

**Sterling and Wilson Solar Ltd.**
**SECTOR Power**

### Issue Highlights

<b>Issue Open</b>	August 6, 2019
<b>Issue Close</b>	August 8, 2019
<b>Issue Price</b>	Rs.775 - Rs 780 per share
<b>Total Issue Size</b>	Rs. 3,125 - 3,145 Cr
<b>Total Share Issue</b>	4.03 Cr shares
<i>Of which</i>	
<b>Fresh Issue</b>	-
<b>Offer for sale</b>	4.03 Cr shares
<b>Face Value</b>	Rs. 1/ share
<b>Market Lot</b>	19 Equity Shares
<b>Issue Type</b>	Book Built Issue

### Offer Structure

<b>QIB Category</b>	75%
<b>Non-Institutional</b>	15%
<b>Retail category</b>	10%

### Book Running Lead Managers

- ICICI Securities Limited
- Axis Capital Limited
- Credit Suisse Securities (India) Private
- Deutsche Equities India Private Limited
- IIFL Securities Limited
- YES Securities (India) Limited
- IndusInd Bank Limited
- SBI Capital Market Limited

### Registrar To The Offer

- Link Intime India Private Limited

### About the Company

Sterling and Wilson Solar Ltd. (SWS) is a global pure-play, end-to-end solar engineering, procurement and construction (EPC) solutions provider which commenced its operations in 2011 as a part of the solar EPC division of Sterling and Wilson Pvt. Ltd. (SWPL). The company was later demerged from SWPL in April, 2017. It was the world's largest solar EPC solutions provider in 2018 based on annual installations of utility-scale photovoltaic systems of more than five mega-watt peak. 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 conceptualizing to commissioning. It also provides operations and maintenance (O&M) services, including projects constructed by third-parties. It offers a complete range of customized solutions for solar power projects. Its customers include leading independent power producers (IPP), developers and equity funds. SWS follows a hub and-spoke business model where it manages the complete supply chain from India, including the design and engineering functions. Over the years, it became the largest solar EPC solutions provider in each of India, Africa and the Middle East and has presence in across 26 countries. The export revenue accounts for nearly 69% of the company's overall revenue and its current order book stands at Rs. 3,832 cr as on end of FY19.

### Objects of the Issue

- Offer for sale proceeds will go to promoter selling shareholders

### Valuation

According to IHS Markit, the annual solar PV installations have seen strong CAGR of 21.8% globally, increasing from 31.6 GW in 2012 to 103.0 GW in 2018. This has been the result of increasing cost competitiveness, improving technology and robust government approaches to climate change. Going forward, the total annual solar PV installation is expected to grow at 12.9% CAGR over 2018-21E. Further, the solar PV installation in SWS operating countries are expected to growth at 20% CAGR during the same period.

SWS fundamental track record has been promising with Revenue/EBITDA/PAT CAGR of 44.4%/50.4%/57.5%. The company is the largest global EPC service provider with strong parentage (Shapoorji Pallonji). The company works on an asset-light business model under which its customers are responsible for sourcing and acquiring real estate while the company leases equipment required for the operations. Going forward, given the increased focus by the governments across the globe towards cleaner energy, the outlook for the Solar industry remains promising. SWS being the largest EPC player is likely to benefit from positive industry prospects. Further, the company's increased focus on enhancing its leadership position through overseas expansion and increase in operational efficiency would augur well for the company's growth prospects going forward. The key risk for the company include, high dependence on few customers and negative operating cash flow. On the valuation front, at upper price band of Rs. 780, SWS is valued at 19.6x on FY19 EPS.

## Strengths & Strategies

- **Largest global EPC service provider**

According to IHS Markit, the company was the largest global EPC solutions provider with a market share of 4.6% in 2018. During the same time, it was also the largest EPC provider in India (16.6% market share), Africa (36.6%) and Middle East (40.4%). The company has widespread operations spread across India, South East Asia, Middle East and North Africa, rest of Africa, Europe, United States and Latin America and Australia. It is expected that the annual solar installations in these areas will grow at a CAGR of 20% from 2018-2021. The company's execution track record, its relationships with customers and suppliers and its cost-effective measures will give it an opportunity to benefit from this positive growth trend.

- **Strong parentage**

The company is a part of the Shapoorji Pallonji (SP) group which is a global conglomerate and has over 150 years of experience as an EPC solutions provider. Also, the Sterling and Wilson (S&W) has over 90 years of experience in offering EPC solutions and has 119 operations across various industries, including mechanical engineering and plumbing, co-gen solutions, transmission and distribution, turnkey data centers, diesel generators and renewables in 34 countries. Hence, the company benefits from global presence and stakeholder relationships of the SP Group and S&W.

- **Asset light model**

The company works on an asset-light business model under which its customers are responsible for sourcing and acquiring real estate while the company leases equipment required for the operations. This asset-light business model generally entails low capital expenditures and fixed costs, and offers flexibility and scalability to meet the customers' needs, provide customized solutions and respond quickly to market conditions.

- **Low working capital requirement**

The company is able to operate with low working capital requirements as its EPC contracts are typically of short duration. The company takes an advance payment from customers for certain deliverables and its EPC contracts include shorter payment cycles from its customers compared to longer payment cycles from its suppliers.

## Strategies

- **Maintain market leadership**

The company has its presence across 26 countries. However, it will still look for opportunities to grow in those markets which have conducive solar power policies and high solar resources. The company 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.

- **Focus on expanding O&M, rooftop solar EPC and solar storage solutions**

The company plans to expand its O&M operations to those solar power projects which were not originally constructed by it. It is building a dedicated team for these O&M operations and is focused on adopting a targeted approach to winning contracts for O&M services. In addition, it also plans to expand its rooftop solar EPC solutions which it started in FY16. The company intends to benefit from the evolving energy storage and ancillary service technologies, and intend to leverage from SWPL's energy storage capabilities by offering solar + storage solutions.

**Risks**

- **High dependence on few customers and suppliers**

As of 31st March, 2019 the top two customers of the company accounted for ~37% of its total revenue while top five customers accounted for ~54%. Such high dependence on few customers can have an adverse impact on the company's financials, if it loses any of its key customers. Further, the company is also highly dependent on a few suppliers to cater to its raw material requirement. In FY19, top ten suppliers constituted ~45% of the aggregate costs of construction materials, stores and spare parts, purchase of traded goods, changes in inventories of stock-in-trade. Hence, any failure of any of the suppliers to perform could disrupt its global supply chain and materially affect its operations.

- **Delay in completion may increase the cost**

As a part of the EPC contract, the company has to complete the project within certain time duration and is also required to maintain a specified plant performance ratio for a specified time period, typically for up to two years after commissioning of the solar power project. Any failure to maintain these performance guarantees will make the company liable for penalties under its EPC contracts, such as requiring it to perform remediation work to meet the guarantees, pay liquidated damages or allowing the counterparty to terminate the EPC contract.

- **Negative cash flows from operating activities**

The company had negative cashflow from operating activities of ~Rs 723cr in FY19 due to reduction in a large advance from customer which led to an increase in its working capital. The company may also have negative cash flows going forward.

- **Promoter pledge**

The equity shares that form a part of the offer for sale are pledge free. However, the promoter Shapoorji Pallonji and Company Pvt. Ltd. has pledged ~36% of its equity shares in favour of HDFC Ltd. Any default under the agreements pursuant to which these equity shares are pledged will entitle the pledgee to enforce the pledge over these shares. If this happens, the aggregate shareholding of the promoters may be diluted and the company may face certain impediments in taking decisions on certain key, strategic matters and it will damage the company's reputation also.

## Financial Performance

## Profit &amp; Loss Account – consolidated

Particulars (Rs Crs)	FY16*	FY17*	FY18	FY19
<b>Revenue from operations (net)</b>	<b>2,739.4</b>	<b>1,640.3</b>	<b>6,871.7</b>	<b>8,240.4</b>
<b>Expenses</b>				
Cost of construction materials, stores and spare parts	1,887.1	1,176.0	5,373.4	5,609.1
Changes in inventories	-0.4	-13.0	11.9	1.3
Direct project cost	520.4	264.1	733.6	1,645.0
Employee benefit expenses	33.0	60.0	98.6	177.9
Other expenses	110.5	98.3	116.4	165.0
<b>Total</b>	<b>2,550.6</b>	<b>1,585.4</b>	<b>6,334.0</b>	<b>7,598.3</b>
<b>EBITDA</b>	<b>188.8</b>	<b>54.9</b>	<b>537.8</b>	<b>642.1</b>
<b>EBITDA margin</b>	<b>6.9%</b>	<b>3.3%</b>	<b>7.8%</b>	<b>7.8%</b>
Other income	7.0	9.8	12.7	209.5
Depreciation and amortisation	0.9	1.6	3.2	7.8
Finance costs	0.6	2.8	18.6	84.7
<b>PBT</b>	<b>194.3</b>	<b>60.3</b>	<b>528.7</b>	<b>759.2</b>
Tax expense	68.9	28.9	78.1	120.9
<b>PAT</b>	<b>125.4</b>	<b>31.5</b>	<b>450.5</b>	<b>638.2</b>
<b>PAT margin</b>	<b>4.6%</b>	<b>1.9%</b>	<b>6.6%</b>	<b>7.7%</b>

Note - \*FY16 and FY17 has been derived from the carved out combined financial statements of SWPL

Source: Company Data, RHP

## Financial Performance

## Balance Sheet - consolidated

Particulars	FY16*	FY17*	FY18	FY19
<b>ASSETS</b>				
<b>Non-current assets</b>	<b>8.2</b>	<b>20.8</b>	<b>41.6</b>	<b>67.2</b>
Property, Plant & Equipment	6.1	7.6	20.2	26.5
Capital work in progress	-	-	2.9	-
Goodwill	-	-	-	3.1
Other intangible assets	0.6	0.9	1.0	1.8
Investments and loans	-	-	-	1.2
Deferred tax asset (Net)	1.0	11.1	11.0	32.1
Non-current tax assets (Net)	0.5	1.2	1.0	-
Other non-current assets	-	-	5.4	2.4
<b>Current assets</b>	<b>705.1</b>	<b>1,057.7</b>	<b>4,878.8</b>	<b>5,324.7</b>
Inventories	1.3	14.9	18.6	13.1
Investments	-	0.3	0.2	0.2
Trade receivables	468.3	648.0	1,821.5	1,900.2
Cash & Bank Balances	30.9	10.9	104.1	454.5
Loans	1.6	2.8	9.4	1,953.4
Other financial assets	183.2	329.6	1,029.9	245.6
Current tax assets (Net)	-	-	0.9	0.8
Other current assets	19.7	51.2	1,894.4	756.7
<b>Total assets</b>	<b>713.2</b>	<b>1,078.5</b>	<b>4,920.4</b>	<b>5,391.9</b>
<b>EQUITY and LIABILITIES</b>				
<b>Total equity</b>	<b>(76.9)</b>	<b>56.6</b>	<b>193.9</b>	<b>837.5</b>
Share Capital	-	-	16.0	16.0
Reserves & Surplus	(76.9)	56.6	180.6	825.0
Non-controlling interest	-	-	(2.7)	(3.5)
<b>Non-current liabilities</b>	<b>1.1</b>	<b>3.2</b>	<b>5.6</b>	<b>8.6</b>
Long-Term Borrowings	0.0	0.0	0.0	0.0
Deferred Tax Liabilities (Net)	-	-	-	-
Other Long Term liabilities	-	-	-	-
Long Term Provisions	1.1	3.2	5.6	8.6
<b>Current liabilities</b>	<b>789.1</b>	<b>1,018.7</b>	<b>4,720.9</b>	<b>4,545.8</b>
Short Term Borrowings	0.3	315.1	184.1	2,227.7
Trade Payables	673.8	462.6	3,739.8	1,912.5
Other financial liabilities	5.3	22.1	30.9	33.8
Other current liabilities	77.2	181.0	702.6	244.6
Short Term Provisions	32.1	37.9	55.2	76.9
Current tax liabilities (Net)	0.3	-	8.3	50.3
<b>Total</b>	<b>713.2</b>	<b>1,078.5</b>	<b>4,920.4</b>	<b>5,391.9</b>

Note - \*FY16 and FY17 has been derived from the carved out combined financial statements of SWPL

Source: Company Data, RHP

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

**Nature of Interest ( if answer to F (a) above is Yes :**

.....

**Name(s) with Signature(s) of RA(s).**

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above, are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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