

August 5, 2019

Sterling Wilson Solar (SWSL) is a global pure-play, end-to-end solar engineering, procurement and construction (EPC) solutions provider. It was the world's largest solar EPC solutions provider in 2018 (in more than 5 MWp category). It provides EPC services primarily for utility-scale solar power projects with a focus on project design & engineering and manages all aspects of project execution from conceptualising to commissioning with a presence across 26 countries. It also provides operations and maintenance (O&M) services, including for projects constructed by third-parties.

Largest global solar pure-play EPC solutions provider

SWSL was the world's largest solar EPC solutions provider, based on annual installation of utility-scale PV systems of more than five MWp, with a market share of 4.6% in 2018. SWSL was also the largest solar EPC solutions providers in each of India, Africa and Middle East in 2018 with 16.6%, 36.6% and 40.4% market share, respectively. In 2017, it won the bid for the 1,177 MWp solar power project in Abu Dhabi, the world's largest single location solar PV plant. Currently, SWSL has a presence across 26 countries with operations in India, South East Asia, Middle East and North Africa, rest of Africa, Europe, US, Latin America and Australia, which are expected to see steep growth in solar power capacity additions in near future.

Operate asset-light business model

SWSL operate an asset-light business model, under which its customers are responsible for sourcing and acquiring real estate while SWSL typically lease equipment required for its operations. The asset-light business model generally entails low capex & fixed costs and offers flexibility and scalability to meet its customers' needs, provide customised solutions and respond quickly to market conditions. It is able to operate with low to negative working capital requirements as most of its EPC contracts are typically of short duration and require an advance payment from customers for certain deliverables. Also, its EPC contracts include shorter payment cycles from customers compared to longer payment cycles from its suppliers.

Key risk and concerns

- If solar PV and related technology are regarded as unsuitable
- Loss of key customer could significantly reduce revenue
- Any restrictions in supply or quality defects could cause delays
- It may not be successful in winning bids for solar project
- It may be unable to estimate costs under fixed-price contract

Priced at P/E multiple of 19.45x on FY19 for lower price band

At the IPO price band of ₹ 775-780, the stock is available at a P/E (considering restated consolidated PAT) multiple of 19.45x-19.57x on FY19 EPS.



Particulars

Issue Details

Issue Opens	6-Aug-19
Issue Closes	8-Aug-19
Issue Size (₹ crore)	
Offer for Sale (₹ crore)	3125
Price Band (₹)	775-780
No. of shares on offer (crore)	4.03
QIB (%)	75
Non-Institutional (%)	15
Retail (%)	10
Minimum lot size (No. of shares)	19
Face Value (₹)	1

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoters	99.1%	74%
Public/ Others	0.9%	26%

Objects of the Offer

To achieve benefits of listing on stock exchanges

For offer of equity shares by promoter selling shareholders (who shall utilise part of ₹ 3125 crore proceeds towards repayment of loans due to SWSL and

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Key Financial Summary

Particulars (₹ crore)	FY16#	FY17#	FY18*	FY19
Revenue from operations	2,739.4	1,640.3	6,871.7	8,240.4
EBITDA	195.9	67.7	550.5	851.6
EBITDA Margin (%)	7.1	4.1	8.0	10.3
Net Profit	125.4	31.4	450.5	638.2
EPS (₹)	NA	NA	30.0	39.9
RoNW (%)	NA	NA	118.0	62.0

* For the period 9 March 2017 to 31 March 2018; # Carved out combined financial statements (SWPL - Solar EPC division); NA= Not Applicable
Source: ICICI Direct Research, RHP

Company background

Sterling Wilson Solar (SWSL) is an SP group company. The SP Group is a global conglomerate with over 150 years of experience as an EPC solutions provider in six major business areas across 45 countries.

SWSL is a global pure-play, end-to-end solar engineering, procurement and construction (EPC) solutions provider and is the world's largest solar EPC solutions provider in 2018 based on annual installations of utility-scale photovoltaic (PV) systems of more than 5 megawatt peak (MWp). It provides EPC services primarily for utility-scale solar power projects with a focus on project design and engineering and manage all aspects of project execution from conceptualising to commissioning. It also provides operations and maintenance (O&M) services, including for projects constructed by third-parties.

SWSL commenced operations in 2011 as the solar EPC division of SWPL and demerged from SWPL with effect from April 1, 2017. Over seven years, it became the largest solar EPC player in each of India, Africa and the Middle East in 2018. Currently, it has a presence across 26 countries. As of March 31, 2019, it had 205 commissioned and contracted solar power projects with an aggregate capacity of 6,870 MWp including 177 commissioned projects with capacity of 5271 MWp and 28 contracted projects with aggregate capacity of 1598 MWp. SWSL's order book, which is defined as the value of solar power projects entered into definitive EPC contracts minus the revenue already recognised from those projects, was ₹ 3831.5 crore. It has received letters of intent (LoIs) of ₹ 3908.2 crore (of which ₹ 2195.9 crore was converted into definitive EPC contracts since March 31, 2019) for solar power projects for which it has won the bid but has not yet executed definitive EPC contracts. In FY18 and FY19, SWSL's revenue from operations outside India accounted for 59.1% and 69.8%, respectively.

SWSL offers a complete range of turnkey and BoS solutions for its utility-scale and rooftop solar power projects.

Turnkey EPC Solutions:

Its turnkey EPC solutions involve building solar power projects from concept designing to commissioning. It provides end-to-end solutions to its clients including design, engineering, procurement, construction, project management, testing & commissioning and connecting solar power projects to the electricity grid. Turnkey solutions are used by SWSL's customers in India and outside India.

BoS and package BoS:

SWSL's balance of system (BoS) solutions comprise all project design and execution services other than the procurement of modules and components, which is handled by the customer, and "package BoS" projects include additional civil, mechanical and electrical work solutions. BoS solutions are used primarily by its customers in India and in the US.

EPC contracts

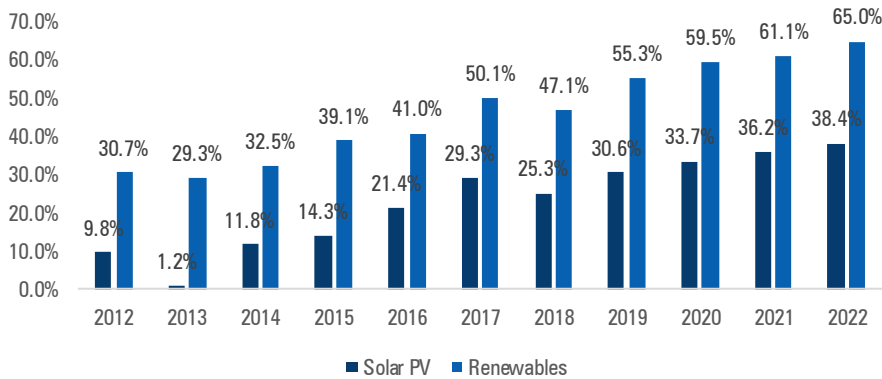
Under EPC contracts, it provides solar EPC solutions for solar power projects according to a specified timeline and completion date by entering into fixed price EPC contracts and billing its customers based on key stages of execution. For example, for a project with an 11-month timeline, it typically receives advance payment of ~10-15% of contract price in the first month. Thereafter, it receives milestone payments of between 60% and 95% of the contract price, beginning on or around the fifth month of operations and the remainder of the contract price from the eighth month until the completion of construction and commissioning in the 10th or 11th month.

Industry Overview

Solar emerges as disruptive low cost source of energy, globally

Renewable energy sources, such as solar energy, have become significant contributors to power capacity growth additions globally. The global energy landscape has been transforming, with a rapid uptake in renewable energy sources, such as solar energy, as a result of increasing cost competitiveness, improving technology and robust government approaches to climate change. According to IHS Markit, the share of solar photovoltaic (PV) generation capacity annual additions in global power generation capacity annual additions has increased from 9.8% in 2012 to 25.3% in 2018, and could increase to 38.4% in 2022.

Exhibit 1: Share of Solar PV, renewables in global power gen. capacity addition

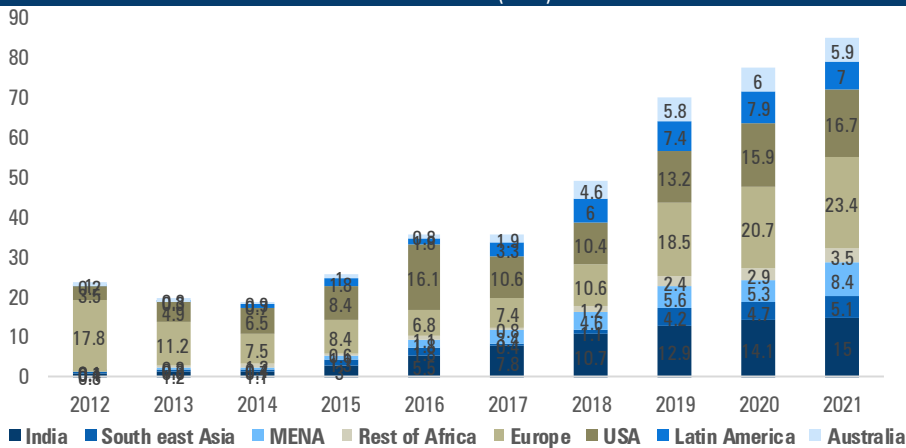


Source: ICICI Direct Research; RHP

Solar PV installation sees strong growth globally

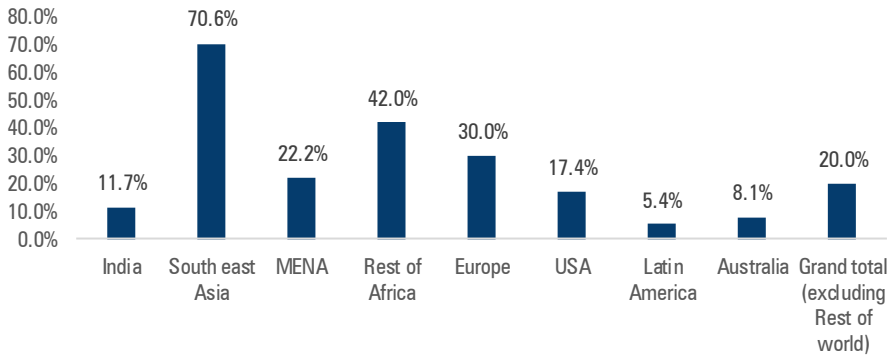
Annual solar PV installations have seen strong growth globally, increasing from 31.6 gigawatt (GW) in 2012 to 103.0 GW in 2018, representing growth of 21.8% CAGR. Regionally, for 2012-18, annual solar PV installations increased by 9.9 GW in India, 0.7 GW in South East Asia, 4.5 GW in the Middle East & North Africa, 1.1 GW in the rest of Africa, 6.9 GW in the US, 5.8 GW in Latin America, 3.6 GW in Australia and 46.1 GW in the rest of the world (primarily in China and Japan).

Exhibit 2: Global annual solar PV installations (GW)



Source: ICICI Direct Research; RHP

Exhibit 3: Country wise solar installations CAGR (%) between 2018 and 2022

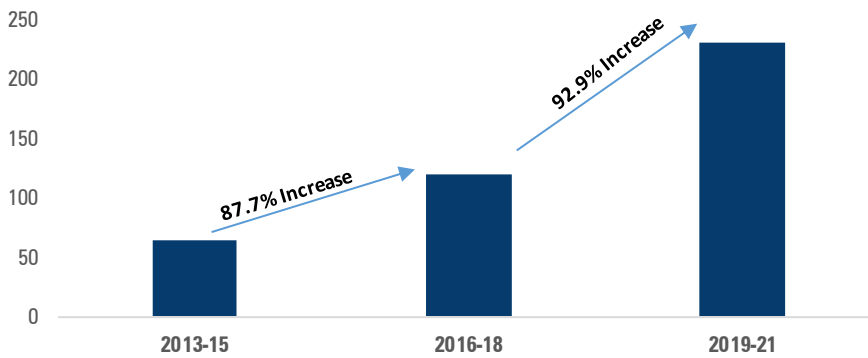


Source: ICICI Direct Research; RHP

The cumulative annual solar PV installations in India, South East Asia, the Middle East & North Africa, the rest of Africa, Europe, the US, Latin America and Australia increased from 64 GW in 2013-15 to 120 GW in 2016-18 representing a 87.7% increase. This is likely to increase by 232 GW in 2019-21 representing a further 92.9% increase.

The figure below depicts the cumulative three year growth in solar PV generation capacity annual addition in India, South East Asia, MENA, the rest of Africa, Europe, the US, Latin America and Australia.

Exhibit 4: Cumulative annual solar PV installations in select markets

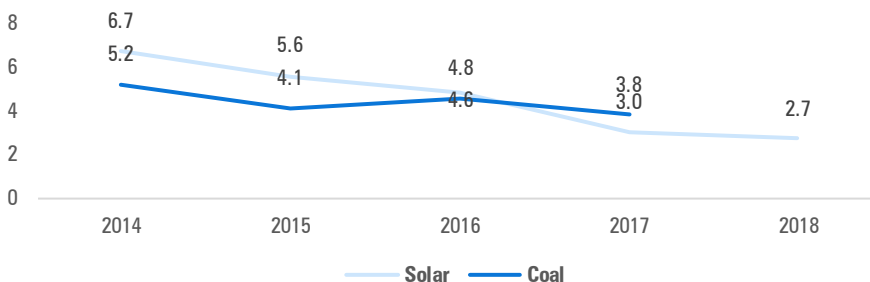


Source: ICICI Direct Research; RHP

Falling module prices drive declining solar utility scale system cost

Declining costs of solar energy installation associated with its use, is a key factor driving global growth of the solar industry. According to IHS Markit, in India, the levelised cost of electricity (LCOE) of solar PV systems declined sharply between 2012 and 2018. It is expected to continue to reduce until 2030. In comparison, other sources of energy in India, like coal, have seen a general increase in costs in recent years.

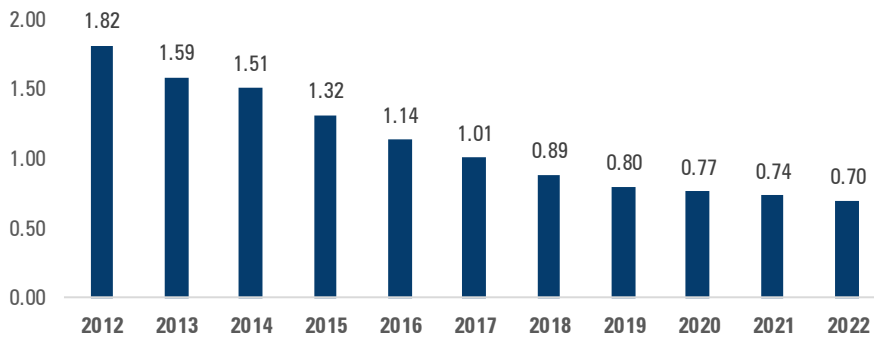
Exhibit 5: Tariff trend in India (₹ per Kwh)



Source: ICICI Direct Research; RHP

The declining costs of using solar energy can be attributed to a decline in costs of solar PV systems. According to Bloomberg NEF’s Outlook report, average global total utility-scale PV systems cost reduced from \$1.82/watt in 2012 to \$0.89/watt (DC) in 2018. It is expected to further decline to \$0.70/watt (DC) in 2022.

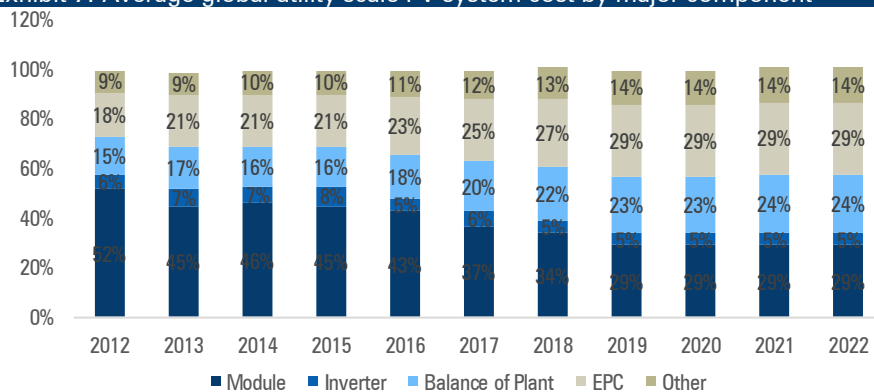
Exhibit 6: Average global total utility scale PV system cost (US\$ per Watt)



Source: ICICI Direct Research, RHP

A key driver of this decline in costs of solar PV systems is the decreasing costs of solar PV modules over the years, with the average price of solar PV modules declining 68.5% between 2012 and 2018, according to Bloomberg NEF. The share of modules and invertors as a percentage of total PV system costs has declined globally from 58.3% in 2012 to 38.4% in 2018. It is expected to further decline to 33.8% by 2022. Improvement of module efficiency, while not directly impacting the module price, lowers the per watt spending of non-module components in the system. The figure below depicts the year-on-year change in composition break-up of global utility-scale PV system costs.

Exhibit 7: Average global utility scale PV system cost by major component



Source: ICICI Direct Research, RHP

Investment Rationale

Largest global solar pure-play EPC solutions provider

SWSL was the world's largest solar EPC solutions provider, based on annual installations of utility-scale PV systems of more than five MWp, with a market share of 4.6% in 2018 that increased from 0.3% in 2014. SWSL was also the largest solar EPC solutions providers in each of India, Africa and Middle East in 2018 with 16.6%, 36.6% and 40.4% market share, respectively. In 2017, it won the bid for the 1,177 MWp solar power project in Abu Dhabi, which is the world's largest single location solar PV plant. Currently, SWSL has a presence across 26 countries with operations in India, South East Asia, Middle East and North Africa, rest of Africa, Europe, US, Latin America and Australia. These are expected to see a steep growth in solar power capacity addition over the next three years.

Follows "hub-and-spoke" business model

SWSL follows a "hub-and-spoke" business model. It manages the complete supply chain from India, including design & engineering functions, engages a few suppliers & third-party subcontractors and procures part of raw materials for its operations locally in each of its markets, where there is a cost advantage or to comply with local regulations. It seeks to leverage this business model to procure products and services solutions for its customers at competitive prices who also benefits from SWSL's key relationship with key stakeholders, such as, suppliers, project lenders and consultants.

Operates asset-light business model

SWSL operate an asset-light business model, under which its customers are responsible for sourcing and acquiring real estate while SWSL typically leases equipment required for its operations. The asset-light business model generally entails low capex and fixed costs, and offers flexibility and scalability to meet its customers' needs, provide customised solutions and respond quickly to market conditions. It is able to operate with low working capital requirements as most of its EPC contracts are typically of short duration. SWSL typically requires an advance payment from customers for certain deliverables and its EPC contracts include shorter payment cycles from customers compared to longer payment cycles from its suppliers. SWSL has negative working capital due to asset light model, short duration of contracts and nature of payment cycles (typically advance payment from customers and elongated payment cycle to suppliers).

Benefits from Shapoorji Pallonji brand reputation, relationships

SWSL benefits from the brand reputation, industry relationships and project management expertise of the Shapoorji Pallonji group (SPCPL) and the Sterling and Wilson group. The SP Group is a global conglomerate and has over 150 years of experience as an EPC solutions provider in various industries across 45 countries. As of March 31, 2018, total consolidated assets of SPCPL was ₹ 56353.1 crore, which helps SWSL to meet certain financial requirements for bidding for solar power projects. It also benefits from a global presence and stakeholder relationships of the SP Group. In particular, before entering a new market, SWSL typically leverages from the presence of SPCPL in that market to get a head start in establishing operations. Further, SWSL along with subsidiary SW FZCO, have entered into brand sharing agreements with SPCPL under which it has the right to use intellectual property belonging to the SP group and benefit from the SP Group's track record of project execution in bidding for large scale projects.

Strengths & Strategies

Focus on efficient and cost effective engineering solutions

SWSL's operations are supported by a competent and sizable design and engineering team that are responsible for designing solutions that are innovative and cost-effective, with the aim of increasing the performance ratio of solar power projects. As of March 31, 2019, all of its design team is based in India, which provides a cost advantage over its competitors. SWSL's design and engineering team of 154 employees continually seeks to improve the efficiency of its solutions and services.

SWSL's design & engineering solutions, coupled with robust quality compliance checks on PV modules helps achieve more than the contractually agreed performance ratio for solar power projects constructed by it. In FY18, FY19, SWSL did not pay any liquidated damages related to performance ratios under its EPC contracts as it achieved the contractually agreed performance ratios under those contracts.

Strong relationships with customers, key stakeholders

SWSL's customers include leading IPPs and developers such as Marubeni, EDF Renewables, Alten, Sunseap, Sao Mai, Enfinity, ACWA Power and BNRG Renewables and equity funds. It adopts a consultative approach to its customers' solar energy needs, which enables it to provide customised solutions to meet their requirements. SWSL's global network connects its customers to key stakeholders, allowing it to reduce the number of service providers, thus saving time and cost, while also providing enhanced supply chain visibility as it is able to select and optimise solutions for its customers efficiently and at competitive prices.

SWSL often receives repeat orders from its customers. As of March 31, 2019 customers in India and outside India for which it has executed more than one project constituted 83.3% and 64.3% of its total commissioned solar capacity, respectively. As part of its global network, SWSL maintains relationships with other key stakeholders, like a diversified group of global and local suppliers of modules and other raw materials as they are critical to the success of its supply chain.

Focus on expanding O&M, rooftop, solar EPC, solar storage

SWSL plans to continue expanding its O&M operations for solar power projects that were not constructed by it. It intends to first expand its O&M operations in regions where it has EPC operations, and enters markets that have conducive solar power policies with commissioned solar power projects. SWSL also intends to continue developing its data analytics processes through the CMS and CMMS that it has licensed from SWPL and leverage its experience of providing O&M services to understand solar modules and other equipment and help improve its EPC and O&M services and win repeat orders. As on March 2019, it provided O&M services to 116 solar projects in India, Middle East and North Africa, US, Latin America aggregating to 5557 MWp. Revenue for FY19 was at 1.1% of total revenue.

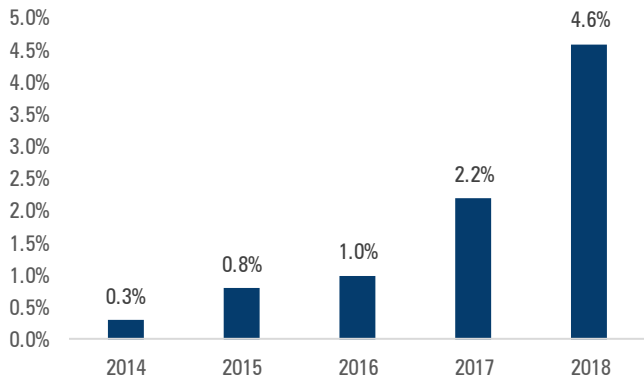
In addition, it plans to expand its rooftop solar EPC solutions and also benefit from the evolving energy storage and ancillary service technologies by leveraging SWPL's energy storage capabilities by offering solar + storage solutions.

Market leadership through strategic overseas expansion

SWSL aims to maintain market leadership position through strategic expansion, including through roll up acquisitions in the current markets operate and into new geographies that present attractive opportunities.

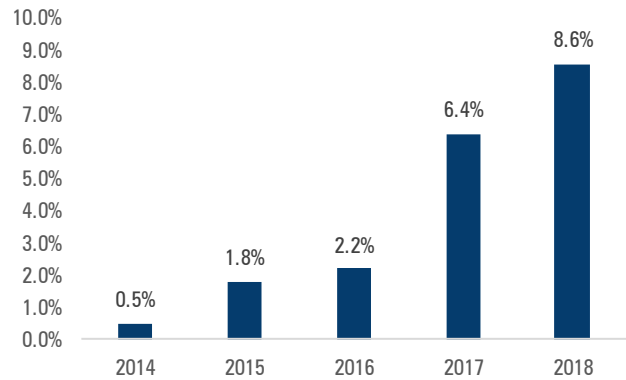
The strategy is to focus on markets with conducive solar power policies and high solar resources. In particular, it expects to leverage its market leadership and customer relationships in Africa and India to be attractively positioned to bid for African projects funded by India under the International Solar Alliance (ISA) treaty.

Exhibit 8: SWSL's global market share trend for solar EPC



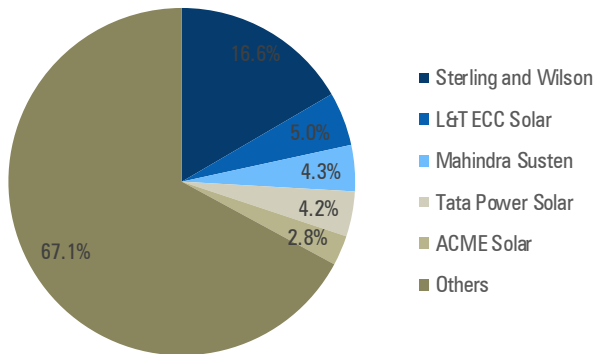
Source: ICICI Direct Research, RHP

Exhibit 9: SWSL's global market share (ex-China)



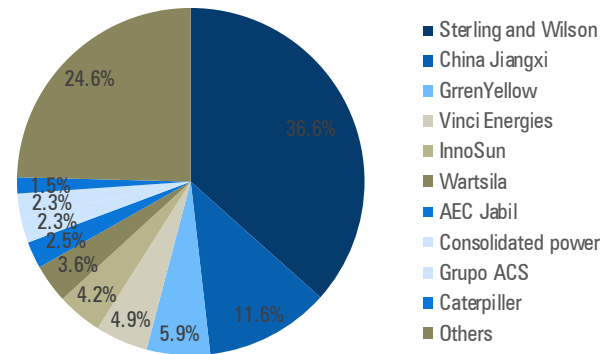
Source: ICICI Direct Research, RHP

Exhibit 10: Market share in > 5 MW installations in India 2018



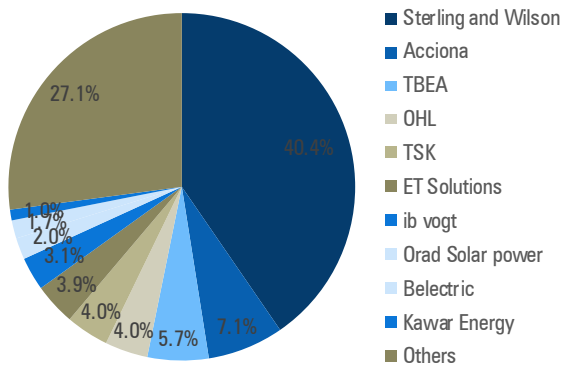
Source: ICICI Direct Research, RHP

Exhibit 11: Market share in > 5 MW installations in Africa 2018



Source: ICICI Direct Research, RHP

Exhibit 12: Market share in > 5 MW in Middle-East 2018



Source: ICICI Direct Research, RHP

Key risks and concerns

If Solar PV, related technology regarded as unsuitable

The solar power market is still developing and the extent of acceptance of solar power as a form of energy generation remains uncertain. In many geographies in which SWSL operates, the solar power market is at an early stage or nascent stage of development. It cannot assure that a sustainable market for solar power will emerge in those countries.

Loss of key customer may significantly reduce revenue

The company faces a risk that it may be unable to maintain historic levels of business from its key customers or that it will be unable to replace these key customers should it lose any or all of them. Since SWSL is dependent on key customers for a significant portion of its operations, the loss of any one of its key customers or a significant reduction in demand from such key customers could have a material adverse effect on its business, future prospects, results of operations and financial condition.

Any restrictions in supply or quality defects may cause delays

SWSL's failure to obtain raw materials and components that meet its quality, quantity and cost requirements in a timely manner could interrupt or impair its ability to provide services or increase operating costs. It depends on a limited number of suppliers for its key raw materials. For example, In FY17, FY18 and FY19, its top 10 suppliers constituted 73.3%, 67.7% and 45.5% of the aggregate costs of construction materials, stores and spare parts, purchase of traded goods, stock-in-trade, respectively.

It may not be successful in winning bids for solar project

The bidding and selection process is affected by a number of factors, including factors that may be beyond its control, such as market conditions or government incentive programmes. SWSL's market position, therefore, depends on its financing, development and operation capabilities, reputation, experience and track record. Its competitors may have greater financial resources, a more effective or established local business presence with specific regional advantages or a greater willingness or ability to operate with little or no operating margins for sustained periods of time.

It may be unable to estimate costs under fixed-price contract

SWSL enters into fixed-price EPC contracts with most of its customers. It estimates essential costs, such as the cost of construction materials and direct project costs, at the time entering into an EPC contract for a particular project and these are reflected in the overall fixed-price that it charges to its customers for the solar power project. However, SWSL may not have finalised these costs in its related contracts with subcontractors, suppliers and other parties involved in the solar power project.

Financial Summary

Exhibit 13: Profit & Loss Statement

(₹ crore)	FY16#	FY17#	FY18*	FY19
Revenue from operations	2,739.4	1,640.3	6,871.7	8,240.4
Cost of construction materials, stores and spare parts	1,887.1	1,176.0	5,373.4	5,609.1
Changes in inventories of stock-in-trade	(0.4)	(13.0)	11.9	1.3
Direct project costs	520.4	264.1	733.6	1,645.0
Employee benefits expense	33.0	60.0	98.6	177.9
Other expenses	110.5	98.3	116.4	165.0
Total expenses	2,550.6	1,585.4	6,334.0	7,598.3
EBITDA	188.8	54.9	537.8	642.1
Finance cost	0.6	2.8	18.6	84.7
Depreciation & Amortization	0.9	1.6	3.2	7.8
Other Income	7.0	9.8	12.7	209.5
PBT	194.3	60.3	528.7	759.2
Tax	68.9	28.9	78.1	120.9
Reported PAT	125.4	31.4	450.5	638.2
EPS	NA	NA	30.0	39.9

* For the period 9 March 2017 to 31 March 2018 # carved out combined financial statements (SWPL - Solar EPC division)

NA= Not Applicable

Source: ICICI Direct Research; RHP

Exhibit 14: Balance Sheet

(₹ crore)	FY16#	FY17#	FY18*	FY19
Equity Capital	(76.9)	56.6	16.0	16.0
Reserve and Surplus			180.5	825.0
Total shareholders fund	(76.9)	56.6	196.5	841.0
Total Debt	0.3	315.1	184.1	2,227.8
Minority interest			(2.7)	(3.5)
Long term provisions	1.1	3.2	5.6	8.6
Total Liabilities	(75.5)	374.9	383.5	3,073.9
Assets				
Net Block	6.1	7.6	20.2	26.5
Capital WIP	-	-	2.9	-
Goodwill	-	-	-	3.1
Other Intangible assets	0.6	0.9	1.0	1.8
Total Fixed Assets	6.7	8.5	24.1	31.5
Deffered tax assets	1.0	11.1	11.0	32.1
Investments	-	0.3	0.2	0.2
Inventories	1.3	14.9	18.6	13.1
Trade recievables	468.3	648.0	1,821.5	1,900.2
Loans & Advances	1.6	2.8	9.4	1,953.4
cash and bank balance	30.9	10.9	104.1	454.5
Other current assets	202.9	380.8	2,925.1	1,003.2
Total current assets	705.1	1,057.4	4,878.7	5,324.5
Trade payables	673.8	462.6	3,739.8	1,912.5
Other current liabilities	82.5	203.1	741.8	328.6
Short term provisions	32.4	37.9	55.2	76.9
Total current liabilities	788.7	703.6	4,536.8	2,318.0
Net current assets	(83.7)	353.8	341.9	3,006.5
Other Assets	0.5	1.2	6.3	3.6
Total Assets	(75.5)	374.9	383.5	3,073.9

* For the period 9 March 2017 to 31 March 2018 # carved out combined financial statements (SWPL - Solar EPC division)

Source: ICICI Direct Research; RHP

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Avoid: Do not apply for the IPO

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