

Sterling and Wilson Solar Limited

Sterling and Wilson Solar Limited (SWSL) is a global pure-play, end-to-end solar engineering, procurement and construction (“EPC”) solutions provider. SWSL is the world’s largest solar EPC solutions provider in 2018 based on annual installations of utility-scale photovoltaic (“PV”) systems of more than five mega-watt peak (“MWp”), according to IHS Markit. In 2018, it had a 4.6% market share of the industry.

Positives: (1) Global Solar EPC player. SWSL has a presence in 26 countries. 2) Strong promoter group. 50% of post issue will be held by Shapoorji Pallonji and Company Private Limited. 3) Experienced management team. 4) Growing share of solar industry in energy sector. 5) In FY17, 99% of SWSL revenues came from India operations. However in FY19, India’s share of total order book plus letter of intent market share has come down to 11.8%. This shows that SWSL has managed to diversify its revenue stream.

Investment concerns: (1) In FY19, top two customers accounted for 37% of the company’s revenue while top five customers accounted for 54% of revenue. Loss of any key customer could have an adverse impact on the company. (2) Solar EPC Industry does not have any significant barriers to entry. 3) If solar photovoltaic (PV) and related technologies are regarded as unsuitable for widespread adoption then it can have an adverse impact on SWSL revenue and profitability. 4) Industry is highly competitive with the Industry leader accounting for only 4.6% market share.

Outlook & Valuation: At the upper end of the price band, SWSL demands PE multiple of 19.57x FY19 EPS which we feel is expensive given no significant competitive or technology advantage. Lack of listed peers makes comparison difficult. High growth rate in Solar PV installation is expected to slow down post 2019. **Considering the fact that industry is highly competitive with no meaningful barriers to entry, we have a NEUTRAL view on SWSL.**

Key Financials

Y/E March (₹ cr)	FY16	FY17	FY18	FY19
Net Sales	2,739.0	1,640.0	6,871.0	8,240.0
% chg	-	-40.1	319.0	19.9
Net Profit	126.0	31.0	450.0	638.0
% chg	-	-75.4	1,351.6	41.8
EBITDA (%)	6.9%	3.4%	7.8%	7.8%
EPS (Rs)	NA	NA	30.0	39.9
P/E (x)	NA	NA	26.0	19.6
P/BV (x)	NA	NA	64.5	14.9
RoE (%)	NA	NA	118.4%	62.4%
RoCE (%)	NA	NA	140.5%	62.0%
EV/EBITDA	NA	NA	23.1	18.8
EV/Sales	NA	NA	1.8	1.5

Company Source: RHP, Angel Research; Note: Valuation ratios based at upper end of the price band.

Note: i) FY16 & FY17 is carved out Financials pertaining to Sterling & Wilson Pvt Ltd – Solar EPC division. ii) FY18 Financials comprises the period from 9th March, 2017 to 31ST March, 2018.

Please refer to important disclosures at the end of this report

Neutral

Issue Open: Aug 06, 2019

Issue Close: Aug 08, 2019

Issue Details

Face Value: ₹1

Present Eq. Paid up Capital: ₹16.04cr

Offer for Sale: **4.01 cr Shares

Fresh issue: Not there.

Post Eq. Paid up Capital: ₹16.04cr

Issue size (amt): *₹3105 -**₹3125 cr

Price Band: ₹775-780

Lot Size: 19 shares and in multiple thereafter

Post Eq. Paid up Capital: *₹12428cr- **₹12508cr.

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 75%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

Post Issue Shareholding Pattern

Promoters	75%
Others	25%

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Company background

SWSL are a global pure-play, end-to-end solar engineering, procurement and construction (“EPC”) solutions provider. SWSL provide 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. Company 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 Sterling & Wilson Power Limited (SWPL) and was demerged from SWPL with effect from April 1, 2017.

Issue Details

SWSL issue comprises offer for sale of ₹2083.33cr by Shapoorji Pallonji and Company Private Limited and ₹1041.67cr by Khurshed Daruvala aggregating upto ₹3125cr (upper price band) in the price band of ₹775-780.

Exhibit 1: Pre & Post IPO Shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	160,360,000	100	120,295,904	75
Public	0	0	40,064,096	25
	160,360,000	100	160,360,000	100

Source: RHP, Angel Research. Note: Calculated on upper price band.

Objects of the offer

The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges. Further, SWSL expects that listing of the Equity Shares will enhance their visibility and brand image and provide liquidity to Shareholders and will also provide a public market for the Equity Shares in India.

Key Management Personnel:

Khurshed Yazdi Daruvala is the Chairman and a Non-Executive Non-Independent Director of the Company. He is an associate member of the ICAI. He has been part of the Sterling and Wilson group for about 25 years.

Pallon Shapoorji Mistry is a Non-Executive Non-Independent Director of the Company. He has been on our Board since August 2, 2018.

Bikesh Ogra is a Non-Executive Non-Independent Director of the Company and global CEO. He holds a bachelor’s degree in electrical engineering from the University of Burdwan. He joined the Sterling and Wilson group in 1996 and has over 22 years of experience in the EPC sector.

Consolidated Balance Sheet

Y/E March (₹ cr)	FY16	FY17	FY18	FY19
SOURCES OF FUNDS				
Equity Share Capital	-	-	16	16
Reserves & Surplus	-77	57	181	825
Non Controlling Interest	-	-	-3	-3
Shareholders Funds	-77	57	194	838
Total Loans	-	315	184	2,227
Other Liab & Prov	1	3	6	9
Total Liabilities	-76	375	384	3,074
APPLICATION OF FUNDS				
Net Block	7	9	21	31
Capital Work-in-Progress	-	-	3	-
Current Assets	702	1,056	4,879	5,327
Inventories	1	15	18	13
Sundry Debtors	468	648	1,823	1,900
Cash & Bank Balance	31	11	104	455
Loans & Advances	2	3	9	1,953
Other Assets	200	379	2,925	1,006
Current liabilities	787	702	4,536	2,319
Net Current Assets	-85	354	343	3,008
Other Non Current Asset	2	12	17	35
Total Assets	-76	375	384	3,074

Source: Company, Angel Research

Consolidated Income Statement

Y/E March (₹ cr)	FY16	FY17	FY18	FY19
Total operating income	2,739.0	1,640.0	6,871.0	8,240.0
% chg	-	-40.1	319.0	19.9
Total Expenditure	2,549.0	1,585.0	6,334.0	7,598.0
Cost of materials, stores & spare parts	1,887.0	1,176.0	5,373.0	5,609.0
Change in inventories	-1.0	-13.0	11.0	1.0
Direct project cost	520.0	264.0	734.0	1,645.0
Employee Benefit Expense	33.0	60.0	99.0	178.0
Other Expenses	110.0	98.0	117.0	165.0
EBITDA	190.0	55.0	537.0	642.0
% chg	-	-71.1	876.4	19.6
(% of Net Sales)	6.9	3.4	7.8	7.8
Depreciation & Amortisation	1.0	2.0	3.0	8.0
EBIT	189.0	53.0	534.0	634.0
% chg	-	-72.0	907.5	18.7
(% of Net Sales)	6.9	3.2	7.8	7.7
Interest & other Charges	1.0	3.0	19.0	85.0
Other Income	7.0	10.0	13.0	210.0
(% of Sales)	0.3	0.6	0.2	2.5
Recurring PBT	195.0	60.0	528.0	759.0
% chg	-	-69.2	780.0	43.8
Tax	-69.0	-29.0	-78.0	-121.0
PAT (reported)	126.0	31.0	450.0	638.0
% chg	-	-75.4	1,351.6	41.8
(% of Net Sales)	4.6	1.9	6.5	7.7
Basic & Fully Diluted EPS (Rs)	-	-	30.0	39.9
% chg	-	-	-	33.0

Source: Company, Angel Research

Consolidated Cash Flow Statement

Y/E March (₹cr)	FY16	FY17	FY18	FY19
Profit before tax	194.0	60.0	528.0	760.0
Depreciation	1.0	1.0	3.0	8.0
Change in Working Capital	(131.0)	(391.0)	(231.0)	(1,331.0)
Interest Expense	1.0	3.0	19.0	85.0
Direct Tax Paid	(4.0)	(1.0)	(78.0)	(101.0)
Others	-	9.0	10.0	(140.0)
Cash Flow from Operations	61.0	(319.0)	251.0	(719.0)
(Inc.)/ Dec. in Fixed Assets	(6.0)	(3.0)	(18.0)	(10.0)
Loan to Related Parties	-	-	-	(906.0)
Others	1.0	1.0	-	(13.0)
Cash Flow from Investing	(5.0)	(2.0)	(18.0)	(929.0)
Interest paid	(1.0)	(3.0)	(10.0)	(71.0)
Borrowings	(54.0)	327.0	(131.0)	2,044.0
Cash Flow from Financing	(55.0)	324.0	(141.0)	1,973.0
Inc./(Dec.) in Cash	1.0	3.0	92.0	325.0
Opening Cash balances	-	1.0	4.0	96.0
Closing Cash balances	1.0	4.0	96.0	421.0

Source: Company, Angel Research

Key Ratios

Y/E March	FY16	FY17	FY18	FY19
Valuation Ratio (x)				
P/E (on FDEPS)	NA	NA	26.0	19.6
P/CEPS	NA	NA	28.1	20.0
P/BV	NA	NA	64.5	14.9
EV/Sales	NA	NA	1.8	1.5
EV/EBITDA	NA	NA	23.1	18.8
Per Share Data (Rs)				
EPS (Basic)	NA	NA	30.0	39.9
EPS (fully diluted)	NA	NA	30.0	39.9
Cash EPS	NA	NA	27.8	39.0
Book Value	NA	NA	12.1	52.2
Returns (%)				
Angel ROIC (Pre tax)	NA	NA	195.6%	112.2%
ROE	NA	NA	118.4%	62.4%

Source: Company, Angel Research

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