Sterling & Wilson Renewable Energy Ltd — Jul 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat (Margins) / Miss (Order Inflow) / Inline (Execution adjusted for conflict) **One-line:** The structural recovery is transitioning into a margin-accretive growth phase, but execution remains sensitive to external shocks (border conflict) and banking limit friction.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Prior Quarter	Mixed	Revenue (□1,762 Cr) fell 30% QoQ due to seasonality and 45-day conflict disruption, but Gross Margins (11.7%) significantly beat the 10% target.	□
Earnings Quality	High (Core)	Operational EBITDA of □123 Cr (7% margin) is healthy; strip out □21 Cr impairment and core performance is robust.	□
Guidance Confidence	Strong	Re-iterated 15-20% YoY revenue growth for FY26; 30 GW bid pipeline provides high visibility.	□
Management Credibility	Improving	Finally delivering on bank limit expansion (□900 Cr new sanctions) and successfully renegotiating module prices to boost margins.	□
Business Quality Signal	Improving	Pivot to "Solar + BESS + Wind BoS" increases wallet share per project; Domestic EPC GM (10.8%) is now structural.	□
Key Q&A Exchange	Q#3 - Bank Limits	Mgmt secured □900 Cr new limits + □200 Cr surety bonds; seeking another □1,500 Cr to remove the growth "governor."	□
The Street's Primary Anxiety	Order Inflow Lumpiness	Muted Q1 inflows (□813 Cr) vs □1,372 Cr in Q4; Mgmt attributes this to ALMM-II cell uncertainty and ISTS waiver delays.	□
Capital Cycle Stage	Scale-up	Shifting from deleveraging to working capital absorption to fund the massive domestic pipeline.	□
Margin Trajectory	Improving	Gross Margins rose to 11.7% (vs 10.4% in Q4) aided by module price softening and strategic procurement timing.	□
Pricing Power	Stable	Maintaining 10%+ GM floor despite high competitive intensity in domestic PSU bids.	□
FCF Conversion & Quality	Weak	CFO-to-PAT is distorted; Net Debt increased by □205 Cr as the company used cash to pay down vendors from Q4's peak execution.	□
Competitive Moat	Stable	Retains #1 Global Solar EPC status; expertise in BESS (Battery Storage) is becoming a critical differentiator.	□
Balance Sheet Strength	Adequate	Rating upgraded to BBB+; Gross debt declining but Net Debt rising as NWC "normalizes."	□
Working Capital Efficiency	Deteriorating	NWC remains negative (favorable) at (□348 Cr), but "less negative" than Mar-25 (□602 Cr) as trade payables were settled.	□
Mgmt Guidance Track Record	Reliable	Meeting margin promises; Nigeria remains the only persistent "delayed" outlier.	□
Key Vulnerability	Border Sensitivity	~45 days of productivity lost in Rajasthan/Gujarat due to border tensions; highlights geographic concentration risk.	□
Management Tone	Confident	Bullish on BESS policy (20% mandatory integration) and the loosening of banking limit constraints.	□

Sentiment: □Positive

Key Takeaways: * **Positives:** The margin profile has moved from "recovery" to "outperformance." Delivering 11.7% Gross Margin (vs 10% guidance) suggests the company is effectively leveraging module price volatility and its scale to improve procurement. The unfreezing of banking limits (□900 Cr new sanctions) is the single most important catalyst to support the 20% FY26 growth guidance. * **Negatives:** Execution is fragile; a 45-day disruption in border states (Rajasthan/Gujarat) wiped out the sequential growth momentum. Net Debt increased by □205 Cr, proving that the previous "negative working capital" was unsustainably high and relied on stretching vendor payables. * **Street Concern:** Analysts are focused on why order inflows were muted (□813 Cr). Management's response—that the 30 GW pipeline is being held back by developers waiting for ALMM-II clarity and ISTS waiver extensions—is plausible but indicates H1 FY26 might be "back-ended" for awards. * **Forward Watchpoint:** Conversion of the 3 GW BESS (Battery Storage) pipeline. With the new 20% integration policy, SWREL's ability to capture this higher-margin BoS work is the next leg of the re-rating story.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures primary. Concall used for commentary and NWC details.

Metric	Current Qtr (Q1FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	1,762	↑ 92.6%	↓ 30.1%	□	YoY growth driven by high execution; QoQ decline due to seasonality and 45-day border conflict disruption.
Gross Margin (%)	11.7%	↑ 160 bps	↑ 130 bps	□	Beat target (10%); driven by softening module costs and favorable renegotiations with suppliers.
EBITDA (□Cr)	102	↑ 175.7%	↓ 12.1%	□	Sequential drop due to lower revenue base; includes □21 Cr one-off impairment of international receivables.
EBITDA Margin %	5.8%	↑ 180 bps	↑ 120 bps	□	Operational EBITDA (excl. one-offs) was stronger at 7.0%.
PAT (□Cr)	39	↑ 680%	↓ 29.1%	□	Impacted by high tax outflow in South Africa and Standalone entity; underlying profitability remains high.
Net Debt / (Cash) (□Cr)	383	↑ NM	↑ 115%	↓	Increased by □205 Cr (vs Q4 □178 Cr) due to vendor payments and utilization of □200 Cr Bank of Maharashtra loan.
Order Book (□ Cr)	8,348	↑ 2.6%	↓ 8.2%	↓	Consumption of order book via execution outpaced new inflows (□813 Cr).
Order Inflows (□Cr)	813	↓ 45.4%	↓ 40.7%	↓	Muted; developers awaiting clarity on ALMM-II cell pricing and ISTS waiver extensions.
Execution Rate (%)	19.4%	↑ 700 bps	↓ 540 bps	□	Calculated as Q1 Revenue / Opening Order Book (□9,096 Cr). Slowdown due to 45-day conflict.
Book-to-bill (x)	1.32x	↓ 31.9%	↓ 8.3%	↓	Normalizing; 88% of order book is domestic.
Working Capital (□Cr)	(348)	↓ 0.0%	↓ 42.2%	↓	NWC remains favorable but "less negative" as Trade Payables fell from □2,750 Cr to □2,251 Cr.
Net Worth (□ Cr)	995	↑ NM	↓ 2.6%	→	Stable; current Net D/E stands at 0.18x.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (GM)	Trend	vs Co. Avg	Key Development
Domestic EPC	1,265	↑ High	10.8%	↑	Inline	Hit target; facing 45-day execution disruption in border states.
Intl. EPC	412	↑ High	12.3%	↑	Above	Reflects "steady-state" margin profile; focus on Africa/Europe PV+BESS.
O&M	85	↑ 20%+	23.0%	↑	Above	Returned to steady-state margins; crosses 9.3 GW total portfolio.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	FY26: 15-20% growth (~□7,250-7,550 Cr).	Needs ~□1,850 Cr avg/qtr. Q1 was □1,762 Cr despite conflict. **High Feasibility.**	**Met**	Low
Guidance	Margins	Maintain structural GM of ~10% (Domestic).	Q1 at 10.8%. Module price softening provides a buffer.	**Delivered**	Low
Strategy	BESS	10-20% revenue share in future.	3 GW pipeline visible in India. EPC cost □2.5-4.0 Cr/MW.	**New Pivot**	Medium
Strategy	Nigeria	Final contract signing awaited; procedural delay.	MOU signed Sept 2022. No revenue impact in FY26.	**Delayed**	High
Balance	Bank Limits	Sanctioned □900 Cr new; seeking □1,500 Cr more.	Critical to support 20% growth. Ratings upgrade to BBB+ is the catalyst.	**Improving**	Medium
Execution	Conflict	Impacted 40-45 days of productivity.	Mgmt says "remobilized"; impact was transient but lost revenue.	**Transient**	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Kunal Shah / DAM	Inflows	Management	"Muted order inflow - was it tendering soft or competitive intensity?"	Management attributed the delay to developers awaiting clarity on ALMM-II cell pricing and connectivity/ substation delays in Rajasthan/ Gujarat. This suggests inflows will be back-ended in FY26, de-risking the H2 growth profile.	None	4.0	Reassuring
2	4.0	Kunal Shah / DAM	Execution	Business Overview	"Cross-border tension impact on revenue?"	Management confirmed a 40-45 day productivity loss in April-May for projects bordering Pakistan, requiring evacuation and remobilization. This explains the sequential revenue dip and flags geographic concentration risk in the border belt.	None	4.5	Specific
3	5.0	Kunal Shah / DAM	Liquidity	Financials	"How do you see non-fund-based limits opening up?"	Management secured □900 Cr from new banks and is targeting another □1,500 Cr this year to remove the growth "governor." If delivered, this	Specific dates	3.5	Plausible

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						removes the primary constraint on SWREL's ability to bid for mega-clusters.			
4	4.5	Kunal Shah / DAM	Margins	Financials	"Why did gross margins improve? Was it the module pricing strategy?"	Management confirmed they renegotiated module prices after securing project orders, capturing the benefit of the global price "tariff war." This creates a tactical margin expansion that may not be a recurring structural feature.	None	4.0	Tactical
7	4.0	Akshay Mane / Nuvama	Guidance	Management	"Can we expect INR 6,000-8,000 Cr order inflows this year?"	Management guided for 20% growth in order booking over FY25, implying a target of ~□8,400 Cr. This keeps the execution bar high but attainable given the 30 GW pipeline.	None	4.0	Consistent
8	3.5	Akshay Mane / Nuvama	Write-offs	Financials	"Other expenses were higher side - any exceptional item?"	Management admitted to a □21 Cr impairment of receivables for an international project on a conservative basis. This is a recurring "punch point"	Project name	3.0	Hedged

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						for international legacy projects that drags down core EBITDA.			
9	4.0	Puneet / HSBC	Strategy	Business Overview	"What % of order book is with modules vs BoS?"	Management noted a trend shift toward BoS (Balance of System) due to ALMM uncertainty, though the recent NTPC win was turnkey (with modules). A shift to BoS reduces revenue per MW but also de-risks the company from module price volatility.	None	4.0	Clear Pivot
13	4.5	Anuj Jain / Globe Capital	BESS	Strategy	"What is the BESS share in order book and revenue contribution?"	Management highlighted that 20% of all new solar tender capacity now requires battery integration, expecting 10% of SWREL revenue from this segment soon. This expands the margin pool as SWREL targets BoS work at □2.5-4 Cr/MW.	None	4.5	Quantified
17	4.0	Faisal Hawa / H.G. Hawa	Overheads	Financials	"Will legal expenses go down? What	Legal expenses (mostly legacy/	None	4.0	Clear

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					about large write-offs?"	international) are expected to stay at □40 Cr/year for the next 1.5-2 years. This creates a persistent □10 Cr/quarter overhead drag on EBITDA until legacy cases settle.			
24	4.0	Darshika Khemka / AV Fincorp	Nigeria	Strategy	"Probability of getting the Nigeria order? Revenue impact?"	Management admitted to "procedural delays" and confirmed zero revenue impact in FY26 even if signed. Long-term investors should now view Nigeria as "pure optionality" rather than base-case revenue.	Exact timeline	2.5	Vague

PATTERN FLAGS & SENTIMENT * **The "Module Procurement" Edge:** Multiple analysts probed the 11.7% Gross Margin beat. Management's posture was confident, revealing a strategy of "waiting out" module orders after winning EPC contracts to capture price drops. This tactical procurement is currently SWREL's biggest margin driver, though analysts are wary of it reversing if prices spike. * **The "Banking Limit" Thaw:** The friction between a massive order pipeline and "frozen" bank limits is finally easing. The □900 Cr in new sanctions is the first tangible evidence that the BBB+ rating upgrade is working. Sentiment here has shifted from "alarmed" last quarter to "cautiously optimistic." * **Analyst Sentiment Verdict:** Analysts were **supportive but questioning**. The friction point was the sequential revenue dip and muted Q1 inflows. Management's credibility improved because they hit margin targets and showed progress on bank limits, but the "Nigeria delay" and "International impairments" remain minor credibility overhangs.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior Q4)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Nigeria Timeline	"Final terms negotiated."	"Slower than anticipated; zero FY26 revenue."	Extended delay; removed from FY26 targets.	Low (Valuation placeholder).
Inflow Momentum	"Large pipeline to be awarded soon."	Q1 was "quiet" due to ALMM and ISTS issues.	H1 awards are lagging expectations.	Medium (Execution gap in H2).
Receivables	"Receivables are good."	"Impaired INR 21 Cr in Q1."	Legacy international "punch points" still active.	Low (Provisioning drag).

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4FY25)	This Quarter (Q1FY26)	Direction
Gross Margin	10.4%	11.7%	↑ Improving
Banking Limits	Stagnant at ₹4,500 Cr usable.	₹900 Cr new sanctions + ₹200 Cr Surety Bonds.	↑ Improving
Credit Rating	BBB (Stable)	BBB+ (Stable)	↑ Improving
Net Debt	₹178 Cr	~₹383 Cr	↓ Deteriorating
Execution Risk	Seasonal focus.	External shock (45-day border conflict loss).	↓ Deteriorating
BESS Policy	Nascent integration.	20% mandatory integration policy tailwind.	↑ Improving
Working Capital	(₹602 Cr) NWC (High payables).	(₹348 Cr) NWC (Vendor settle-down).	↓ Normalizing
CFO	Strong (stretched payables).	Weak (paying down vendors).	↓ Seasonal

Investor Note: Does this quarter change the thesis? **No, it reinforces the execution transition.** While sequential revenue fell, the **margin expansion to 11.7%** and the **rating upgrade to BBB+** are structural wins. The banking limit "governor" is finally loosening, which is the prerequisite for the 20% growth guided for FY26. Long-term investors should view the Q1 execution dip as a transient "one-off" due to conflict, while focusing on the high-margin BESS opportunity (10% revenue target) and the shift toward de-risked BoS models. The structural repair is done; the focus is now on profitable scaling.

STOP HERE.