

August 5, 2019

## IPO Note

### IPO Fact Sheet

Opening Date	August 06, 2019
Closing Date	August 08, 2019
BRLMs	Axis Capital, ICICI Securities Credit Suisse Securities, Deutsche Equities, IIFL Securities, SBI Cap Markets
Issue Size	Rs.31.3bn
Fresh Issue	-
Offer for Sale	Rs31.3bn

### Issue Details

Pre-issue equity (m shares)	160.4mn
Post-issue equity (m shares)	160.4mn
Post-issue Market Cap (Rs bn)	Rs124.28bn

### Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	100.00%	75.02%
Public & Others	-	24.98%

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## Strong play on Solar

**We recommend “Subscribe” rating on Sterling & Wilson Solar Ltd (SWSL) given 1) its dominant position as world’s largest solar EPC player with 4.6% market share and presence across 26 markets, 2) strong business visibility due to planned addition of around 190 GW over CY19-21E (as per IHS Market), 3) Asset light business model leading to healthy return ratios (RoE/RoCE of 66%/51%), 4) Strong management quality with parentage of Shapoorji Pallonji Group (the “SP Group”) and the Sterling and Wilson Group (“S&W”). SWSL is largest player with 16.6% market share in domestic market (30% revenue contribution). Over FY16-19, SWSL has reported Revenue/EBITDA/PAT CAGR of 44%/50%/75% respectively with reported EPS (Pre IPO) of Rs39.9 in FY19. The offer at 19.5x FY19 EPS looks attractive given the large scale of operations, strong project execution and robust addressable opportunity.**

**Deep expertise in solar EPC:** SWSL provides EPC services primarily for utility scale solar power projects covering the wide ambit of project design and engineering and project execution. It also provides EPC solutions for rooftop solar projects, O&M services, including for projects constructed by third-parties. It is the world’s largest solar EPC solutions provider, executed 205 projects with aggregate capacity of ~68GW, with a market share of 4.6% in 2018 which increased from 0.3% in 2014, according to IHS Market. They are also the largest solar EPC solutions providers in India, Africa and Middle East in 2018 with 16.6%, 36.6% and 40.4% market share, respectively, according to IHS Market.

**Highly capital efficient and asset light business model:** Unlike other EPC players, SWSL operates on low working capital cycle due to short-cycle EPC projects, longer payment terms from the Chinese module suppliers (90-120 days), and customer payments of ~80-90 days. SWSL working capital to sales ranges between -11 to +10%, as against similar EPC companies operating at 19% (L&T E&C), and other road EPC players at 11-38%. Due to an asset light business model, SWSL has a high asset turn of ~270x. Also due to lower capex and fixed cost in the project, SWSL has been able to generate healthy return ratios, last 3-year average ROE/ROCE is 66%/51%.

**Robust pipeline provides strong revenue visibility:** SWSL current order backlog stands at Rs65 bn. This provides strong revenue visibility for FY20 (given short execution cycle in solar). Being world’s largest solar EPC player, we expect SWSL to be the major beneficiary of ~190 GW of solar capacity addition (as per IHS Market) over the next CY19-21E.

**Experienced key management personnel:** SWSL is led by a management team with extensive experience in the solar EPC industry and the solar power sector, deep understanding of managing projects and a proven track record of performance. SWSL has an experienced global team of 1,160 employees as of March 31, 2019.

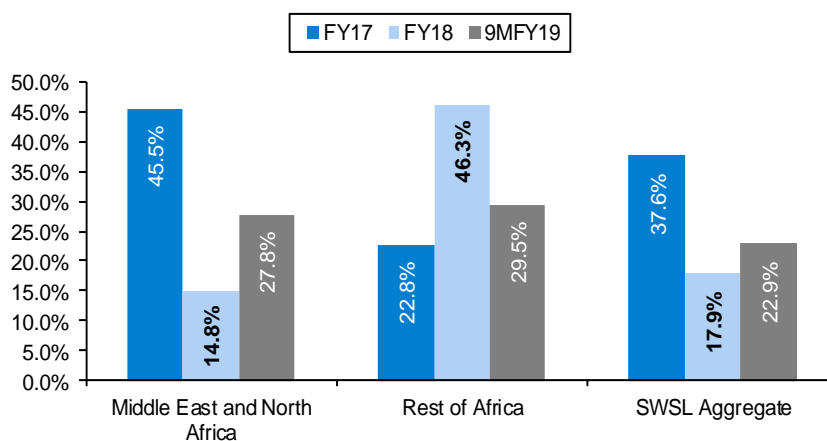
**Strong Financials:** Over the last three years, SWSL’s Revenue/EBITDA/PAT grew at CAGR of 44%/50%/75% respectively. ~70% of the company’s revenue comes from international geographies. Gross margins hovered in the range of 11-12% with EBITDA margins at 8%. High margins manifests quality of operations in light of asset light model and low working capital requirement. Tax rate is expected to be in the range of 15% given the large share of foreign projects. With strong order backlog and robust pipeline and execution track-record, we see the stock as a strong play on solar industry with all the ingredients of shareholder value creation.

### Exhibit 1: Issue Details

Company	<b>Sterling and Wilson Solar Limited</b>
Profile	Sterling and Wilson Solar Limited (“SWSL”) is a global pure-play, end-to-end solar engineering, procurement and construction (“EPC”) solutions provider and were the world’s largest solar EPC solutions provider in 2018 based on annual installations of utility-scale photovoltaic systems of more than 5 mega-watt peak according to IHS Market.
Offer Period	Opens on: Tuesday, August 06, 2019 Closes on: Thursday, August 08, 2019
Price Band	Rs.775/- to Rs.780/-
Bid Lot	19 shares & in multiple of thereafter
Issue size	Offer for sale of Equity Shares 40,322,580 (aggregating upto 31.3bn).
Issue size (in Rs)	Rs.31.2bn
QIB	75% of the issue
NIB	15% of the issue
Retail	10% of the issue
Registrar	Link Intime Pvt Ltd
Lead Manager	Axis Capital, ICICI Securities, Credit Suisse Securities, Deutsche Equities, IIFL Securities, SBI Cap Markets ,Indusind Bank, Yes Securities
Listing	NSE & BSE

Source: RHP, PL

### Exhibit 2: SWSL has track record of strong bid conversion ratio in MENA, Rest of Africa and also on overall basis



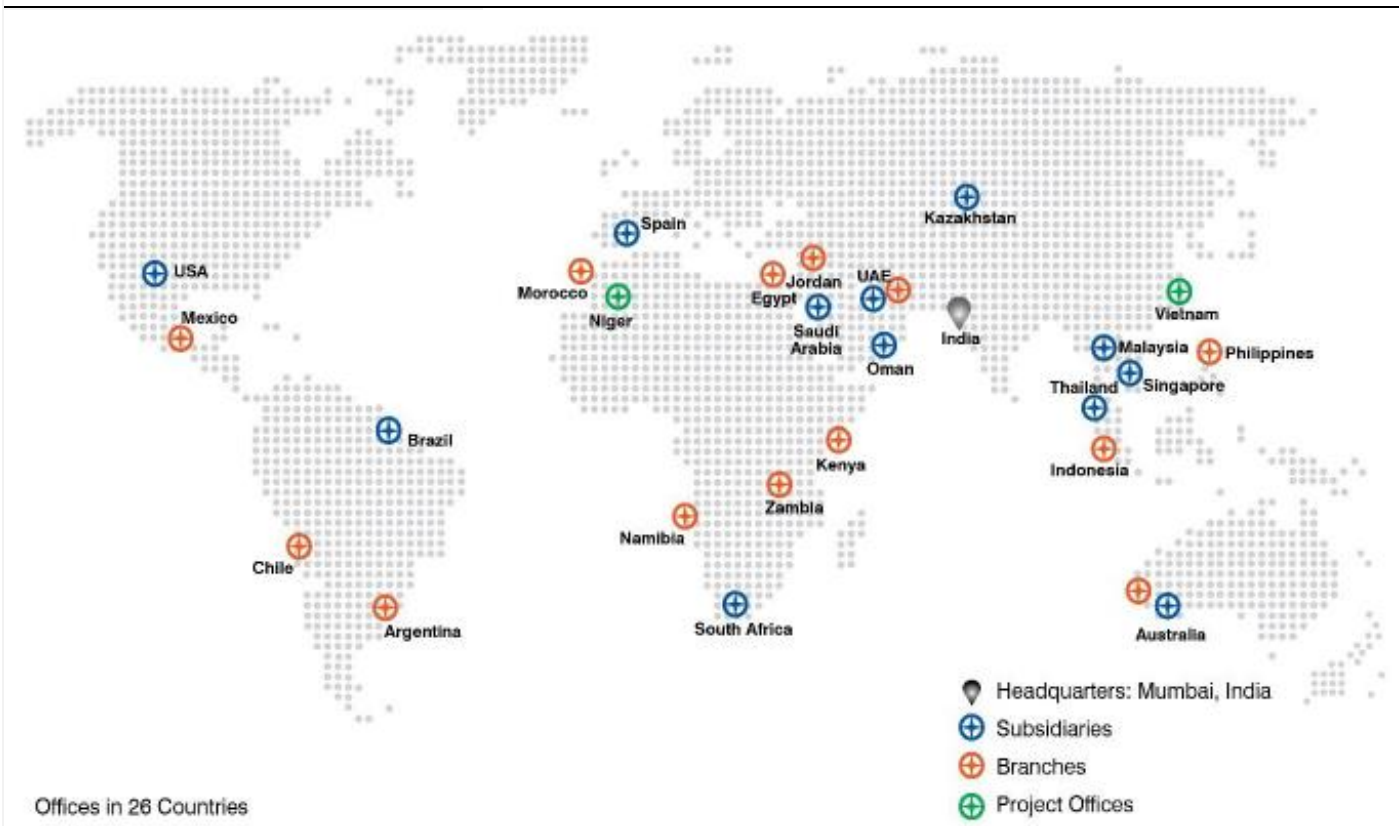
Source: Company, PL

Exhibit 3: Key Performance indicators

	As of and for the period ended March 31,		
	2017	2018	2019
	SWPL – Solar EPC Division (Prior to Demerger)	Sterling and Wilson Solar Limited (Post-demerger)	
	<i>(In ₹ million)</i>		
<b>Bid conversion ratio (%)</b>			
India .....	48.20%	31.53%	24.39%
South East Asia .....	-	-	47.72%
Middle East and North Africa .....	45.53%	14.80%	13.99%
Rest of Africa .....	22.82%	46.33%	13.73%
United States and Latin America .....	0%	4.59%	16.84%
Europe .....	-	-	34.26%
<b>Bid conversion ratio total .....</b>	<b>37.61%</b>	<b>17.86%</b>	<b>21.59%</b>
<b>Order book<sup>(1)</sup> (EPC) (₹ Million)</b>			
India .....	12,621.56	18,148.06	7,152.95
South East Asia .....	-	-	6,089.25
Middle East and North Africa .....	60,819.22	40,142.13	15,448.90
Rest of Africa .....	-	11,686.22	9,311.80
United States and Latin America .....	-	3,336.48	312.87
<b>Order book total .....</b>	<b>73,440.78</b>	<b>73,312.89</b>	<b>38,315.77</b>
<b>Lost time injury frequency rate<sup>(2)</sup> .....</b>	<b>0.30</b>	<b>0.22</b>	<b>0.18</b>

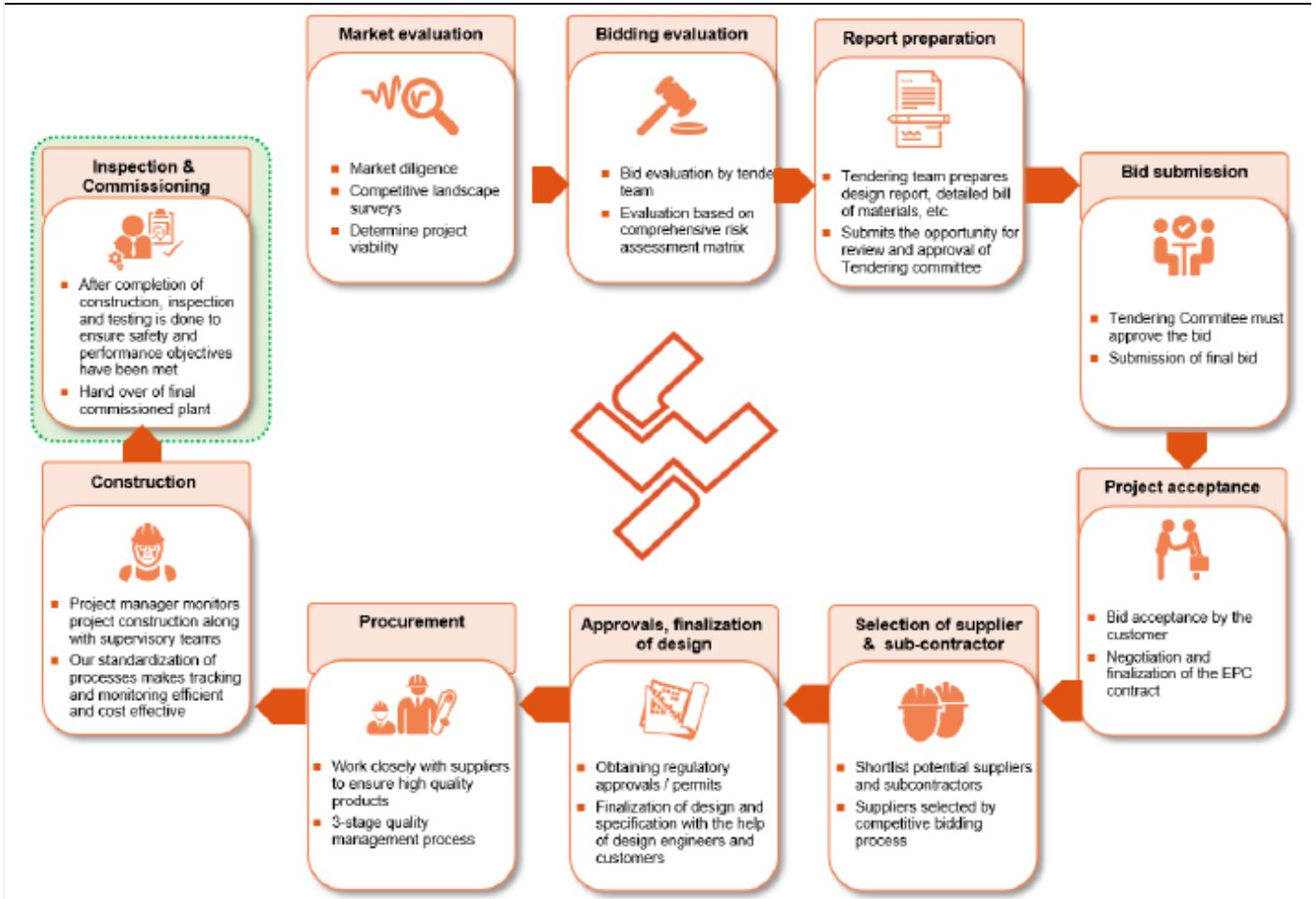
Source: RHP, PL

Exhibit 4: SWSL commenced their operations focusing on solar power projects in India and currently they have operations in 26 countries

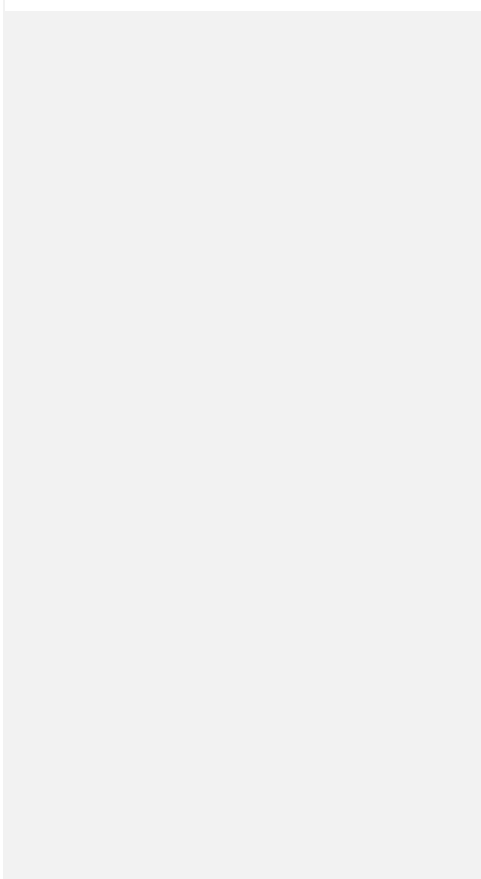


Source: RHP, PL

Exhibit 5: Project Lifecycle



Source: RHP, PL



## Key risks

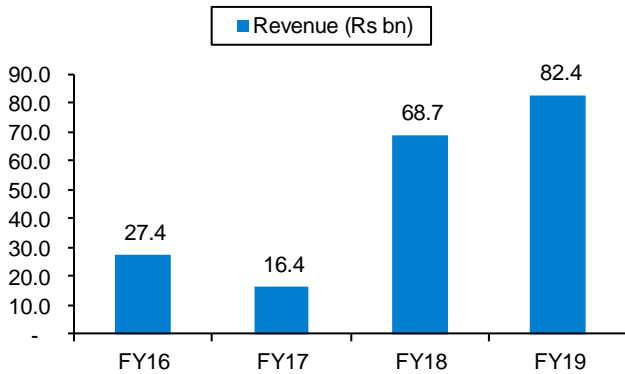
**Inter- company transaction –** SWSL has advanced loan to its parent Sterling and Wilson Private Limited (non-solar entity) of ~Rs17.5 bn on account of demerger settlement. While SWSL's solar EPC business does not require capital, extension of loan has led to interim short term working capital borrowings (Rs18 bn). As per Objects of the Issue, SWSL will become debt free in FY20 (on reversal of loan post fund raising by the promoter); however, any delay in funds by the parent to SWSL to keep borrowings elevated and impact profitability.

**Slowdown in solar vs. other renewable energy sources:** Despite being an important source of power, Solar still needs government and regulatory support. Sudden change in technology or regulatory interference etc., could have an meaningful impact on the growth prospects.

**International trade policies:** Imposition of safeguard duty of 25% on imported Chinese modules in India or imposition of GST on solar equipment impacted the industry severely in past couple of years. Any such incidence of change in trade policies can impact the cost competitiveness of solar projects vs. other renewables.

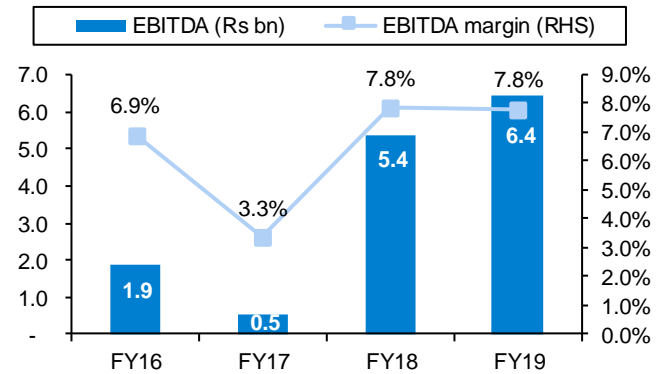
**Competitive scenario:** SWSL competes with traditional global and local EPC solutions provider and solar- power companies who have in-house operations. Thus increase in competitions could impact market share and margins

**Exhibit 6: Revenue CAGR of 44% over FY16-19**



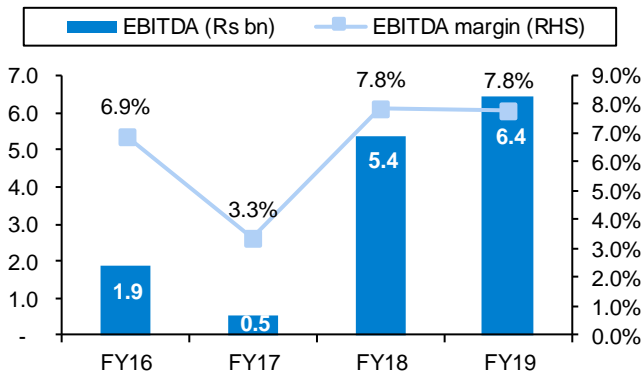
Source: RHP, PL

**Exhibit 7: EBITDA grew at CAGR of 50% over FY16-19**



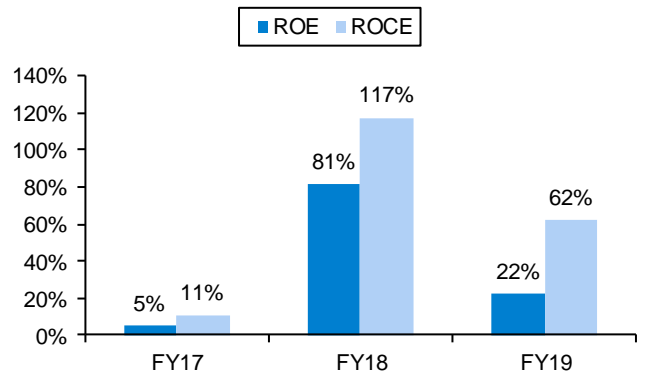
Source: RHP, PL

**Exhibit 8: PAT recorded CAGR of 75% over FY16-19**



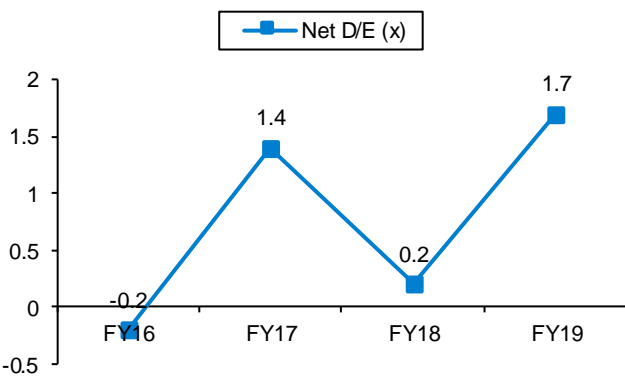
Source: RHP, PL

**Exhibit 9: Asset light model places advantage of high return ratios**



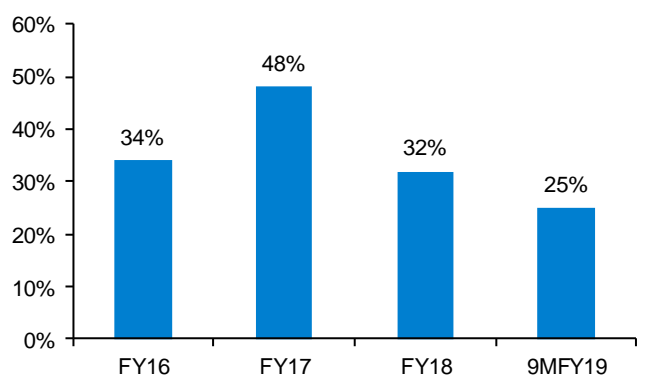
Source: RHP, PL

**Exhibit 10: Net D/E(x) is expected to be debt free from FY20**

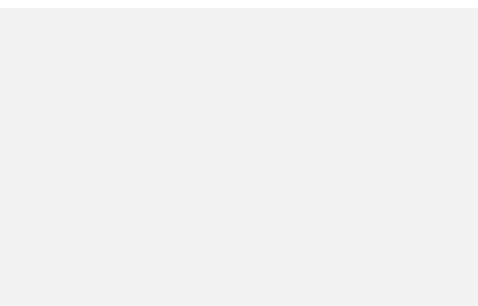


Source: RHP, PL

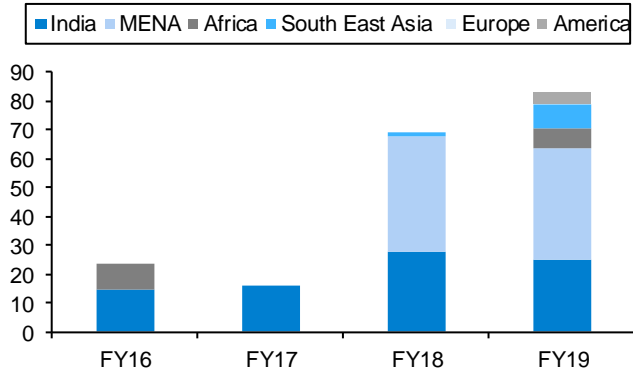
**Exhibit 11: SWSL bid conversion ratio in India**



Source: RHP, PL

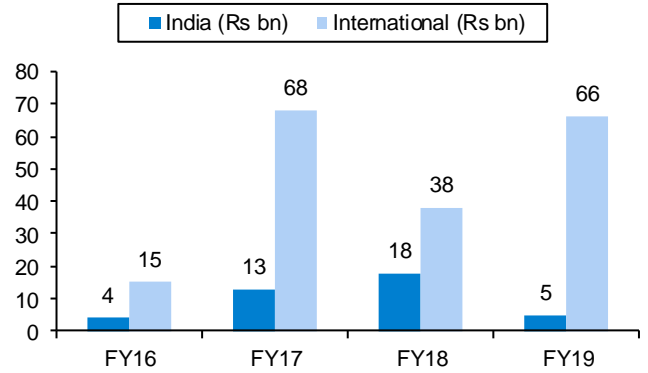


**Exhibit 12: Diversified customer mix**



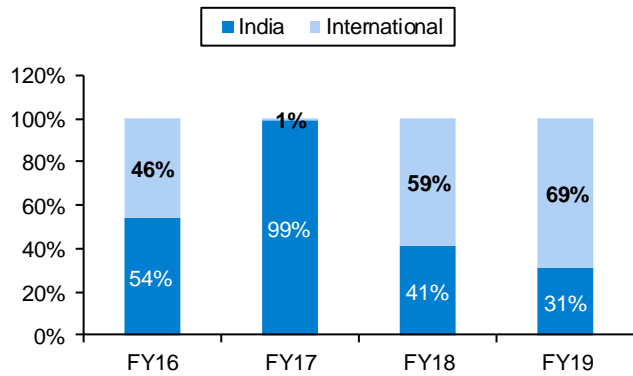
Source: Company, PL

**Exhibit 13: Strong order inflow from foreign projects**



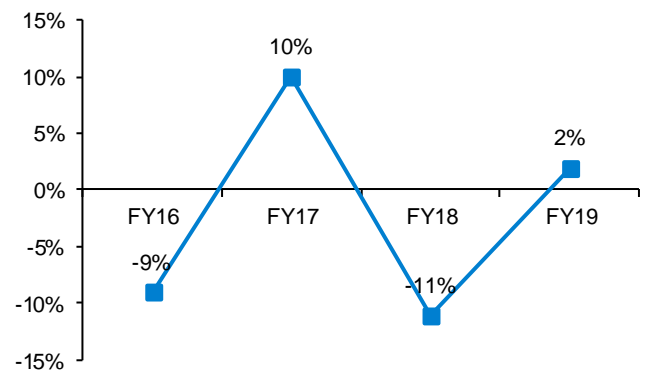
Source: Company, PL

**Exhibit 14: Strong revenue mix from international projects**

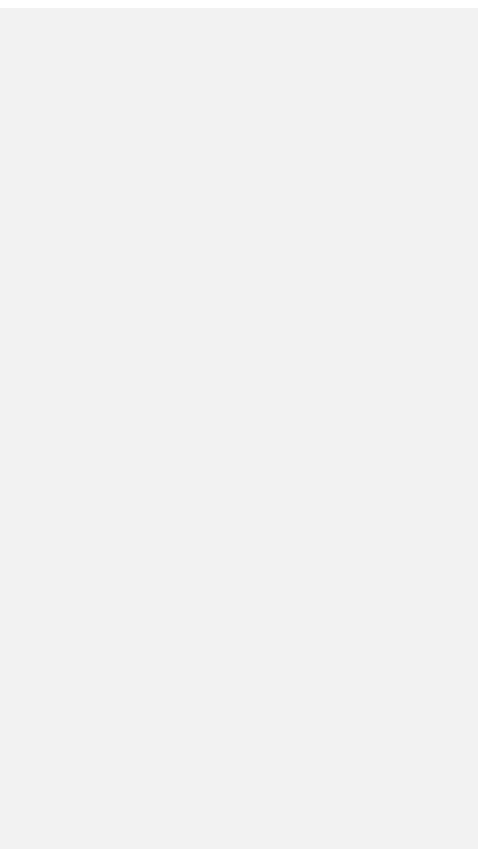


Source: Company, PL

**Exhibit 15: Highly efficient on working capital management**



Source: Company, PL



## Financials

### Exhibit 16: Income Statement (Rs mn)

Y/e Mar	FY16	FY17	FY18	FY19
Net Revenues	27,394	16,403	68,717	82,404
<i>YoY gr. (%)</i>		-40%	319%	20%
Cost of Goods Sold	24,071	14,271	61,190	72,554
Gross Profit	3,323	2,132	7,527	9,850
<i>Margin (%)</i>	12.1%	13.0%	11.0%	12.0%
Employee Cost	330	600	986	1,779
Other Expenses	1,105	983	1,164	1,650
EBITDA	1,888	549	5,378	6,421
<i>YoY gr. (%)</i>		-71%	880%	19%
<i>Margin (%)</i>	6.9%	3.3%	7.8%	7.8%
Depreciation and Amortization	9	16	32	78
EBIT	1,879	533	5,346	6,343
Net Interest	6	28	186	847
Other Income	7	98	127	2,095
Profit Before Tax	1,880	603	5,287	7,592
Total Tax	689	289	781	1,209
<i>Effective tax rate (%)</i>	36.7%	47.8%	14.8%	15.9%
Profit after tax	1,191	315	4,505	6,382
Adjusted PAT	1,191	315	4,505	6,382
<i>YoY gr. (%)</i>		-73.6%	1332.5%	41.7%
<i>Margin (%)</i>	4.3%	1.9%	6.6%	7.7%
Extra Ord. Income / (Exp)				
Reported PAT	1,191	315	4,505	6,382
<i>YoY gr. (%)</i>		-73.6%	1332.5%	41.7%
<i>Margin (%)</i>	4.3%	1.9%	6.6%	7.7%
Equity Shares O/s (m)	160.00	160.00	160.00	160.00
EPS (Rs)	7.4	2.0	28.2	39.9

Source: Company, PL



**Exhibit 17: Balance Sheet (Rs mn)**

Y/e Mar	FY16	FY17	FY18	FY19
<b>Non-Current Assets</b>				
<b>Gross Block</b>				
Tangibles	70	98	254	448
Intangibles				
<b>Acc: Dep / Amortization</b>				
Tangibles	9	22	52	182
Intangibles				
<b>Net fixed assets</b>				
Tangibles	61	76	202	266
Intangibles	6	9	10	18
Capital Work In Progress	-	-	29	-
Goodwill	-	-	-	31
Non-Current Investments	-	-	-	-
Net Deferred tax asset	10	111	110	321
Other Non-Current Assets	5	12	64	36
<b>Current Assets</b>				
Investments	-	3	2	2
Inventories	13	149	186	131
Trade receivables	4,683	6,480	18,215	19,002
Cash & Bank Balance	309	109	1,041	4,545
Other Current Assets	2,045	3,836	29,345	29,566
<b>Total Assets</b>	<b>7,132</b>	<b>10,785</b>	<b>49,204</b>	<b>53,920</b>
<b>Equity</b>				
Equity Share Capital	-	-	160	160
Other Equity	-769	566	1,806	8,250
Total Networth	-769	566	1,966	8,410
Non-controlling Interest	-	-	-27	-35
Total Equity	-769	566	1,939	8,375
<b>Non-Current Liabilities</b>				
Long Term borrowings	0	0	0	0
Provisions	11	32	56	86
Other non current liabilities				
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3	3,151	1,841	22,278
Trade payables	6,738	4,626	37,398	19,125
Other current liabilities	1,149	2,410	7,970	4,055
<b>Total Equity &amp; Liabilities</b>	<b>7,132</b>	<b>10,785</b>	<b>49,204</b>	<b>53,919</b>

Source: Company, PL

**Exhibit 18: Cash Flow (Rs mn)**

Y/e Mar	FY16	FY17	FY18	FY19
PBT	1,943	603	5,287	7,592
Add. Depreciation	9	16	32	78
Add. Interest	6	28	186	847
Less Financial Other Income	-27	-90	-6	-1,634
Add. Other	26	180	63	276
Op. profit before WC changes	1,958	737	5,562	7,158
Net Changes-WC	-1,315	-3,914	-2,265	-13,382
<b>Cash Flow generated from operating activities</b>	<b>643</b>	<b>-3,176</b>	<b>3,297</b>	<b>-6,225</b>
Direct tax	-38	-5	-774	-1,056
Effects of exchange differences on translation of assets and liabilities	-7	-5	-12	47
<b>Net cash from Op. activities</b>	<b>598</b>	<b>-3,186</b>	<b>2,511</b>	<b>-7,233</b>
Capital expenditures	-65	-34	-181	-99
Interest / Dividend Income	27	11	6	46
Others	17	13	-12	-9,236
<b>Net Cash from Invt. activities</b>	<b>-20</b>	<b>-9</b>	<b>-187</b>	<b>-9,288</b>
Issue of share cap. / premium	-	-	-	-
Debt changes repayment/borrowings	-542	-3	-	19,506
Dividend paid	-	-	-3	-
Interest paid	-6	-28	-97	-712
Others	-	3,274	-1,310	928
<b>Net cash from Fin. activities</b>	<b>-549</b>	<b>3,243</b>	<b>-1,410</b>	<b>19,722</b>
Net movement in currency translation	-	-0	2	46
Casg and cash equivalents of subsidiaries acquired during the period	-	-	39	6
<b>Net increase in cash and cash equivalent in cash</b>	<b>2</b>	<b>36</b>	<b>915</b>	<b>3,247</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>955</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>2</b>	<b>38</b>	<b>915</b>	<b>4,201</b>

Source: Company, PL

**Exhibit 19: Key Ratios**

Y/e Mar	FY16	FY17	FY18	FY19
RoCE	0	5%	81%	22%
RoE	0	11%	117%	62%
Net Debt : Equity (x)	-0.2	1.4	0.2	1.7
Debtor days	62	144	97	84
Inventory days	0	3	1	1
Creditor days	90	103	199	85

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,296	1,394
2	Apar Industries	Accumulate	795	588
3	Bharat Electronics	Accumulate	120	98
4	BHEL	Hold	77	73
5	Cummins India	BUY	841	760
6	Engineers India	BUY	139	120
7	GE T&D India	Hold	179	175
8	Kalpataru Power Transmission	BUY	624	482
9	KEC International	BUY	352	333
10	Larsen & Toubro	BUY	1,710	1,400
11	Power Grid Corporation of India	BUY	224	211
12	Siemens	Accumulate	1,263	1,358
13	Thermax	Accumulate	1,147	1,058
14	Triveni Turbine	Accumulate	124	105
15	Voltamp Transformers	BUY	1,505	1,160

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: >15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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