

November 18, 2024

Gensol Engineering Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based term loan	-	675.0	[ICRA]BBB- (Stable); assigned
Long term - Fund based cash credit	40.0	718.5	[ICRA]BBB- (Stable); reaffirmed and assigned for enhanced amount
Long term and short term - Non fund based - BG	-	406.5	[ICRA]BBB- (Stable)/ [ICRA]A3; assigned
Long term and short term - BG (Sub-limit of CC limit)	(25.0)	(51.3)	[ICRA]BBB- (Stable)/ [ICRA]A3; reaffirmed and assigned for enhanced amount
Long term - Fund based - Proposed	60.0	-	-
Total	100.0	1,800.0	

*Instrument details are provided in Annexure-I

Rationale

To arrive at the ratings, ICRA has considered the consolidated financials of Gensol Engineering Limited (GEL) and its wholly owned subsidiaries, referred to as the Group (details given in Annexure II).

The assigned ratings factor in the established track record of GEL in the solar engineering procurement construction (EPC) business wherein the company has successfully executed rooftop, ground-mounted and floating solar projects totalling a capacity of more than 770 MW till date. GEL has exhibited healthy growth in its revenues and profitability over the last two fiscals as well as in H1 FY2025. The operating income increased to Rs. 963 crore in FY2024 from Rs. 398 crore in FY2023 and further to Rs. 709 crore in H1 FY2025 against Rs. 477 crore in H1 FY2024, along with an expansion in the profitability margins.

At present, the company has a healthy order book of around Rs. 5,200 crore in the EPC business with an order book to operating income ratio of more than three times, which provides sufficient revenue visibility over the next 12-18 months. Its order book is moderately diversified as it has EPC orders for both solar and battery energy storage projects that will be implemented across various states in India as well as in the United Arab Emirates (UAE). The company has a reputed customer base for the current EPC order book comprising majorly of government/semi-government and reputed private party players and there is a track record of timely payment of bills from them, which largely mitigates the counterparty risk.

The company has established its presence in the electric vehicle (EV) segment through its EV leasing business with a track record of timely receipt of lease rentals from Blu-Smart group entities (Blu-Smart) and other reputed customers such as public sector undertakings (PSUs), logistics companies and e-commerce businesses. The company has also recently diversified into the manufacturing of electric vehicles and has set up a facility in Pune for developing two-seater EV fleet cars and EV cargo targeted at the ride-hailing market and the logistics sector, for which it has already received approval from the Automotive Research Association of India (ARAI).

The ratings also positively factor in the recent steps taken by the management to raise fresh equity through a preferential allotment of ~Rs. 540 crore, proceeds from which would be used to partly reduce the debt, strengthen the liquidity and meet the working capital requirements. A major share of this equity is expected to be infused within FY2025 (~Rs. 145 crore already infused till H1 FY2025).

The ratings are, however, constrained by exposure of the business to intense competition in the EPC business and the fixed price nature of the EPC contracts which exposes it to volatility in raw material prices of components such as solar modules and

batteries. Any adverse variation in raw material prices could impact the company's profitability margins as the EPC business is the largest contributor to the revenue and profitability of GEL at a consolidated level. Further, most of the large projects of the company in the current order book are in their nascent stages of operations, exposing it to project execution risk. Also, the company's track record in executing the large orders on time will remain a credit monitorable.

ICRA also notes that for its EV manufacturing business, a significant amount of investment would be required in the initial years to fund the project cost as well as the initial operating losses, before the offtake for the new cars being developed begins and the business gets stabilised.

The ratings also factor in the moderate financial risk profile of the company, reflected in the high leverage with a total debt/tangible networth of 4.8x and total debt/operating profit of 6.6x in FY2024. The debt coverage metrics have also been moderate with interest coverage ratio of 2.1x in FY2024 owing to the sizeable term debt availed for the EV leasing business and working capital borrowings for the EPC business. However, the financial risk profile is expected to improve, going forward, due to an increase in profitability, reduction in leverage and planned equity infusion. This is also evident from H1 FY2025 results wherein the company's leverage and coverage indicators have improved, with a total debt/ tangible networth of 2.3x and total debt/ operating profit of 3.8x. The company's working capital intensity (net-working capital to operating income) was high at 51% in FY2024, stemming from an increase in scale over the last few years which has increased the total debtors (including unbilled revenue) and retention money.

The company has won tenders to develop battery energy storage projects with an aggregate storage capacity of 1,140 MWh and solar power capacity of 570 MW in Gujarat. ICRA understands that the company intends to divest the economic interest in these projects over the course of the project to other investors and will only undertake the EPC work.

The Stable outlook on the long-term rating reflects ICRA's opinion that in the near to medium term, the company will register a continuous increase in its scale and profitability at the consolidated level, backed by the execution of the current and new EPC orders. Also, the leverage and coverage indicators are expected to improve with the various steps taken, such as reduction in leverage and equity issuances.

Key rating drivers and their description

Credit strengths

Experienced promoters with established track record of the company in solar EPC and EV businesses - GEL is promoted by Mr. Anmol Jaggi and Mr. Puneet Jaggi, who have more than two decades of experience in the solar EPC business. This is reflected in the large number of solar rooftop, ground-mounted and floating projects for which the company has done EPC works. GEL has installed more than 770 MW of solar power capacity till date. The projects have been executed across various states in India as well as in West Asia and North Africa. The extensive experience and established brand presence have helped the company bag large orders in the last few quarters.

Healthy order book imparts revenue visibility; strong customer profile reduces counterparty risks - GEL's order book is strong with confirmed and unexecuted order book of more than Rs. 5,200 crore. These orders are to be executed over the next 12-18 months, imparting healthy revenue visibility over the medium term. The growth in the EPC order book is driven by the energy transition goals of the country with focus on significantly scaling up the renewable energy capacity across India. Further, the current order book has orders majorly from government, semi-government and reputed private players which have an established track record of timely payment in the past, thus offsetting the counterparty credit risk to a large extent.

Strong growth in operating income and profitability; business scale set to increase significantly - The company's operating income has consistently grown by more than 100% over the last three years, backed by healthy order inflow and execution in the past. The operating income is likely to grow substantially in FY2025 (operating income of Rs. 709 crore already reported till September 30, 2024) to more than Rs. 1,800 crore in FY2025 from Rs. 963 crore in FY2024. Also, GEL's profitability is improving, marked by an operating profit margin (OPM) of ~24% in FY2024 compared with an OPM of 21% in FY2023. A

consistent increase in order inflows, driven by growth in the renewable energy industry over the coming years, is expected to support the business risk profile and ensure growth in revenue and profits over the medium term.

Credit challenges

Delays in execution of contracts may adversely impact revenue growth and liquidity position - GEL has 10-11 large-sized orders which form more than 80% of the overall order book size. Most of these projects are currently in their initial stages, thus exposing the Group to risks associated with timely approvals, land acquisition and other execution related challenges which can cause major cost overruns. Delays in commissioning could lead to the levy of penalties/termination of orders.

Further, the Group has won two standalone battery energy storage projects and one solar power project under the Kisan Urja Suraksha Evam Utthaan Mahabhiyan Yojana KUSUM) scheme with Gujarat Urja Vidyut Nigam Limited (GUVNL) as the offtaker. The battery storage projects are being implemented for the first time by the company. These projects were bid with the perspective of flipping it to other equity investors in due course. The funding for these projects is already under progress and GEL will only be responsible for the EPC work. Tying up the required debt and equity funding with the potential investors for these projects in a timely manner remains critical as otherwise it will expose GEL to significant project funding risk. Thus, progress in the timely execution and funding of the current order book is also very critical for future revenue growth as well as for maintenance of sufficient liquidity.

Profitability exposed to raw material price risk; profitability at group level constrained by expected losses from EV manufacturing business in the near to medium term - The company has fixed-price contracts with its customers for its EPC order book, thus exposing it to raw material price variation risk. The solar EPC industry has witnessed business cycles in the past wherein solar module and other commodity prices have increased. For instance, the disruptions during the pandemic had squeezed the margins of solar EPC players. To mitigate the price variation risk, GEL enters into back-to-back agreements for its key components at the time of bidding. Some cushion is also built in at the time of bidding to protect itself from the risk of price escalation of various components. Also, the current blended operating profitability from the existing order book remains satisfactory. However, in an increasing raw material price scenario, the profitability could see a declining trend. Also, the company's consolidated margins are expected to be constrained by the expected operating losses in its EV manufacturing business in the near to medium, which is currently in its nascent stages of development. The ability of the company to maintain/improve its profitability margins remains a key sensitivity for the ratings.

Project execution and offtake risk for EV manufacturing facility - The company has been working on setting up its new EV manufacturing facility in Pune for developing two-seater EV fleet cars and EV cargo. A large portion of the planned capex for developing the vehicles will be incurred in FY2025 and FY2026. The promoters have already brought in the required equity to fund the project, and the remaining will be funded through debt in due course. A timely completion of the capex within budgeted costs, along with a timely commencement of the commercial operations and a scale-up of the offtake, will remain a key monitorable. The operations are also susceptible to initial stabilisation issues and uncertainty in demand for the new product, leading to operating losses in the initial years which will require funding support from GEL. The promoters' experience in the EV industry partly mitigates the implementation risk.

Intense competition, tender-based contract awarding system keep margins under check - GEL is currently a mid-sized player operating in an intensely competitive and fragmented solar EPC industry. Its competitors include EPC arms of independent power producers, established EPC players, and EPC arms of solar panel manufactures. It also faces competition from several smaller players, who provide O&M services for solar power projects. In addition, the EPC sector is competitive as it is a tender-based business. These factors tend to impact the profitability margins of EPC players.

High leverage led to moderate credit profile; leverage expected to decrease - At present, the company has high leverage on account of the long-term debt taken for its EV lease business. Its total debt was Rs. 1,512 crore as on March 31, 2024. This resulted in moderate capital structure and coverage with a gearing of 4.8x, total debt/ OPBDITA of 6.6x, interest cover of 2.1x and debt service coverage ratio of 1.4x as on March 31, 2024. Nonetheless, the recent equity raised through a preferential

share allotment of ~Rs. 540 crore (of which Rs. ~145 crore has already been infused till H1 FY2025) and the repayment of debt of Rs. 424 crore in FY2025 is expected to improve the financial risk metrics of the company, going forward. Infusion of additional equity and debt repayment has already led to an improvement in leverage and coverage indicators in H1 FY2025, with company reporting a total debt/ tangible networth of 2.3x and total debt/ operating profit of 3.8x.

High working capital intensity - The working capital intensity of the company was high at 51% in March 2024, driven by high current assets consisting of debtors, unbilled revenue and retention money as on March 31, 2024. With a growing business scale and the working capital-intensive nature of the EPC operations, the working capital requirement is expected to significantly increase. The working capital requirement/gap is expected to be partly funded from the credit period available from the suppliers as well as the short-term working capital debt. Further, the money raised from the preferential allotment of shares is also expected to be utilised for meeting the working capital requirements of the company. Any material increase in the working capital intensity will impact the liquidity; hence, it will remain a key rating monitorable.

Environmental and social risks

GEL operates at multiple project sites simultaneously, and therefore, the risk of business disruptions on account of physical climate risks is low. The company is operating in green energy segments, such as EPC works for solar and battery projects and the EV leasing and manufacturing business. Therefore, the risks related to its business causing environmental harm or not meeting the emission norms/carbon footprint targets is low. However, there could be challenges in disposing the battery systems in its EV segment. Further, GEL has moderate exposure to social risks arising from challenges relating to acquisition/leasing of land, right-of-way (ROW), requirement for setting up its projects and transmission lines. Also, EPC players face social risks stemming from the health and safety concerns of workers, manifestation of which could invite regulatory or legal action, besides reputational harm.

Liquidity position: Adequate

For FY2025, the debt repayment obligations of around ~Rs. 424 crore along with a capex of Rs. 150-170 crore are expected to be funded from an equity infusion of Rs. 244 crore, release of cash flow from investment in group companies of ~Rs. 100 crore and unencumbered cash balances of Rs. 378 crore as on March 31, 2024. The cash flow from operations is expected to remain negative, as per ICRA projections, on account of an increase in the working capital requirements with an expanding scale of operations. The liquidity position is also supported by a cushion of ~Rs. 77 crore available in the working capital limits as of August 2024. Further, the management has stated that they will keep free cash of Rs. 200 crore at all times for meeting any exigencies. A prudent management of working capital requirements remains crucial to maintaining an adequate liquidity profile.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a substantial increase in the Group's earnings along with satisfactory progress of the under-development projects without any major cost overruns. The ratings will further get a boost if the company is able to maintain healthy profitability leading to better leverage and coverage metrics and ensure an improvement in the working capital cycle and liquidity position.

Negative factors – Delays in project execution and continuous low profitability, along with a stretch in the working capital cycle, thus weakening the liquidity position and leverage and coverage metrics, may result in a downgrade. The ratings may also be downgraded if there are delays in implementing the EV manufacturing business, and/or if there are significant losses in this business which will deteriorate the overall credit profile of the company at the group level.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	To arriving at the ratings, ICRA has considered the consolidated financials of GEL. As on March 31, 2024, GEL had eight subsidiaries that are enlisted in Annexure-II

About the company

GEL, established in 2012, is the flagship company of the Gensol Group. It specialises in providing engineering, procurement, and construction (EPC) services to the solar power sector. In 2023, GEL was listed on the National Stock Exchange and the Bombay Stock Exchange. It has expertise in executing turnkey solar projects globally, having installed ground-mounted, floating and rooftop solar installations of more than 770 MW. GEL has also won two battery energy storage system (BESS) projects to be implemented in Gujarat. GEL also provides comprehensive EV leasing solutions, catering to a diverse clientele that includes PSUs, educational institutions, government entities, multinational corporations, ride-hailing services, employee transport companies, rental services, logistics, and last-mile delivery enterprises. It has also diversified into the electric vehicle (EV) sector, setting up an EV production facility in Pune for manufacturing two-seater electric fleet cars and cargo targeted at the ride-hailing market and the logistics sector.

Key financial indicators (audited) - Consolidated

	FY2023	FY2024
Operating income	398.0	963.1
PAT	23.3	53.4
OPBDIT/OI	20.8%	23.9%
PAT/OI	5.9%	5.5%
Total outside liabilities/Tangible net worth (times)	4.1	6.4
Total debt/OPBDIT (times)	7.2	6.6
Interest coverage (times)	3.3	2.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current (FY2025)				Chronology of rating history for the past 3 years					
		FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Nov 18, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based term loan	Long term	675.0	[ICRA]BBB-(Stable)	12-Nov-24	-						
Fund based - Cash credit	Long term	718.5	[ICRA]BBB-(Stable)	12-Nov-24	[ICRA]BBB-(Stable)	-	-	-	-	-	-
Non fund based - BG	Long term/Short term	406.5	[ICRA]BBB-(Stable)/[ICRA]A3	12-Nov-24	-						
BG (Sub-limit of CC limit)	Long term/Short term	(51.3)	[ICRA]BBB-(Stable)/[ICRA]A3	12-Nov-24	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	-	-	-
Fund based - Proposed	Long term	0.0	-	12-Nov-24	[ICRA]BBB-(Stable)						

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based - Term Loan	Simple
Long-term fund-based - Cash credit	Simple
Long term and short term - Non fund based - BG	Very Simple
Long term and short term - BG (Sub-limit of CC Limit)	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Feb-2022	9.95%	Sep-2028	254.9	[ICRA]BBB- (Stable)
NA	Term Loan	Jan-2023	10%	Aug-2029	334.8	[ICRA]BBB- (Stable)
NA	Term Loan	Jul-2023	10%	Oct-2027	15.0	[ICRA]BBB- (Stable)
NA	Term Loan	Jun-2023	11%	Jun-2027	18.3	[ICRA]BBB- (Stable)
NA	Term Loan	Oct-2023	13%	Oct-2028	12.4	[ICRA]BBB- (Stable)
NA	Term Loan	Mar-2024	11.57%	Oct-2027	2.0	[ICRA]BBB- (Stable)
NA	Term Loan	Apr-2024	11.57%	Jul-2028	6.9	[ICRA]BBB- (Stable)
NA	Term Loan	Feb-2022	8-8.6%	Feb-2028/ Nov-2029	26.4	[ICRA]BBB- (Stable)
NA	Term Loan	NA	10%	Nov-2029	4.3	[ICRA]BBB- (Stable)
NA	Cash credit	NA	NA	NA	718.5	[ICRA]BBB- (Stable)
NA	Non-fund based - BG	NA	NA	NA	406.5	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	BG (Sub-limit of CC Limit)	NA	NA	NA	(51.3)	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company name	GEL ownership	Consolidation approach
Gensun Renewable Private Limited	51.00%	Full consolidation
Gensol Utilities Private Limited	99.99%	Full consolidation
Gensol Electric Vehicle Private Limited	58.08%	Full consolidation
Gensol EV Lease Private Limited	88.21%	Full consolidation
Scorpius Tracker Private Limited	54.37%	Full consolidation
Green Energy Trading LLC – FZ	100.00%	Full consolidation
Gensol Green Energy Private Limited	99.99%	Full consolidation
Gensol Clean Energy Private Limited	99.99%	Full consolidation

Source: Annual report of the company

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Vikram V

+91 40 6939 6410

vikram.v@icraindia.com

Sumit Jhunjunwala

+91 33 7150 1111

sumit.jhunjunwala@icraindia.com

Asmita Pant

+91 96 4345 4364

asmita.pant@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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