



WEBSOL ENERGY SYSTEM LIMITED

Annual Report 2018-19

Corporate Information

Board of Directors

Mr. S. L. Agarwal, *Managing Director*

Miss. S. Jhunjhunwala, *Wholetime Director & CFO*

Mr. D. Sethia, *Independent Director*

Mr. P. Kaushik, *Independent Director*

Company Secretary

Miss. Sweta Biyani

Bankers

Invent Asset Reconstruction Company Limited

Auditors

M/s T. More & Co.

Chartered Accountants

Registered Office

48, Pramatha Choudhury Sarani

Plot 849, Block P, 2nd Floor, New Alipore

Kolkata – 700 053, West Bengal, India

Phone: +91-33-2400 0419, Fax : +91-33-2400-0375

Email : websol@webelsolar.com

CIN : L29307WB1990PLC048350

Corporate Office & Plant

Sector – II, Falta Special Economic Zone, Falta,

District: South 24 Parganas, West Bengal, India

Pin – 743 504, West Bengal, India

Phone : +91-3174-222932 Fax : +91-3174-222933

Registrar & Share Transfer Agents

R&D Infotech Pvt. Ltd.

7A, Beltala Road, 1st Floor, Kolkata-700 026

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A. Industry structure and developments

GLOBAL ECONOMIC REVIEW – POCKETS OF OPPORTUNITIES IN CHALLENGING TIMES

Global economic growth remained fairly robust at 3.6% in CY2018, as against 3.8% recorded in CY2017. The growth moderation by 2 bps was primarily on account of weaker performance in the European Union (EU) and China. On the other end, economic growth sustenance for CY2018 was driven by an upsurge in spending due to tax cuts by the United States, the world's largest economy, which grew by 2.9%, equalling its decade-high growth achieved in 2015.

Global trade weakened towards the end of 2018 partly due to the impact of higher energy prices on account of sanctions imposed on Iran, and also partly due to the tariff increases in the United States and China. As the trade dispute between the two giant economies of the US and China further escalated in the beginning of 2019, global growth is estimated to have slowed down as the effects on the disruption in supply chains begins to become evident. In fact, the recent inversion of the yield curve (interest rate on 10-year US government bonds currently lower than on short-term bonds) in the United States, driven in no small measure by the trade dispute, has raised fears of the nation falling into recession late in 2019 or in 2020.

Even as this context plays-out, China is in the process of implementing a stimulus package, which is expected to shore-up its economy in the face of moderating economic growth in the region.

It is clear that a US recession would cast a pall of gloom on the global economy in terms of impacting a direct demand channel. However, recent commentary suggests a cooling-off of relations between the world's two largest economies. This bodes well for global economic growth in the near term.

INDIAN ECONOMIC OVERVIEW – AMONG THE LAST LARGE GLOBAL FRONTIER MARKETS

India is widely considered to be the next frontier of opportunity, considering a population of over 1.3 billion people, median age of below 30 years and economic growth rates that are among the fastest in the world. In this context, India's consumption potential is undoubtable.

The recent Gavekal report mentions an interest consumption categorisation of the population according to their economic profiles. It states that there are 71 million households in the emerging consumer bucket, 33 million aspiring consumers and about 18 million affluent consumers. Though these are certainly humongous population pools, they total only 120 million households, less than half the total who are economically-engaged. The report also forecasts that over the coming

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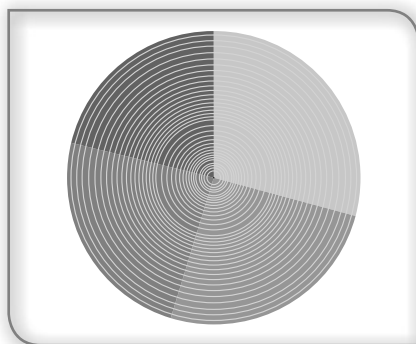
decade, the number of households in the emerging consumer bucket will double to 140 million, the aspiration consumer pool will expand three times its size to over 100 million and the affluent consumers will quadruple to 72 million. In effect, the number of households involved in the modern consumer economy will surge from 120 million to over 310 million.

With such a backdrop, the Indian economy, measured by its GDP (Gross Domestic Product), remained the fastest growing major economy in the world in CY2018. In FY2018-19, the estimated growth rate is 6.8%, driven by strong private consumption growth of over 8%.

Quarterly GDP growth breakup, 2018-19

Q1	Q2	Q3	Q4P
8%	7%	6.6%	5.8%

Source: CSO



During the year under review, the economy continued to witness an increase in investments, with GCF (Gross Fixed Capital Formation) growth at a six-year high of 10%. Furthermore, personal consumption trends remained strong, with personal credit recording a respectable 18% growth YoY, reflective of the strength of India's consumption cycle.

Outlook

The economic outlook for 2019-20 (current year) appears to be challenging, with most major institutions pegging the full fiscal year GDP growth at under 6%. The key contributing factors include the tail effects of two of the most significant reforms – financial reform in terms of demonetisation and taxation reform in terms of the introduction of the Goods and Services Tax (GST), and

the collapse of a major NBFC that ensued a liquidity squeeze and consequent risk-aversion in both lending and borrowing, impacting credit offtake. These were compounded by external issues, including the US-China trade dispute and the looming uncertainty around the terms of the United Kingdom's exit from the EU ("Brexit").

The start of the FY 2019-20 was shaky, with month-on-month personal and commercial vehicle sales declining to multi-year lows. Furthermore, GST collections, a key indicator of economic activity, also remained relatively muted in the first few months of the fiscal.

It is expected that the Indian government will come out with structural policies targetting the impacted sectors with a view to stimulate economic growth. In fact, certain announcements, including the recent roll-back of excess surcharge on FPIs (foreign portfolio investors) bode well, especially for the capital markets.

INDIA'S ENERGY SECTOR – AT THE CUSP OF TRANSFORMATION

To meet the electricity needs of 1.3 billion people in India represents an unparalleled opportunity unavailable anywhere else in the world. However, catering to this unprecedented opportunity requires the development of an efficient, coordinated, economical and robust electricity system essential for providing uninterrupted and quality power for all.

Electrification is being extended wider and deeper in the country through the support of such government schemes as the DDUGJY (Deendayal Upadhyaya Gram Jyoti Yojana) and IPDS (Integrated Power Development Scheme). Furthermore, robust government initiatives like '24x7 Power to All' households and Ujwal Discoms Assurance Yojana (UDAY) has further enhanced viability of distribution companies, enabling the last-mile delivery of economic and uninterrupted power.

It is noteworthy that India's energy sector is undergoing steady transformation, as renewables emerge to take up a larger share of the country's energy sector. This has been primarily driven by the equalisation in installation costs and, in some cases, even lower O&M (operations and maintenance) costs of renewable energy sources.

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The faster growth of renewables is also boosted by government policies, which seek to increase renewable capacity further, in line with rising pollution menace and worsening air quality in most cities, coupled with the need to increasingly harness clean and green fuels. For instance, the government approved the National Policy on Biofuels-2018, which has such anticipated outcomes as a cleaner environment, public health benefits, employment generation and boost to infrastructural investments, especially in rural areas.

As on March 31, 2019, India's total installed capacity stood at 3,56,100 MW. Thermal sources continued to have a dominant share at around 63%, followed by renewables (including large hydropower) at about 35%. Due to various challenges, the total capacity addition target for FY 2018-19 was achieved only to the extent of 73%. About 5,921 MW capacity was installed during the year, against the set target of 8,106 MW.

Country-wise power consumption ranking –India possesses significant headroom for power consumption growth

Per capita power consumption, 2016 (KWh)

USA	Germany	Russia	China	World average	Brazil	India
12,071	6,602	7,481	4,475	2,674	2,516	1,122

Analysis of difference in power consumption: USA vs India: ~11x | China vs India: ~4x | World average vs India: 2.3x

India's renewable energy sector

Rising pollution levels and global warming has made climate change a very real threat and one of the most significant issues facing the 21st century. Reversing the effects of climate change has been a central narrative of the incumbent Indian political leadership, even as the country has endorsed the Paris Agreement on Climate Change. Thrust on renewable energy, especially solar, policy initiatives to promote electric vehicles (EVs), and enforcing the implementation of BSVI vehicular emission standards by 1 April 2020 are some of the most visible initiatives of the government to fight against pollution and climate change.

Furthermore, as part of the Nationally Determined Contributions (NDC), India is steadfast to reduce the emissions intensity of its GDP by up to 35% by 2030, from the 2005-level. In this context, renewables are widely seen as key to achieve this ambition.

In a major thrust to the non-conventional energy sector, the Indian government has envisaged as much as 175 GW of energy from renewable sources by 2022 in a bid to provide clean and affordable energy to all. Notably, the target has been extended to 227 GW. Clearly, the drive towards clean energy is framed in response to strong economic growth rates that has raised the demand for energy, and to achieve neutralisation in carbon emissions as much as possible with a view to achieve sustainable growth.

The importance of renewable energy in India's total energy basket can be gauged from the fact that out of the 113 GW capacity installed over the past five years (FY14 to FY19), a majority of it was based on clean energy. It is no surprise then that renewable energy installations have expanded three-fold to over 78GW capacity as on March 31, 2019, compared with 25 GW as on March 31, 2012, constituting approximately 22% of total current generation capacity. Following the announcement to classify large hydropower projects as renewable energy sources by the government in March 2019, renewable energy constitutes 34.7% of total current generation capacity.

In India, the case for solar power is robust, considering the fact that one of the major growth drivers comprises the fact that the country has achieved grid parity in solar bids (APPC or average power purchase cost basis), which has consistently declined from Rs. 3.30 / KWh as on February 2017, to Rs. 2.48 / KWh by March 2019.

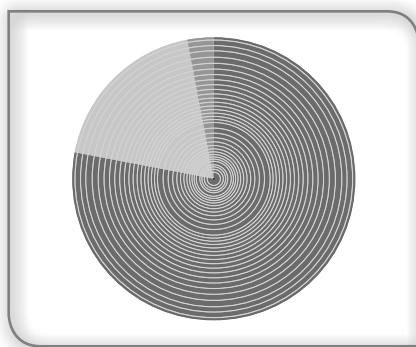
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CERC APPC –Solar bids achieve grid parity in India*

Feb-17	Oct-17	Dec-17	Apr-18	Sept-18	Feb-19
3.30	3.15	2.44	2.47	2.44	2.48

Source: MNRE

Share of renewables in power generation –A low share indicates substantial headroom for long-term growth

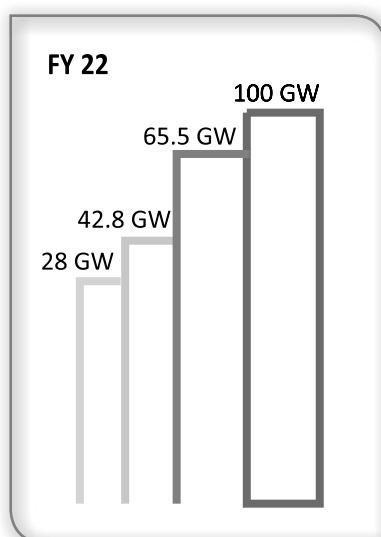


Energy source	Percentage share
Thermal	78%
Renewable, including hydropower	19%
Nuclear	3%

Projected capacity addition in the run-up to 175 GW – Accelerating YoY capacity increase

Year	Capacity
FY19	28 GW
FY20	42.8 GW
FY21	65.5 GW
FY22	100 GW

Source: CEA projections



India's solar energy sector

Among the various renewable energy resources, solar energy's potential is the highest in India. In most parts of the country, clear sunny weather is experienced 250 to 300 days a year. The annual radiation varies from 1,600 to 2,200 kWh/m², which is comparable with radiation received in the tropical and sub-tropical regions. The equivalent energy potential is about 6,000 million GWh of energy per year (Ministry of New and Renewable Energy). Furthermore, solar energy, offers significant advantage of permitting decentralised distribution of energy, thereby empowering people at the grassroots level and reaching energy to energy-starved and power-deficient regions.

With the objective to establish India as a global leader in solar energy, and by creating the policy framework conducive for enabling the effective and speedy diffusion of solar power across the country, the government launched the National Solar Mission. Moreover, the National Tariff Policy was amended in January 2011 to prescribe solar-specific RPOs(Renewable Energy Purchase Obligations) to be increased from a minimum of 0.25% in 2012 to 3% by 2022. Central and state electricity boards have issued numerous regulations, including solar RPOs, REC

framework, tariffs, grid connectivity plans, etc., for promoting solar energy. Also, many states have come up with their own policy on solar as well.

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Solar energy in India – Wide difference between potential and reality

Potential	750 GW
Installed capacity (March 2019)	26 GW

Analysis of difference in potential generation and installed capacity 726 GW

In view of the ongoing efforts of central and state governments and various agencies for promoting solar energy, the Ministry of New and Renewable Energy (MNRE) has undertaken an exercise to track and analyse issues in the fulfillment of solar power purchase obligations and implementation of Solar REC framework in India. This would go a long way to help various stakeholders to understand the challenges and opportunities in the development of solar power, thereby boosting the confidence of players, while inviting increased investments into the sector.

Factors promoting solar energy in India

Improvements in technology and efficiency, leading to decline in module prices

- Augmentation in plant design and equipment, leading to more robust generation and declining tariffs

- Lower costs encouraging increase in tender sizes and larger solar parks, providing higher scale economies

- Serious players have entered the market and helped reduce the intensity of both capital and working capital costs

- Growing state support in making land available for larger parks and also offering other incentives; special thrust also on rooftop solar power

- Improving evacuation infrastructure, enhancing the confidence of players and providing robust support

- Protected viability even in the face of declining tariffs, indicating maturity of the sector

- Non-inflationary tariff character provides incremental benefit over PPA lifecycle, while also ensuring the protection of consumer interest

Rooftop solar is yet another exciting frontier of opportunity. The share of rooftop solar is estimated at just about 14-15% of the cumulative solar installation in India. As per government data, total rooftop solar installations in the country is estimated at about 1,700 MW. The government has provided cumulative financial assistance/incentives to the tune of Rs 169.73 crore for fiscal 2017-18 and Rs 446.77 crore in fiscal 2018-19 under the Grid-Connected Rooftop Solar programme. Moreover, the government has set a target of installation of 40,000 MW of rooftop solar projects by the year 2022 in the country.

India is also gearing up to add 500 GW of renewable energy to its electricity grid by 2030 in a bid to reduce the impact of Greenhouse Gases (GHGs) in its cities. Supporting this mission is Websol, a frontline solar energy enterprise that is committed to provide clean and green solar energy for all.

Solar potential in India vis-a-vis the world –The case for solar in India, a country that stands tall in solar irradiation (kWh/m²)

India	Germany	China	USA (California)	MENA*	Mexico	Australia
2,100	1,300	1,600	2,050	2,300	2,150	2,100

*Middle East & North Africa

Source: CEA, solargis.com

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B. Opportunities and threats

Supported by its robust consumer pool, India is expected to remain as one of the fastest-growing emerging market economies in the world generating consistent growth rates. With key reforms, including the implementation of GST, adoption of inflation targeting measures, new bankruptcy code (IBC), financial inclusion, liberalisation of foreign direct investment (FDI) and measures to curb black money will help India in improving its productivity dynamics and in the achievement of sustainable growth. Enhanced spending on infrastructure, including power, quicker project implementation and continuation of structural reforms are expected to provide further impetus to growth.

On the renewable energy front, the Government of India has released its roadmap to achieve 175 GW capacity in renewable energy by 2022, which includes 100 GW of solar power and 60 GW of wind power. The government is also preparing a 'rent a roof' policy for supporting its target of generating 40 GW of power through solar rooftop projects by 2022. Further, the National Solar Mission has been launched to harness solar energy's full potential, as part of meeting the country's energy security. India has huge potential to become the leader in this area. Solar parks and solar plants are being established to ensure that solar energy reaches even the remotest corners of the country. In effect, the solar power sector is bound to play a major role in the years to come, as the country looks to meet its growing energy needs.

Furthermore, strategic policy interventions and the government's thrust to raise renewables-based power generation capacity target to 227 GW by 2022 from the initial target of 175 GW bolsters India's position as a world leader in renewables. It is also pertinent to note that the establishment and mass adoption of a low-cost and low-emission technology for power generation is not only crucial for fulfilling socio-economic development objectives, but also critical for India to deliver on its commitments under the Paris Accord.

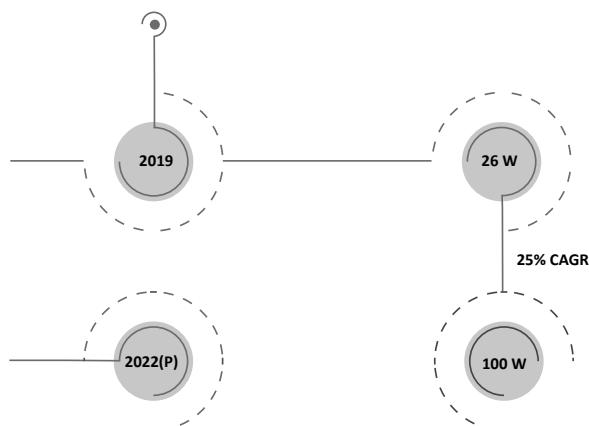
India made three primary commitments as part of the Intended Nationally Determined Contribution (INDC) to be achieved by 2030. These comprise:

- Lowering greenhouse gas emission intensity of its GDP by 33-35%
- Ensuring 40% of power generation capacity to be based on non-fossil fuels
- Creation of an additional 'carbon sink' of 2.5-3 billion tonnes of CO² equivalent by increasing the green cover

Recent government report suggests that India is on track to meet two of the three targets, i.e. target for emission-intensity of the economy and share of non-fossil fuel-based power capacity, much ahead of 2030.

Particularly in solar, recent estimates have suggested that India's solar potential is 10,000+ GW, almost five times more than the potential of wind power. To effectively capitalise on this opportunity, the central and state governments are increasingly looking beyond current programmes and policies to holistically engage with all constituents of the ecosystem.

India's solar energy ambitions – Roadmap to 2020



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As India pushes forward to achieve its solar ambitions to 100 GW, it is estimated that a mammoth USD 100 billion would be invested in the renewable energy sector.

C. Outlook

India is taking several steps to fructify its dream of a clean energy future, evident in the fact that the largest renewable capacity expansion programme in the world is being taken up by India.

Some of the key government initiatives to drive the renewable energy sector include:

● Solar Park Scheme

MNRE has come up with a scheme to set up a number of solar parks across several states, each with a capacity of almost 500 MW. The scheme proposes to offer financial support by the government to establish solar parks to facilitate the creation of infrastructure required for setting up new solar power projects in terms of allocation of land, transmission, access to roads, availability of water, etc.

● VGF (Viability Gap Funding) Scheme

VGF support will be provided for setting up of grid-connected solar PV projects of a minimum 2,000 MW capacity by solar power developers on build-own-operate basis.

● Government Yojana Solar Energy Subsidy Scheme

Under this Scheme, financial assistance and capital subsidy will be provided to the applicant to the extent of 50%, 75% and 90% of the basis cost of the solar energy plant. The Government Yojana entitles a person to a subsidy if he has solar panels installed on the rooftop. The subsidy is decided as per the capacity of the solar power plant. A benefit is that people will be able to cut down on their electricity bills.

● UDAY Scheme

UDAY or Ujjwal Discoms Assurance Yojna was launched in November 2015 as a revival package for electricity distribution companies with the idea to find permanent solar power solutions.

● Rooftop Scheme

Under the rooftop scheme executed by SECI (Solar Energy Corporation of India), 200 MW of projects has been allocated, out of which 45 MW of capacity have been commissioned. Addition to this, special schemes including 73 MW for warehouses and 50 MW for the CPWD (Central Public Works Department) have been launched.

D. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Webbsol strives to strengthen its internal control systems and processes for enabling the smooth and efficient conduct of business and also to comply with all relevant laws and regulations. Furthermore, we believe in responsible decentralisation and a comprehensive framework for delegation of power exists for ensuring smooth decision-making. Well-structured guidelines for preparation of accounts are followed for uniform compliance. Furthermore, all key functional areas are governed by respective operating manuals. In order to ensure that all systemic checks and balances are in place and all internal control systems are in order, regular internal audits are conducted by experienced firms of accountants in close co-ordination with the company's Internal Audit Department.

E. DISCUSSION ON FINANCIAL PERFORMANCE

Lacklustre demand and heightened price erosion on account of increased product dumping by China comprised the main challenges that had an adverse impact on our financial performance. The company's revenue from operations declined []% to Rs. 68.56 crore in 2018-19, from Rs. 183.27 crore in 2017-18. Other income grew by []% to Rs. 17.29 crore during the year. Lower revenues and higher fixed costs depressed EBITDA to a negative Rs. 7.29 crore, from Rs. 26.79 crore reported in the previous year. This impacted profitability, with the company slipping to a net loss of Rs. 28.90 crore in 2018-19, from

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a net profit of Rs. 1.83 crore in the previous year. Aiding by positive government policies, the company is taking a number of measures with a view to restore profitability in the near-term.

F. FINANCIAL REVIEW

Capital Structure

The equity share capital of the Company stood at Rs. 29.03 crore as on 31st March, 2019 (2,90,27,067 equity share of Rs. 10 each) compared to Rs. 26.68 crore as on 31st March, 2018 (2,66,75,733 equity share of Rs. 10 each). During the year, the Company issued 23,51,334 shares on account of conversion of FCCB loan.

Other Equity

Other equity of the Company decreased by 22.99% from Rs. 73.94 crore as on 31st March, 2018 to Rs. 56.94 crore as on 31st March, 2019. This was mainly on account of loss incurred during the year.

Debt Profile

Total long-term borrowings and deferred income stood at Rs. 60.99 crore as on 31st March, 2019, compared to Rs. 60.66 crore as on 31st March, 2018. During the year under review, the Company repaid Rs. 2.03 crore and availed fresh loan of Rs. 0.09 crore from its related parties.

Debtors' Turnover

Debtors' turnover ratio stood at 51 days during 2018-19 as compared to 43 days during 2017-18.

Inventory Turnover

Inventory turnover ratio for 2018-19 stood at 198 days as compared to 149 days during 2017-18. Increase in the inventory turnover ratio was mainly on account of large inventory in the form of modules which was not lifted by the customer. Also, raw material stock was kept for production of a big order.

Interest Coverage Ratio

Interest coverage ratio declined from 1.56 times during 2017-18 to (3.73) times during 2018-19. This was on account of loss incurred by the Company during 2018-19.

Current Ratio

Current ratio declined from 0.51 in 2017-18 to 0.44 in 2018-19.

Debt-equity ratio

Debt-equity ratio increased from 0.25 times to 0.26 times during 2018-19.

Operating Profit Margin

Operating profit margin declined from 7.29% during 2017-18 to (33.23%) during 2018-19. This was on account of loss incurred by the Company during 2018-19.

Net Profit Margin

Net profit margin declined from 2.61% during 2017-18 to (42.22%) during 2018-19. This was on account of loss incurred by the Company during 2018-19.

Return on Net Worth

Return on net worth declined from 4.75% during 2017-18 to (33.67%) during 2018-19. This was on account of loss incurred by the Company during 2018-19.