

STERLING AND WILSON SOLAR LIMITED
IPO Note
(SUBSCRIBE)

Analyst:

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IPO details

Key Data	
Issue Opens	6-Aug-19
Issue Closes	8-Aug-19
Equity Shares Offered (in mn.)	40.32
QIB	Up to 75%
NIB	Min 10%
Retail	Min 15%
Face Value (₹)	1
Price Band (₹)	775-780
Max. Issue Size (₹ mn)	31,452
Lot Size (Eq. Shares)	19 and multiple thereof

Valuation	@ ₹775per share	@ ₹780per share
Market Cap (₹ mn)	124,279	125,081
Net Debt (₹ mn)	21,940	21,940
Enterprise Value (₹ mn)	146,219	147,021
EV/ Sales	1.8	1.8
EV/ EBITDA	22.8	22.9
P/E	19.4	19.6

* Calculated on EPS of FY17

Source: Red Herring Prospectus, Dealmoney Research

	Pre Issue		Post Issue [^]	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	160.4	100.0%	120.0	74.9%
Public	0.0	0.0%	0.0	0.0%
Offer for sale	0.0		40.3	25.1%
Fresh Issue			0.0	0.0%
Total	160.4	100.0%	160.4	100.0%

Object of the issue

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.
- For the Offer of the Equity Shares by the Promoter Selling Shareholders.
- To enhance visibility and brand image.

Recommendation

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 has 205 commissioned and contracted solar power projects with an aggregate capacity of 6,870 MWp (Mar'19). The company's order book was Rs. 3,832 crore as of March 31, 2019. Based on FY19 consolidated numbers, the issue is priced at a P/E of 19.6x. Which is priced fairly therefore we recommend SUBSCRIBE over the issue for a long term perspective.

Global pure-play, end-to-end solar engineering, procurement and construction (“EPC”) solutions provider

- ❑ Sterling and Wilson Solar limited 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 IHSMarkit.
- ❑ The company 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 provide operations and maintenance (“O&M”) services, including for projects constructed by third-parties.
- ❑ It has commenced operations in 2011 as the Solar EPC Division of SWPL and demerged from SWPL with effect from April 1, 2017. Over a span of seven years, the company became the largest solar EPC solutions provider in each of India, Africa and the Middle East according to IHSMarkit in 2018 and currently have a presence across 26 countries.
- ❑ As of March 31, 2019, it had 205 commissioned and contracted solar power projects with an aggregate capacity of 6,870.12 MWp. The order book, which the company define as the value of solar power projects for which it has entered into definitive EPC contracts minus the revenue already recognized from those projects, was Rs.38,315.77 million as of March 31, 2019.
- ❑ The company offers a complete range of customized solutions for solar power projects. The customers include leading independent power producers (“IPPs”), developers and equity funds. It adopts a consultative approach to customers’ solar energy needs and capabilities, which enables to provide customized solutions to meet their requirements.
- ❑ The company adopts a “hub-and-spoke” business model where it manages the complete supply chain from India, including the design and engineering functions, and engage a few suppliers and third-party subcontractors and procure part of the raw materials for the operations locally in each of the markets, where there is a cost advantage or to comply with local regulations.
- ❑ It seek to leverage this business model to procure products and services solutions for its customers at competitive prices. Its customers also benefit from the relationships with key stakeholders, such as, suppliers, project lenders and consultants, which help the company to execute projects for customers efficiently and at competitive prices
- ❑ In Fiscals 2018 and 2019, the revenue from operations outside India accounted for 59.11% and 69.82% of total revenue from operations, respectively. It often receive repeat orders from its customers and as of March 31, 2019 customers in India and outside India for whom the company has executed more than one project constituted 83.26% and 64.35% of its total commissioned solar capacity, respectively.

Source: Red Herring Prospectus, Dealmoney research

Strengths

- ❑ *Largest global solar EPC solutions provider in a fast growing solar industry* : The company world's largest solar EPC solutions provider, based on annual installations of utility-scale PV systems of more than five MWp, with a market share of 4.6% in 2018 which increased from 0.3% in 2014, according to IHSMarkit. It is also the largest solar EPC solutions providers in each of India, Africa and Middle East in 2018 with 16.6%, 36.6% and 40.4% market share, respectively, according to IHSMarkit. In 2017, it won the bid for the 1,177 MWp solar power project in Abu Dhabi, which is the world's largest single location solar PV plant, according to CRISL Research. Solar energy is one of the fastest growing forms of renewable energy, according to IHS Markit. The total cumulative installed solar PV generation capacity could reach nearly 1,090 GWDC globally by 2022, compared to less than 100 GWDC at the end of 2012, and the levelized cost of electricity for solar PV projects decreased sharply between 2012 and 2018 and is expected to continue to decrease until 2030.
- ❑ *Comprehensive end-to-end EPC solutions provider with a global execution track record* : The company is a 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 provide EPC solutions for rooftop solar projects, O&M services, including for projects constructed by third-parties. It follows a "hub-and-spoke" business model where it manages the complete supply chain from India, including the design and engineering functions and engage supplies and third-party subcontractors, and procure raw materials for the operations locally in each of the markets, where there is a cost advantage or to comply with local regulations. It seek to leverage this business model to procure optimal product and service solutions for its customers at a cost advantage.
- ❑ *A dedicated design and engineering team focused on innovation and developing efficient and cost effective engineering solutions*: the operations are supported by a competent and sizable design and engineering team that are responsible for designing innovative and cost-effective solutions with an aim to increase the performance ratio of solar power projects. As of March 31, 2019, all of its design and engineering team is based in India, which it believes provide a cost advantage over its competitors. The design and engineering team is engaged on the projects from the pre-bid stage through commissioning. At the pre-bid stage, the design and engineering team, evaluate and provide innovative design solutions for each potential solar power project and once it win the bid, they work with the project execution team to implement the designs and overcome challenges through design solutions. It believes that the design and engineering solutions, coupled with robust quality compliance checks, such as factory audits, pre-shipment checks and compliance tests on PV modules have helped it to achieve contractually agreed performance ratio for the solar power projects they construct.
- ❑ *Strong relationships with customers and other key stakeholders* : It offers a complete range of customized solutions for solar power projects. Its customers include leading IPPs and developers such as Marubeni, EDF Renewables, Alten, Sunseap, Sao Mai, Enfinity, ACWA Power and BNRG Renewables, and equity funds. The company adopts a consultative approach to customers' solar energy needs, which enables them to provide customized solutions to meet their requirements. The global network connects the customers to key stakeholders and allows its customers to reduce the number of service providers it needs to engage with, thus saving them time and cost, while also providing enhanced supply chain visibility .

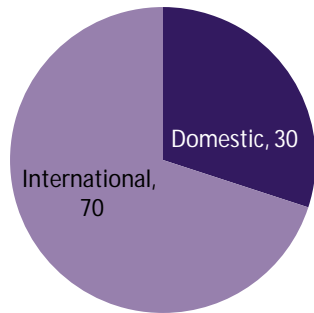
Future road ahead

- ❑ *Maintain market leadership through strategic expansion of overseas operations:* The company aims to maintain market leadership position through strategic expansion, including through roll up acquisitions in the markets in which it currently operates and into new geographies that present attractive opportunities. Currently, it has a presence across 26 countries, with its Subsidiaries and branch offices globally, and plans to continue expanding the operations. It is focused on leveraging the global presence, which it believes is a significant competitive advantage, the strong project execution track record and its relationships with key customers and project lenders to continue to position itself as a credible and reliable EPC player and win repeat orders.
- ❑ *Grow the customer base and maintain relationships with other key stakeholders:* the company believes there is a substantial opportunity to grow the customer base in existing and new markets through a combination of strong track record and market leadership in the regions in which it operates, the global presence (including through the broader network of the SP Group and S&W) and the relationships with key stakeholders in the solar power industry. It intends to develop this opportunity by continuing to invest in business development, tendering and marketing functions to optimize ability to identify, evaluate and win new customers. It also intends to continue building relationships with existing customers and other key stakeholders, such as engineers, suppliers and consultants. The strategy is to connect the customers to such key stakeholders and reduce the number of service providers they need to engage with, with an objective to save them time and cost.
- ❑ *Focus on increasing operational and financial efficiency:* It plans to continue focusing on operational and financial efficiency by investing in the competent and sizable design and engineering team in India and their innovative engineering efforts. Having this talent pool in India gives a low cost base to use these resources and execute projects. In addition, it is evolving internal processes for project execution, frequently update risk assessment matrix, stay updated with new technology and continue leveraging the global presence of the SP Group for the operations. It also intends to continue to devote significant resources to recruit, train and retain a talented workforce and offer competitive compensation packages, training and career opportunities to attract and retain capable employees. Through the geography specific market approach, building strong customer and stakeholder relationships and operational efficiency, it intends to tailor business model, and enhance its ability to bid for solar power projects independently and accordingly reduce its dependence on the SP Group.
- ❑ *Focus on expanding O&M, rooftop solar EPC and solar storage solutions:* It plans to continue expanding the O&M operations to solar power projects that were not constructed by the company. The company is building a dedicated team for its O&M operations that is focused on adopting a targeted approach to winning contracts for O&M services. It intends to first expand O&M operations in the regions where it has EPC operations, and enter markets that have conducive solar power policies with commissioned solar power projects. It has to intend to continue developing data analytics processes through the CMS and CMMS that it has licensed from SWPL and leverage experience of providing O&M services to understand solar modules and other equipment, which it believes will help the company improve the EPC and O&M services and win repeat orders. In addition, it plans to expand rooftop solar EPC solutions which it has started in Fiscal 2016. It also 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.

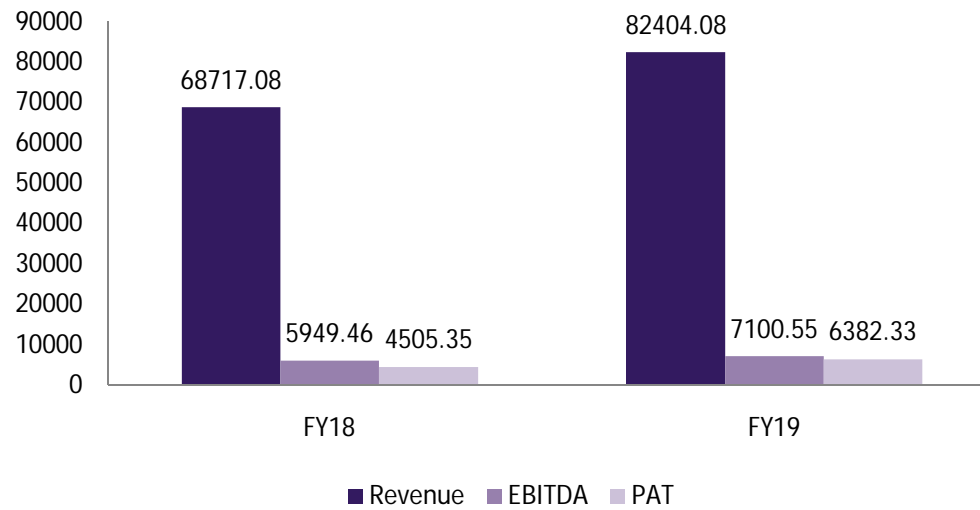
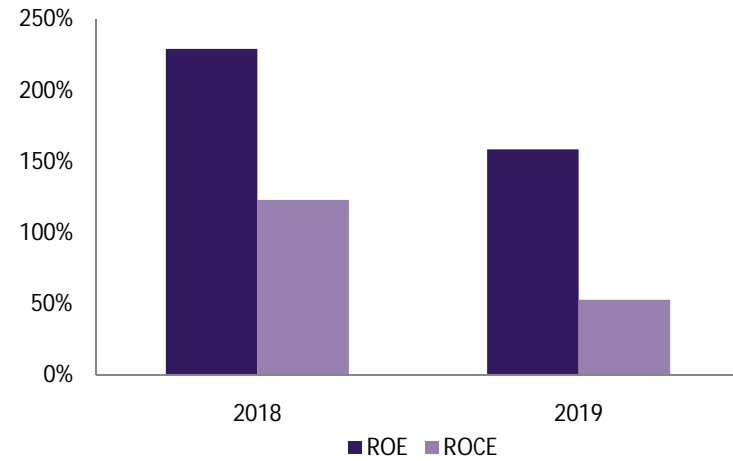
Source: Red Herring Prospectus, Dealmoney research

Financial Performance

Revenue Mix



Return Ratios



Summary Financials

Income Statement

₹ mn	FY19	FY18
Total Income	82,404.1	68,717.1
Operating Expense	75,983.1	63,339.6
EBIDTA	6,421.0	5,377.5
Depreciation	78.0	31.7
Other Income	2,095.3	127.1
Finance Costs	846.5	186.2
PBT	7,591.7	5,286.8
Exceptional items	-	-
Profit before tax	7,591.7	5,286.8
Provision for Tax	1,209.4	781.4
Profit for the year	6,382.3	4,505.4

₹ mn	FY19	FY18
EBIDTA Margin	10.3%	8.0%
Net Margin	7.6%	6.5%
EPS	39.9	30
RONW	62.0%	118.0%

Balance Sheet

₹ mn	FY19	FY18
Liabilities		
Share capital	160	160
Other Equity	(1,816)	(1,866)
Reserves and surplus	10,066	3,672
Non current Liabilities	86	56
Non-controlling interest	(35)	(27)
Deferred tax liabilities(Net)		
Contract liabilities		
Derivatives	-	104
Other financial liabilities	338	205
Trade payables	19,125	37,398
Other current liabilities	2,446	7,026
Short term borrowings	22,278	1,841
Short Term Provisions	769	552
Current tax liabilities (net)	503	83
Total Liabilities	53,919	49,204
Assets		
Net Block	265	202
Capital work-in-progress	-	29
Goodwill	31	-
Other intangible assets	18	10
Financial assets	12	-
Deferred tax assets (net)	321	110
Non-current tax assets (net)	-	10
Other non-current assets	24	54
Inventories	131	186
Investments	2	2
Trade receivables	19,002	18,215
Cash and cash equivalents	4,208	955
Bank balances other than cash and cash equivalents	338	87
Loans	19,534	94
Derivatives	40	-
Other financial assets	2,417	10,299
Current tax assets (net)	8	9
Other current assets	7,567	18,944
Total Assets	53,919	49,204

Source: Red Herring Prospectus, Dealmoney research

Key Risks

- ❑ 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 the company's expectation, the revenues may decline and it may be unable to sustain the profitability.
- ❑ It may work on projects for a limited number of customers in a financial period. The loss of a key customer in a financial period could significantly reduce revenue and could have a material adverse effect on business, future prospects, results of operations and financial condition.
- ❑ 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. Any restrictions in supply or defects in quality could cause delays in project construction or implementation and impair its 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.
- ❑ The 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 the business, financial condition and results of operations.
- ❑ It operates in a competitive industry and as such it may not be successful in bidding for and winning bids for solar power projects to grow the business globally, which may have a material adverse effect the business, financial condition, results of operations and prospects.
- ❑ It may be unable to accurately estimate costs under fixed-price EPC contracts, fail to maintain the quality and performance guarantees under our EPC contracts and the company may experience delays in completing the construction of solar power projects, which may increase the construction costs and working capital requirements, and may have a material adverse effect on our financial condition, cash flow and results of operations

Source: Red Herring Prospectus, Dealmoney research

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