

Websol Energy System Limited
Annual report, FY2017-18



Resilience and renewability

Forward-looking statement

In this Annual Report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realized, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

C O N T E N T S

Corporate snapshot.....	02	Risk Management.....	23
Financial highlights over the years.....	04	Director's Report and Annexures.....	26
Chairman's overview	06	Independent Auditor's Report.....	56
Operational overview	08	Financial statements.....	62
Enhancing efficiency.....	10	Notes to financial statements.....	67
Our business model.....	11		
Management discussion and analysis.....	12		

Resilience and renewability

In the business of renewable energy, the priority lies in enhancing manufacturing capacity on the one hand and reducing operating costs on the other.

These challenging priorities warrant an organizational resilience, derived from the ability to moderate costs, strengthen technology bandwidth, reinforce certifications and market effectively.

Over the years, Websol Energy has strengthened its resilience, which we believe will enhance our ability to renew our competitiveness and sustainability.



Five things to know about Websol

Rich experience: Over the past 28 years, the Company has positioned itself as a sectoral leader.

Technological proficiency: Websol leverages cutting-edge technology to manufacture world-class photovoltaic cells and solar modules at its Falta facility.

Quality assurance: The Company is driven towards quality excellence. Websol has ISO 9001:2015 certification to vindicate the same. The solar modules also have approvals as per IEC 61215, IEC 61730 and UL 1703 standards.

Stringent compliance: The Company is accredited with the ISO 14001:2015 and OHSAS 18001:2007 certifications.

R&D focus: The Company deploys seasoned R&D personnel who work dedicatedly towards achieving maximal utilization of available resources, so as to manufacture quality products at reasonable prices.

Milestones



1993-94

- Entered into a technical collaboration with Helios Technology, Italy
- Started with a 1 megawatt (MW) installed capacity and processed 4 and 5-inch wafers at Salt Lake Sector-V Plant, West Bengal



1995-96

- Commenced production with technical support from Helios
- Processed 5-inch wafers



1998-99

- Graduated to 6-inch wafers and modules up to 95 watt-peak
- Obtained a quality certificate from ISPRA for IEC 61215 standard



2000-01

- Graduated to 8-inch wafers
- Increased module output to 125 watt-peak for all W1000 modules
- Scaled installed capacity to 3 MW



2002-03

- Obtained international certification for W1000 modules as per IEC 61215 standards

- Obtained UL 1703 listing for all W900 modules

- Scaled capacity from 3 to 5 MW



2003-04

- Obtained UL 1703 listing for all W1000 modules
- Commenced production of 160/190 watt-peak modules



2005-06

- Scaled capacity from 5 to 10 MW
- Commenced commercial production of W1600 and W2000 modules
- Obtained international certification from TUV Safety Class-II for W2000 and W1600 modules
- Finalized industrial site at Falta SEZ for 120 MW expansion



2006-07

- Scaled capacity to 20 MW
- Introduced three products including the W2000 module



2007-08

- Obtained IEC 61215 and IEC 61730 certifications for 180/220 watt-peak modules
- Obtained UL and CSA listing for

MISSION

To provide solar energy solutions with competitive product quality as per international standards and develop advanced products through cutting edge technology that will create value for the customer and stakeholders, while improving the environment by conservation of natural resources and implement pollution control measure along with caring for our employees.

VISION

To provide clean, reliable, environment friendly, competitive electrical energy around the world to save our planet earth for our future generations.

VALUES

Our core values are as follows;

- Customer focus and satisfaction
- Employee engagement and satisfaction
- Innovation and state-of-the-art technology
- Transparency at all levels
- Being environment friendly

180/220 watt-peak modules

- Installed plasma-enhanced chemical vapour deposition technology for silicon nitride anti-reflective coating, at Salt Lake plant
- Appointed an engineering, procurement and construction management consultant for Falta plant
- Scaled cell efficiency beyond 16.5%



2009-10

- Scaled capacity to 60 MW
- Migrated from 125x125-square millimetre to 156x156-square millimetre wafers
- Increased power output of modules to 290 watts
- Operationalized state-of-the-art production facility in Falta SEZ



2011-12

- Scaled capacity to 120 MW



2012-13

- Tied up with a Chinese company for a two-year OEM deal to produce cells and modules under their banner
- Started processing quasi-mono wafers



2014-15

- Installed new texturing line to convert into multi-crystalline solar cells



2015-16

- Installed new process machines in the cell line for efficiency optimization

- Increased average cell efficiency to 18.3%

- Started trials for 4-bus bar cells



2016-17

- Installed new printing line with plasma-enhanced chemical vapour deposition technology, diffusion and inox machine
- Scaled capacity to 200 MW



2017-18

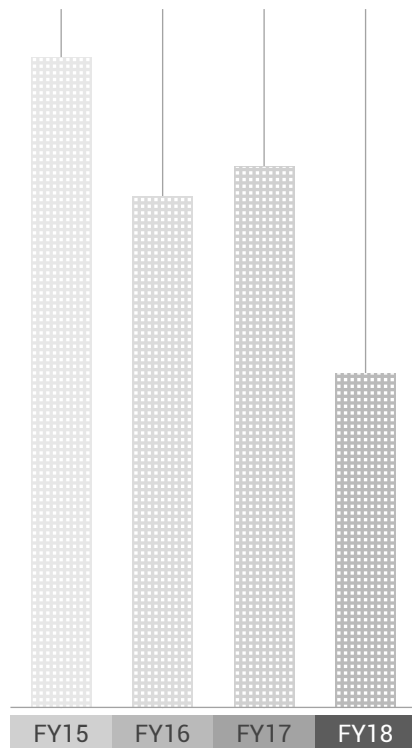
- Installed new printing line
- Started production of 5-bus bar cells cell
- Scaled capacity to 280 MW
- Converted to fully-automatic 250 MW module line production facility

Enhancing value over the years

Revenue from operations

(₹ crore)

355.75 279.70 296.08 183.27



Definition

Sales net of taxes and excise duties

Why is this measured?

It highlights the service acceptance and reach of the Company in the market

Performance

Aggregate sales was pegged at ₹183.27 crore

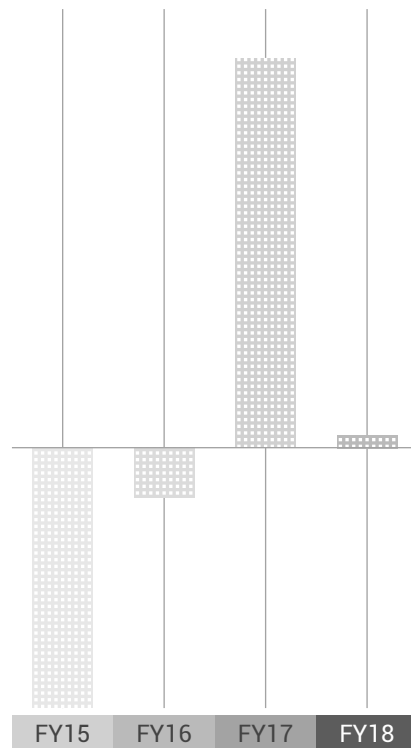
Value impact

Creates a robust growth engine on which to build profits

Profit after tax

(₹ crore)

(52.37) (9.87) 78.74 2.63



Definition

Profit earned during the year after deducting all expenses and provisions

Why is this measured?

It highlights the strength in the business model in generating value for its shareholders.

Performance

Profit after tax of the Company was pegged at ₹2.63 crore

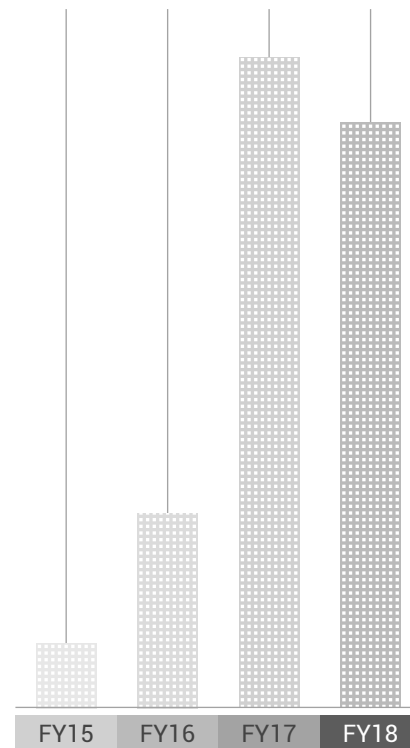
Value impact

Ensures that adequate cash is available for reinvestment and allows the Company's growth to sustain

EBITDA margin

(%)

0.01 0.03 0.10 0.09



Definition

EBITDA margin is a profitability ratio used to measure a company's pricing strategy and operating efficiency

Why is this measured?

The EBITDA margin gives an idea of how much a company earns (before accounting for interest and taxes) on each rupee of sale

Performance

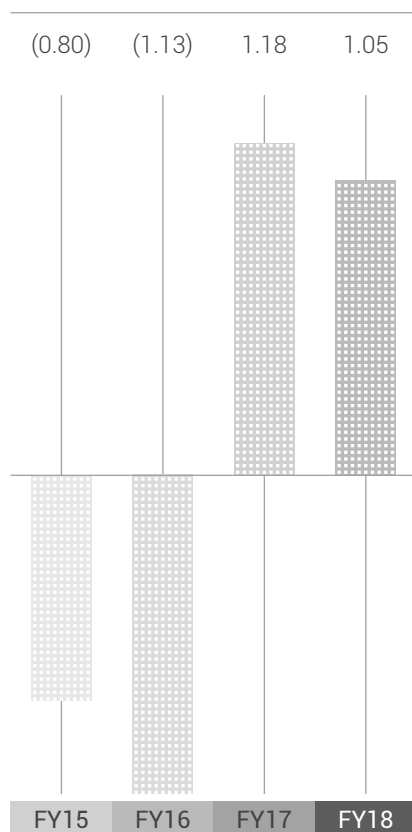
The Company reported a 1 bps decrease in EBITDA margin in FY18 while enriching its product basket with superior products and improved operating efficiency

Value impact

Demonstrates adequate buffer in the business, which, when multiplied by scale, enhances surpluses

Debt-equity ratio

(X)



Definition

This is derived through the ratio of debt to net worth (less revaluation reserves)

Why is this measured?

A measure of a company's financial health, indicating the ability of the Company to remunerate shareholders over debt providers

Performance

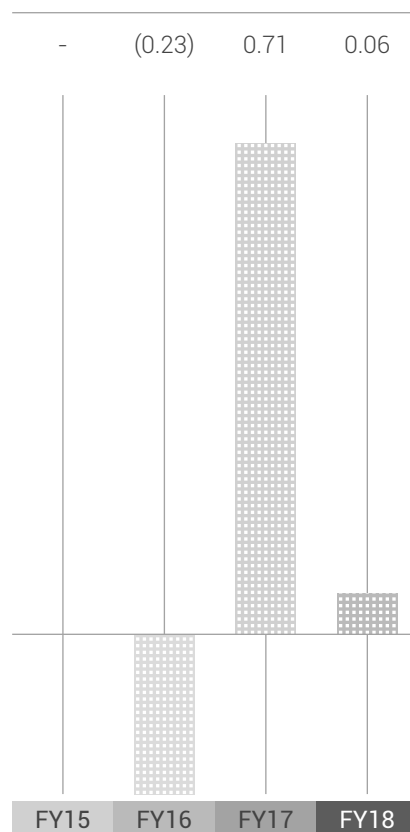
The Company's moderated its gearing from 1.18 in FY15 to 1.05 in FY18

Value impact

Enhanced shareholder value by keeping the equity side constant; enhanced flexibility in progressively moderating debt cost

ROCE

(%)



Definition

It is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed in the business

Why is this measured?

ROCE is a useful metric for comparing profitability across companies based on the amount of capital they use – especially in capital-intensive sectors

Performance

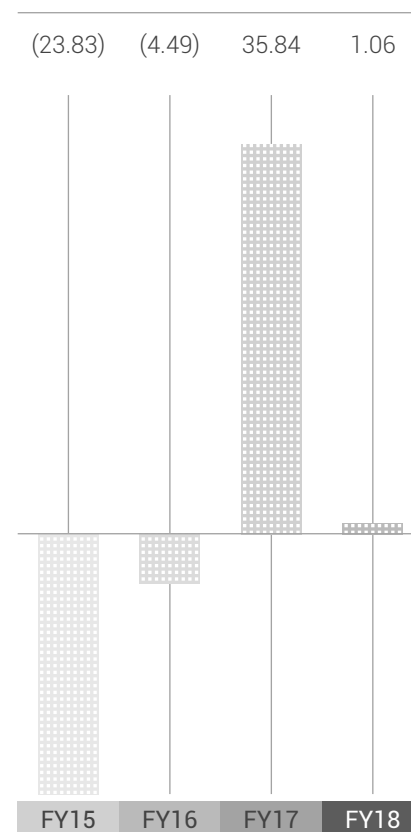
A showcase of prudently investing every rupee in profitable spaces that generate higher returns for shareholders

Value impact

Enhanced ROCE can potentially drive valuations and perception (on listing)

Earnings per share

(₹)



Definition

It is the portion of a company's profit allocated to each outstanding share of common stock

Why is this measured?

This figure depicts the actual value the Company has created for its shareholders

Performance

The Company's EPS has progressively increased from a negative of ₹(23.83) in FY15 to ₹1.06 in FY18

Value impact

Adds value at the hands of the shareholders through enhanced earnings per share

Chairman's overview

At Websol, it makes excellent sense for a company like ours to extend our focus from wholesale marketing to wholesale-cum-retail marketing.

Our engagement with a large pan-India brand is expected to kick-start our retail offtake in addition to agreeing to buy out a certain pre-agreed quantity of our offtake.



"At Websol, it makes excellent sense for a company like ours to extend our focus from wholesale marketing to wholesale-cum-retail marketing."

Sohan Lal Agarwal, Chairman and Managing Director

India is the possibly the most exciting global market for renewable energy.

I am pleased to report that the Central Government's priority in transforming the country through the planned replacement of conventional energy sources with renewable energy has translated into attractive on-ground realities.

India is adding more energy capacity through renewable energy capacity today than through conventional energy, a reality that would have been unthinkable at the turn of this decade.

India added 11,788 MW in renewable energy capacity in 2017-18 compared with 5,400 MW from conventional energy (thermal & hydro), a trend I believe will sustain year on year.

The scenario is exciting and challenging. The sectoral excitement comes from the fact that the opportunity to market solar energy cells and modules products is virtually unlimited, which indicates that selling one's output based on market appetite is likely to be the last of the challenges across the foreseeable future.

The scenario is challenging as well. Over the last few years, some of the largest Chinese manufacturers commissioned some of the world's largest solar cell and module capacities, a competitive positioning that made it possible for them to sell at progressively lower costs. As a result, there has been a virtual meltdown in realizations. This decline has made it imperative for manufacturers like us – and across the world for that matter – to match Chinese prices.

Over the last few years, Websol took a number of initiatives to strengthen its competitiveness. The

Company graduated to a superior sweating of its technologies that generated a higher energy throughput. The Company produced products that held their own against the evolving standards of the day. The Company's products were certified in line with the most demanding global accreditations. The Company marketed its products to some of the most demanding customers in the most stringent geographies.

More than everything, Websol continued to expand. A company that started out with an installed capacity of a couple of megawatts per annum has today increased its solar cell manufacturing capacity to 280 MW and increased its module manufacturing capacity from scratch to an automated line of 250 MW. I am pleased to state that a combination of relatively low Indian operating costs, coupled with the Company's culture of austerity, made it possible to expand at relatively low capital costs per megawatt.

During the year under review, Websol took this initiative a decisive step ahead. The Company expanded its solar cell manufacturing capacity from 200 MW to 280 MW and its automated module manufacturing capacity from scratch to 250 MW. The increase in the dual capacities was as critical as it was timely: the integration made it possible for us to broaden our presence from

a complete dependence on solar cells to solar modules. It empowered us to address a challenging market for solar cells by extending to value-added realizations for solar modules. The fact that the Company finished the year under review with an EBITDA of ₹23 crore is indicative of our competitiveness. As things stand, Websol is possibly among only a handful of Indian solar energy product manufacturing companies to be viable and profitable.

At Websol, we believe that competitiveness is essentially derived from responsiveness to evolving market realities. During the last year, we recognized that our long standing B2B business model, marked by competitive pricing, would need to be adapted. The Company has responded with a change in its strategic priority that we like to describe as 'retailization'. Even as one end of our downstream market comprises large solar farms that would need low cost solar cells and panels, there is a new market emerging right above our heads, so to speak. As people like you and I realize that at the affordable solar energy costs of today, it makes economic sense to invest in solar panels, generate power, connect to the grid, and sell the power to the local discom or market on the Indian Energy Exchange. The result is that solar energy infrastructure

expenditure is now being perceived as an investment with an attractive payback.

At Websol, it makes excellent sense for a company like ours to extend our focus from wholesale marketing to wholesale-cum-retail marketing. This implies that while our existing business model will continue, we will adapt it to address a large number of relatively small and retail downstream rooftop and miscellaneous applications. As things stand, there are a number of downstream users seeking to replace their reliance on high cost conventional energy with lower cost alternatives. Our objective will be to address their downstream markets to the extent that our managerial bandwidth can directly address, or enter into marketing alliances with large companies possessing extensive distribution networks. These arrangements will make it possible for companies like ours to manufacture and these large companies to promote, distribute and market our products – a win-win proposition. We also expect to take our first decisive step towards independent EPC projects that do not stretch our Balance Sheet and management bandwidth, which could widen the scope of our business and reinforce business sustainability.

What makes the Company's 'retailization' attractive is that it is extensively asset-light. Our engagement with a large pan-India brand is expected to kick-start our retail offtake in addition to agreeing to buy out a certain pre-agreed quantity of our offtake. We believe that, should these initiatives do even reasonably well, Websol's expanded capacity should be fully consumed in a couple of years. We believe that the returns should be adequate to invest in our next round of growth, strengthening business sustainability.



Operational review, 2017-18



Q: Were you pleased with the performance of the Company during the year under review?

A: There are two ways to answer this question. From one perspective, we were disappointed as the Company reported a 38.10% decline in revenue from operations and a 96.66% decline in profit after tax during the year under review. However, there is another perspective that needs to be considered: even as the year under review was one of the most challenging in recent years, marked by price volatility, Websol ran its plant right through the course of the financial year. This indicates that the Company received sustained flow orders and validated the point that the Company's competitiveness remained globally viable. Given this context, it would be reasonable to state that we were able to generate some positives from a difficult environment.

Q: What were some of the positive realities that you would point to as evidence of the Company's competitiveness?

A: Despite unpredictable business conditions, we finished the year with virtually no inventory. Even though this was a challenging year, we did not load any long-term debt to ride over, which could have compromised the integrity of our Balance Sheet. The Company did not encounter any operational loss during the financial year even as most Indian companies engaged in cell manufacture slipped deeper into the red. The Company strengthened its fundamentals through ₹23 crore in EBITDA in 2017-18.

Q: What were the various challenges that the Company encountered during the year under review?

A: The competition was principally in the form of increased dumping of solar cells and modules from Chinese competitors, resulting in a price reference for all prospective buyers in India. The global preference for solar cells accelerated from multi-crystalline technology to mono-crystalline, making it imperative to possess both products to service the needs of customers. The Company needed to engage in timely capital expenditure to create mono-crystalline capacity. The Company needed to engage in enhancing capacity during the course of the last financial year with the objective to enhance its capacity to service a larger customer appetite on the one hand and strengthen operating efficiencies on the other. The Company needed to address the reality of US