

CMP (Rs): 121

Market cap. (Rs bn): 4.7

Not Rated

Multifold capacity addition can bring competitive advancement

We recently met the management of Websol Energy Systems (WESL). Some of the key takeaways are as follows:

- The company is a leading manufacturer of photovoltaic monocrystalline solar cells and modules and has retained its position among the five largest solar cell manufacturers in India. Mr S.L. Agarwal in the year 1990 founded this company, a small production facility at Saltlake Sec-V and now possess a state-of-the-art integrated production facility at Falta SEZ, West Bengal.
- The revenue from operations decreased by 91.92% to Rs 172.2 mn during FY22-23 on account of a discontinuation of operations following the decision to upgrade to a superior technological advancement towards larger size and higher efficiency of solar cells.
- **As of 2022, the capacity was 250 MW of both Cell and Module manufacturing. After discontinuation of operation in 2023, the company is now launching an enhanced capacity of 600 MW Cells and 550 MW Modules. This phase-I capacity addition will come by November/December 2023 with a capex ~Rs 2.7 bn funded by Rs 1.9 bn of loan at a cost of 9.7% with first year moratorium (IREDA), preferential infusion of Rs 380 mn by the promoters @ Rs 112 and rest through internal accruals.**
- **The new plant is expected to provide sales of Rs 9-10 bn with EBITDA margin of 15-23% at full capacity.**
- **Also, WESL has phase-II capacity addition programme for solar cells to 2.4 GW with larger size of 182-210 mm from earlier 156 mm with an estimated capex of Rs 12-15 bn for which the company can issue redeemable instruments or might go for QIP depending on the board of directors' decision. This project is likely to be implemented at a different location by the end of 2024.**
- Silicon wafers are the main raw material for producing solar cells, imported from China. The raw material price is highly volatile, but the good thing is that raw material cost is now complete pass-through.
- The company is more focused on the international market than domestic customers where it can generate 10-12% higher margin. It exports mainly to European countries and also supplies to eastern parts of India where module manufacturing capacity is quite low.
- **The company's debt-equity ratio diminished (hence strengthened) from 0.19x in FY21-22 to 0.14x in FY22-23, indicating that its gearing has remained unimpaired by the temporary closure of operations.**
- Ms Sanjana Khaitan, granddaughter of the founder Mr S.L Agarwal has joined the company as Director Finance and is the successor for the post of CFO. This highly qualified young blood is expected to add value to the business.

Outlook

- As per the Ministry of New and Renewable Energy (MNRE), India plans to have 100 Gigawatt (GW) of solar module manufacturing capacity per annum by 2026 and is targeting the development of a domestic solar manufacturing chain to improve energy security and support deployment of over 290 GW of Solar capacity by 2030. **Currently, there are 27 GW of solar module manufacturing capacity and 7 GW of solar cell capacity only.** The Indian government has implemented supportive policies, incentives, and targets to encourage renewable energy adoption, such as the National Solar Mission and various

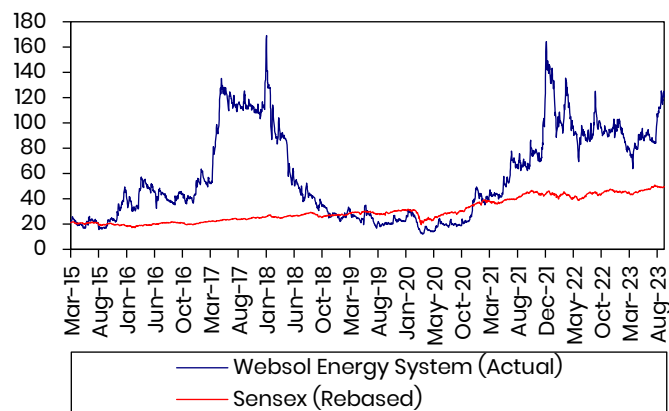
state-level initiatives. The Government has imposed 40% import duties on solar panels and 25% on solar cells to incentivize local production.

- While there are a number of players manufacturing modules, there are few players manufacturing solar cells as it is more technology intensive and WESL stands out as a unique player in that space. **WESL has a lot of opportunity in the sector to grow with the increasing demand for more clean and green energy worldwide. We do not have rating on the stock.**

Major shareholders (%)

	Mar 23	Jun 23	Change
Promoters	26.8	26.8	0.0
GOI	0.0	0.0	0.0
FII's	4.1	4.1	0.1
MFs	0.0	0.0	0.0
BFSI's	0.0	0.0	0.0
Public & Others	69.1	69.1	(0.0)
Pledge	12.9	11.6	(1.4)

Relative to Sensex 3 Years



Income Statement

Period end (Rs mn)	Mar 20	Mar 21	Mar 22	Mar 23
Net sales	1,955	1,536	2,132	172
Growth (%)	-	(21.5)	38.8	(91.9)
Operating expenses	1,928	1,199	1,868	301
Operating profit	27	337	264	(129)
EBITDA	27	337	264	(129)
Growth (%)	-	1,129.6	(21.7)	-
Depreciation	155	154	153	153
Other income	109	43	46	30
EBIT	(18)	227	157	(252)
Finance cost	(62)	(91)	(31)	(38)
Exceptional & extraordinary	(73)	556	12	(25)
Profit before tax	(153)	693	138	(315)
Tax (current + deferred)	(194)	14	42	(79)
Profit/(Loss) for the period	41	678	97	(237)
Reported Profit/(Loss)	41	678	97	(237)
Adjusted net profit	41	678	97	(237)
Growth (%)	-	1,550	(86)	-

Balance Sheet

Period end (Rs mn)	Mar 20	Mar 21	Mar 22	Mar 23
Share capital	306	311	366	388
Reserves & surplus	938	1,612	1,549	1,525
Shareholders' funds	1,244	1,924	1,916	1,913
Non-current liabilities	789	197	314	180
Long-term borrowings	398	127	45	1
Other non-current liabilities	391	70	269	179
Current liabilities	1,074	721	629	578
ST borrowings, curr maturity	284	134	320	274
Other current liabilities	791	587	309	304
Total (Equity and Liab.)	3,107	2,842	2,859	2,671
Non-current assets	2,575	2,428	2,285	2,495
Fixed assets (Net block)	2,542	2,393	2,250	2,157
Long-term loans and adv.	33	34	35	337
Current assets	532	415	574	176
Cash & current investment	5	17	38	1
Other current assets	527	398	536	175
Total (Assets)	3,107	2,842	2,859	2,671
Total debt	682	261	365	275
Capital employed	2,317	2,255	2,550	2,367

Cash Flow Statement

Period end (Rs mn)	Mar 20	Mar 21	Mar 22	Mar 23
Profit before tax	(153)	693	138	(315)
Depreciation	(155)	(154)	(153)	(153)
Change in working capital	248	(73)	(419)	53
Total tax paid	(194)	28	268	(157)
Others	62	91	31	38
Cash flow from oper. (a)	(192)	585	(135)	(534)
Capital expenditure	(2,388)	303	297	246
Cash flow from inv. (b)	(2,388)	303	297	246
Free cash flow (a+b)	(2,579)	887	161	(289)
Equity raised/(repaid)	306	5	55	22
Debt raised/(repaid)	682	(421)	104	(90)
Others	897	(120)	(216)	163
Cash flow from fin. (c)	1,884	(535)	(57)	95
Net chg in cash (a+b+c)	(695)	352	105	(194)

Key Ratios

Period end (%)	Mar 20	Mar 21	Mar 22	Mar 23
Adjusted EPS (Rs)	1.3	21.8	2.6	(6.1)
Growth	-	1,520.8	(87.9)	-
CEPS (Rs)	(3.7)	16.9	(1.5)	(10.1)
Book NAV/share (Rs)	40.7	61.8	52.3	49.3
EBITDA margin	1.4	22.0	12.4	(74.8)
EBIT margin	(0.9)	14.8	7.4	(146.4)
Tax rate	(126.9)	(2.0)	(30.1)	(24.9)
RoCE	(1.6)	9.9	6.5	(10.3)
Total debt/Equity (x)	0.5	0.1	0.2	0.1
Net debt/Equity (x)	0.5	0.1	0.2	0.1
Du Pont Analysis - RoE				
Net margin	2.1	44.2	4.5	(137.6)
Asset turnover (x)	1.3	0.5	0.7	0.1
Leverage factor (x)	2.5	1.9	1.5	1.4
Return on equity	6.6	42.8	5.0	(12.4)

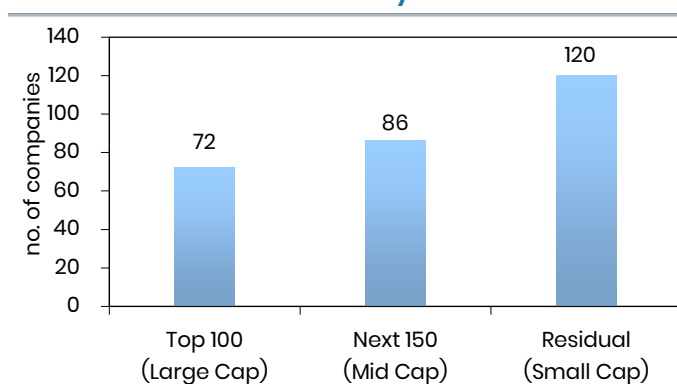
Valuations

Period end (x)	Mar 20	Mar 21	Mar 22	Mar 23
PER	90.0	5.6	45.8	(19.8)
PCE	(32.6)	7.2	(78.3)	(12.0)
Price/Book	3.0	2.0	2.3	2.5
EV/EBITDA	159.5	11.9	18.0	(38.6)

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BUY	>+15%	>+20%
HOLD	+15% to -10 %	+20% to -15 %
SELL	<-10%	<-15%

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