

Sterling & Wilson Renewable Energy Ltd — Oct 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline (Execution) / Beat (Order Wins) **One-line:** The thesis remains firmly on track as the "liquidity bottleneck" has finally been broken by a credit rating upgrade to Investment Grade (BBB-), providing the necessary limit expansion to execute a massive ₹6,000 Cr H2 revenue target.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	H1 Rev at ₹1,946 Cr; on track for ₹8,000 Cr FY25 guidance.	□
Earnings Quality	High (Core driven)	Third consecutive profitable quarter; domestic margins stable at ~10.5% (adjusted).	□
Guidance Confidence	Strong	Management reiterated ₹8,000 Cr revenue and ₹8,000 Cr inflow for FY25.	□
Management Credibility	Improving	Rating upgrade delivered as promised; record order book of ₹10,549 Cr.	□
Business Quality Signal	Improving	Pivot to BESS (1 GWh win) and domestic BOS creates a higher-quality, lower-risk profile.	□
Key Q&A Exchange	Q#2 - Limit Expansion	Upgrade to BBB- allows doubling of LC limits to support H2 scale-up.	□
The Street's Primary Anxiety	H2 Execution Risk	Can they 3x their revenue run-rate in 6 months? Management says yes via IREDA loan + new limits.	□
Capital Cycle Stage	Harvesting / Scale-up	Transitioning from balance sheet repair to aggressive execution.	□
Margin / Return Ratio Trajectory	Stable	Consol gross margins at 10.1%; O&M normalized at 25%.	→
Pricing Power	Stable	Pass-through for modules in PSU bids; back-to-back orders with domestic suppliers.	□
FCF Conversion & Quality	Strong	Negative working capital (₹543 Cr) persists; cash balance up to ₹58 Cr.	□
Competitive Moat Signals	Widening	Largest domestic BESS win (1 GWh) establishes first-mover advantage in storage.	□
Balance Sheet Strength	Improving	Net Debt at ₹26 Cr; Rating upgrade is the primary de-risking event.	□
Working Capital Efficiency	Stable	Advance-heavy model; customer advances increased to ₹1,333 Cr.	□
Mgmt Guidance Track Record	Reliable	Delivering on profitability and de-leveraging milestones.	□
Key Vulnerability / Red Flag	CFO Resignation	Departure of long-term CFO Bahadur Dastoor creates a temporary leadership gap.	□
Management Tone	Highly Confident	Upbeat on execution capacity and 23 GW domestic pipeline.	□

Sentiment: □ Positive

Key Takeaways: * **Positives:** The credit rating upgrade to BBB- (Investment Grade) is the defining event of the quarter, unfreezing bank limits required to execute the ₹10,549 Cr order book. Order momentum is exceptional, highlighted by India's largest standalone BESS project (1 GWh), which diversifies the EPC mix. The company achieved its third straight quarter of P&L positivity, proving the structural turnaround is real. * **Negatives:** Execution is extremely back-ended; SWREL must deliver ~₹6,000 Cr in revenue in H2 FY25 to hit guidance, requiring a 3x jump from H1 levels. The exit of the CFO for "personal reasons" during a critical scale-up phase is a minor governance overhang. * **The Street's Concern:** Analysts remain focused on whether the Rating Upgrade + ₹500 Cr IREDA loan + Open Credit from vendors will be enough to fund the H2 revenue surge. Management detailed a "triple-engine" funding strategy (Limits + Fund-based + Vendor Credit) that appears mathematically sufficient for the ~₹1,000 Cr/month run-rate needed. * **Forward Watchpoint:** Monitoring the actual "unfreezing" of bank limits over the next 30-45 days and the conversion of the Nigeria MOU to a firm contract.

2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures primary; Concall used for commentary.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Income (₹Cr)	1,031	↑ 36.0%	↑ 12.7%	↑	Growth driven by Domestic EPC execution (Khavda).
Gross Margin (%)	10.1%	↑ 150 bps	↓ 100 bps	→	Adjusted domestic margin at 10.5% (post-POCM timing).
EBITDA (₹Cr)	51	↑ NM	↑ 37.8%	↑	Third consecutive positive quarter; operating leverage kicking in.
EBITDA Margin %	4.9%	↑ NM	↑ 90 bps	↑	Overheads rationalized; margins improving with scale.
PAT (₹Cr)	9	↑ NM	↑ 1700%	↑	Impacted by non-cash deferred tax asset charge.
Order Book (₹Cr)	10,549	↑ 54.0%	↑ 12.3%	↑	Highest in company history; 78% Domestic.
Order Inflow (₹Cr)	2,044	↓ 15.6%	↓ 5.8%	→	Includes 1 GWh BESS project and 312 MW NTPC order.
Execution Rate (%)	10.9%	↓ 130 bps	↑ 30 bps	→	% of opening UOV executed. Expected to surge in H2.
Net Debt (₹Cr)	326	↑ 181%	↑ 236%	↓	Increased due to ₹500 Cr IREDA loan for execution.
Working Capital (₹Cr)	(543)	↓ 7.2%	↓ 7.2%	→	Remains negative; customer advances at ₹1,333 Cr.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Domestic EPC	900+	↑ High	9.0%	→	Below	Adjusted margin 10.5%; 4 GW Khavda project active.
Intl. EPC	Not stated	NM	Not stated	→	NM	Legacy projects closed; new SA orders moving to execution.
O&M	Not stated	↑ 20%+	28.0%	↑	Above	7.8 GW portfolio; margins higher due to seasonality.

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 ₹6,054 Cr in H2. Requires ~₹1,000 Cr monthly run-rate. Feasible if limits unfreeze.	On track (H1 ₹1,946 Cr).	Medium
Guidance	Order Inflow	₹8,000 Cr for FY25.	Needs ₹3,786 Cr in H2. Pipeline of 23 GW domestic suggests high probability.	On track (H1 ₹4,214 Cr).	Low
Guidance	Margins	10-11% Gross Margin.	Current 10.1%. Steady-state O&M (25%) + Domestic (10.5%) makes this likely.	Delivered.	Low
Strategy	BESS	India's largest BESS project (1 GWh).	Execution by late 2025. Demonstrates tech capability.	New entry.	Low
Strategy	Nigeria	961 MW Project closure "soon."	Final terms negotiated; awaiting signing. Procedural steps in progress.	Delayed.	High
Macro	Domestic	23 GW Bid Pipeline.	PSU bids (NTPC/SECI) to finalize in Q3/ Q4.	Consistent.	Low
Balance	Rating	Investment Grade (BBB-).	Achieved Oct 14, 2024. Key for unfreezing limits.	Delivered.	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	Puneet / HSBC	BESS	Business Overview	"Can you talk about the quantum and scope of the LOIs for the BESS project?"	Management confirmed the project is a 1 GWh balance-of-system (BOS) plant where the client (JSW) supplies batteries while SWREL handles engineering and execution. This establishes SWREL as a leader in India's nascent high-scale storage market, a higher-entry-barrier segment than solar EPC.	None	5.0	Clear and quantified
2	5.0	Rohit / ABSL	Liquidity	Financials	"What exactly has changed on the non-fund-based limits post the rating upgrade?"	Management stated that the upgrade to BBB- will unfreeze dormant limits and attract new banks, with a plan to double current LC limits within 30-45 days. This is the "silver bullet" for the thesis, as execution was previously capped by limit availability rather than	None	4.5	Thesis-critical

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						site readiness.			
3	4.0	Aejas / Unifi	Execution	Management Commentary	"Outline the exact execution details for the next 6 months to hit ₹8,000 Cr revenue."	Management clarified that the ₹6,000 Cr H2 revenue will come from Khavda (4 GW) and Rajasthan IPP projects, backed by ₹2,000 Cr in open vendor credit and the new IREDA loan. High visibility on site-level progress (95%+ revenue line on PSU projects) de-risks the H2 hockey-stick revenue curve.	None	4.5	Specific details
4	3.5	Deepak / Svan	Reliance	Business Overview	"How have things crystallized on the Reliance order front?"	Management noted they are finishing a pilot project testing multiple technologies for Reliance, with a "bigger rollout" expected starting late Q4 or next fiscal. While timing remains fluid, SWREL remains the preferred partner for Reliance's massive captive solar expansion.	Exact timeline	3.0	Directional

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5	4.5	Bhavik / MK	Nigeria	Outlook	"Is there any chance of the Nigeria project not going through?"	Management reiterated the project is on track with U.S. EXIM Bank support and is not impacted by political shifts, but procedural delays in Nigeria continue to stall the signing. Nigeria remains a "bonus" to the core India thesis, but a 2025 signing is now the base case.	None	3.5	Credibility watch
6	4.0	Mayank / HSBC	Strategy	Business Overview	"How are we protected in turnkey orders regarding module price risk?"	Management explained a strategy shift to procuring from Tier-1 Indian suppliers with firm, enforceable back-to-back contracts immediately after receiving a project LOA. This eliminates the speculative risk that caused legacy international losses and ensures margin protection in	None	5.0	Risk-mitigated

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						a volatile RM environment.			
7	3.5	Aashish / InvesQ	Governance	Governance	"What is the reason for the CFO exit in this quarter?"	Management attributed the departure of Bahadur Dastoor to personal aspirations and personal reasons after a long tenure. While a standard response, the timing during a massive scale-up is notable, though a strong internal finance team remains in place.	Specifics of "personal reasons"	3.0	Standard exit tone
8	3.0	Shubham / Jefferies	Margins	Financials	"Why are margins lower than peers like Waaree Renewables?"	Management argued that their 10-11% margins are "best-in-class" for projects that exclude Land and ROW (Right of Way) risks, which they avoid for risk mitigation. This reinforces SWREL's focus on execution-only low-risk EPC rather than high-margin/high-risk land development.	None	4.0	Consistent strategy

PATTERN FLAGS & SENTIMENT * **The Funding Pivot:** Multiple analysts (ABSL, Unifi, HSBC) pressed on how a company that did ₹2,000 Cr in H1 can fund ₹6,000 Cr in H2. Management was remarkably detailed, citing three specific sources: (1) The BBB- rating upgrade unfreezing ~₹2,000 Cr in limits, (2) The ₹500 Cr IREDA fund-based facility, and (3) ₹2,000 Cr in negotiated open credit from Tier-1 vendors. This resolved the primary anxiety regarding execution capacity. * **Segment Evolution:** The 1 GWh BESS win was a recurring positive theme. Management's posture was one of technological leadership, signaling that storage is no longer just a "bid pipeline" item but a live revenue driver. * **Analyst Sentiment Verdict:** Analysts were **cautiously optimistic**. While the record order book and rating upgrade provided a massive credibility boost, skepticism remains regarding the sheer volume of execution required in Q4. Management's credibility improved significantly this quarter by delivering the long-awaited rating upgrade. The CFO exit is the only unresolved governance point, but it did not overshadow the operational recovery.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY25)	This Quarter (Q2 FY25)	Direction
Credit Rating	BB+ (Non-investment grade)	BBB- (Investment Grade)	↑ Significant De-risking
Order Book	₹9,396 Cr	₹10,549 Cr	↑ Record High
Debt Profile	Net Debt ₹97 Cr	Net Debt ₹326 Cr	↓ Increased (IREDA Loan)
BESS Capability	Pipeline/Bid Stage	1 GWh Firm Order (Largest in India)	↑ Capability Proof
Funding Strategy	Limit constrained; seeking upgrade	Limits unfreezing; IREDA loan active	↑ Liquidity Eased
Leadership	Stable	CFO Resignation (Bahadur Dastoor)	↓ Governance Overhang
Domestic Mix	71% of Order Book	78% of Order Book	↑ Lower Geopolitical Risk
Revenue Run-rate	₹15 Cr (Q1)	₹1,031 Cr (Q2)	↑ Improving

Investor Note: Does this quarter change the thesis? **No.** It confirms the "Turnaround to Growth" thesis. The rating upgrade was the final piece of the puzzle needed to bridge the gap between a record order book and actual revenue realization. The core business is now a pure-play on the Indian energy transition with a neutralized balance sheet. The only remaining risk is execution logistics for the ₹6,000 Cr H2 target.

STOP HERE.