Zodiac Energy Limited

December 03, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	103.00	CARE BBB-; Stable	Assigned
Long Term / Short Term Bank Facilities	7.00	CARE BBB-; Stable / CARE A3	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Zodiac Energy Limited (ZEL) derives strength from its experienced promoters with established track record of execution of solar power projects on Engineering, Procurement and Engineering (EPC) basis, healthy orderbook position, growing scale of operations coupled with improvement in profitability margins and adequate liquidity.
The ratings also take cognisance of low implementation risk associated with project awarded under KUSUM scheme as an Independent Power Producer (IPP) and long-term revenue visibility on account of power purchase agreements (PPAs) with Uttar Gujarat Vij Company Limited (UGVCL; CARE AA; Positive / CARE A1+) for a tenor of 25 years for the entire capacity being generated by the project.

The above rating strengths are however, partially offset by moderate financial risk profile, working capital intensive of the operations, susceptibility of profit margins to volatility in solar module prices, absence of price escalation clause in the contracts and ZEL's presence in fragmented and competitive industry with limited bargaining power. The ratings also factors risk related to timely receipt of government grant and achievement of envisaged PLF levels for the project being developed as an IPP by ZEL.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in its total operating income (TOI) above Rs.500 crore with scaling-up of existing solar EPC operations and profitability above 10% on a sustained basis.
- Improvement in overall gearing below unity and TD/GCA below 5 times on a sustained basis

Negative factors

- Decline in TOI below Rs.175 crore and profitability below present level.
- Delay in receipt of government grant for the project being developed as an IPP under PM Kusum Scheme
- Non-achievement of envisaged PLF levels or delay in receipt of funds by more than 30 days from the counterparty i.e. UGVCL during the projected period
- Higher than envisaged availment of debt leading to moderation in overall gearing.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects CARE Ratings' expectation that ZEL shall continue to benefit from the extensive experience of its promoters, healthy order book and long-term PPA in place with strong counterparty, UGVCL for the project being developed by ZEL as an Independent Power Producer (IPP)

Detailed description of key rating drivers:

Key strengths

Growing scale of operations with healthy revenue visibility in the medium term

ZEL's TOI grew at a compounded annual growth rate (CAGR) of around 34% over past 5 years ended FY24. On a y-o-y basis, ZEL's TOI grew by 60% to Rs.220 crore in FY24 (FY23: Rs.137.66 crore) backed by healthy orderbook execution. The growth momentum is expected to continue in the near term backed by its healthy orderbook of Rs.430 crore as on October 31, 2024, translating into revenue visibility of 1.95x of FY24 TOI to be executed within next 6-12 months.
During H1FY25 (Provisional), ZEL has reported TOI of Rs.132.10 crore. Considering execution of the projects is skewed in the second half of the financial year, CARE Ratings expects ZEL to achieve TOI of ~Rs.300 crore during FY25.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Improvement in profit margins

ZEL's PBILDT remained moderate in the range of 5.45 - 7.20% during last four years ended on FY23. The PBILDT margin, however improved by 321 bps y-o-y to 8.66% in FY24 (FY23: 5.45%) with stabilization of solar module prices and execution of better margin projects. Consequently, the PAT margins of the company improved to 4.98% during FY24 (FY23: 2.32%).
During H1FY25, ZEL reported PBILDT margin of 7.21% (H1FY24: 8.37%) and the same is expected to improve during H2FY25 with improvement in execution pace on account of better absorption of fixed cost due to economies of scale.

Experienced promoters with demonstrated track record of operations in solar EPC segment

Promoted and managed by Mr. Kunj Shah, ZEL has an established track record of more than three decades in in design, supply, installation, testing, commissioning and operational and maintenance of solar power assets on EPC basis. Mr. Kunj Shah looks after the overall business and is responsible for strategy and planning, finance, investments and operations. He is ably supported by experienced professionals to look after the day-to-day operations of the company.

Low implementation risk associated with the project awarded to ZEL under PM-KUSUM scheme

ZEL has been awarded a project for development of 37.52 MW (DC capacity; AC capacity: 27.26 MW) across 12 sites in Gujarat under KUSUM-Component C scheme through RESCO model. The total estimated cost of the project is around Rs.143 crore, envisaged to funded by term loan of Rs.100.45 crore, fresh equity of Rs.30 crore and balance through internal accruals.
As on October 31, 2024, ZEL has incurred Rs. 74.81 crore which is funded though infusion of fresh equity through Qualified Istitutional Placement (QIP) of Rs. 28.8 crore and term loan of Rs. 46 crore. The project is in advanced stage of completion with 7 sites being completely developed (currently under testing and approvals phase), while rest 5 sites are expected to be completed by the end of March 2025.
CARE Ratings expects the project to generate revenue from FY26 onwards backed by its power off-take agreement with UGVCL for a period of 25 years at a tariff rate of Rs.3/kwh.

Key weaknesses

Moderate Financial Risk profile

The capital structure of ZEL is moderate marked by overall gearing and Total outside liabilities by Tangible networth (TOL/TNW) of 0.86x (PY: 1.27x) and 1.43x (PY:1.63x) respectively as on March 31, 2024. The improvement in overall gearing is attributable to healthy accretion of profits to reserves and reduction in utilisation of working capital limits as on balance sheet date. With growth in scale of operations and improvement in the profitability, the debt coverage indicators marked by PBILDT interest coverage and TD/GCA also improved to 4.32x (FY23: 2.36x) and 3.48x (FY23: 11.76x), respectively during FY24.
However, CARE Ratings expects the financial risk profile of the company to moderate as on FY25-end, owing to availment of term debt of Rs.100.45 crore for execution of the project awarded under PM-KUSUM scheme.

Working capital intensive nature of operations

Gross current asset (GCA) days and debtor days remained elongated at 177 days (FY23:235 days) and 106 days (FY23: 104 days) respectively, during FY24 contributing to high working capital requirement. Skewed execution and billing at the end of the quarter, have led to in high receivables as on the balance sheet date. Working capital intensive nature of operations are funded by creditors and working capital bank borrowing. Effective management of working capital to ensure timely project execution is critical from the rating perspective.

Scalability risk associated with the project executed by the company as an IPP

ZEL is currently developing solar power assets at 12 sites in Gujarat as an Independent Power Producer (IPP). Though the execution of solar power plants is at advanced stage of completion, generation of power at envisaged PLF from all the sites shall remain a key monitorable. Since tariff rate is fixed for the entire tenor of 25 years, lower generation of power due to adverse weather conditions and/or equipment quality may impact the cash flows and debt servicing ability of the company.
Furthermore, the company is expected to receive government grant equivalent to Rs. 1.05 crore/ MW of installed AC capacity for the project amounting to Rs.28.62 crore. Timely receipt of government grant without exhibiting pressure on the EPC operations of the company for debt servicing of the project shall remain crucial from credit perspective.

Intense competition and susceptibility of profitability to volatility in solar module prices

ZEL is a mid-sized solar EPC player and faces stiff competition from several established players in the industry. The EPC contracts are fixed price contracts to be executed in a timeframe of 6-12 months, hence there in no price escalation clause in any of the contracts awarded to the company. In absence of price escalation clause, the profitability of ZEL remains exposed to volatility in the prices of solar cells and modules, though short tenure nature of contracts along with back-to-back procurement of solar modules mitigates this risk to an extent.

Liquidity: Adequate

Liquidity position of ZEL is adequate marked by sufficient GCA in the range of Rs.15-30 crore vis a vis its scheduled term debt obligations of ~Rs.2.00 - Rs.6.50 crore during FY25-FY27. The average utilization of fund-based working capital limits (FBWC) was 87% for the last 12 months ended October 2024. Furthermore, enhanced fund based working capital limit of Rs. 10 crore, shall aid the liquidity cushion of the company. ZEL reported cash flow from operations of Rs. 12.28 crore in FY24 (PY: -ve Rs. 23 crore).

ZEL has free cash and bank balance i.e. Rs.1.57 crore as on March 31, 2024. Furthermore, for project under PM KUSUM scheme, the company is expected to maintain FDR of ~Rs.5.60 crore (Rs.3.10 crore of FD's with SBI is already created) with the lenders, equivalent to ~6 months of debt servicing requirement (Principal + interest), providing cushion to the liquidity of the company.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Infrastructure Sector Ratings
Solar Power Projects
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

Incorporated in May 1992, Ahmedabad based, Zodiac Energy Limited [ZEL; erstwhile Zodiac Genset Private Limited] has a track record of more than a decade in providing end to end services including design, supply, installation, testing, commissioning and operational and maintenance of solar power assets on Engineering, Procurement and Construction (EPC) basis**.** ZEL got listed on NSE SME platform in 2017 and subsequently on the main board of NSE and BSE in 2021.

ZEL executes residential, commercial & industrial rooftop and ground mounted solar power projects for non-corporate and corporate clients across 15+ states in India. Till date, ZEL has installed 130+ MW of solar projects for more than 12,000 clients.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	137.66	220.15	132.10
PBILDT	7.50	19.06	9.53
PAT	3.19	10.97	4.82
Overall gearing (times)	1.27	0.86	NA
Interest coverage (times)	2.36	4.32	4.41

A: Audited UA: Unaudited; NA: Not available, Note: these are latest available financial results

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	2.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	30-04-2043	100.45	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	0.55	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	7.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB-; Stable				
2	Fund-based - LT-Term Loan	LT	100.45	CARE BBB-; Stable				
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	7.00	CARE BBB-; Stable / CARE A3				
4	Fund-based - LT-Working Capital Limits	LT	0.55	CARE BBB-; Stable				

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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