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## GREEN FUTURE Shapoorji group firm has an extensive order book in India and overseas

# Sterling & Wilson Solar's Shining Bright, Public Issue a Good Bet On Sunrise Sector

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**ET Intelligence Group:** Sterling and Wilson Solar, a solar power plant construction company promoted by Shapoorji Pallonji Group, plans to sell a portion existing promoter stake in the primary market for upto ₹3,125 crore. Given the rapid growth of its business overseas and increasing popularity of solar energy around the world, investors wanting an exposure to green energy stocks may consider the issue.

**Business:** The company is the world's largest solar photovoltaic (PV) solution provider with over two-third of revenue from across 26 countries. It has commissioned and contracted solar power projects with the capacity of 6,870 megawatts (MW) spread over 205 projects. The company is currently commissio-

ning 1,177 MW solar power project in Abu Dhabi, which is the world's largest single-location solar PV plant.

The company follows the 'hub and spoke' model wherein it manages design from India. This provides a significant cost advantage over the competition. During execution, it engages with suppliers to comply with local regulations. The company has received 83.3% and 64.4% repeat orders in


### IPO WATCH

India and overseas respectively. Its clients include Marubeni, EDF, Alten, Sunseap, Enfinity and ACWA. The annual solar PV installation is expected to grow by 12.9% between 2018 and 2021, according to IHS Markit. This augurs well for Sterling and Wilson.

**Financials:** Revenue rose by 44% annually in the past three fiscals to reach ₹8,240 crore and net profit by 72% to ₹638 crore in FY19. The gross margin—revenue minus cost of raw material—which is the most critical

**ISSUE DETAILS**

Price Band: <b>₹775-780</b>	Issue Size: Upto <b>₹3,125 crore</b> (only OFS)
Issue Dates: <b>Aug 6-8, 2019</b>	Implied Market Cap: Upto <b>₹12,508 crore</b>



measure for infrastructure companies was 11-13% between FY16 and FY19. Since lenders to solar power plants ensure that the plant construction companies work on a cash neutral basis, the company has a negative working capital cycle. The return on equity was 62% in FY19.

**Risks:** The growth in solar power plant installation is driven by government initiatives to reduce carbon footprint. Any change in the go-

vernment stance or amount of availability of funds will hamper solar power installation. The company's peers in China and the US have so far not expanded globally. In the future, if they focus on international markets, it would increase the competitive pressure on Sterling and Wilson. Given higher export revenue, it is also exposed to currency fluctuations. Also, around 35.7% stake of the parent will be repledged to HDFC within 10 days of the listing with a lock-in period of one year.

**Valuations:** At the higher end of the price band, the stock is priced at 19.6 of its FY9 earnings. The company does not have a direct listed peer. The stock of L&T, the country's largest engineering and construction company, trades at a trailing price-earnings (P/E) multiple of 28.2.

The company has raised ₹1,406 crore by selling 1.8 crore shares to 27 institutional investors at ₹780 apiece as part of its anchor book allocation.