Veer Energy Limited (BOM – 503657)

Last Price (12/4)  Market Cap  Industry  Dividend Yield (%)  Return on Equity  Price Target (FY19)
40.1 INR  44 INR Crore  Renewables  -  2.4%  Rs.57

Relative Valuations

<table>
<thead>
<tr>
<th></th>
<th>NFL</th>
<th>Sector</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted P/E</td>
<td>29x</td>
<td>18x</td>
<td>27x</td>
</tr>
<tr>
<td>Forward P/E</td>
<td>14x</td>
<td>12x</td>
<td>22x</td>
</tr>
<tr>
<td>EV/ EBITDA</td>
<td>19x</td>
<td>13x</td>
<td>15x</td>
</tr>
<tr>
<td>P/CF</td>
<td>14x</td>
<td>12x</td>
<td>10x</td>
</tr>
</tbody>
</table>

Source: Imperative Estimates, Bloomberg

Veer Energy’s Foray into Solar, Government’s Policy Helping Revival of the Company

Augmenting capacities, Margins

Veer Energy has seen strong pick up in order book and expected to see translation into execution in second half of FY18 and beyond. The company has forayed into solar roof tops along with wind and hybrid power plants. It has completed wind energy projects totaling 250 MW with another 40 MW projects under development from an acquisition of land to operation and maintenance. Its major clients include Suzlon, Gamesa, ReGen Powertech, Elecon Engineering.

Veer Energy is currently having a total order book of 99 MW with a pending order value of Rs.133 crores (7x of FY17 turnover) to be executed latest by March 2019. The company can augment its existing capacity for development and maintenance contracts by ~50 MW as and when a new hybrid wind-solar policy is implemented.

Buy-side:

- Fresh infusion of funds, built up of order book, hybrid Solar-Wind policy to help in increasing MW under execution and management
- Foray into solar power projects
- Pricing clarity, quick state level implementation can provide further boost and revenue visibility
- Strong clientele provide opportunity to expand execution capacity

Sell-side:

- Relatively small size
- Any change in government policy and initiatives
- Fluctuating operating performance

Revival of projects

Veer Energy has seen relatively weaker performance in the recent quarters largely due to declining prices of per unit of power from wind energy. However, prices have largely bottomed out for Wind and Solar inviting fresh set of investments from corporates and power companies in order to garner strong RoI.

We are expecting Veer to manage around 60% and 25% in FY18 and FY19 respectively. With the net profit margins of low double digits. We are giving a target of Rs.57 with an implied one year forward price to earnings ratio of 16x in FY19 amidst strong order book and execution.
Veer Gearing Up with Strong Built Up in Order Book

Solar picks up

Veer Energy is having a strong order book of 99 MW carrying a total order value of Rs.164 crores. Out of this, the company is yet to implement work valued at Rs.133 crores. Out of this, 20 MW worth solar project valued at Rs.80 crores is expected to be completed by March 2019 subject to government approvals, policy clarity, and signing of power purchase agreements or PPA.

Veer is also implementing 27 MW wind power project at Bhavnagar, Gujarat, valued at Rs.15 crores out of which Rs.12 crore work is already commissioned and another Rs.3 crores is expected to be completed in the current financial year. The company is having a land bank of 200 acres in Kutch, Gujarat where it is in conversations with prospective clients for development of solar power plant up to 40 MW.

Veer has made a strong foray into solar roof tops and has bagged an order of solar roof top with net metering technology valued at Rs.15 crores to be completed by March 2018. Execution of solar roof tops, hybrid projects, grid based solar projects will provide huge impetus to the company’s growth in the upcoming years.

<table>
<thead>
<tr>
<th>Order description</th>
<th>Quantity (MW)</th>
<th>Total Order value (Rs. Crore)</th>
<th>Pending Order Value (Rs. Crore)</th>
<th>Expected Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind farm in Bhavnagar, Gujarat</td>
<td>27.3</td>
<td>15.1</td>
<td>3.00</td>
<td>December, 2017</td>
</tr>
<tr>
<td>Wind farm in Shiv, Rajasthan</td>
<td>30</td>
<td>38.34</td>
<td>38.34</td>
<td>June, 2017</td>
</tr>
<tr>
<td>Hybrid farm in Dhule, Maharashtra</td>
<td>10</td>
<td>12.95</td>
<td>12.95</td>
<td>March, 2018</td>
</tr>
<tr>
<td>Wind farm in Jamnagar, Gujarat</td>
<td>8.18</td>
<td>3.01</td>
<td>1.00</td>
<td>September, 2018</td>
</tr>
<tr>
<td>* Rooftop Solar by Net Metering Technology</td>
<td>3</td>
<td>15</td>
<td>15</td>
<td>March, 2018</td>
</tr>
<tr>
<td>* Grid based Solar Project</td>
<td>20</td>
<td>80</td>
<td>80</td>
<td>March, 2019</td>
</tr>
<tr>
<td>Total</td>
<td>99</td>
<td>164</td>
<td>133</td>
<td></td>
</tr>
</tbody>
</table>

**Solar roof top project and hybrid power plants to populate order book in the upcoming quarters**

Rooftops

Veer has made a strong foray into solar roof tops and has bagged an order of solar roof top with net metering technology valued at Rs.15 crores to be completed by March 2018. Execution of solar roof tops, hybrid projects, grid based solar projects will provide huge impetus to the company’s growth in the upcoming years.
How Net Metering and Panel Technology to Boost Sector Growth

Net Metering Technology

The solar sector has witnessed reduced photovoltaic costs as production garners operating efficiency through economies of scale and technology upgrades. Introduction of net metering has allowed a big push in residential and commercial deployment of solar power.

Net Metering is the process through owner of solar facility can take credit of surplus power produced by diverting the same to nearest grid or utility company. The technology has allowed commercial and residential deployments to go for maximum possible production capacity through solar power in order to take advantage of higher return on investments.

Net Metering, lower cost of panel has generated scope for immense penetration in captive, residential and commercial installation of solar roof top space. The pay back period of the technology is as high as 5 years with an implied compounded annual growth rate or CAGR of above 15%.

Going the hybrid way

Ministry of New and Renewable Energy (MNRE) has unveiled largely awaited draft policy for setting up of hybrid Wind-Solar power plants with a targeted capacity of 10 GW by 2022. Hybridization of both the sources would help in complementing each other, garner higher PLFs, as well as reduce the cost through optimal utilization of land and transmission system.

Hybrid plants increase the PLFs in line with conventional sources of power, a major constraint when targeting full-fledged renewable power sources.

New wind power capacity generation has relatively higher scope of entering into the hybrid model due to technical requirements. However, existing plants can also be evaluated for the same. Recently, Government has announced Rs.11,000 crore package for domestic solar panel manufacturing in a bid to reduce costs of input.
**GoI Targeting 40% Power from Renewable by 2022**

India's generates 17.4% of its current ~329 GW installed capacity, forming ~57.3 GW, through renewable energy. Out of the total, Wind power contributes an installed capacity of 27.4 GW and solar contributes 8.1 GW. The GoI has set an ambitious target of achieving renewable power installed capacity of 175 GW by 2022, meeting ~40% of the nation's power demand. The target is in line with renewable power contribution of many developed countries including Germany, Denmark, Ireland.

The government is targeting almost 12 times growth in solar power to 100 GW, more than doubling of wind power generation capacity to 60 GW, another 10 GW and 5 GW through biomass power and small hydro power.

**India's Targeted Capacities by 2022 (GW)**

<table>
<thead>
<tr>
<th>Technology</th>
<th>FY17A</th>
<th>FY22E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind</td>
<td>32</td>
<td>60</td>
</tr>
<tr>
<td>Solar</td>
<td>10</td>
<td>60</td>
</tr>
<tr>
<td>Solar Roofop</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Biomass</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Hydro</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

*Source: MNRE*

**Aggressive targets to drive 25%-30% CAGR growth in the Solar Sector and 15%-18% growth in the Wind sector**

**40% of the total energy needs through renewable space by 2022 has attracted huge capital from overseas in form of acquisitions, investment funds**

**Huge shift of renewable sources from being deployed largely towards captive consumption to major contributor towards holistic power needs of the nation**

**Policy, pricing driving factors**

India's renewable sector has seen mixed growth patterns over the past few years mainly due to draft policies on the tariff, a convergence of solar and wind tariffs, advancement of technology in both wind and solar power generation. The current technology of PV panels, higher capacity turbines has allowed plants to generate wind power at Rs.3.5-Rs3.9 per unit and solar power generation at Rs.2.5-Rs3.5 per unit.

**Red carpet for foreign investors**

The favorable FDI policy with investments upto 100%, draft for hybrid solar-wind power plants, technology and policies driving higher PLFs and capacities, shifting of the industry from more of captive generation option towards power generation business has allowed the government to receive investment commitments of more than $300 billion from more than 270 domestic as well as global companies for adding 266 GW of renewable power over the next 5-10 years.
Valuations

GoI’s renewable energy policy and initiatives for substantial contribution from non-conventional sources, stress on solar captive consumption and panel manufacturing will help overall growth of the sector.

Veer Energy has seen fluctuating operating performance in the recent quarters largely due to declining prices per unit of power in wind energy. However, prices have largely bottomed out and there is strong growth in order book.

On FY18 earnings expectation, Veer is trading at a price to earnings multiple of 13.8x compared to industry averages of 12x, reflecting marginally higher valuation amid strong growth prospects. We have given a price target of Rs.57 with an implied price to earnings ratio of 16x by FY19.
### Projected Financials

**Veer’s Projected Revenue and Profitability**

*(All figures in INR Crores unless stated otherwise)*

<table>
<thead>
<tr>
<th></th>
<th>FY15A</th>
<th>FY16A</th>
<th>FY17A</th>
<th>FY18E</th>
<th>FY19P</th>
<th>FY20P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from operations</td>
<td>47.9</td>
<td>49.1</td>
<td>18.9</td>
<td>29.0</td>
<td>36.0</td>
<td>52.0</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>40.0</td>
<td>43.2</td>
<td>14.0</td>
<td>20.6</td>
<td>25.7</td>
<td>37.8</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>7.9</td>
<td>5.9</td>
<td>4.9</td>
<td>8.4</td>
<td>10.3</td>
<td>14.2</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>4.0</td>
<td>2.7</td>
<td>2.4</td>
<td>3.7</td>
<td>4.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>3.9</td>
<td>3.2</td>
<td>2.5</td>
<td>4.7</td>
<td>5.7</td>
<td>7.6</td>
</tr>
<tr>
<td>Financial Expenses</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1.0</td>
<td>0.9</td>
<td>1.0</td>
<td>1.0</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Profit After Tax (PAT)</td>
<td>1.9</td>
<td>1.5</td>
<td>1.2</td>
<td>3.2</td>
<td>3.8</td>
<td>5.4</td>
</tr>
<tr>
<td>EPS (Rs.)</td>
<td>0.3</td>
<td>2.1</td>
<td>1.5</td>
<td>4.1</td>
<td>4.9</td>
<td>6.9</td>
</tr>
<tr>
<td>Face Value</td>
<td>Rs.1</td>
<td>Rs.10</td>
<td>Rs.10</td>
<td>Rs.10</td>
<td>Rs.10</td>
<td>Rs.10</td>
</tr>
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Investment Imperative | Equity Research Report as of January 18, 2018

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