

Sterling and Wilson Solar Ltd

Subscribe for Long Term

Price Band: INR 775 – 780

ISSUE SUMMARY	
Issue Opens	6-Aug-19
Issue Closes	8-Aug-19
Offer Price (INR per share)	775-780
Face Value (INR)	1
Pre Issue Shares o/s (mn)	160.3
Offer for Sale (No of sh. mn)	40
Fresh Issue (mn)	-
^Issue Size (INR bn)	31.3
QIB	75%
Non-institutional	15%
Retail	10%
^ Issue Size (@INR780)	

POST ISSUE DETAILS	
Mcap @INR780/sh. (INR bn)	125
Shareholding pattern	
Promoters	75%
Non-Promoters	25%

Investors are advised to refer through disclosures made at the end of the Research Report.

Sterling and Wilson Solar Ltd (SWSL), a subsidiary of Sharpoorji Pallonji, is among the largest global solar engineering, procurement and construction (EPC) solutions provider. SWSL also provides operations and maintenance (O&M) services, including for projects constructed by third-parties. SWSL has 205 commissioned and contracted solar power projects with an aggregate capacity of 6,870 MWp (Mar'19). The order book stood at INR38 bn (Mar'19).

Largest global solar EPC solutions provider: According to IHS Markit, SWSL was the largest solar EPC solutions provider in each of India, Africa and Middle East in 2018 with 16.6%, 36.6% and 40.4% market share, respectively. Additionally, solar energy is one of the fastest growing forms of renewable energy with an expected 20% CAGR over 2018-21. We believe the company's track-record, relationships with customers and suppliers, make it well positioned to benefit from this trend and expand operations. In FY19, SWSL reported a growth of 20% in revenues, 55% in EBITDA, and 42% in PAT.

Asset-light business model with negative working capital: SWSL operates a business model, under which customers are responsible for sourcing and acquiring real estate while the company leases equipment required for operations. Additionally, the company typically receives advances and has shorter debtor and inventory days (83 days for Mar'19) compared to 125 creditor days leading to negative working capital cycle.

Strong parentage and ability to leverage the Sharpoorji Pallonji brand: The Sharooji Pallonji Group is a global conglomerate with over 150 years of experience as an EPC solutions provider in 6 major business areas across 45 countries. Before entering a new market, SWSL typically leverages from the parent's presence in that market to get a head start in establishing its operations. In addition, relationships with key stakeholders have helped them establish connections with major customers and leading subcontractors, lenders, designers and consultants.

Object of Issue: The issue is entirely an offer-for-sale (OFS) by the promoters of the company (40 mn shares), implying an issue size of INR31 bn and a post-issue market capitalization of INR 125 bn (at the higher price band).

View: Based on FY19 consolidated numbers, the issue is priced at a P/E of 19.6x. The company is likely to benefit from i) being the largest global EPC contractor in an industry that is seeing a massive thrust towards renewable energy ii) an asset-light business model, and iii) strong parentage. However, considering the current market environment and absence of past comparable financials, investors can Subscribe only from a Long Term perspective.

Financials & Valuations (INR mn)

Y/E March	FY18*	FY19
Revenue	68,717	82,404
EBITDA	5,378	6,421
EBITDA Margin (%)	7.8%	7.8%
Adj. PAT	4,505	6,382
EPS (INR)	30.0	39.9
PE (x) (At higher price band)	26.0	19.6

Source: Company RHP, MOFSL
*For March 9, 2017 to March 31, 2018

About the Company

SWSL is the largest global pure-play, end-to-end solar EPC solutions provider. 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 O&M services, including for projects constructed by third-parties.

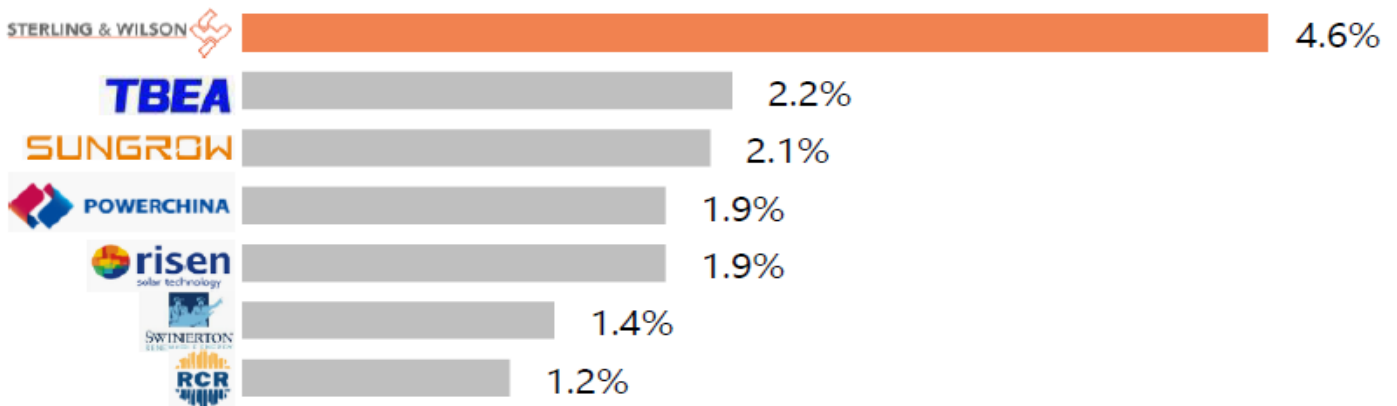
EPC Solutions:

- As on March 31, 2019, SWSL has commissioned and contracted 205 solar power projects with an aggregate capacity of 6,870 MWp
- Order book position: Rs.38bn as on March 31, 2019 and received letters of intent for Rs.39bn
- SWSL generally enters into fixed price EPC contracts and bills its customers according to contractually agreed milestones that reflect key stages of execution. The company also typically receives an advance payment from its customers at the time it enters into the EPC contract and adjusts the advance received against milestone payments.

O&M Services

- SWSL provides O&M services to its customers after solar power projects become operational. As on March 31, 2019, it has provided O&M services to 116 solar power projects in India, Middle East and North Africa, United States and Latin America and Rest of Africa, aggregating to 5,558 MWp.
- For FY18/19, the company generated revenues of Rs.437mn/Rs.936mn from these services, which accounted for 0.6%/1.1% of the total income respectively.

Exhibit 1: Market share (% of installations in 2018, according to IHS Markit)



Source: RHP, MOFSL

Exhibit 2: Diversified global operations

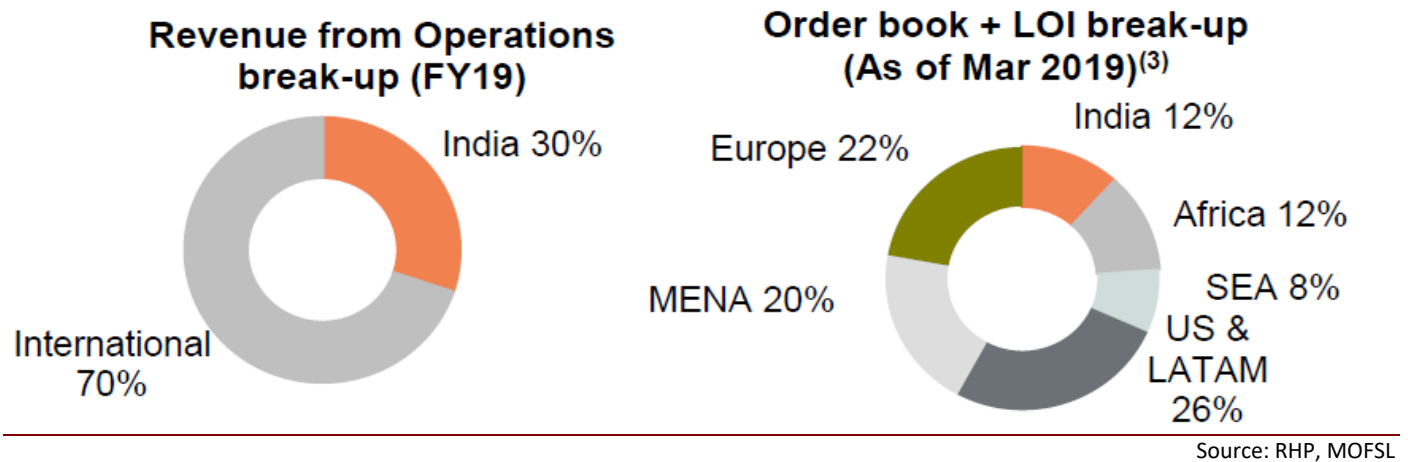
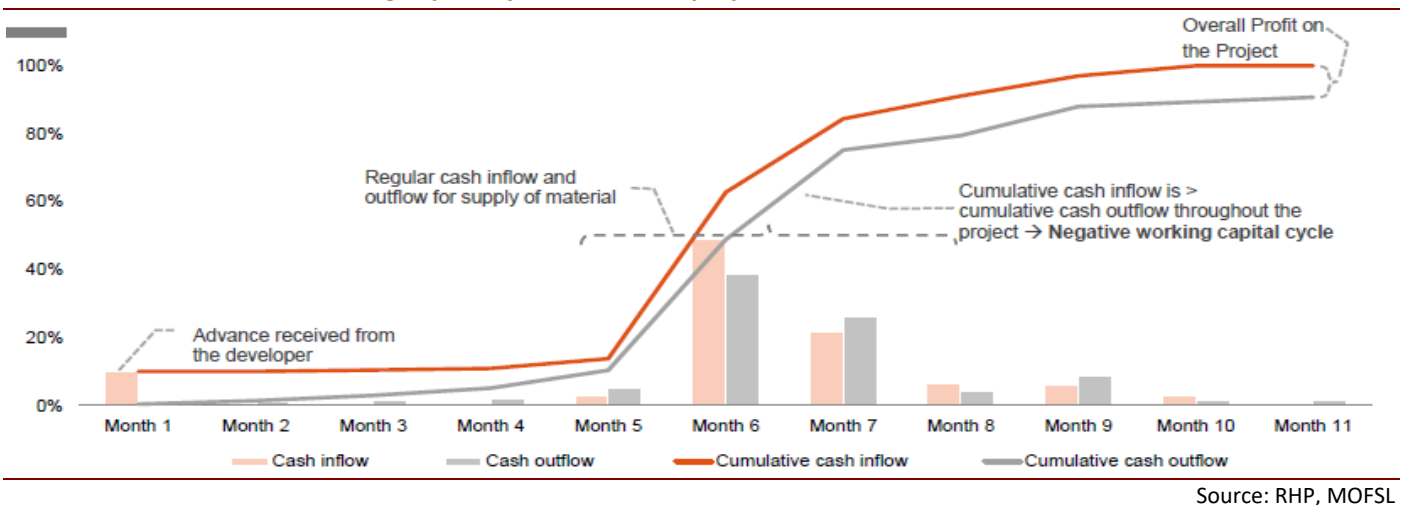


Exhibit 3: Illustration of working capital cycle for an EPC project



Risk and concerns

- **Customer concentration risk:** The top-2 customers account for 37% of revenue, absence of which would have a material adverse effect on the company’s business
- **Technological risk:** If solar photovoltaic and related technologies are regarded as unsuitable for widespread adoption, or if demand for solar power takes longer to develop pose a risk to business certainty
- **Regulatory risk:** As SWSL operates in 26 countries, its business is subject to diverse economic, regulatory and social and political conditions. This can result in operational disruptions, loss of assets and personnel and other indirect losses that could materially and adversely affect the business

Financial Analysis

Income Statement

Y/E March	FY18*	FY19
Net Sales	68,717	82,404
Growth (%)	NA	19.9
Total Expenditure	63,340	75,983
% of Sales	92.2	92.2
EBITDA	5,377	6,421
Margin (%)	7.8	7.8
Depreciation	32	78
EBIT	5,345	6,343
Int. and Finance Charges	186	847
Other Income	127	2,095
PBT	5,286	7,591
Tax	781	1,209
Tax Rate (%)	14.8	15.9
Reported PAT	4,505	6,382
Growth (%)		41.7
Margin (%)	10.5	19.6

*For March 9, 2017 to March 31, 2018

Source: Company RHP, MOFSL

Balance Sheet

	(INR mn)	
Y/E March	FY18	FY19
Share Capital	160	160
Reserves	1,806	8,250
Net Worth	1,966	8,410
Minority Interest	-27	-35
Debt	1,897	22,364
Deferred tax (Net)	-110	-321
Total Capital Employed	3,726	30,418
Net Fixed Assets	241	314
Current Assets	48,850	53,282
Inventory	186	131
Debtors	18,215	19,002
Cash and Bank Balance	1,042	4,546
Loans and Advances & OCA	29,407	29,603
Current Liability & Provisions	45,367	23,180
Account Payables	37,398	19,125
Current Liabilities	7,334	2,784
Other long term liabilities	635	1,271
Net Current Assets	3,483	30,102
Appl. of Funds	3,726	30,418

Source: Company RHP, MOFSL

Consol. Ratios		
Y/E March	FY18*	FY19
Basic (INR)		
EPS	30.0	39.8
Cash EPS	28.3	40.3
BV/Share	12.3	52.5
Valuation (x)		
P/E	27.8	19.6
Cash P/E	27.6	19.4
P/BV	63.6	14.9
EV/Sales	1.8	1.7
EV/EBITDA	23.4	22.2
Return Ratios (%)		
RoE	NA	123.0
RoCE	NA	41.0
Working Capital Ratios		
Asset Turnover (x)	36.9	4.8
Inventory (Days)	0	1
Debtor (Days)	48	82
Creditor (Days)	99	125
Leverage Ratio (x)		
Net Debt/Equity	0.4	2.1

*For March 9, 2017 to March 31, 2018

Source: Company RHP, MOFSL

Consol. Cash Flow Statement	(INR mn)
Y/E March	FY19
OP/(Loss) before Tax	7,592
Depreciation	78
Interest & Finance Charges	845
Direct Taxes Paid	-1,056
(Inc)/Dec in WC	-13,382
CF from Operations	-5,923
Others	-1,310
CF from Operating incl EO	-7,233
(Inc)/Dec in FA	-99
Free Cash Flow	-7,332
(Pur)/Sale of Investments	-189
Others	-9,000
CF from Investments	-9,288
Issue of Shares	0
Inc/(Dec) in Debt	20,434
Interest Paid	-712
Dividend Paid	0
Others	53
CF from Fin. Activity	19,775
Inc./Dec of Cash	3,254

Source: Company RHP, MOFSL

Explanation of Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of Passionate Investment Management Pvt. Ltd. (PIMPL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile Motilal Oswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL), NERL, COMRIS and CRCL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Ltd. are available on the website at <http://onlineports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf>

Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at <https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx>

MOFSL, its associates, Research Analyst or their relatives may have any financial interest in the subject company. MOFSL and/or its associates and/or Research Analyst or their relatives may have actual beneficial ownership of 1% or more securities in 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. MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may have any other potential conflict of interests at the time of publication of the research report or at the time of public appearance.

In the past 12 months, MOFSL or any of its associates may have:

- a) received any compensation from the subject company of this report
- b) managed or co-managed public offering of securities from subject company of this research report,
- c) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report,
- d) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
- e) MOFSL and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report.
- f) Subject Company may have been a client of MOFSL or its associates during twelve months preceding the date of distribution of the research report.
- g) Research Analyst may have served as director/officer/employee in the subject company.
- h) MOFSL and research analyst may engage in market making activity for the subject company.

MOFSL and its associate company(ies), and Research Analyst and their relatives from time to time may have:

a) a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein.

(b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, it does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

To enhance transparency, MOFSL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report. MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report.

Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement

Analyst ownership of the stock No

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal Capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Financial Services Limited (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal Capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors. Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

MOTILAL Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co. Reg. NO. 2011294012) which is a holder of a capital markets services license and an exempt financial adviser in Singapore, as per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "institutional investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

Disclaimer:

This report is intended for distribution to Retail Investors.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alterations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOFSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 22 71934200/022-71934263; Website: www.motilaloswal.com.

Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 7188 1000.

Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL): INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579, PMS: INP000006712. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML which is a group company of MOFSL. Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDS,

Insurance Products and IPOs. Real Estate is offered through Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. Private Equity is offered through Motilal Oswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. Research & Advisory services are backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.

* MOFSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench. Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for Securities Broking write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com