

IPO Flash

August 02, 2019

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Sterling & Wilson Solar Limited

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IPO Details:	
Issue opens	Tuesday, August 6, 2019
Issue closes	Thursday, August 8, 2019
Issue size	Rs. 3,125 crore
Type of issue	Offer for sale
Offer size	4.01-4.03 crore equity shares
Face value	Rs. 1 per share
Price band	Rs. 775-780 per share
Bid Lot	19 equity shares and multiple thereof
Issue Structure	
QIB portion	At least 75% of the issue size
Non-institutional portion	Not more than 15% of the issue size
Retail portion	Not less than 10% of the issue size
GCBRLMs	ICICI Securities, Axis Capital, Credit Suisse, Deutsche Equities India Pvt. Ltd., IIFL Securities, SBI Capital Markets Ltd.
BRLMs	IndusInd Bank, Yes Securities, Link Intime India Pvt. Ltd.

Source: Company RHP

Object of the offer

Sterling & Wilson Solar Limited (SWSL) is coming out with an initial public offering (IPO) with offer for sale of 4.01-4.03 crore equity shares with face value of Rs. 1. The issue is priced at Rs. 775-780 per share and size of the issue is Rs. 3,125 crore. The objective of the issue is to carry out disinvestment of shares held by the promoter. SWSL will not receive any proceeds from the offer.

Shareholding pattern

Shareholder	Pre-issue		Post-issue (at lower band)		Post-issue (at upper band)	
	No. of shares	%	No. of shares	%	No. of shares	%
Promoters	160,360,000	100.0	120,037,419	74.9	120,295,897	75.0
Institutions	-	-	30,241,935	18.9	30,048,077	18.7
Non-Institutions	-	-	6,048,387	3.8	6,009,615	3.7
Public	-	-	4,032,258	2.5	4,006,410	2.5
Total	160,360,000	100.0	160,360,000	100.0	160,360,000	100.0

Source: Company RHP

Company Background

SWSL was incorporated in 2017. The company provides solar engineering, procurement and construction (EPC) solutions. SWSL focuses on utility-scale solar power projects and manages solar projects from conceptualising to commissioning. The company also provides operations and maintenance (O&M) services for third-party projects. The company is present across 26 countries.

Key investment positives

Largest global solar EPC solutions provider in a fast-growing solar industry

SWSL is the world's largest solar EPC solutions provider with a market share of 4.6% in 2018 (vs. 0.3% in 2014) in annual installations of utility-scale PV systems of more than five MWp according to IHS Markit. The company is also a leading solar EPC solutions provider in India, Africa and Middle East with 16.6%, 36.6% and 40.4% market share, respectively, according to IHS Markit. Annual solar installations in India, South East Asia, the Middle East, North Africa, rest of Africa, Europe, the U.S., Latin America and Australia could

report a 20% CAGR to 84.8 GW in 2021 from 49.1 GW in 2018, according to IHS Markit. The company's solid execution track record, strong customer relations and cost-effective engineering project designs make SWSL well positioned to benefit from this. As of March 31, 2019, the company has received letters of intent of Rs. 3,908 crore for solar power projects for which it has won the bid, but has not yet executed definitive EPC contracts. The company's order book was Rs. 3,832 crore as of March 31, 2019.

Strong parentage and ability to leverage the global 'SP' brand

The company benefits from brand reputation, industry relationships and project management expertise of the Shapoorji Pallonji (SP) Group and Sterling and Wilson (S&W) Group. The SP Group is a global conglomerate and has over 150 years of experience as an EPC solutions provider in six major business areas and operations across 45 countries. Currently, S&W has over 90 years of offering EPC solutions and operates across various industries, including mechanical engineering and plumbing, co-gen solutions, transmission and distribution, turnkey data centres, diesel generators and renewable in 34 countries. For example, SP Group's presence in the Middle East, Africa and South East Asia assisted SWSL in accessing these markets.

Strong financial performance

SWSL's consolidated revenue reported a 44% CAGR over FY2016-FY2019, with consolidated EBITDA and net profit growing at 63% and 73%, respectively. Revenue from outside India accounted for 59.1% and 69.8% of SWSL's total revenue from operations in FY2018 and FY2019, respectively.

SWSL's financial performance

	FY16	FY17	FY18	FY19	CAGR
Revenue	2,739	1,640	6,872	8,240	44%
EBITDA	196	65	550	852	63%
EBITDA margin (%)	7.1	3.9	8.0	10.3	
PAT	125	31	451	638	72%

Source: Company RHP

Key risks

Acceptance of solar power and related technology

If solar photovoltaic (PV) and related technologies are regarded as unsuitable for widespread adoption, or if demand for solar power does not develop or takes longer to develop than anticipated, the company's revenue may decline and the company may be unable to sustain its profitability.

Client concentration risk

The top two customers and top five customers comprised 36.86% and 53.68% of the company's revenue from operations, respectively. Loss of a key customer in a financial period could significantly reduce the company's revenue and could have a material adverse effect on its business, future prospects, results of operations and financial condition.

Supplier concentration risk

Several key raw materials and components are sourced from a single or a limited group of local or global third-party suppliers, giving rise to supplier concentration risks. In Fiscals 2017, 2018 and 2019, the top 10 suppliers constituted 73.32%, 67.66% and 45.46%, respectively. Any restrictions in supply or defects in quality could cause delays in project construction or implementation and impair the ability to provide services to customers at a price that is profitable to the company, which could have a material adverse effect on the business, financial condition and results of operations.

Global operations risk

The company's global business operations are subject to global and local risks related to economic, regulatory and social and political uncertainties, any of which could have a material adverse effect on business, financial condition and results of operations.

Execution risks

The company may be unable to accurately estimate costs under fixed-price EPC contracts, fail to maintain the quality and performance guarantees under the EPC contracts and may experience delays in completing the construction of solar power projects, all of which may increase its construction costs and working capital requirements, and may have a material adverse effect on the financial condition, cash flow and results of operations.

Valuation

SWSL is a pure-play, end-to-end solar engineering, procurement and construction solutions provider and was the world's largest solar EPC solutions provider in 2018. Further, the company has a strong parentage with a globally renowned brand, SP. SWSL has an asset-light business model with low working capital requirements due to short tenure of EPC contracts. SWSL operates in a niche but high-growth solar industry, which has aided in a 72% CAGR in net profit over FY2016-FY2019. The company has high return ratios with lower working capital cycle. At the upper price band, the company is valued at P/E and EV/EBITDA of ~20x and ~22x, respectively, on FY2019 earnings. Considering all the above factors, SWSL's prospects look promising for the long term.

Peer comparison

There are no listed entities in India whose business portfolio is comparable with that of the company's business.

Financials

Profit and Loss Account (Consolidated)

Rs. cr

Particulars	Pertaining to the SWPL- Solar EPC Division (as derived from the Carved Out Combined Financial Statements)		Pertaining to the Company (as derived from the Restated Consolidated Summary Financial Information)	
	FY16	FY17	FY18*	FY19
Revenue from operations	2739.4	1640.3	6871.7	8240.4
Total expenses	2550.6	1585.4	6334.0	7598.3
EBITDA	188.8	54.9	537.8	642.1
Other income	7.0	9.8	12.7	209.5
PBIDT	195.9	64.7	550.5	851.6
Finance costs	0.6	2.8	18.6	84.7
Depreciation	0.9	1.6	3.2	7.8
PBT	194.3	60.3	528.7	759.2
Tax expense:	68.9	28.9	78.1	120.9
PAT	125.4	31.4	450.5	638.2
Minority Interest			-1.6	-0.8
Consolidated PAT post Minority Interest	125.4	31.4	452.2	639.0

Source: Company RHP, *Period is from March 9, 2017, to March 31, 2018

Balance Sheet

Rs. cr

Particulars	FY16	FY17	FY18	FY19
LIABILITIES				
Share capital	0	0	16	16
Reserves and surplus	-77	57	181	825
Net Worth	-77	57	197	841
Minority interest	0	0	-3	-3
Other long term liabilities	0	0	0	0
Long-term provisions	1	3	6	9
Total Loans				
Short-term borrowings	0	315	184	2,228
Long-term borrowings	0	0	0	0
Current liabilities and provisions				
Trade payables	674	463	3,740	1,913
Other current liabilities	83	203	742	329
Short-term provisions	32	38	55	77
Total equity and liabilities	713	1,079	4,920	5,392
ASSETS				
Fixed assets				
Property, plant and equipment	6	8	20	27
Intangible assets	1	1	1	2
CWIP	0	0	3	0
Goodwill	0	0	0	3
Investments				
Non-current investments	0	0	0	0
Other non-current assets	1	12	17	36
Current assets				
Inventories	1	15	19	13
Trade receivable	468	648	1,821	1,900
Cash and bank balances	31	11	104	455
Short term loans and advances	2	3	9	1,953
Other current assets	203	381	2,925	1,003
Total Assets	713	1,079	4,920	5,392

Source: Company RHP

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