



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Sterling & Wilson renewable energy limited Q3FY24 consolidated revenues came in at ₹ 582.88 Cr, up 43.24% YoY and down 23.29% QoQ.
- Operating loss for Q3FY24 stood at ₹16.18 Cr. operating profit for Q2FY24 was ₹1.47 cr. operating loss for Q3FY23 stood at ₹63.81 cr.
- Operating margins for Q3FY24 came at -₹2.78%. Operating margins for Q2FY24 stood around 0.1935% and for Q3FY223 was around -15.68%.
- PAT for Q3FY24 stood at -₹62.39 cr., against a PAT of -₹54.51 cr.

2. MANAGEMENT COMMENTARY:

- Company's gross margin for domestic business will remain in the range of 9%-10%.
- Company's gross margin for the international business will be in the lower double digit range.
- Additional module manufacturing capacity in China resulted in decline in the module prices. Declined module prices will results in more projects to come on-stream in coming days.
- Management is in continuous dialog with the Nigerian authority for the solar project and expecting it to conclude soon.

3. SEGMENTAL ANALYSIS:

- Q3FY24 Revenue Breakup: EPC (90.14%), Operation and maintenance (9.86%).

4. CONCALL SUMMARY

- Company has an order Book Inflows of ₹ 2,421 cr. In Q3FY24
- Company's total order book till 31-Dec-2023 stood at ₹ 8750 cr. & 87% of the above order book comprise of the domestic orders, supposed to be executed in next 12 to 18 Months.
- Company will bid for almost 6 GW of the projects in the Q4 itself.
- 40 GW of big pipeline to be bid out in FY'25 alone
- Nigerian order is expected to finalize soon & it is a massive order for Co.
- Company will be maintaining the initial double digit margins for the international projects and for domestic projects company has guided to maintain 9%-10% gross margin levels.
- Prices of modules in the international market has been reduces significantly and reached \$0.13-\$0.14/watt and in the domestic market price is around \$0.20-\$0.22/watt.

5. OTHER DEVELOPMENTS:

- Kainaz Khurshed Daruvala a member of promoter group has pledged 5, 32,000 shares in favor of 360 ONE Prime Limited on 30-Mar-2024.
- Pledge provides security for loan taken by Delsys Infotech private limited.
- Shapoorji Pallonji & Company Private Limited has clarified that news article dated 12-Mar-2024 appeared in economic times is "factually incorrect, baseless and misleading and company will separately be writing to the publication asking them to issue a corrigendum in this regard".

6. VALUATION AND OUTLOOK:

Consistently increasing order book, earmarked fund for future debt and huge order pipeline depicts the potentially better revenues and reduced level of debt will going forward improves the bottom line of the company.

We reiterate a "BUY" rating on the stock and value the stock at 27x FY25E earnings to arrive at the target of ₹595.

RECOMMENDATION - BUY

CMP – 511

TARGET – 595 (16%)

Industry	Construction
NSE CODE	SWSOLAR
BSE CODE	542760
Market Cap (₹ Cr)	12,543.95
Shares Outstanding (in Cr)	23.30
52 wk High/Low (₹)	647 / 253
P/E	0.00
P/BV	11.82
Face Value (₹)	1.00
Book Value (₹)	45.53
EPS (FY23) (₹)	-61.65
Dividend Yield (%)	0.70
Debt / Equity	-8.68
Interest Coverage	-6.79

SHAREHOLDING PATTERN

	Dec 23	Sep 23	Jun 23
Promoters	52.98	67.56	69.04
MF/ DII	5.29	5.77	5.49
FII/FPI	11.91	3.37	4.26
Retail & Others	25.34	23.13	21.13
Promoter Pledging	37.38	38.75	39.48

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2023A	2024E	2025E
Crore			
Sales	2015.01	3670.75	7843.23
Sales Gr. (%)	-61.24	82.17	113.67
EBITDA	-1123.59	-20.88	556.15
EBITDA %	-50.26	-0.57	7.09%
PAT	-1174.96	-169.45	511.15
EPS (₹)	-61.65	-7.27	21.94
EPS Gr. (%)	-28.27	88.20	-
Valuation			
P/E (x)	0.00	0.00	27

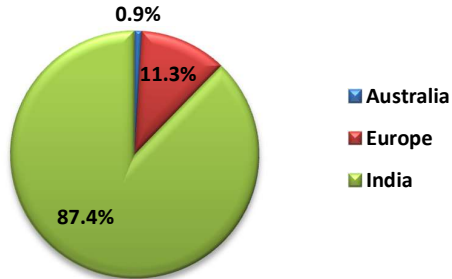
Historical & Industrial Valuation Ratios

Historical P/E	0.00
Industry P/E	42.01
Historical P/B	11.57
Industry P/B	5.68

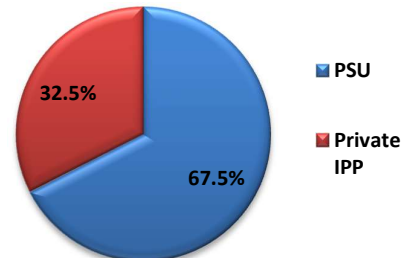


Order Book & Pipeline (Q3 FY24)

Business Mix (Q3 FY24)

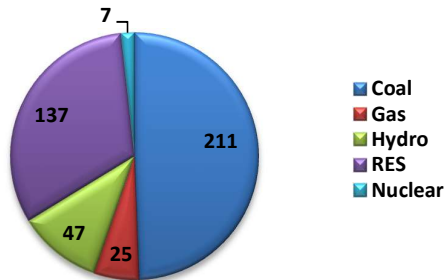


Order Mix (Q3 FY24)

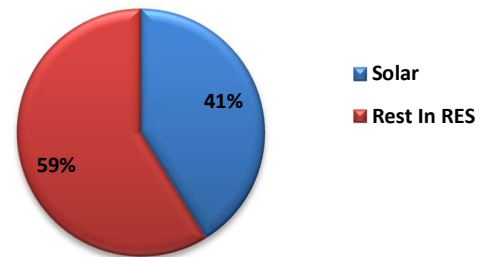


Power Sector Dynamics

India's Energy Mix (Feb-24)



Composition of Solar in RES



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY23				FY24				FY23	FY24E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E*		
Net sales	1,207	313	407	88	515	760	583	1,813	2,015	3,671
YoY change (%)	1.03%	-78.26%	-72.78%	-91.74%	-57.33%	142.90%	43.23%	1960%	-61.24%	82.17%
Total Expenditures	1,551	683	471	441	552	758	599	1,783	3,139	3,692
EBITDA	-344	-370	-64	-352	-37	1	-16	30	-1124	-21
Margins (%)	-28%	-118%	-16%	-398%	-7%	0%	-3%	2%	-56%	-0.57%
Other income	4	98	11	-2	7	17	27	24	111	75
Interest	15	33	38	60	62	64	68	13	151	207
Depreciation	3	3	4	4	3	4	4	6	15	17
PBT	-358	-308	-95	-418	-95	-50	-61	35	-1179	-169
Rate (%)	1%	3%	-4%	-1%	0%	-9%	-3%	0%	0%	0%
PAT	-356	-299	-99	-421	-95	-55	-62	35	-1175	-169
EPS in Rs	-18.66	-15.65	-5.34	-22.01	-5.03	-2.86	-2.73	1.50	-61.65	-7.27

Source: Company, Hem Securities Research.

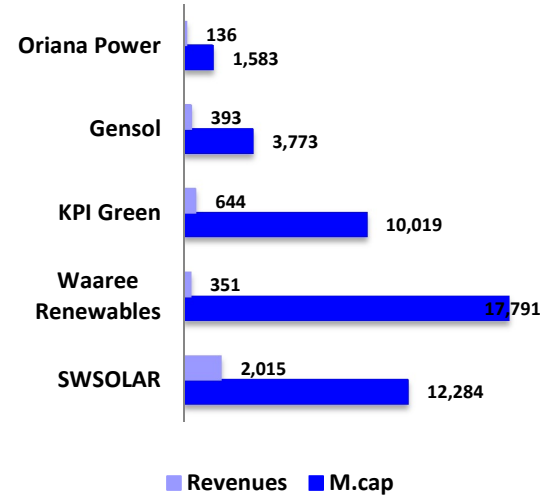
Note: - Figures mentioned in statement are rounded off to the nearest integer for better understanding purpose.

INDUSTRY OVERVIEW

- India has set a target to reduce the carbon intensity of the nation's economy by less than 45% by the end of the decade, achieve 50 percent cumulative electric power installed by 2030 from renewables, and achieve net-zero carbon emissions by 2070.
- India stands 4th globally in renewable energy installed capacity (including Large Hydro) and 5th in Solar Power installed capacity.
- Renewal energy composed of more than 40% of the total installed capacity of India, which amounts to 183.50 GW as on 29/02/2024.
- Solar comprises a significant component of 41% in installed renewable capacity, which amounts to ~76 GW.
- India has set a target of 500 GW of non-fossil-based energy by 2030, which was a key pledge under Panchamrit. The sector is expected to grow at a CAGR of more than 15% till FY 2030.
- According to the Central Electricity Authority (CEA), India has set a target of harnessing 293 GW of Solar Power capacity by 2030. Overall installed capacity is likely to reach 777 GW in 2030, out of which share of Solar Power will be ~38%.
- Reduced solar prices and overcapacity in the Chinese market has resulted in the depressed prices and corporates will capitalize this opportunity to have their own captive solar power plants, which may bring the good for the EPC players.

KEY PLAYERS in EPC Space

(31-Mar-2023)



PEER PERFORMANCE

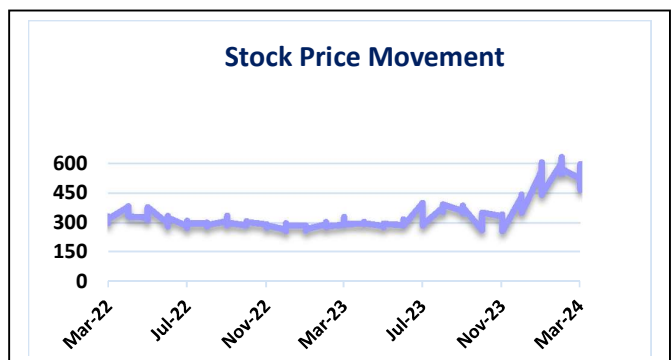
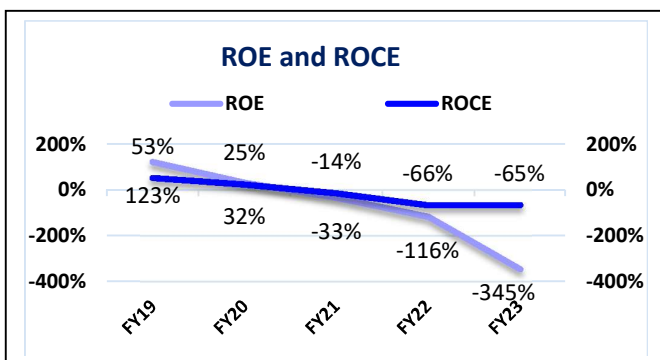
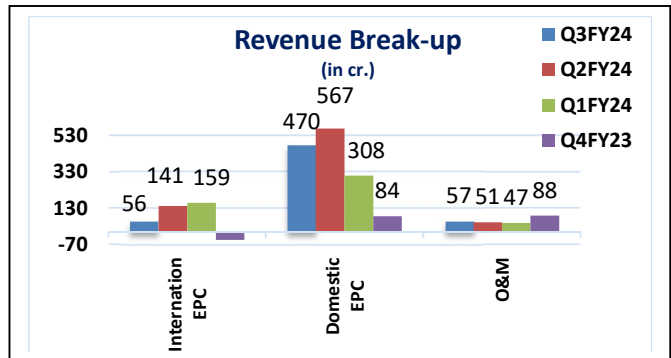
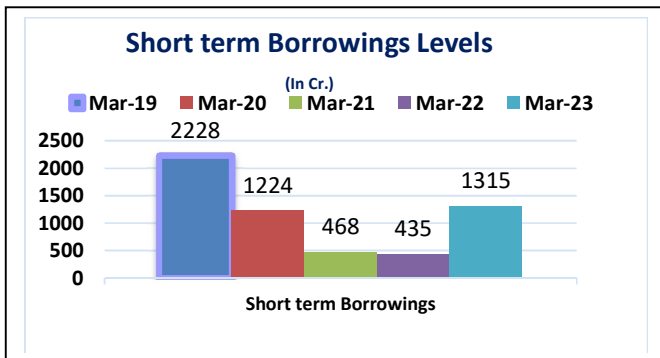
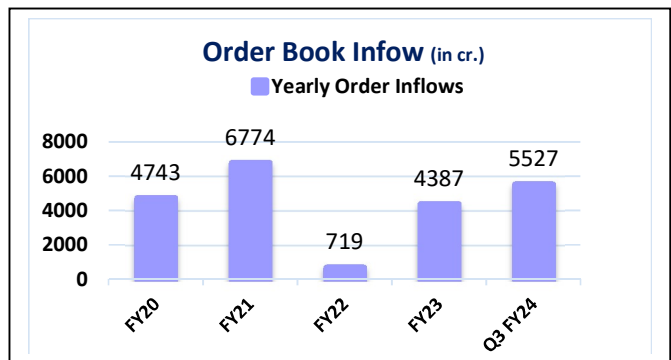
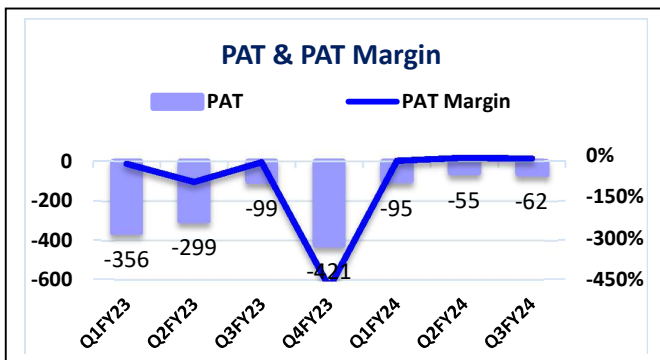
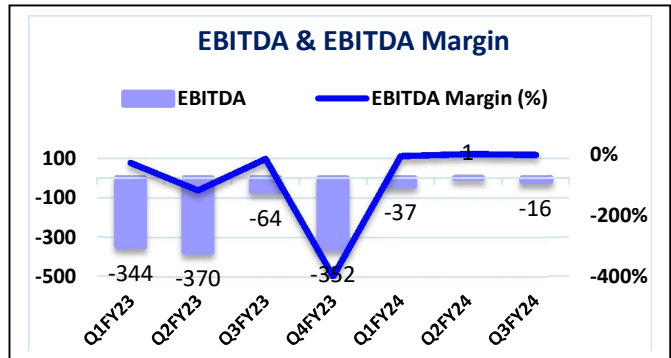
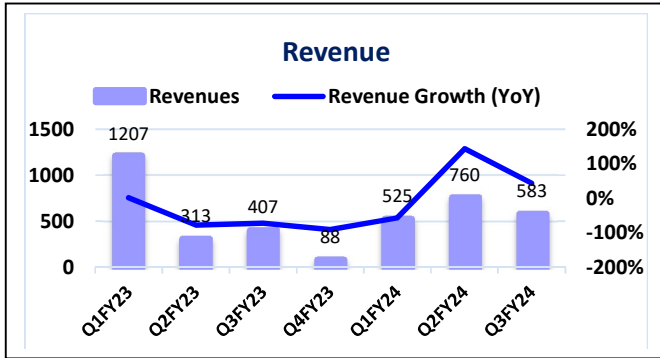
(₹ Cr)

Particulars	SW Solar	Waaree Renewables	KPI Green	Gensol Engineering	Oriana Power
Market Cap	12,283.9	17,790.8	10,019.3	3,773.5	1,582.7
Net Sales	2,015.0	351.0	643.8	392.7	136.2
EBITDA	-1,123.6	83.7	208.5	58.1	19.9
PAT	-1,169.6	55.4	109.6	24.9	10.9
EPS(₹)	-61.7	5.3	20.2	6.8	8.1
EBITDA MARGIN %	-50.3	24.3	32.9	16.0	15.5
PAT MARGIN %	-58.3	15.8	17.0	6.3	8.0
ROCE %	-65.4	84.1	29.7	11.9	26.9
ROE %	-345.1	96.9	53.3	19.4	46.1
P/E TTM	-	167.5	66.6	151.5	144.8
P/B TTM	11.6	100.3	12.2	11.6	82.5
MCap/ Sales TTM	6.3	26.8	10.9	9.6	11.6

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Company's order book is consistently increasing. Its unexecuted order book stood at ₹ 8,750 cr. Till Q3FY24.
- Q4FY24 topline and bottom growth is expected to be stronger with significant reduction in the debt levels.
- Management has guided to maintain 9%-10% of gross margins in domestic projects and lower teen range margins for the international projects.
- Company's net debt level has reduced significantly from ₹ 2,178 cr. In September to ₹ 450 cr.
- Company has signed the MOU with Nigerian government in alliance with Sun Africa. Management is working with various stakeholders to finalize the D&EPC agreement for the project. This project is expected to significantly increase the order book of company.
- Reduced solar prices and overcapacity in the Chinese market has resulted in the depressed prices and corporates will capitalize this opportunity to have their own captive solar power plants, which may bring the good for the EPC players.
- Management has guided that Revenue from Operation & Maintenance will drive the growth in the bottom line of the company. Revenue from the O&M is expected to get 2.5x-3x in coming two years.

RISK / NEGATIVE FACTORS:

- Solar EPC space is very competitive and bid based. In order to win the project, Company's sometimes might quote a price which is not sustainable over a long term and can hamper the bottom line of the company.
- Recent rating downgrade owing to invocation of bank guarantee made sourcing of loan more expensive and difficult for the company.
- India ratings has downgraded bank facilities rating from BB- to D.
- Company is required to provide bank guarantees & performance guarantees under EPC contracts. Inability to arrange such guarantees or the invocation of such guarantees may materially and adversely affect ability to bid for new projects and have a material adverse effect on future revenues and business prospects.

COMPANY RECAP

- Sterling & Wilson group has a rich experience of 90 years. It ventured into solar EPC business in year 2011. Company was recognized as largest Indian solar EPC player in the year 2015. In year 2017 it demerged to focus on pure play solar EPC projects.
- Sterling & Wilson Renewable Energy Ltd is a one the leading Solar EPC Player of the world. Company was listed on stock exchange in the month of Aug-2019.
- Company is indulged in Design, Detailed Engineering, Procurement, Construction, Installation, Commissioning and Operations & Maintenance services under turnkey EPC and BOS (Balance of System) solutions for utility-scale, and floating solar power projects. Company also offer solar plus storage solutions.
- Company has global presence including but not limited to Middle East, Australia, North America. However, presently company is focusing more on the domestic projects and adopting a cautious approach towards the international projects.
- Company recently faced financial crises. It defaulted its working capital loan resulted in cross default in certain other loans bearing a fixed maturity period. Further recent invocation of bank guarantee also resulted in rating downgrades.
- Company has recently raised ₹ 1,500 cr. through QIP and indemnity proceeds from promoter. This has helped company to reduce its net debt level significantly.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

	(₹ Cr)						
Y/E March	2019	2020	2021	2022	2023	2024E	2025E
Revenue from operations	8,240.41	5,575.29	5,080.80	5,198.94	2,015.01	3,670.75	7,843.23
Growth YoY (%)	19.92	-32.34	-8.87	2.33	-61.24	82.17	113.67
Total Expenditure	7,530.35	5,202.53	5,457.85	6,101.92	3,138.60	3,691.62	7,287.08
(%) of sales	91.38	93.31	107.42	117.37	155.76	100.57	92.91
EBITDA	710.06	372.76	-377.05	-902.98	-1,123.59	-20.88	556.15
EBITDA Margin (%)	8.62	6.69	-7.42	-17.37	-55.76	-0.57	7.09
Depreciation	7.80	14.23	16.51	14.67	14.71	17	25
EBIT	911.78	662.02	-235.07	-822.95	-1,027.44	37.53	611.15
EBIT Growth (%)	50.83	-27.39	-135.51	-397.04	-24.85	-	1,528.64
Net Interest Expenses	152.61	263.52	104.97	87.21	151.30	206.98	100
Earnings before Taxes	759.17	398.50	-340.04	-910.16	-1,178.74	-169.45	511.15
EBT Margin (%)	9.21	7.15	-6.69	-17.51	-58.50	-4.62	6.52
Tax-Total	120.94	94.23	-50.00	5.60	-3.78	0	0
Rate of tax (%)	15.93	23.65	14.70	-0.62	0.32	0	0
Net Profit	638.23	304.27	-290.04	-915.76	-1,174.96	-169.45	511.15
PAT Growth (%)	41.66	-52.33	-195.32	-215.74	-28.30	85.58	-
PAT Margin (%)	7.75	5.46	-5.71	-17.61	-58.31	-4.62	6.52
EPS	39.85	19.33	-17.79	-47.94	-61.65	-7.27	21.94
EPS Growth (%)	41.31	-51.49	-192.04	-169.46	-28.60	88.20	-

Balance Sheet

Y/E March	2019	2020	2021	2022	2023
Equity Capital	16	16	16	16	19
Reserves	181	825	1,065	646	898
Borrowings	184	2,228	1,234	479	446
Other Liabilities	4,540	2,323	2,719	2,568	2,137
Total Liabilities & Equity	4,920	5,392	5,034	3,709	3,500
Fixed Assets	21	31	45	46	42
CWIP	3	0	4	0	0
Investments	0	0	0	0	0
Other Assets	4,896	5,361	4,985	3,663	3,458
Total Assets	4,920	5,392	5,034	3,709	3,500

Source: Company, Hem Securities Research.

Note: - Balance sheet figures have been rounded off.

Ratios					
Y/E March (Basic (INR))	2019	2020	2021	2022	2023
Profitability and return ratios					
Net profit margin (%)	7.75	5.46	-5.71	-17.61	-58.31
EBITDA margin (%)	11.16	12.13	-4.30	-15.55	-50.26
EBIT margin (%)	11.06	11.87	-4.63	-15.83	-50.99
ROE (%)	123.02	31.66	-33.28	-116.29	345.11
ROCE (%)	52.86	24.64	-13.69	-66.31	-65.41
Working Capital & liquidity ratios					
Payables (Days)	170.63	202.39	237.03	242.02	307.62
Inventory (Days)	0.70	0.91	0.63	0.25	0.50
Receivables (Days)	82.42	128.66	103.42	57.32	142.58
Current Ratio (x)	1.16	1.24	1.16	1.29	1.10
Valuations Ratios					
EV/sales (x)	0.22	0.35	0.85	1.14	3.70
EV/EBITDA (x)	1.95	2.90	-19.72	-7.36	-7.37
P/E (x)	0.00	3.98	0.00	0.00	0.00
P/BV (x)	0.00	1.14	6.24	6.59	-23.87
Dividend Yield (%)	0.00	7.80	0.00	0.00	0.00
Return on Assets (%)	12.12	5.60	-6.51	-26.21	-36.20
Leverage Ratio					
Debt/Equity (x)	2.65	1.13	0.71	0.48	-8.68

Cash Flow Statement					
Y/E March	2019	2020	2021	2022	2023
CF from Operating activities (A)	-723	338	201	-1,690	-1,829
CF from Investing Activities (B)	-929	1,013	409	949	-11.78
CF from Financing Activities (C)	1,972	-1,313	-853	978	1,431
Net Cash Flow	320.03	37.93	-243.06	237.42	-410
Add: Opening Bal.	95	421	463	220	458
Closing Balance	421	463	220	458	48

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
08 April 2024	Buy	595

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Name of the Research Analyst: MOHIT ARORA

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2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
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10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.