India I Equities

**Renewable Energy**

**Initiating coverage**

29 August 2024

# Sterling & Wilson

*Well set to capitalise on growing opportunities, initiating with a Buy*

Rating: **Buy**
Target Price (12-mth): Rs.870
Share Price: Rs.670

**Globally, renewable energy capacity added in CY23 was a record 507GW, up 50% y/y. The International Energy Agency estimates 3,178GW are likely to be added over CY24-28. In India, capacity is likely to be 500GW by 2030 (vs. 192GW at end -FY24), benefiting EPC companies. Sterling & Wilson is a pure-play global solar EPC and O&M service provider. We model solar EPC orders of ~Rs496bn over FY25-27 across markets. RIL's plan to set up 100GW renewable energy capacity (predominantly solar and battery storage) by 2030 to meet its net-zero goal, could offer EPC opportunities of Rs1.1trn over FY26-31, ~Rs300bn for S&W, and O&M services of ~Rs24bn. We initiate coverage on S&W, at a DCF-based TP of Rs870.**

**Back with a bang.** The company's much better financials were supported by timely fund-raising and stake sale to RIL, which sets it aptly to capitalise on solar capacity added globally (2,317GW over CY24-28, estimates the IEA). We model solar EPC orders of Rs496bn over FY25-27, driven by **1)** domestic and international orders of Rs268bn; **2)** new orders of Rs93.5bn from Reliance Industries for solar and battery storage and **3)** a Nigerian order of $1.5bn (Rs134.3bn), which is close to be signed as final terms have been negotiated.

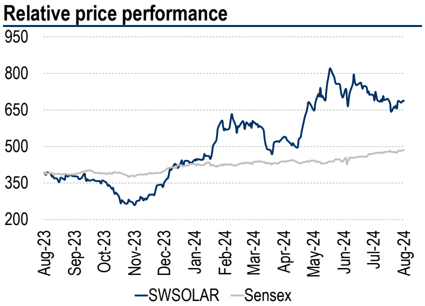
**RIL's RE plans to offer multi-year opportunities.** RIL plans to enable installing 100GW of RE generation capacity by 2030 as it targets net-zero goals by 2035. RE capacity will be predominantly solar and battery storage. This, we think, could offer overall EPC opportunities of Rs1.1trn, with Rs300bn over FY26-31 for S&W (assuming a 50% share) for outsourced work, besides O&M services of Rs24bn.

**Outlook, Valuation.** We initiate coverage on the company with a Buy rating, at a 12-mth TP of Rs870 based on DCF, given the inspiring growth opportunities. **Risks:** Adverse government policy, slower-than-expected project completion, keen competition dampening profitability.

| Key data | SWSOLAR IN |
|---|---|
| 52-week high / low | Rs.828 / 253 |
| Sensex / Nifty | 82009 / 25056 |
| 3-m average volume | $14.3m |
| Market cap | Rs.160bn / $1,916m |
| Shares outstanding | 233m |

| Shareholding pattern (%) | Jun '24 | Mar '24 | Dec '23 |
|---|---|---|---|
| Promoters | 52.9 | 52.9 | 53.0 |
| *- of which, Pledged* | - | - | - |
| Free Float | 47.1 | 47.1 | 47.0 |
| - Foreign institutions | 10.1 | 10.5 | 11.9 |
| - Domestic institutions | 9.1 | 10.7 | 9.8 |
| - Public | 27.9 | 25.9 | 25.3 |

**Relative price performance**




*Source: Bloomberg*

| Key financials (YE Mar) | FY22 | FY23 | FY24 | FY25e | FY26e |
|---|---|---|---|---|---|
| Sales (Rs m) | 51,989 | 20,150 | 30,354 | 77,791 | 1,02,999 |
| EBITDA (Rs m) | -9,135 | -11,300 | -226 | 4,499 | 6,686 |
| Net profit (Rs m) | -9,221 | -11,885 | -2,097 | 4,011 | 5,485 |
| EPS (Rs) | -48.6 | -62.6 | -9.0 | 17.2 | 23.5 |
| PE (x) | NA | NA | NA | 39.0 | 28.5 |
| EVEBITDA (x) | NA | NA | NA | 35.0 | 23.2 |
| PBV (x) | 17.4 | NA | 16.5 | 11.6 | 8.2 |
| RoE (%) | -119.5 | -363.6 | -59.8 | 35.0 | 33.8 |
| RoCE (%) | -74.2 | -70.9 | 3.0 | 21.0 | 22.1 |
| Dividend yield (%) | - | - | - | - | - |
| Net debt/equity (x) | -0.1 | NA | 0.1 | 0.1 | -0.1 |

*Source: Company, Anand Rathi Research*


**Avishek Datta**
**Research Analyst**

# Quick Glance – Financials and Valuations

### Fig 1 – Income statement (Rs m)

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|---|---|---|---|---|---|
| Net revenues | 51,989 | 20,150 | 30,354 | 77,791 | 1,02,999 |
| Growth (%) | *2.3* | *-61.2* | *50.6* | *156.3* | *32.4* |
| Direct costs | 58,829 | 30,083 | 29,328 | 71,915 | 94,800 |
| SG&A | 2,296 | 1,367 | 1,251 | 1,376 | 1,514 |
| **EBITDA** | **-9,135** | **-11,300** | **-226** | **4,499** | **6,686** |
| EBITDA margins (%) | -17.6 | -56.1 | -0.7 | 5.8 | 6.5 |
| - Depreciation | 147 | 147 | 167 | 199 | 243 |
| Other income | 947 | 1,109 | 854 | 845 | 1,404 |
| Interest Exp | 767 | 1,449 | 2,185 | 702 | 1,024 |
| PBT | -9,102 | -11,787 | -1,723 | 4,444 | 6,823 |
| Effective tax rate (%) | -0.6 | -0.4 | -22.3 | 10.2 | 20.2 |
| + Associates/(Minorities) | -63 | -54 | 11 | 20 | 40 |
| Net Income | -9,221 | -11,885 | -2,097 | 4,011 | 5,485 |
| Adjusted income | -9,221 | -11,885 | -2,097 | 4,011 | 5,485 |
| WANS | 190 | 190 | 233 | 233 | 233 |
| FDEPS (Rs/share) | -48.6 | -62.6 | -9.0 | 17.2 | 23.5 |

### Fig 2 – Balance sheet (Rs m)

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|---|---|---|---|---|---|
| Share capital | 190 | 190 | 233 | 233 | 233 |
| Net worth | 8,978 | -2,441 | 9,459 | 13,469 | 18,954 |
| Debt | 4,351 | 20,150 | 4,767 | 22,462 | 17,462 |
| Minority interest | -109 | -152 | -142 | -122 | -82 |
| DTL / (Assets) | -1,009 | -981 | -639 | -767 | -921 |
| **Capital employed** | **12,400** | **16,765** | **13,677** | **35,275** | **35,647** |
| Net tangible assets | 352 | 384 | 514 | 580 | 615 |
| Net intangible assets | 73 | 59 | 48 | 58 | 69 |
| Goodwill | | | | | |
| CWIP (tang. & intang.) | 1 | 1 | 0 | 0 | 0 |
| Investments (strategic) | 0 | 0 | 0 | 0 | 0 |
| Investments (financial) | 0 | 0 | 0 | 0 | 0 |
| Current assets (excl. cash) | 28,525 | 29,528 | 38,412 | 48,943 | 61,041 |
| Cash | 5,040 | 952 | 3,392 | 21,199 | 18,906 |
| Current liabilities | 21,591 | 14,157 | 28,689 | 35,504 | 44,985 |
| Working capital | 6,934 | 15,370 | 9,723 | 13,439 | 16,057 |
| **Capital deployed** | **12,400** | **16,765** | **13,677** | **35,275** | **35,647** |
| Contingent liabilities | - | - | - | - | - |

### Fig 3 – Cash-flow statement (Rs m)

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|---|---|---|---|---|---|
| PBT | -9,102 | -11,787 | -1,723 | 4,301 | 6,443 |
| + Non-cash items | 147 | 147 | 168 | - | - |
| Oper. prof. before WC | 2,057 | 592 | 1,611 | 5,345 | 8,090 |
| - Incr. / (decr.) in WC | -9,943 | -7,080 | 5,682 | 3,861 | 2,767 |
| Others incl. taxes | -57 | -164 | -354 | 453 | 1,378 |
| Operating cash-flow | -16,898 | -18,292 | 5,384 | 1,030 | 3,944 |
| - Capex (tang.+ intang.) | -132 | -92 | -10 | -274 | -289 |
| Free cash-flow | -16,765 | -18,200 | 5,394 | 1,305 | 4,233 |
| Acquisitions | - | - | - | | |
| - Div. (incl. buyback & taxes) | - | - | - | | |
| + Equity raised | 10,901 | - | 14,747 | - | - |
| + Debt raised | 181 | 842 | 8,950 | 17,696 | -5,000 |
| - Fin investments | 246 | -70 | -118 | 1,377 | 1,986 |
| - Misc. (CFI + CFF) | -642 | -29 | 2,023 | -183 | -460 |
| Net cash-flow | 2,131 | -4,089 | 2,440 | 17,806 | -2,293 |

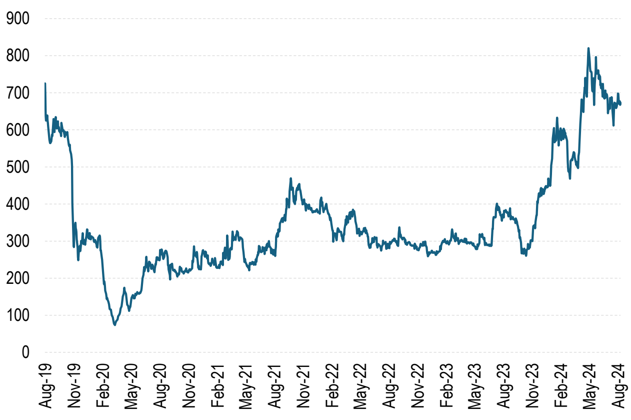
*Source: Company, Anand Rathi Research*

### Fig 4 – Ratio analysis

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|---|---|---|---|---|---|
| P/E (x) | NA | NA | NA | 39.0 | 28.5 |
| EV/EBITDA (x) | NA | NA | NA | 35.0 | 23.2 |
| EV/sales (x) | 3.0 | 8.7 | 5.2 | 2.0 | 1.5 |
| P/B (x) | 17.4 | NA | 16.5 | 11.6 | 8.2 |
| RoE (%) | -119.5 | -363.6 | -59.8 | 35.0 | 33.8 |
| RoCE (%) - After tax | -74.2 | -70.9 | 3.0 | 21.0 | 22.1 |
| DPS (Rs per share) | - | - | - | - | - |
| Dividend yield (%) | - | - | - | - | - |
| Dividend payout (%) - Inc. DDT | - | - | - | - | - |
| Net debt/equity (x) | -0.1 | NA | 0.1 | 0.1 | -0.1 |
| Receivables (days) | 55 | 143 | 100 | 70 | 66 |
| Inventory (days) | 0 | 0 | 0 | 0 | 0 |
| Payables (days) | 100 | 118 | 181 | 90 | 76 |
| CFO:PAT% | 183.3 | 153.9 | -256.8 | 25.7 | 71.9 |

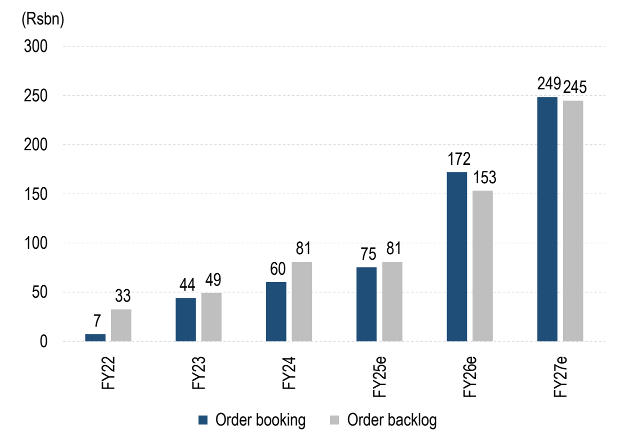
*Source: Company, Anand Rathi Research*

### Fig 5 – Price movement




*Source: Bloomberg*

### Fig 6 – Non-valuation chart




*Source: Company*

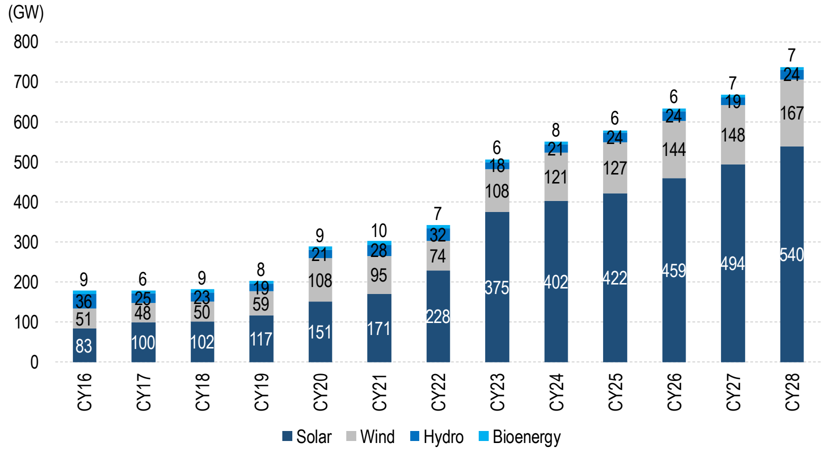
# Global RE capacity accelerates

## CY23: New RE capacity at a record 507GW

Renewable energy (RE) capacity added is growing fast globally. In CY23, global RE capacity added was a record 507GW, up 50% y/y, says the IEA. Such capacity additions were supported by strong growth in China, where solar energy capacity grew 116% and wind energy, 66%.

The IEA expects 3,172GW of RE capacity to be added globally over CY24-28, including solar PV of 2,317GW.

**Fig 7 – Global RE capacity to expand 3,172GW over CY24-28**




*Source: IEA*

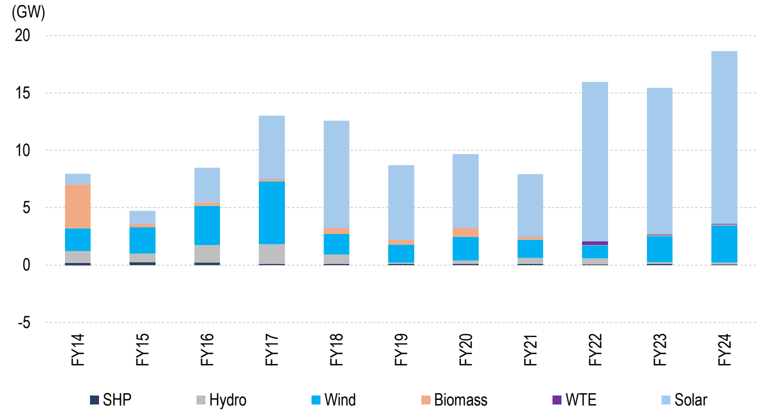
China is likely to account for 56% of global RE added over CY23-28. Its net-zero target by 2060 is supported by incentives under its 14th five-year plan (2021-25), greater availability of locally manufactured equipment and low-cost financing.

## India's relentless RE plans

India's rising power-generation capacity is fuelled by relentless RE expansion to 198GW incl. nuclear and hydro power (42% of its FY24 energy capacity of 469GW), from 76GW in FY14.

The government plans to increase RE capacity to 500GW by 2030 through fiscal and regulatory incentives, viability-gap funding and support in land acquisition and rollout of transmission infrastructure. Besides, greater availability of low-cost finance through various means/sources would support RE capacity added.

**Fig 8 – India RE capacity added over the last decade: 114GW**




*Source: Company, Anand Rathi Research*

## Solar capacity added leading the way

In the last decade, India's solar energy capacity grew faster, to 81.8GW in FY24 (from 2.6GW ten years ago). Solar capacity added in FY24 was a record 15GW (12.8MW in FY23). We expect the trend to accelerate led by

1. **Cheapest commissioning cost**. Of RE sources, solar has the least expensive technology per MW (~Rs45m vs. Rs80m for wind, thermal). Accordingly, tariffs are among the lowest at Rs2.5-3/unit vs. Rs3.5 for wind energy.
2. **Falling module prices**. Solar module costs have fallen over the past decade, along with the balance-of-system costs due to advanced technology and better designs, leading to low material consumption, economies of scale, etc. The sharp drop in module prices to $0.12 a watt (~$0.5 in FY15) helped in faster adoption of solar energy in India.
3. **Faster commissioning** of solar projects at six months (vs. 18-24 months for wind energy and nearly 60 months for thermal power) is another positive.
4. **Rising C&I market**. The commercial & industrial (C&I) sub-segment is increasingly looking at procuring solar power for operations either through rooftop solar projects or open access. As solar power tariffs fall to ~Rs2.5-3/unit (vs. grid power cost of Rs8-10), more corporates would try to secure low-cost solar power.
5. **Higher bid targets.** To accelerate RE capacity 3x to 500GW by 2030, the Central government plans to float RE bids of 50GW a year over FY24-28. In FY24, it invited bids of 50GW (12GW the year prior).
6. **Higher RPO targets. R**enewable **p**urchase **o**bligations require entities to purchase a certain percent (of electricity consumed) from RE sources. The government had made RPO obligatory for states till 2030, stipulating 43.33% RPOs for newly established coal- or lignite-based thermal power plants, starting 1st Apr'23. This policy change would encourage the use of RE sources in power generation.

**Fig 9 – Government plans to increase RE purchases to 43.3% by 2030, %**

| Year (%) | Wind RPO | HPO | Other RPO | Total RPO |
|---|---|---|---|---|
| 2022-23 | *0.81* | *0.35* | *23.44* | *24.61* |
| 2023-24 | *1.60* | *0.66* | *24.81* | *27.08* |
| 2024-25 | *2.46* | *1.08* | *26.37* | *29.91* |
| 2025-26 | *3.36* | *1.48* | *28.17* | *33.01* |
| 2026-27 | *4.29* | *1.80* | *29.86* | *35.95* |
| 2027-28 | *5.23* | *2.15* | *31.43* | *38.81* |
| 2028-29 | *6.16* | *2.51* | *32.69* | *41.36* |
| 2029-30 | *6.94* | *2.82* | *33.57* | *43.33* |

*Source: Industry*

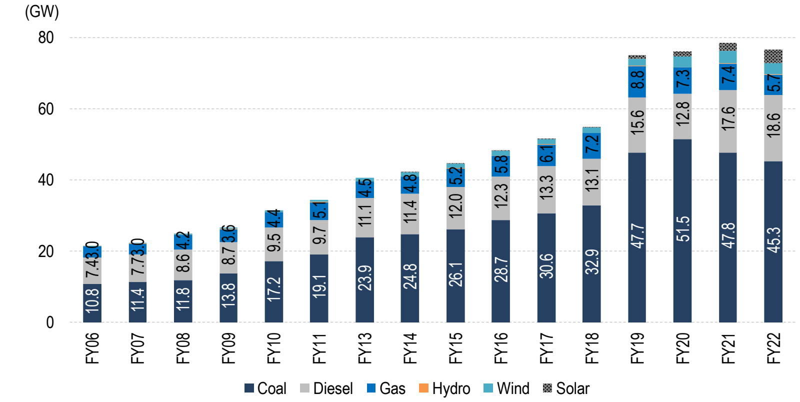
7. **RtC.** Round-the-Clock power mechanisms in bundling power was brought in by the government to tackle issues of intermittency and low-capacity utilisation of transmission infrastructure. Here, RE power is bundled with other sources and/or storage.

# Ambitious targets for corporates

C&I offers a greater opportunity to raise RE capacity, given its need for competitive tariffs and to meet ESG norms and assured supplies.

India's capacity increased to 76.7GW in FY22 (40.7GW in FY13), with coal being the dominant fuel at ~60% and RE capacity at ~9%.

**Fig 10 – Domestic capacity steady at ~77GW over FY19-22**




*Source: Industry*

The C&I share of RE capacity is expected to rapidly increase to >50GW by 2030 and nearly double to 20%.

Also, to meet the Indian government's ambitious 500GW RE target by 2030, several PSUs have raised their targets. Of them, the NTPC plans to set up 60GW of RE capacity by 2032 (2.9GW now), and the IOC would ramp up RE capacity to 31GW (from 231MW now).

**Fig 11 – Ambitious RE targets of PSUs**

| | Targets | Current capacity (MW) | | Total | |
|---|---|---|---|---|---|
| PSU RE plans | (MW) | Wind | Solar | (MW) | Comments |
| NTPC | 60,000 | 213 | 2,716 | 2,929 | 60GW by 2032 |
| NLC India | 6,030 | | | 1,421 | 6GW by 2030 |
| ONGC | 10,000 | | | 189 | 10GW by 2030 |
| BPC | 10,000 | | | 62 | 2025 1GW; 2040 target 10GW |
| HPC | 2,000 | 101 | 44 | 145 | 2GW by 2030 |
| IOC | 31,000 | | | 239 | 5.5GW by 2030, 31GW by 2030, 200GW by 2050 |
| GAIL | 3,000 | 118 | 14 | 132 | 3GW by 2030 |
| Coal India | 3,000 | | | 399 | 3GW by 2026 |
| NHPC | 22,588 | | | 7,097 | |
| **Total** | **147,618** | | | **12,613** | |

*Source: Industry*

Besides, several corporates have announced ambitious plans to raise RE capacity.

**Tata Power** would increase "green" capacity from 5.8GW at end-FY24 to 15GW by 2027 and 20GW by 2030.

**Adani Green** plans 45GW of RE capacity by 2030, from 10.9GW at end-FY24.

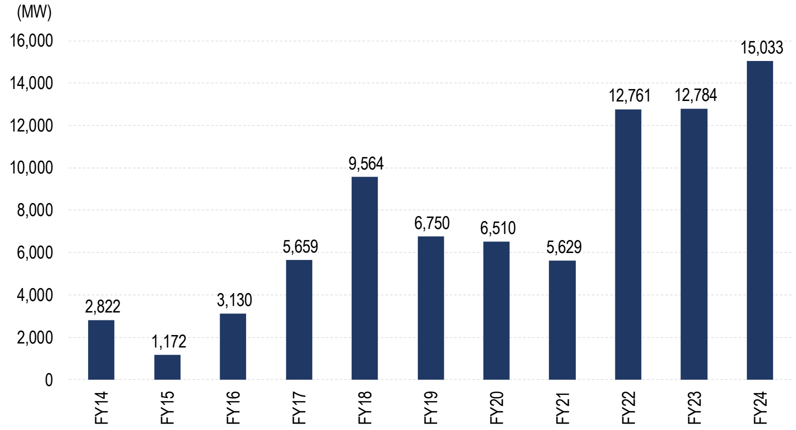
**Fig 12 – C&I RE capacity additions lined up**

| | Capacities (MW) | | |
|---|---|---|---|
| Companies | Installed | Being constructed | Targeted |
| Adani Green | 10,000 | 15,024 | 45,000 |
| Renew Power | 10,000 | 8,800 | 20,000 |
| Greenko | 7,500 | 15000 | 50,000 |
| Tata Power | 4,206 | 3,760 | 18,000 |
| Sembcorp | 14,400 | - | 25,000 |
| Torrent Power | 1,195 | 1402 | 5,000 |
| Apraava | 3,150 | 660 | 6,000 |
| Azure Power | 4,300 | 7,000 | - |
| Continuum | 4,000 | 1,700 | 2300 |
| Aditya Birla Renewables | 2,000 | 896 | 3,900 |
| Evergreen | 2,300 | 400 | - |
| Sprng | 1,634 | 450 | - |
| JSW Energy | 9,382 | 2,200 | 20,000 |
| Hero Future Energies | 1,600 | 500 | 5000 |
| Cleanmax | 2,200 | 3500 | 30,000 |
| Serentica Renewables | 4,000 | 2550 | 4,000 |
| Ayana Renewables | 1,300 | 440 | 4,000 |
| Juniper | 1,000 | 1500 | 2,500 |
| Everrenew | 788 | 2,120 | |
| ABEnergia Renewables | 744 | - | - |
| O2 Power | 1000 | 1,600 | 5,000 |
| Blupine | 2400 | - | 4,000 |

*Source: Industry, Anand Rathi Research*

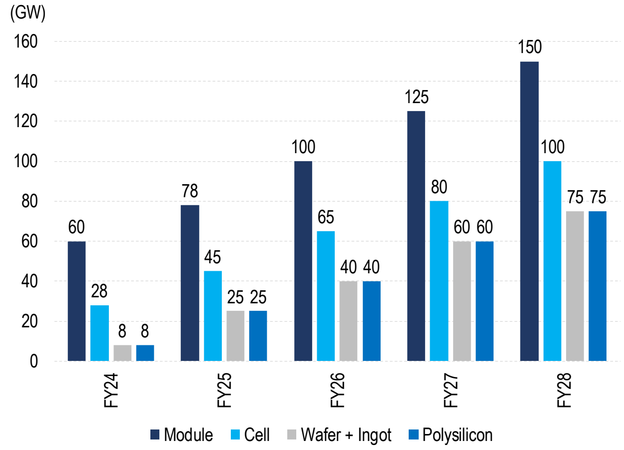
# Story in charts

Fig 13 – Solar capacity addition was the highest in FY24



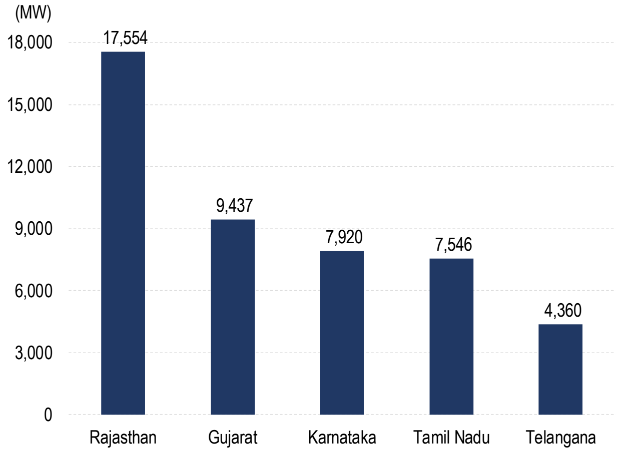

*Source: MNRE*

Fig 14 – Manufacturing capacity increases



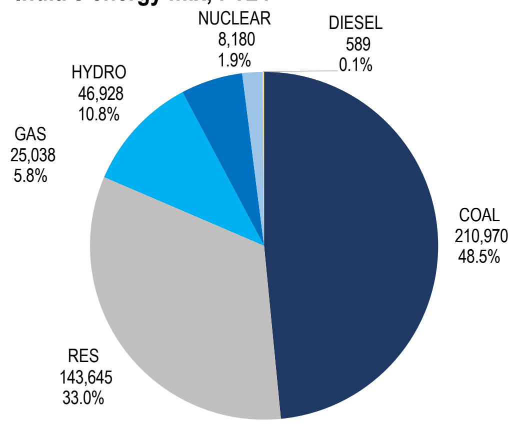

*Source: Industry*

Fig 15 – State-wise ground-mounted solar installations



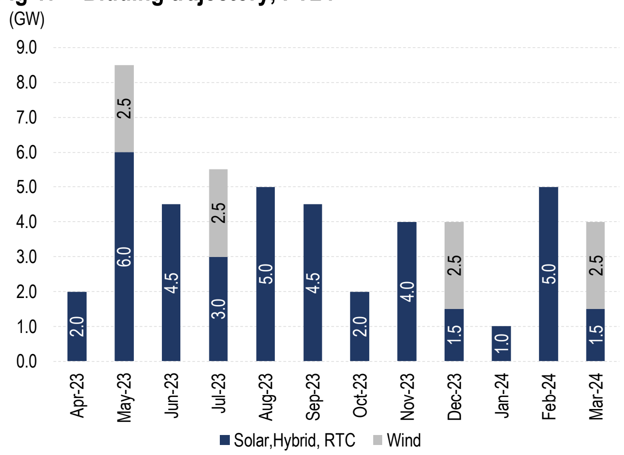

*Source: MNRE*

Fig 16 – India's energy mix, FY24



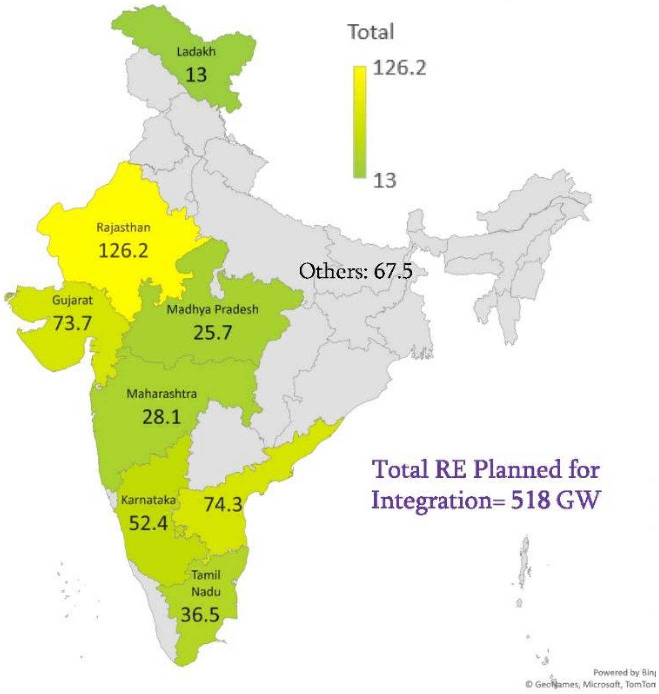

*Source: MNRE*

Fig 17 – Bidding trajectory, FY24



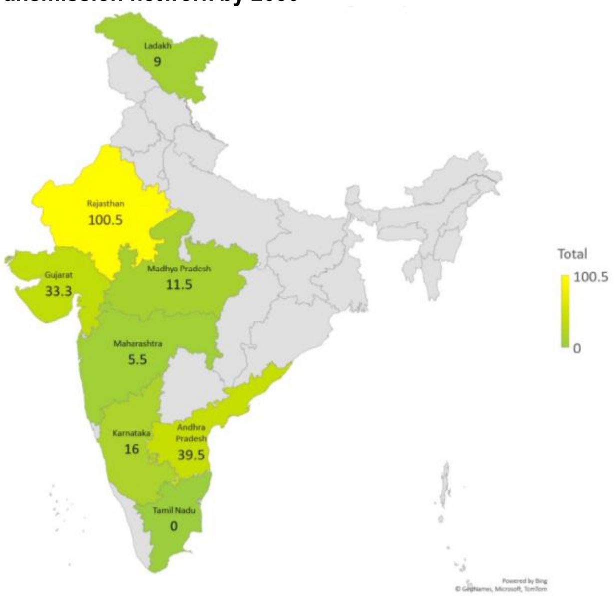

*Source: Industry*

**Fig 18 – RE transmission capacity planned to be integrated by 2030**



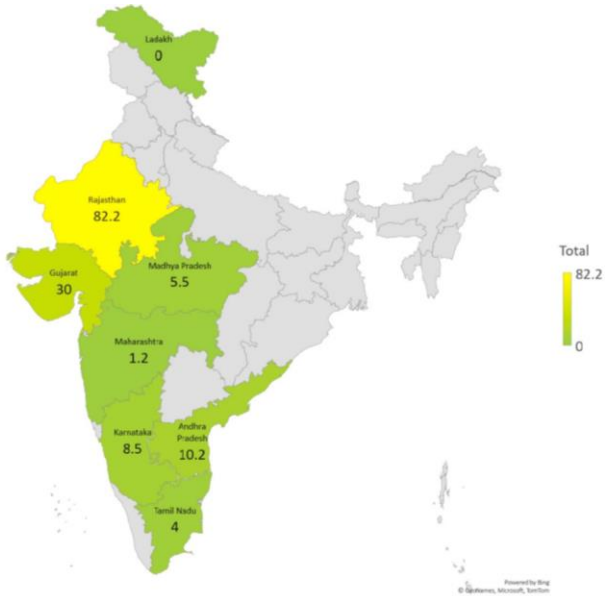

*Source: Industry*

**Fig 19 – Solar capacities planned to be integrated with the transmission network by 2030**




*Source: Industry*

**Fig 20 – Applications received for solar capacity for transmission access**




*Source: Industry*

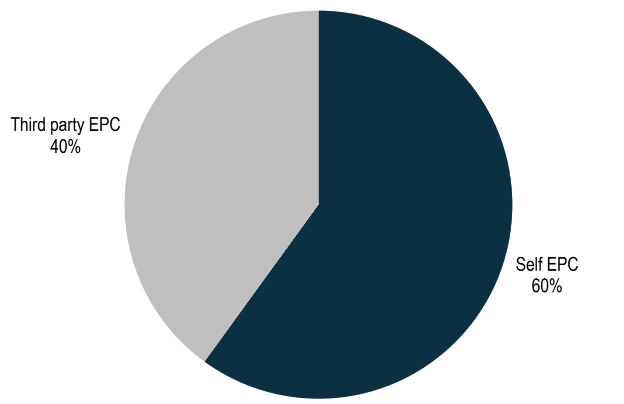
## Solar EPC market poised to grow

According to industry reports, the global solar EPC market is likely to touch ~$400bn by CY32 (from $235bn in CY23), boosted by rising demand for clean energy from end-user industries worldwide. A brief on key markets:

- Asia Pacific was the largest solar EPC market at $130bn in CY23 and is expected to record a 6.3% CAGR, driven by government initiatives to increase solar energy, an expanding manufacturing sector and China (a major contributor due to its rising industrialisation and urbanisation).
- At $79.1bn, the EU is the second largest market for solar EPC. It would register a 5.3% CAGR over CY24-36.
- The other regions are North America, Latin America, and the Mid-East at $33.3bn/4.8bn/10bn.

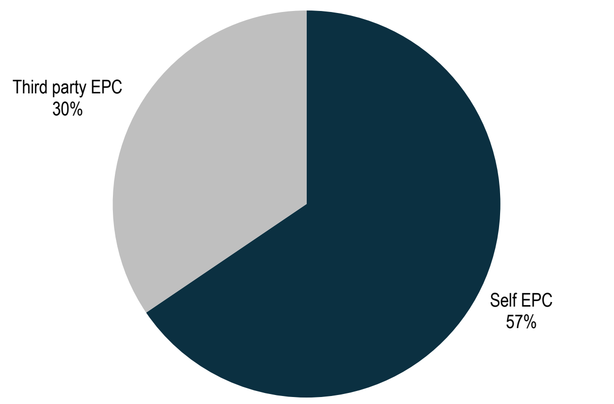
The Indian solar EPC market has been steadily growing, helped by enabling (government) policies, incentives and subsidies, which accelerated projects. The domestic solar EPC market grew to 35GW in FY24 vs. 26GW in FY23; the third-party EPC market was 15.1GW in FY24 (10.4GW in FY23), the rest in-house.

**Fig 21 – India solar EPC market in FY23 (~26GW)**




*Source: Company*

**Fig 22 – India solar EPC market in FY24 (~35GW)**




*Source: Company*

**Steady rise in solar installations in India**

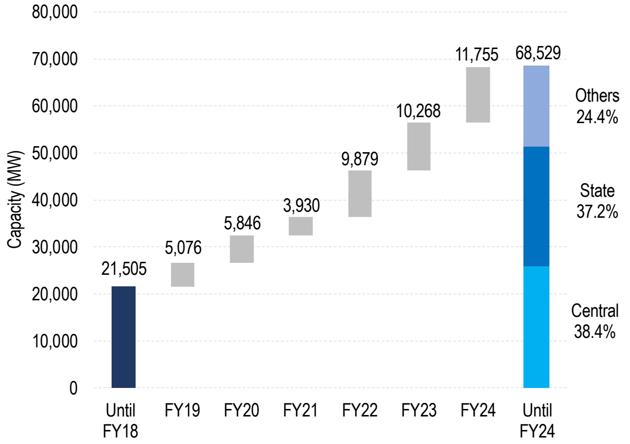
Utility-scale solar installations in India totalled ~68GW at end-FY24, with the Central/state governments accounting for ~38%/37%.

In FY24, utility-scale solar additions were 11.7GW. Over 55% capacity was installed in-house. The solar EPC market can be segregated into

1. Turnkey/institutional - major companies (Tata Power, L&T, S&W)
2. Small/rooftop projects - major companies (Waaree, Jackson, Roofsol)
3. Floating solar projects

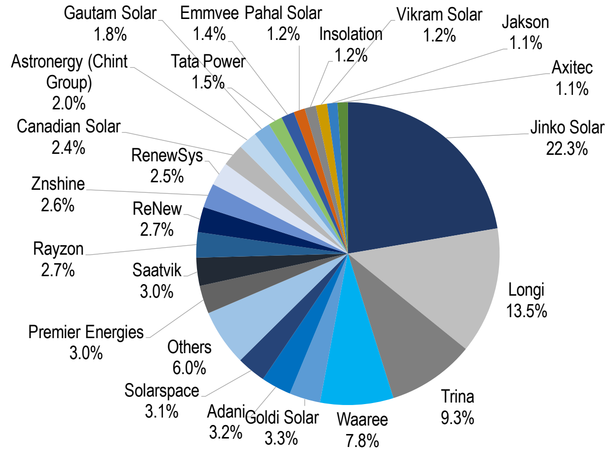
Ahead, all sub-segments in EPC are estimated to grow, led by open-access norms, solar parks, agri-voltaics, floating solar power plants and off-grid solar systems.

### Fig 23 – Solar utility installations steadily rising in India




*Source: Industry*

### Fig 24 – FY24 solar EPC execution, by company




*Source: Industry*

# Pure solar-EPC company

A global pure-play, end-to-end solar engineering, procurement and construction (EPC) solutions provider, Sterling & Wilson has executed projects in 20 countries. It provides EPC services primarily for utility-scale solar power projects, focusing on project design and engineering, and managing all aspects of project execution from conceptualising to commissioning. Besides, it provides operations and maintenance (O&M) services, including for projects constructed by third parties.

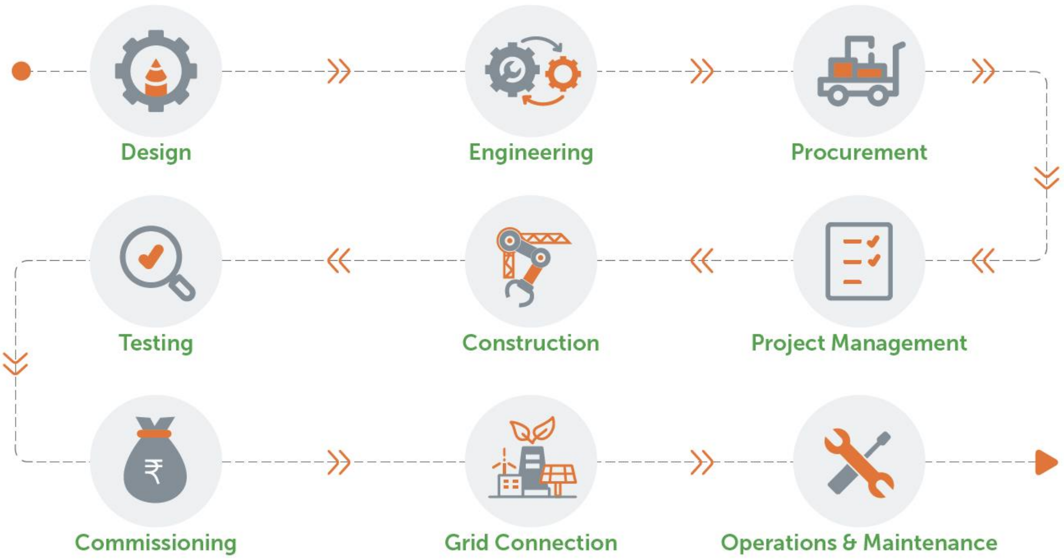
Since its inception in 2011, it has been a leader in renewable energy EPC. In FY24, it bagged 44% of third-party EPC orders of 4.1GW (3.7GW in FY23). It has executed many marquee projects, including 3GW of EPC and O&M for the NTPC at the Khavda Solar Park in Gujarat, along with an EPC project incl. O&M at one of the world's largest single-location PV plants of 1,177MW in Abu Dhabi.

Its services can be classified as

1) A complete range of customised EPC and BoS (balance of systems).
2) O&M solutions for solar projects of 8.2GW.

**EPC segment.** The company is one of the largest solar EPC companies with experience of over 250 projects, a portfolio of 18GW including domestic (13GW) and international (5GW) projects.

**Fig 25 – EPC and O&M scope**




*Source: Company*

In EPC, the company offers the following customised services.

3) **Utility-scale solar.** Customised solutions including turnkey, BoS and packaged BoS.
4) **Floating solar.** One of the first movers in the floating solar category.
5) **Hybrid energy storage.** The company developed a capable, technically sound and dedicated battery energy storage system (BESS) team with vast experience in storage solutions.

#### Asset-light business model

The company operates under an asset-light model as it sub-contracts its orders. Customers here are responsible for acquiring land, while the company leases equipment for operations. Its FY24 its gross block was Rs810m, and it expects minimal capex intensity ahead.

### O&M portfolio grows hand in hand

The company is also key in solar O&M, with a portfolio of 8.2GW as on Q1FY25. It undertakes O&M contracts for its own projects and for those commissioned by third parties. Its O&M portfolio has fallen from FY21's 8.1GW to 6.6GW in FY22 due to sale of 1.2GW to a private company. Typically, for all solar EPC projects, a defect liability period (DLP) of 2-3 years is included. During this period, the company provides maintenance services (expenses re-imbursed by clients). The O&M segment contributed 9.5% of FY24 revenue vs. 4.3% earlier.

# Volatile past, impressive future

Until FY20, the company ran a profitable business: Rs3bn PAT, 32% RoE. Since FY21, however, it suffered losses. In FY23, its EPC EBIT losses were Rs6.8bn vs. a Rs6.5bn gain in FY20. The reasons were:

1. Supply-chain disruptions caused by the pandemic
2. Growing freight & sub-contracting costs/overheads on project delays
3. Provisions for liquidated damages, resulting from project delays
4. A steep, 50%, rise in prices of solar modules in FY21 vs. FY20.

Besides, during Covid-19, ~75% of projects under execution were from the US and Australia, which led to delays due to

1. Border movement restrictions
2. Logistics cost

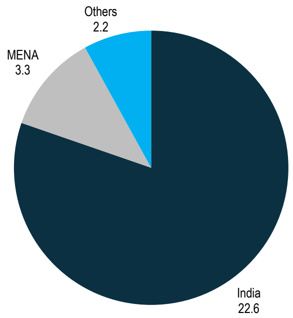
Debt rose to Rs19.3bn by FY23, from Rs7.3bn in FY20. The company, however, took steps in FY24 to cut borrowings to Rs970m in Q1 FY25, driven by the shift to its home market to reduce risk and minimise revenue/ margin volatility.

- It shifted focus to its home market, targeting TAM of 23GW+ for FY25, while selectively targeting international projects of 5GW. The EPC margin for domestic projects was a stable 10% in Q1 FY25 vs. 9.7% in FY23.
- ~86% of FY24 EPC revenue came from its home market vs. only 26% in FY20. Also, in Q1 FY25, 71%+ of new orders were domestic vs. only 11.3% in FY20.
- The company avoids contracts where land must be acquired and is selectively accepting projects with modules.
- In Feb'22, Reliance New Energy acquired a 40% stake. The partnership with RIL is expected to provide strong revenue assurance and market advantages, which are likely to help it capture a significant share of the EPC renewables market.

EPC revenues recovered in FY24 were Rs28.5bn, while EBIT was Rs2.97bn.

Ahead, we see strong solar capacity added in the home market and the company pursuing solar EPC projects of ~23GW in India and 5GW overseas.

**Fig 26 – Active bid pipeline at 28GW**




*Source: Company*

# To benefit from many tailwinds

Led by a minimal net-debt balance sheet and strong pedigree, the company would see solar EPC orders of Rs496bn in FY25-27 (from Rs60.2 bn in FY24). This would be driven by orders from

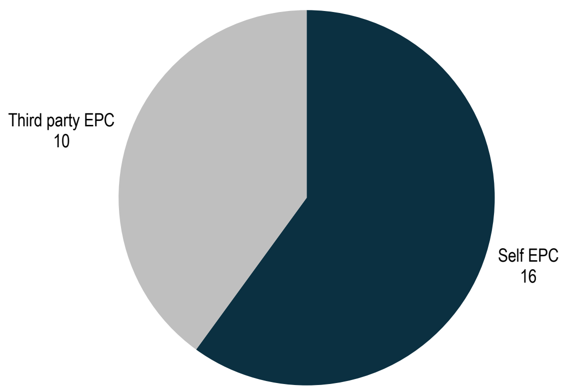
1. Rising domestic and international opportunities for solar EPC- Rs268bn.
2. Orders from RIL as it sets up 100GW of renewable energy generation capacity, with solar being the major component- EPC orders of Rs93.5bn
3. Orders from Nigeria for solar EPC and a battery storage project Rs50.7bn.

## Rising opportunities: Domestic and international

Relentless growth plans to ramp up RE capacity added are likely to open up market opportunities for EPC companies. We expect India's solar capacity addition to rise to over 20GW a year by FY26 (from 15GW in FY24).

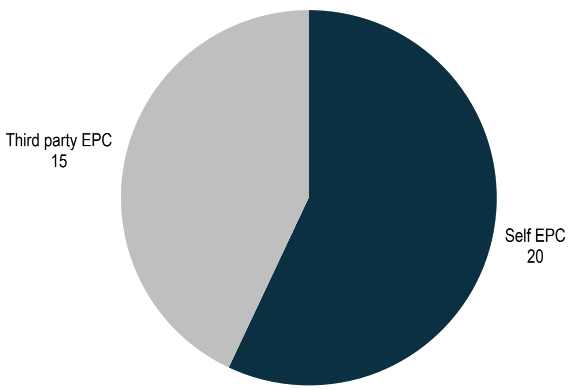
India's solar EPC market, excl. self EPC companies such as Adani and JSW, was 15.3GW at end-FY24 (10.4GW in FY23), up 45% y/y. Ahead, the company aims at an EPC bid pipeline of 28GW (incl. 22.6GW in India).

**Fig 27 – FY23 third-party domestic EPC market: 10.4GW**




*Source: Company*

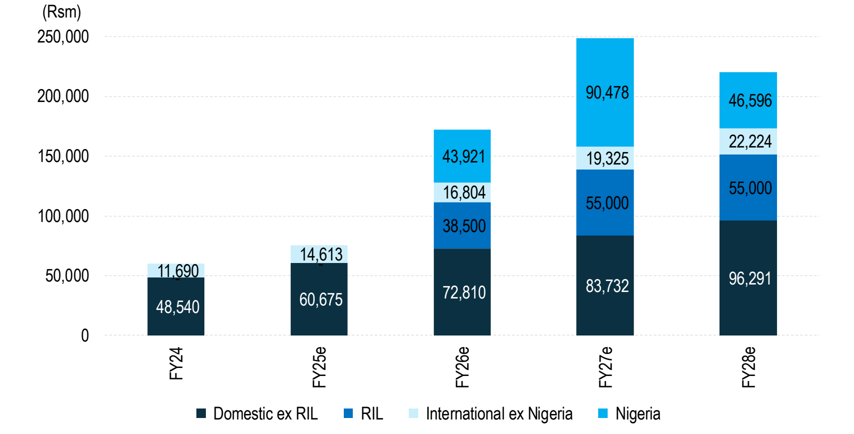
**Fig 28 – FY24 third party EPC market increased to 15.1GW**




*Source: Company*

Given the company's prior experience in executing projects, we model orders of Rs268bn over FY25-27 from domestic market ex RIL and excluding orders from Nigeria vs. Rs285bn over FY20-24.

**Fig 29 – New orders to increase steadily**




*Source: Company, Anand Rathi estimates*

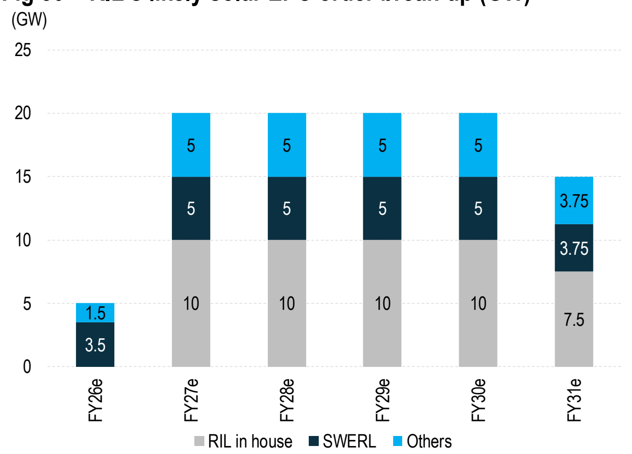
## Orders from RIL; mapping the opportunity

RIL plans to be net-carbon zero by 2035 and set up renewable energy generation capacity of 100GW by 2030 with solar and battery storage accounting for most of the capacities. To support this, it plans to set up solar PV manufacturing capacity of 20GW. Of this, the first phase of 5GW would come by end-CY24, while modules would be built, and wafers and other parts imported.

However, the fully integrated solar PV manufacturing capacity of 20GW would be commissioned in CY26. The company will establish and enable solar energy generation capacity of 100GW over CY26-30, potentially offering EPC opportunities of Rs1.1trn and O&M services of ~Rs24bn. We do not rule out the possibility of significant work done in-house, but opportunities for companies like S&W are likely. However, S&W is now executing a pilot project from RIL involving solar and battery storage.

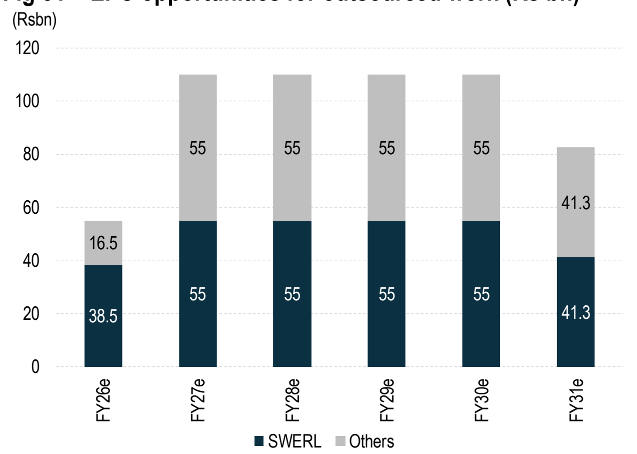
This could offer it EPC opportunities of Rs300bn over FY26-31, assuming a ~50-70% share for the company.

**Fig 30 – RIL's likely solar EPC order break-up (GW)**




*Source: Anand Rathi estimates*

**Fig 31 – EPC opportunities for outsourced work (Rs bn)**




*Source: Anand Rathi estimates*

In FY22, RIL acquired a 40% stake for Rs28.5bn; we believe EPC and O&M orders from RIL would be a significant growth driver for S&W. We have modelled orders of 3.8GW/5.5GW in FY26/27, valued at Rs38.5/ 55bn.

## Nigerian orders could provide a pick-up in orderbook

Nigeria has huge plans to add solar capacity. For this, Sun Africa LLC, the largest US renewable-energy company operating in Africa, and the Nigerian government signed a development and EPC agreement to construct 5,000MW of solar generation capacity and 2,500MWh of a battery storage power plant for $10bn from the US government.

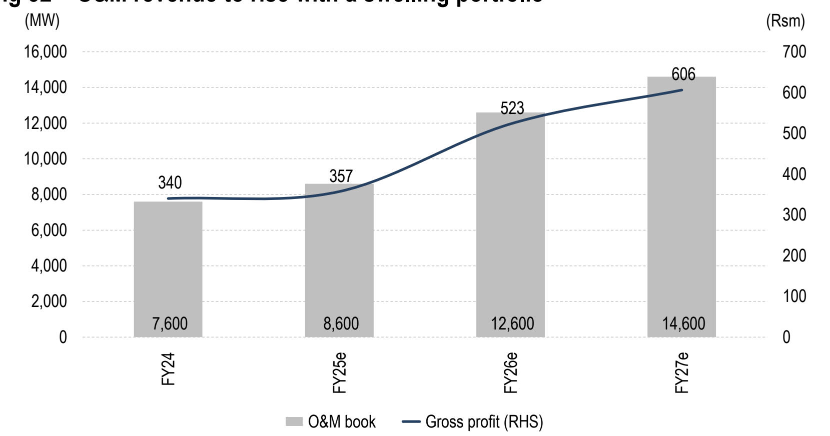
The first phase of the project would include 961MW of solar PV production infrastructure and 455MWh of energy storage. All technical and financial due diligence for phase 1 of the grid-connected solar plant is complete. The turnkey contract size for phase 1 is likely at $1.5bn-2bn; the MoU for this was signed in 2022; in Q1 FY25, final terms of the contract were negotiated. Management expects to sign the contract in the near term; it will then take 3-6 months for financial closure. Realisations will be dollar-denominated as the plant is funded by the US (Exim bank/US banks). We have modelled orders of $0.5bn/1bn/0.5bn from Nigeria in FY26/27/28.

## O&M portfolio grows hand in hand

The company is also key in O&M, with a portfolio of 8.2GW at end-Q1. We expect the portfolio to reach 14.6GW by 2026. This growth would be driven by a rise in the EPC portfolio and more outsourcing by private sector developers/PSUs.

O&M revenue was Rs2bn in FY24 (Rs1.9bn in FY23). We expect this to double to Rs4bn by FY27, aided by steady assets under management. We also expect O&M opportunities of ~Rs24bn for the company.

**Fig 32 – O&M revenue to rise with a swelling portfolio**




*Source: Company, Anand Rathi estimates*

# Financial analysis

The company has been faced with turbulence in the past due to high debt, which crimped its prospects. Brighter demand prospects reflected by its expanding orderbook, however, would drive earnings.

We have factored in EPC order execution in FY25/26/27 of Rs75.4bn/ 99.5bn/156.9bn, a 10% gross margin for international projects and 10.5% for domestic projects.

Also, we have factored in the O&M portfolio rising to 14.6GW by FY27, from 8.2GW in Q1 FY25, shored up by the steady rise in project execution.

## Key assumptions and revenue

The company would benefit from ~Rs4.5bn of accumulated losses in prior years. Accordingly, our FY25 blended tax rate is 10.2%.

We expect PAT to increase to Rs4.0bn/5.5bn/9.0bn in FY25/26/27 vs. a Rs2.1bn loss in FY24.

**Fig 33 – Key model assumptions**

| (Rs m) | FY22 | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|---|
| Opening orderbook | 91,270 | 32,530 | 49,130 | 80,840 | 80,718 | 153,242 |
| **New orders** | **7,190** | **43,870** | **60,230** | **75,288** | **172,036** | **248,534** |
| Domestic, excl. RIL | 7,130 | 43,870 | 48,540 | 60,675 | 72,810 | 83,732 |
| RIL | - | - | - | - | 38,500 | 55,000 |
| International, excl Nigeria | - | - | 11,690 | 14,613 | 16,804 | 19,325 |
| Nigeria | - | - | - | - | 43,921 | 90,478 |
| | | | | | | |
| Executed orders | 49,750 | 18,235 | 28,520 | 75,410 | 99,511 | 156,976 |
| Unexecuted orders | 32,530 | 49,130 | 80,840 | 80,718 | 153,242 | 244,800 |
| **Revenue** | | | | | | |
| **EPC** | | | | | | |
| International | 45,407 | 13,062 | 4,000 | 15,082 | 19,902 | 31,395 |
| Domestic | 4,337 | 5,173 | 24,250 | 60,328 | 79,609 | 125,581 |
| O&M | 2,229 | 1,899 | 2,104 | 2,381 | 3,488 | 4,042 |
| Others | 16 | - | - | - | - | - |
| **Total** | **51,990** | **20,134** | **30,354** | **77,791** | **102,999** | **161,018** |
| | - | - | - | - | - | - |
| **O&M book (MW)** | 6,600 | 6,400 | 7,600 | 8,600 | 12,600 | 14,600 |
| **O&M realisation (Rs/MW)** | 0.34 | 0.30 | 0.28 | 0.28 | 0.28 | 0.28 |
| | | | | | | |
| **Gross Profit (Rs m)** | | | | | | |
| International EPC | - | (7,100) | 260 | 1,508 | 1,990 | 3,140 |
| Domestic EPC | - | 500 | 2,530 | 6,334 | 8,359 | 13,186 |
| O&M | - | 100 | 340 | 357 | 523 | 606 |
| **Total** | **-** | **(6,500)** | **3,130** | **8,200** | **10,872** | **16,932** |
| | | | | | | |
| **Gross margins (%)** | | | | | | |
| International EPC | | -54 | 7 | 10 | 10 | 10 |
| Domestic EPC | | 10 | 10 | 11 | 11 | 11 |
| O&M | | 5 | 16 | 15 | 15 | 15 |

*Source: Company, Anand Rathi estimates*

### Working capital cycle to come off

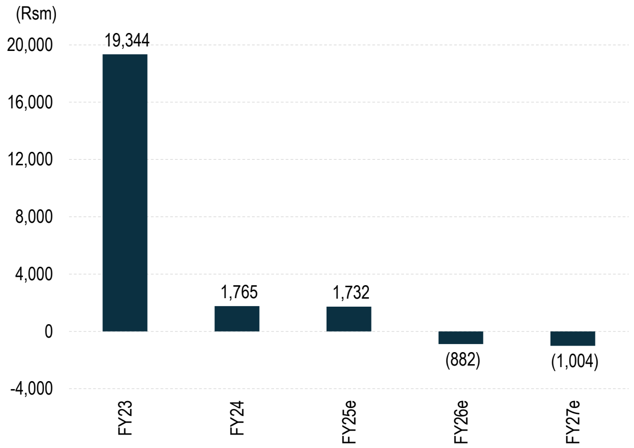
We calculate net working capital at Rs9.4bn or 113 days vs. Rs15.3bn or 276 days in FY23. Working capital was hit by receivables of Rs8bn from the promoter or suppliers, which the company expects to be speedily resolved. To calculate working capital, we have factored in all liabilities and provisions for liabilities and included other financial and current assets.

In projecting other financial assets, we have factored in 57 days, excl. the Rs8bn receivables from promoters. We expect the overall working capital cycle to fall to 54 days by FY27.

### Debt concerns ease

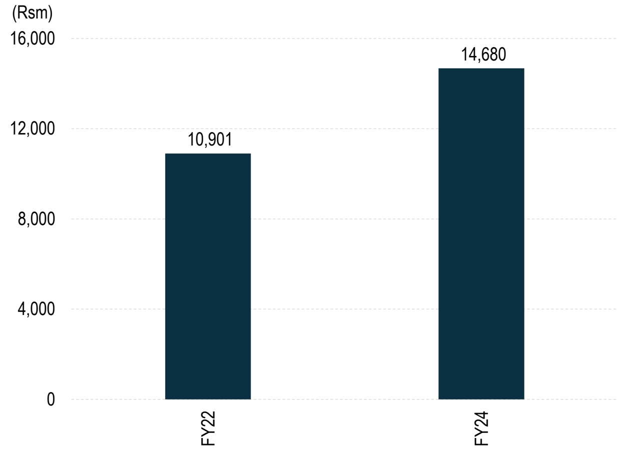
Net debt dropped to Rs970m in Q1 FY25, from Rs19.3bn in FY23, aided by timely fund-raising. Ahead, supported by more business revenue, we expect company to have net cash of Rs1.0bn in FY27.

**Fig 34 – Net debt levels have come off sharply..**




*Source: Company, Anand Rathi estimates*

**Fig 35 – … aided by timely equity fund raise**




*Source: Company, Anand Rathi estimates*

# Valuation and view

Greater demand, supported by ambitious capacity added, helped sharply turn around the balance sheet. Given the steady growth in business prospects, we value the company per the DCF method.

At the CMP, the stock quotes at 39.0x/28.5x FY25e/26e P/E. We initiate coverage on it with a Buy rating and a 12-mth DCF-based TP of Rs870.

**Fig 36 – DCF table**

| | FY23 | FY24 | FY25e | FY26e | FY27e | FY28e | FY29e | FY30e | FY31e | FY32e |
|---|---|---|---|---|---|---|---|---|---|---|
| EBITDA (Rs m) | -11,300 | -226 | 4,499 | 6,686 | 11,908 | 15,916 | 18,799 | 20,082 | 21,086 | 22,141 |
| Current tax (Rs m) | 67 | -27 | -222 | -1,023 | -2,405 | -3,205 | -3,856 | -4,130 | -4,337 | -4,554 |
| Total capex (Rs m) | -164 | -286 | -274 | -289 | -507 | -428 | -354 | -385 | -300 | -300 |
| Chg. in net working capital (Rs m) | -8374 | 5837 | -3656 | -2545 | -8393 | -8310 | -6173 | -4090 | -2130 | -2236 |
| Total free cash flows (Rs m) | -19,771 | 5,299 | 347 | 2,828 | 603 | 3,972 | 8,416 | 11,477 | 14,320 | 15,051 |
| PV of cash flows | | | 383 | 2,828 | 546 | 3,261 | 6,258 | 7,732 | 8,740 | 8,323 |
| WACC, % | 10.38 | | -1 | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| Terminal growth rate, % | 5 | | | | | | | | | |
| Terminal value | 343,054 | | | | | | | | | |
| Terminal EV / EBIDTA | 13.4 | | | | | | | | | |
| PV of terminal value | 141,065 | | | | | | | | | |
| PV as % of EV, % | 70 | | | | | | | | | |
| | | | | | | | | | | |
| Enterprise value | 201,878 | | | | | | | | | |
| Net debt as on Mar 26 | (882) | | | | | | | | | |
| Equity value | 202,761 | | | | | | | | | |
| **Value per share** | **869** | | | | | | | | | |
| WACC, % | 10.4 | | | | | | | | | |
| | | | | | | | | | | |
| Risk-free rate, % | 7.0 | | | | | | | | | |
| Beta (what beta is this, levered or unlevered | 0.8 | | | | | | | | | |
| Rm | 5.0 | | | | | | | | | |
| Cost of equity, % , looks to be low any equity investor would want to have more than thiis | 10.7 | | | | | | | | | |
| | | | | | | | | | | |
| Cost of debt, % | 10.0 | | | | | | | | | |
| Debt / Capital | 10 | | | | | | | | | |
| Tax rate, % | 25 | | | | | | | | | |

*Source Company, Anand Rathi Research*

**Fig 37 – FY26e earnings sensitivity to execution and margins**

| | Scenario 1 | Scenario 2 | Base case | Scenario 3 | Scenario 4 |
|---|---|---|---|---|---|
| EPC execution (Rs m) | 10% lower execution | 20% lower execution | 99,511 | 10% higher execution | 20% higher execution |
| EPS (Rs/sh) | 20.0 | 16.5 | 23.5 | 27.0 | 30.5 |
| **EPC gross margins (%)** | 9.0 | 9.5 | 10.4 | 11.0 | 11.5 |
| EPS (Rs/sh) | 18.6 | 20.4 | 23.5 | 25.6 | 27.4 |

*Source: Company, Anand Rathi Research*

## Risks

- *Adhoc* changes in government policies.
- Keener competition.
- Slower-than-expected deliveries due to delay in site readiness.

## Appendix

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