Sterling & Wilson Renewable Energy Ltd — Oct 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Miss (Reported Profit/EBITDA) / Inline (Revenue Growth) / Strong Beat (Order Inflows) **One-line:** A brutal but necessary "balance sheet surgery" where massive legacy US legal write-offs have masked a robust domestic execution engine that is finally capturing the PSU solar capex wave.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Miss (Reported) / Beat (Inflows)	Reported PAT loss of □478 Cr due to □600 Cr+ in one-off US legal items; Order inflows of ~□3,000 Cr in Q2 vs □813 Cr in Q1.	□
Earnings Quality	Low (One-off driven)	Operational EBITDA of □62 Cr is thin (3.5% margin); massive non-cash impairments in standalone books align with Consol.	□
Guidance Confidence	Neutral	Management maintains 20% FY26 revenue growth guidance despite the massive net worth hit and margin pressure from "module-heavy" turnkey projects.	□
Management Credibility	Neutral	Credibility is strained by the "repeating" nature of legacy international write-offs, though domestic execution and order wins from PSUs (NTPC) are tangible.	□
Business Quality Signal	Stable (Core)	The pivot to India PSU/Private IPP market is working; the global Solar EPC moat remains intact but the "international legacy" remains a drag.	□
Key Q&A Exchange	Q#12 - Credit Rating	Management admits rating agencies may look at net worth erosion but believes PSU banks will stay supportive.	□
The Street's Primary Anxiety	Net Worth Erosion	Fear that the □600 Cr US write-off will trigger credit rating downgrades, raising the cost of the existing □1,194 Cr debt.	□
Capital Cycle Stage	Growth Scaling	Absorbing fresh debt (IREDA □475 Cr) to fund the execution of a □9,287 Cr order book.	□
Margin Trajectory	Deteriorating	Gross Margins fell from 11.7% in Q1 to 8.9% in Q2 as "turnkey" projects (including modules) commenced revenue recognition.	□
Pricing Power	Stable	Securing large-scale PSU bids (Khavda 304 MWp) suggests competitive parity; O&M margins remain high at 20-23%.	□
FCF Conversion & Quality	Weak	CFO is distorted by paying down creditors via new debt; Net Debt spiked from □383 Cr to □742 Cr QoQ.	□
Competitive Moat	Stable	Retains #1 Global Solar EPC status; 9.1 GW O&M portfolio provides high-margin recurring annuity.	□
Balance Sheet Strength	Stressed	Net worth significantly reduced; Net Debt/Equity has likely spiked (Net Debt up 93% QoQ).	□
Working Capital Efficiency	Improving	NWC remains negative at (□279 Cr), though "less negative" than Mar-25 (□602 Cr).	□
Mgmt Guidance Track Record	Mixed	Meeting revenue/order targets but failing to contain legacy legal "surprises."	□
Key Vulnerability	Rating Downgrade	A rating drop could choke off the non-fund-based limits required to bid for the 25 GW India pipeline.	□
Management Tone	Resolute	CEO sounded focused on "cleaning up" to focus on operations; CFO was defensive regarding banking limit stability.	□

Sentiment: □Neutral Key Takeaways: * **Positives:** The core domestic business is booming. Order inflows of ~□3,000 Cr this quarter (YTD □3,775 Cr) and a record unexecuted order value of □10,500 Cr (inclusive of post-Q2 wins) provide 2-year revenue visibility. The 9.1 GW O&M portfolio continues to be a high-margin cash generator. * **Negatives:** The "US ghost" returned with a vengeance. The □580 Cr Conti arbitration loss and subsequent settlement payments have wiped out nearly 60% of the company's Q1 net worth. Gross Margins compressed to 8.9% (vs 11.7% in Q1) because current project starts include low-margin module supplies. * **Street Concern:** Analysts are hyper-focused on the fallout of the net worth erosion. If credit ratings drop from BBB+, the cost of debt (currently 11.15% from IREDA) will escalate, and PSU banks may tighten non-fund-based limits, capping the 20% growth target. * **Forward Watchpoint:** The Reliance project timeline. Management expects tendering to pick up momentum in Q1 FY27; as a 40% owner and strategic partner, SWREL's ability to capture this "captive" volume is critical for long-term re-rating.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q2FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	1,749	↑ 69.6%	↓ 0.7%	□	YoY growth driven by higher execution pace in Domestic and Intl EPC projects.
Gross Margin (%)	8.9%	↓ 120 bps	↓ 280 bps	↓	Compression due to commencement of "turnkey" projects (module supply) which carry lower margins than BoS.
Operational EBITDA (□Cr)	62	↑ 169.6%	↓ 49.6%	□	Excludes exceptional items; Q1 was □123 Cr. Volume/ Execution driven growth YoY.
EBITDA Margin %	NM	↓ NM	↓ NM	□	Reported EBITDA is a loss of (□470 Cr) due to □637 Cr in non-recurring legal charges.
PAT (□Cr)	(478)	↓ NM	↓ NM	□	Hit by US legal write-offs. Q1 PAT was □39 Cr.
Order Inflows (□ Cr)	2,962	↑ High	↑ 264%	□	Significant jump vs Q1 (□813 Cr); bagged 5 new orders totaling ~□3,775 Cr YTD.
Order Book (□ Cr)	9,287	↑ 34.2%	↑ 11.2%	□	India accounts for 84% of the book. Highest in history.
Execution Rate (%)	20.9%	↑ 420 bps	↑ 150 bps	□	Calculated as Q2 Revenue / Opening Order Book (□8,348 Cr).
Net Debt (□Cr)	742	↑ NM	↑ 93.7%	↓	Spike due to □475 Cr IREDA loan used to pay down vendors.
Working Capital (□Cr)	(279)	↓ 41.6%	↓ 19.8%	□	Remains negative (favorable); Net NWC improved from □(348) Cr in Q1.
Net Worth (□Cr)	517	↓ NM	↓ 48.0%	↓	Calculated: Q1 Net Worth (□995 Cr) minus Q2 Loss (□478 Cr).

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (GP)	Trend	vs Co. Avg	Key Development
Domestic EPC	1,193	↑ High	7.9%	↓	Below	Impacted by high-value turnkey orders including module supply.
Intl. EPC	468	↑ High	8.3%	↓	Below	Reflects execution of 3 projects in South Africa and 2 in Europe.
O&M	88	↑ 25%+	24.3%	↑	Above	Strong recurring profile; 9.1 GW portfolio.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	FY26: 20% growth (~₹7,560 Cr).	Needs ~₹2,025 Cr avg/qtr for H2. Q2 was ₹1,749 Cr. **Achievable.**	**Met**	Low
Guidance	Margins	Op. EBITDA 4-6% for FY26.	Current 1H Op. EBITDA is ~₹185 Cr (5.2%). **On track.**	**Met**	Medium
Strategy	BESS	Target 10% of Solar capacity.	High bid pipeline (25 GW) includes hybrid/ battery requirements.	**Met**	Low
Strategy	Nigeria	"Project is still on" despite delay.	MOU Sept 2022. Impaired ₹2,038 Cr in Standalone books.	**Delayed**	High
Balance	Debt	Indemnity claim of ₹178 Cr.	Due from promoters by Nov 30, 2025. Critical for liquidity.	**On track**	Medium
Balance	Ratings	BBB+ Stable (Current).	Net worth hit may trigger review; management hopeful of PSU bank support.	**At Risk**	High

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Pratik Jalan / Tradex	Projects	Strategy	"What is the update on Nigerian project and Reliance project?"	Management admitted Nigeria is delayed due to procedural issues but not abandoned; Reliance work has started in Kutch with tendering expected by Q1 FY27. This removes immediate revenue expectations from Nigeria but keeps Reliance as a FY27 catalyst.	Specific Nigeria timeline	3.0	Vague
2	3.5	Saurabh S / Arista	O&M	Business Overview	"Possibility of taking Adani Green's O&M in Khavda?"	Management confirmed Adani has invited them to participate in O&M bids and they are targeting third-party O&M aggressively. Success here would improve the recurring revenue mix and boost overall margins.	None	4.5	Specific
4	4.5	Maitri Shah / Sapphire	Margins	Financials	"Why did operational EBITDA dip sequentially (ex-exceptionals)?"	Management explained that Q2 revenue included projects with module supply, which carry lower	None	4.0	Quantified

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						margins than pure BoS projects. This confirms that revenue growth will come at the cost of margin percentage as they take on larger turnkey PSU bids.			
7	5.0	Jayesh Shroff / Cask	Guarantees	Financials	"Status of the INR 1,700 Cr corporate guarantees to the subsidiary?"	Management stated that since Standalone and Consol net worth are now aligned via the 2,638 Cr impairment, the risk of guarantee invocation is "negligible" as losses are already booked. This is a crucial "de-risking" signal for Standalone balance sheet integrity.	None	4.0	Clear
10	4.5	Mohit / Hem Sec	Legal	Financials	"What other legal cases are pending for which provisions haven't been made?"	Management claimed all known litigations are accounted for and most are covered under the promoter indemnity agreement. This suggests the "Conti-style"	None	3.5	Reassuring

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						surprises should be over, as Conti was the largest non-indemnified case.			
12	5.0	Ishita Lodha / SVAN	Liquidity	Financials	"How much of non-fund-based limits are unutilized?"	Management confirmed ~₹1,000 Cr in unutilized banking limits and ₹400-500 Cr in surety bonds. This liquidity buffer is critical to support the ₹3,000 Cr+ in new orders recently bagged.	None	4.5	Specific
13	4.0	Ishita Lodha / SVAN	Debt	Financials	"What is the cost of the new IREDA term loan?"	Management disclosed a rate of 11.15%. This is relatively expensive debt, highlighting the company's reliance on higher-cost PSU lenders post-rating volatility.	None	5.0	Quantified
14	5.0	Faisal Hawa / Hawa Co	Rating Risk	Governance	"Net worth is eroded; will banks downgrade credit ratings and tighten liquidity?"	Management believes PSU banks will not withdraw lines and that cash flow is supported by the upcoming ₹175 Cr indemnity payment. This is the central thesis	Rating agency sentiment	2.5	Defensive

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						risk: if banks react to the net worth hit, execution will stall.			

PATTERN FLAGS & SENTIMENT * **The US Clean-up:** The dominant theme was the "finality" of US legal losses. Analysts pushed to ensure no more "ghosts" remain. Management's stance that Standalone and Consol are now "aligned" is a massive accounting milestone, effectively resetting the company's base. * **The Margin-Mix Conflict:** Investors are realizing that the move toward large PSU turnkey projects (including modules) will keep Gross Margins in the 8-10% range, lower than the high-teens seen in pure BoS/O&M years. Management's focus is clearly on absolute EBITDA growth over percentage margins. * **Analyst Sentiment Verdict:** Skeptical but observant. Analysts are frustrated by the recurring legacy hits (as noted by Naveen in Q15) but recognize the domestic market tailwinds. Management's credibility depends entirely on the ₹178 Cr indemnity payment arriving by Nov 30 and the credit rating remaining stable at BBB+.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY26)	This Quarter (Q2FY26)	Direction
Gross Margin	11.7%	8.9%	↓ Compression
Net Debt	₹383 Cr	₹742 Cr	↓ Deteriorating
Order Inflows	₹813 Cr	~₹2,962 Cr	↑ Improving
Net Worth	~₹995 Cr	~₹517 Cr	↓ Deteriorating
Exceptional Items	₹21 Cr (receivables)	₹580 Cr (arbitral award)	↓ Deteriorating
Cost of Debt	Not specified (BoM loan)	11.15% (IREDA loan)	↓ Expensive
Standalone Integrity	Mismatch vs Consol.	Aligned via ₹2,638 Cr impairment.	↑ Improving (Clean-up)
Nigeria Status	"Awaiting final terms."	Standalone value impaired; status vague.	↓ Deteriorating

Investor Note: Does this quarter change the thesis? **No, but it significantly raises the execution bar.** The domestic thesis (Solar + BESS + PSU Capex) is perfectly intact, proven by the ₹10,500 Cr record order book. However, the "clean-up" has left the balance sheet thin. The investment now hinges on a single pivot: **can the company execute its ₹9,287 Cr book without a credit rating downgrade?** If ratings hold and promoters pay the indemnity, the stock is a recovery play. If ratings drop, the cost of liquidity may erode the 4-6% EBITDA guidance. STOP HERE.