Sterling & Wilson Renewable Energy Ltd — Jul 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Inline / Beat (Operational Stabilization) **One-line:** SWSOLAR has successfully pivoted from a balance sheet crisis to operational recovery, marking its second consecutive profitable quarter, though the "mega-growth" thesis remains contingent on a credit rating upgrade and the multi-billion dollar Nigeria project closure.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Rev □1,178 Cr and PAT □5 Cr align with "recovery" trajectory.	□
Earnings Quality	High (Core driven)	PAT suppressed by □10 Cr non-cash DTA charge; O&M margins improving.	□
Guidance Confidence	Strong	Reiterated □8,000 Cr Rev and □8,000 Cr Inflow targets for FY25.	□
Management Credibility	Improving	Delivering on debt reduction (Net Debt <□100 Cr) and profitability.	□
Business Quality Signal	Improving	Shift from legacy international losses to profitable domestic-led growth.	□
Key Q&A Exchange	Q#4 - Rating Upgrade	Mgmt expects upgrade to Investment Grade soon to unfreeze limits.	□
The Street's Primary Anxiety	Liquidity & Limits	Will lack of non-fund limits stall the backend-loaded □6,800 Cr Rev?	□
Capital Cycle Stage	Consolidation	De-leveraging almost complete; preparing for execution scale-up.	□
Margin / Return Ratio Trajectory	Stable	Gross margins steady at ~11%; O&M recurring margins at ~23%.	□
Pricing Power	Stable	Pass-through clauses for modules in place; domestic BOS focus.	□
FCF Conversion & Quality	Strong	Negative working capital cycle (□-732 Cr) persists; cash-rich ops.	□
Competitive Moat Signals	Stable	Reliance linkage and NTPC repeat business suggest dominant EPC status.	□
Balance Sheet Strength	Stressed but Improving	Net Debt □97 Cr; waiting for □400-□600 Cr unutilized limits.	□
Working Capital Efficiency	Improving	Advance-heavy model; Net Working Capital narrowed to □-732 Cr.	□
Mgmt Guidance Track Record	Mixed	Historically volatile, but last two quarters show discipline.	□
Key Vulnerability / Red Flag	Promoter Pledging	Analysts flagged continuous promoter selling and pledging activity.	□
Management Tone	Confident	Upbeat on domestic pipeline (23 GW) and Reliance mega-rollout.	□

Sentiment: □Positive

Key Takeaways: * **Positives:** Second consecutive quarter of consolidated PAT/EBITDA positivity; Net debt reduced to ₹97 Cr from a peak of over ₹2,000 Cr; Domestic order book now 71% of UOV, reducing FX and geopolitical risk; Breakthrough in South Africa (₹1,169 Cr orders) adds geographic diversity without "legacy" risk profiles. * **Negatives:** Heavy reliance on H2 for 85% of incremental revenue guidance; Rating upgrade is a bottleneck for accessing the ~₹2,000 Cr in unfrozen bank limits needed for peak execution; Promoters' continuous stake reduction and pledging remain a governance overhang. * **Main Concern:** The Street is fixated on the "Working Capital vs. Limits" mismatch. Management responded that current limits are sufficient due to a churn of LCs (90-120 days) and that a rating upgrade to Investment Grade is imminent, which would "unfreeze" existing dormant capacity. * **Forward Watchpoint:** Watch for the official credit rating upgrade to "Investment Grade" (BBB- or higher); without it, the ₹8,000 Cr revenue target for FY25 is mathematically difficult to execute.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *Data Source: PPT primary; Concall for commentary. Note: Transcript mentions 915 Cr operating revenue, but PPT P&L explicitly states 1,178.4 Cr total revenue from operations.*

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Income (₹Cr)	1,178.4	↑ 129%	↓ 22%	↑	Growth driven by domestic EPC. QoQ decline is seasonal (Q4 push).
EBITDA (₹Cr)	37	↑ NM	↓ 31%	↑	Second consecutive positive EBITDA quarter.
EBITDA Margin %	3.1%	↑ NM	↓ 40 bps	↑	Steady performance; overheads now optimized.
PAT (₹Cr)	5	↑ NM	↑ 400%	↑	Impacted by ₹10 Cr non-cash DTA charge. Adjusted PAT ~₹15 Cr.
Order Book (₹Cr)	9,396	↑ 91%	↑ 16%	↑	Domestic: 71%; International: 29%. Strongest in 3 years.
Order Inflows (₹Cr)	2,170	↑ NM	↓ 64%	↑	Breakthrough in South Africa (₹1,169 Cr).
Net Debt (₹Cr)	97	↓ 95%	↓ 16%	↑	De-leveraging nearing completion.
Working Capital (₹Cr)	(732)	↑ 25%	↑ 25%	↑	Negative working capital cycle; advances from customers ₹1,145 Cr.
O&M Gross Margin (%)	23%	↑ 630 bps	↑ 38%	↑	Recurring margin at 23%; reported 26% due to one-off receipts.
Execution Rate (%)	14.5%	↑ 600 bps	↓ 450 bps	→	% of opening UOV executed. Expected to double in H2.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹Cr)	YoY Growth	Margin (GP)	Trend	vs Co. Avg	Key Development
Domestic EPC	1,082	↑ 150%+	10.0%	→	Inline	Won 900 MW DC Serentica project; Reliance pilot active.
Intl. EPC	41	↓ 80%*	(NM)	↓	Below	Legacy projects closed; new SA orders haven't hit execution.
O&M	55	↑ 20%	26.0%*	↑	Above	8.2 GW portfolio; ₹3 Cr one-off backdated revenue.
**Note: YoY comparison for Intl EPC is distorted by project exit timings. O&M reported margin includes one-offs.*						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	₹8,000 Cr+ for FY25.	Needs ₹2,274 Cr/qtr for next 3 qtrs. Q4 historical peak makes this feasible if limits are unfrozen.	First entry	High (Limit dependent)
Guidance	Order Inflow	₹8,000 Cr for FY25.	₹2,170 Cr achieved in Q1. Needs ₹1,943 Cr/qtr. Pipeline of 28 GW makes this highly probable.	First entry	Low
Guidance	Margins	10-11% Gross Margins.	Current Q1 at 11.1%. Replicating domestic BOS margins globally.	First entry	Low
Strategy	Reliance	Mega rollout in multiple geographies soon.	Not quantified; pilot scale is "reasonable." Timing for mega-orders remains elusive.	First entry	Medium (Timing)
Macro	Nigeria	$1.5B - $2B Project; closure "soon."	Expected to close in FY25; Revenue contribution mostly in FY26.	Delayed for 4+ quarters.	High (Procedural)
Balance	Debt Repayment	No repayments until Q3 FY25.	Indemnity payments (₹135 Cr net crystallized) expected to cover H2 term debt.	Consistently reducing debt.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Credibility	Verdict
1	4.5	Puneet / HSBC	Margins	Financials	"How different are margins from international and domestic business based on new orders?"	Management confirmed 10-11% margins for domestic and 10-12% for international by being selective and passing through module risks. This implies margin stability regardless of geographic mix shift.	None	4.0	Clear and quantified
2	4.0	Puneet / HSBC	Reliance	Business	"How big is the RIL pilot project and future outlook?"	Management described it as a "reasonable size" using multiple technologies to prepare for a "mega project rollout" across India. This signals SWSOLAR is the designated EPC for Reliance's 100GW ambition.	None	3.0	Directional evidence
3	4.5	Shiwani / Monarch	Execution	Financials	"Status of Plenitude (Europe) order execution?"	Engineering is complete and execution is on track for the 18-month timeline with confidence to finish ahead of schedule. Fast-tracking Europe projects will improve working capital churn.	None	4.0	Specific timeline
4	4.0	Kunal Shah / DAM	Guidance	Outlook	"Is the □8,000 Cr revenue	Management is pursuing an upgrade post-	Specific contingencies	3.0	Deflected - key signal

Q#	Relevance	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Credibility	Verdict
					target dependent on a rating upgrade?"	results but is also preparing "contingencies" to ensure business doesn't suffer. This confirms liquidity is the primary constraint to hitting FY25 targets.			
5	5.0	Kunal Shah / DAM	Nigeria	Outlook	"Will U.S. elections/ regime change impact Nigeria project via Exim Bank?"	Management stated the project is already on the approved list and regime change poses no risk to the Exim Bank board's prior approvals. This removes a major geopolitical overhang regarding the project's financing.	None	4.0	Verifiable claim
6	3.5	Amish / JM Financial	Timelines	Business	"What is the average execution timeline for the current order book?"	Typical domestic PSU projects take 18 months, IPP projects 10-14 months, and international 15-18 months. This suggests the current ₹9.4k Cr book will burn through by mid-FY26.	None	5.0	Quantified
7	4.5	Jayesh Shah / OHM	Liquidity	Financials	"Is ₹6,000 Cr in limits enough to do ₹6,000 Cr in H2 sales?"	Management clarified that BGs are only 20% of project value and LCs churn every 90-120 days,	None	4.5	Technical clarity

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						so limits aren't a 1:1 correlation with sales. This eases fears that limit caps will hard-stop revenue growth.			
8	4.0	V.P. Rajesh / Banyan	Growth	Outlook	"Can the company double revenue in 3-5 years?"	Management expects to double revenue excluding Nigeria/ Reliance in 4-5 years, but including them, FY26 will see "huge growth" over FY25. This sets a high bar for FY26 performance.	None	3.0	Vague/ Directional
9	4.5	Faisal Hawa	Competition	Business	"Are you losing PSU bids (NTPC/ Khavda) to ultra-competitive smaller players?"	Management admitted to passing on projects where the risk-reward was unfavorable but noted the 23 GW domestic pipeline is large enough to maintain hit rates. This signals a refusal to sacrifice margins for market share.	None	4.0	Consistent strategy
10	4.5	Faisal Hawa	Governance	Governance	"Promoters are continuously pledging and reducing stakes,	Management noted the concern but stated they cannot comment on promoter	Promoter's intent	1.0	Evasive - Red Flag

Q#	Relevance	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Credibility	Verdict
					causing disturbance."	actions, though they will pass the message along. This remains a significant unaddressed risk to stock sentiment.			
11	4.0	Aejas / Unifi	Indemnity	Financials	"Explain the reversal of the indemnity payment (Jinka)."	A ₹135 Cr reversal is required because the company won an arbitration and cannot "double dip" on promoter indemnity and vendor recovery. Net crystallized indemnity for November is now ~₹85 Cr (₹220 Cr gross minus ₹135 Cr reversal).	None	4.5	Specific accounting

PATTERN FLAGS & SENTIMENT * **Liquidity Anxiety:** Analysts are deeply skeptical about the company's ability to execute a ₹6,800 Cr H2 without an immediate credit rating upgrade. Management's posture was technically confident (explaining LC churn) but acknowledged that the rating upgrade is the ultimate "unfreezer." * **The "Nigeria/Reliance" Wait:** Questions on these two catalysts are recurring. Management is being careful not to provide hard dates, suggesting procedural friction in Nigeria and a "test and learn" phase with Reliance. * **Governance Friction:** The question on promoter pledging was the most tense. Management's inability to provide a statement on behalf of the Shapoorji Pallonji/Sterling groups leaves a "transparency gap."

Analyst Sentiment Verdict: Analysts are cautiously optimistic about the operational turnaround (the "how") but remain fixated on the "when" of the rating upgrade and the Nigeria project. Credibility is improving as debt stays low, but the promoter pledging issue prevents a full valuation re-rating.

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

Investor Note: Q1 FY25 establishes a "New Normal" for SWSOLAR. The balance sheet is no longer a bankruptcy risk (Net Debt <₹100 Cr), and the business is now a pure-play on Indian Solar BOS and selective international EPC. The CFO-to-PAT ratio is highly positive due to the advance-heavy negative working capital model, providing a "cash cushion" that the P&L doesn't fully reflect. The thesis has moved from **Survival** to **Execution**.

What Changed	Prior Quarter	This Quarter	Direction
First entry	Not available	First entry	—

END OF REPORT