based on better absorption of fixed cost with the increase in the scale of operations. Furthermore, the company has taken overhead rationalisation and expects to keep it under INR3.5 billion in the near term. An improvement in the profitability ensuring the operational cash meet the repayment obligations will remain a key rating monitorable. On a standalone basis, SWREL reported revenue of INR27.06 billion in FY24 (FY23: INR14.6; FY22: INR34.6 billion) and EBITDA of INR544 million (negative INR4.1 billion and negative INR2.2 billion; excluding other income and bank charges from direct project cost).

Overhang of Contingent Liability: Under its engineering, procurement and construction (EPC) contracts, SWREL extends performance bank guarantees (BGs) for each of its projects ranging in 10%-15% of contract value. These BGs usually extend till the defect liability period. As on 31 December 2023, the total outstanding BGs were about INR28.6 billion. As these BGs are unconditional, the counterparty can invoke them even when SWREL does not agree to the reasons of invocation. SWREL faced such invocation of BGs amounting INR3.9 billion in July 2023 and INR0.9 billion in February 2024. As of 14 February 2024, about INR3 billion of BG were outstanding with the customer wherein the company is in dispute. In case of any such BG getting invoked, it will impact the liquidity of the company and hence this will remain a key rating monitorable.

Exposure to Volatility in Raw Material Prices and Project Execution Risk: Over the past two years, the company has witnessed large operating losses due to solar module price increases and delays in project execution due to COVID-19-induced disruptions. While the company has recovered the cost increase from certain customers, it has limited potential to pass on the entire price increase, and the overheads. In addition, the EPC sector is competitive as it is a tender-based business. Ind-Ra expects the company to improve its EBITDA margin in the near to medium term, as majority of newly secured orders from public sector units are pertaining to balance of supply, wherein the procurement of solar panels is under the scope of project owner. While the company has secured few projects, which have the scope of solar modules, it has fixed the pricing with the solar module supplier and thereby mitigating the risk.

Improved Credit Metrics: SWREL has used its proceeds from QIP and indemnity to reduce its debts and has significantly deleveraged its balance sheet. As on 31 March 2024, the gross debt reduced to INR4.8 billion from INR20.15 billion as on 31 March 2023. It has also earmarked fixed deposits amounting to INR750 million towards the repayment of loan instalments up to November 2024. The balance debt post-November 2024 amounting to INR3,280 million will be paid in due course in instalments commencing from December 2024 to October 2026. Ind-Ra expects the credit metrics to improve during FY25 with EBITDA turning positive.

Healthy Order Book: Over FY24, SWREL's order inflow improved 37% yoy to INR60.2 billion and consequently the order book improved to INR80.8 billion as on 19 April 2024 (FY23: INR49 billion). The order book is concentrated in India accounting for around 85%, followed by Spain and Italy (14%) and some small portion in Australia. Most of the orders have a project duration of 12-18 months. Also, the company signed a memorandum of understanding with the government of Nigeria in FY23, and is in the advanced stages of finalising an EPC agreement with an estimated project value of more than USD1.5 billion. Furthermore, post-acquisition of SWREL by Reliance New Energy Limited, 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.

Indemnification Against Claims/Non Recovery of Receivables: On 29 December 2021, SWREL had signed an indemnity agreement with Shapoorji Pallonji and Company Private Limited, Khurshed Daruvala (jointly the promoter selling shares) and RNEL. Pursuant to this, the promoter selling shares would indemnify and reimburse the holding company and its subsidiaries/branches for a net amount, on settlement of liquidated damages pertaining to certain identified past and existing projects (as on the date of signing the aforementioned agreement), old receivables, direct and indirect tax litigations as well as certain legal and regulatory matters, if such claims exceed INR3,000 million. 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 a 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. During FY23 and FY24, the company collected about INR0.9 billion and INR4.2 billion, respectively.

Lean Working Capital Cycle: Payment terms in domestic projects are divided into two major parts: a. Supply and b. Erection & Installation. Under the supply portion of the contract, SWREL will first receive 15% as a customer advance for site mobilisation. Thereafter, it will receive about 75% on the supply of material at the site. Hence, payment from customers on the supply portion is adequate to meet the payment to creditors and thus the company is able to keep a lean working capital cycle. As on 31 March 2024, the net working capital cycle was negative INR5.8 billion. Any material unwinding of negative working capital will impact the liquidity; hence, it will remain a key rating monitorable.

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 31 March 2024, the company executed about 18GW capacity and was maintaining about 7.6GW of projects, across geographies including Australia, the US, Asia, Africa, Latin America and the Middle East. The extensive experience and established brand presence have helped the company to bag large orders and hold a higher bargaining power than small-scale competitors.

Liquidity

Stretched: As on 31 March 2024, SWREL had free cash and cash equivalents of INR2.9 billion (FYE23: INR0.5 billion). During FY24, the liquidity position improved with the proceeds from QIP. SWREL has used it proceed to prepay a significant amount of term debt and reduced its fund-based working capital utilisation to nil. However, the uncertainty around invocation of disputed BG persists.

The average month-end use of non-fund-based limits stood at around 73% respectively, over the 12 months ended January 2024. Also, it has earmarked fixed deposits of INR0.75 billion, which will cover all scheduled principal repayments till November 2024. The principal repayment for December 2024 is INR0.28 billion, 4QFY25 is INR0.54 billion, FY26 is INR1.71 billion and FY27 is INR0.75 billion, which are likely to be met through the available free cash and internal accruals.

Rating Sensitivities

Negative: The following developments, individually or collectively, could be negative for the ratings:

any delay in the recovery of profitability, leading to a weak liquidity and credit profile with gross interest coverage failing to exceed 1.5x on a sustained basis; and
crystallisation of any material contingent liability and/or BG invocation, impacting the liquidity profile.

Positive: An improvement in the revenue and profitability while maintaining comfortable order book visibility, leading to improved liquidity and credit profile with the gross interest coverage exceeding 2x on a sustained basis, could lead to a positive rating action.

About the Company

SWREL is a leading end-to-end renewable EPC solutions provider with a diversified presence across geographies including India, South-east Asia, Middle East, Africa, and Europe. It was demerged from Sterling and Wilson Private Limited (debt rated at 'IND C'/'IND A4') in March 2018. SWREL has been listed on the BSE Limited and National Stock Exchange of India Limited since August 2019. The company provides EPC services for utility-scale solar, floating solar and hybrid & energy storage solutions and has a total portfolio of over 18GWp (including projects commissioned and under various stages of construction). SWREL also manages an O&M portfolio of 7.6GWp solar power projects.

KEY FINANCIAL INDICATORS

Particulars - Consolidated	FY24	FY23
Revenue (INR billion)	30.35	20.15
EBITDA (INR billion)	-0.2	-10.8
Interest expense (INR billion)	2.2	2.0
Interest coverage (x)	n.m.	n.m.
Net leverage (x)	n.m.	n.m.
Sources: SWREL, Ind-Ra n.m.: not meaningful		

Particulars - Standalone	FY24	FY23
Revenue (INR billion)	27.06	14.58
EBITDA (INR billion)	0.5	-4.1
Interest expense (INR billion)	1.9	1.4
Interest coverage (x)	0.28	n.m.
Net leverage (x)	3.92	n.m.
Sources: SWREL, Ind-Ra n.m.: not meaningful		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating			Historical Rating/Rating Watch/Outlook							
	Rating Type	Rated Limits (million)	Rating	10 October 2023	22 September 2023	4 September 2023	3 August 2023	2 May 2023	27 May 2022	21 October 2021	3 June 2021
Issuer rating	Long-term	-	-	-	WD	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+/Rating Watch with Developing Implications
Fund-based working capital limits	Long-term/Short-term	INR3,500	IND BB/Stable/IND A4+	IND D	-	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 Developing Implications
Non-fund-based working capital limits	Long-term/Short-term	INR94,000	IND BB/Stable/IND A4+	IND D	-	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 Developing Implications
Term loan	Long-term	INR4,030	IND BB/Stable	IND D	-	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 the Instruments

Instrument Type	Complexity Indicator
Term loan	Low
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

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

APPLICABLE CRITERIA

Evaluating Corporate Governance

Default Recognition and Post-Default Curing Period

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

DETAILED FINANCIAL SUMMARY

[Click Here to Download](#)

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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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