

Swelect Energy Systems

CMP : ₹380

Target price: ₹630

HP* : Upto 3 years

Our Vridhii for the month of April is Swelect Energy Systems Ltd. Swelect Energy Systems (SES) is an emerging solar products and solar projects implementing company. This company has a high potential as the key levers for its growth include shift towards renewable energy due to its cost effectiveness, government's thrust to boost solar energy adoption in the country and improving financial performance of the company.

The company currently derives 86% of its revenue from sale of solar energy systems. We expect its contribution to grow gradually as remarkable rise in exports is seen since Q1FY17. We expect that higher exports and buoyant domestic demand will augur well for the growth of the company. Hence, we recommend investors to buy this scrip and expect a return of 62% over the next three years.

Key Investment Rationale

1. Government pacing up to achieve its 40 GW rooftop solar power

In early 2015, government decided to invest \$100bn to touch 100GW solar capacity, out of which 40GW was expected from rooftop solar power. We see that government is working to achieve this target as the total solar grid capacity as of April 2017 increased from 6.6GW to 12.28GW (up by 90%). At this rate, we would be adding approximately 6.6GW per year which provides huge growth for companies dealing in solar power products. We see Swelect to benefit significantly from this. Solar power has seen dip in the costs of products as compared to thermal energy, which makes it more lucrative and beneficial for power generation companies.

2. Exports to keep momentum

During April to August 2016, the United Kingdom accounted for 36% imports of solar modules and was followed by Italy (11%) and China (10%). Swelect exports 25% of its solar modules and has high exposure to Europe. We see that the company has been able to make inroads into European markets based on competitive pricing and demand for PV. Also it was noted by Ministry of Commerce that due to pressure on tariffs, Indian developers are keep on importing cheaper Chinese modules and cells. Hence, companies like Swelect are getting support from government to export and also receiving provision for reserving some capacities for domestic modules and cells which give them assured market. We expect the company to derive 40% of its revenue from exports in upcoming 2-3 years.

3. Expansion plans

The company plans to construct many more energy parks in the near future, like the one it has designed and installed in Tamil Nadu. This

Company Details

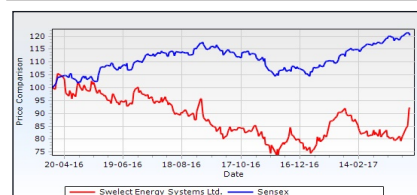
Industry	Electronics - Components
Chairman	VM Sivasubramaniam
Managing Director	R Chellappan
Company Secretary	R Sathishkumar
BSE Code	532051

Key Market Indicators (Standalone)

Latest Date	07-Apr-2017
Latest Price (Rs)	386.35
Previous Close (Rs)	385.75
1 Day Price Var%	0.16
1 Year Price Var%	-6.18
52 Week High (Rs)	483.80
52 Week Low (Rs)	295.00
Beta	0.43
Face Value (Rs)	10.00
Industry PE	14.04
TTM Period	201612
TTM EPS(Rs)	21.12
TTM CEPS(Rs)	31.10
Price/TTM CEPS(x)	12.42
TTM PE (x)	18.30
Price/BV(x)	0.61
EV/TTM EBIDTA(x)	10.33
EV/TTM Sales(x)	4.06
Dividend Yield%	1.04
MCap/TTM Sales(x)	3.71
Latest Book Value (Rs)	636.17
Market Cap (Rs. In Cr.)	390.44
EV (Rs. In Crores)	426.88
Latest no. of shares (In Cr.)	1.01

Share Holding Pattern as on 201612

Promoter No of shares (In Cr.)	0.65
Promoter %	64.21
FII No of Shares (In Cr.)	
FII %	
Total No of Shares (In Cr.)	1.01
Free Float %	35.79



would definitely help in boosting its revenue base. Due to its high power generating capacities, the addition of more such parks would strengthen the position of the company in the solar power energy market.

4. Improving financial performance

A good revival in the financials was observed from the beginning of FY17. Revenue in Q1FY17 increased by 97%, as compared to the last quarter of FY16. This was majorly due to rise in the exports. Its PAT increased from Rs 1.33cr to Rs 22.26 cr in FY16. PAT margin ballooned to 16.91% in Q3FY17 from 8.87% in Q3FY16. It has PAT margin of 35.97% which is better as compared to its peers.

Valuation & Outlook

The company is trading at TTM P/E of 18.30 on TTM EPS of Rs 21.21. EV/TTM EBITDA is 10.33x as against 8.78x in FY16. The company's standalone debt-equity ratio was 0.12x in FY16. Its ROE and ROCE was 1.68% and 2.20%, respectively, and ROA improved to 3% as against 0.16% in FY16.

We expect the ROE to pick up in the upcoming years with growth in exports leading to better margins. We expect estimated revenue growth at a CAGR of 25% YoY on hopes of higher revenues from solar energy systems due to expansion plans and rise in exports. Thus, we expect to see an upside of 62% in the market price of the scrip.

Scope of solar sector in India and role of government

With stress being laid across the globe on renewable energy, we see it as a growth area. Solar power has seen a dip in cost of production as against thermal energy, which makes it more lucrative and beneficial for power generation companies.

The Government of India has ambitious plan to double up the solar power generation capacity to 40,000 megawatts (MW) by fiscal 2020. It also aims for the Indian companies to attract investment of more than \$ 100 bn in this sector by setting up 25 solar parks, including huge projects of 500 MW or more.

Swelect aims to boost its installed photovoltaic (PV) power generation capacity to 1000 MW by 2020. In terms of power generation and electrification, starting with only 1500 (0.25%) electrified villages today, the government has managed to pull electricity wires to 586,506 (98.1%) villages. A notable contribution was made by the company towards electrification.

Given the government's efforts towards increasing investments in solar power projects, Swelect is well-placed to take advantage of the same as a channel partner of MNRE and would now be able to accelerate the growth of its business in the green energy space of solar and wind energy. We believe that being the fifth largest manufacturer of photovoltaic cells, the company is expected to be a key beneficiary of the growing prospects of the industry.

Expansion plans

The company plans to construct many more energy parks in near future like the one it has designed and installed in Tamil Nadu. An investment of Rs 110 cr was made in the development of the aforesaid solar energy

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Government's aim to double up solar power generation capacity beneficial to the company”

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Solar farm setup in North Carolina, US - an upcoming expansion plan to generate revenue”

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Exports expected to rise in US & Europe market”

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Fifth largest manufacturer of Photovaltaic (PV) cells”

park. It is currently in the process of developing a 20 MW PSV farm and several corporate SPV projects. Recently, a 100 kWp floating solar PV plant, the largest of its kind in India, was installed by Swelect in a short span of 22 days at Kayamkulam in Kerala.

Also, the company is planning to invest more than \$ 4.7 million to build a manufacturing site and adjacent solar farm, over the upcoming five years in Halifax country, North Carolina. With this, Swelect has managed to make a remarkable entry in the US market.

This would definitely boost up its revenue base. Due to its high power generating capacities, the addition of more such parks would strengthen the position of the company in the solar power energy market.

Rise in exports

A significant increase in exports of solar modules was witnessed in India during the period of April to July 2016. Currently, 25% of the revenue is generated from exports. Last year, the company had entered into an agreement with a Germany-based company, which resulted in grabbing a substantial market share in Europe. This shows that the company has been able to carve out a niche for itself in the US and European markets. Looking at these bright prospects, we expect the company to increase its exports up to 40-45% in the upcoming 2-3 years.

Risks & Challenges

The drop in crude oil prices was posing a momentary delay in adoption of solar power. Also, the fluctuations in foreign exchange was posing an increase in the imported raw material costs. Entry of small-time and unorganised players from overseas with short-term business vision are posing a threat to the industry, with substandard quality of products and project execution.

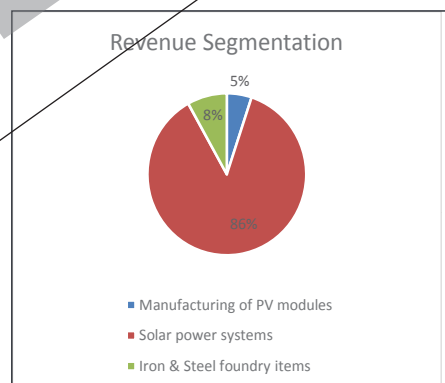
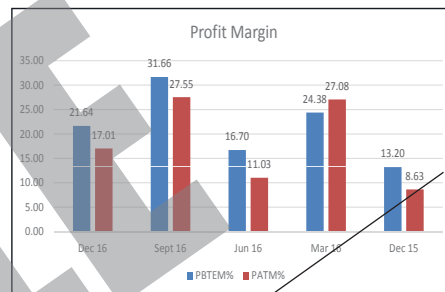
Financial Performance

The company's revenue upto Dec 16 was Rs 87.62, as against Rs 38.71 on YoY basis. Its PAT margin came down to 17.99% cumulative of nine months of FY17 from 40.27% as compared to cumulative nine months of FY16. Also, PAT margin in Q3FY17 was 16.91% which has increased by 90.64% on a YoY basis.

TTM Revenue is Rs 109.31 cr. TTM operating profit & TTM net profit is Rs 2.59 cr & Rs 21.34 cr. Also, TTM operating profit margin is 4.03% and TTM net profit margin is 19.5.

About the company

Swelect Energy Systems Ltd, known as Numeric Power Systems Ltd before 2012, has a strong background of 30 years of power electronics and power systems. It mainly operates in three major segments, namely, manufacturing of solar PV modules, solar inverters and mounting structures (5%), solar power generation and systems integration (86%), and iron and steel foundry products (8%). For its international operations, the company operates through its wholly-owned subsidiary in Singapore. Swelect has earned a name in the solar energy space within a short span of time as a complete products company and a leading photovoltaic (PV) project implementer. It has installed and commissioned over 40 MW of solar power generation systems with over 1700 installations for industrial rooftops and other corporate customers.



Inc/Exp Statement(Standalone)(Rs in Crore)					
Description	201603	201503	201403	201303	201203
Net Sales	61.26	48.33	50.82	105.50	534.64
Total Income	99.35	73.12	80.18	152.79	539.94
Total Expenditure	49.46	48.74	49.50	110.64	487.10
PBIDT	49.89	24.38	30.68	42.15	52.84
PAT	22.26	1.33	24.95	510.80	34.63
Dividend %	40.00	25.00	90.00	1280.00	30.00
Adj. EPS(Rs)	22.02	1.32	24.68	505.45	34.27

Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	201612	201609	Q on Q Var%	201512	Y on Y Var%
Net Sales	27.08	26.86	0.79	30.10	-10.03
Total Expenditure	27.71	27.25	1.69	28.93	-4.20
PBIDT (Excl OI)	0.52	0.72	-28.87	2.06	-75.00
PAT	4.79	7.71	-37.84	2.77	73.27
PBIDTM% (Excl OI)	1.84	2.59	-28.96	6.61	-72.16
PBIDTM%	35.55	46.18	-23.02	31.51	12.82
PATM%	16.91	27.55	-38.62	8.87	90.64
Adj. EPS(Rs)	4.74	7.63	-37.88	2.74	72.99