Gensol Engineering Limited

March 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	267.79	CARE BB; Stable	Assigned
Long Term / Short Term Bank Facilities	132.21	CARE BB; Stable / CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Gensol Engineering Limited (GEL) remains constrained on account GEL's moderate scale of operations, working capital intensive nature of its operations and susceptibility of its profitability to volatility in solar module prices. The ratings also factor deterioration in the capital structure of the company owing to significant increase in total debt consequent to its foray in electric vehicle (EV) leasing segment and execution and funding risk associated with ongoing EV manufacturing project in its subsidiary.

The above ratings, however, derive strength from experienced promoters of the Gensol group, gradual scaling up of its EPC operations with improvement in its profitability, healthy and geographically diversified orderbook position and its reputed clientele base. The ratings also favourably factors in structured lease rental agreement with Blu-Smart Mobility Private Limited and its adequate liquidity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in GEL's EPC operations with PBILDT margin above 12%
- Substantial growth in GEL's orderbook alongwith successful execution thereof
- Successful operations of EV leasing with demonstration of timely receipt of lease rentals from Blu-Smart Entities
- Successful completion of the EV manufacturing project within envisaged time and cost parameters
- Effective management of its working capital requirements for its EPC business

Negative factors

- Cancellation of lease agreement with Blu-Smart Mobility Private Limited
- Non-receipt of timely lease rental payment from Blu-Smart Mobility Private Limited, resulting into liquidity stress on other business segments
- Delay in implementation of the EV manufacturing project resulting in time and cost overrun requiring higher than envisaged support for GEL
- Deterioration in the EPC PBILDT margins below 8% on a sustained basis.

Analytical approach: CARE has analysed the credit profile of GEL on a standalone basis while factoring in the support required towards for ongoing EV manufacturing project in its subsidiary.

Outlook: Stable

Stable outlook reflects GEL's growing solar EPC business with strong revenue visibility from reputed clientele and structured lease arrangement with Blu-Smart Mobility Private Limited (Blu-Smart) for its EV leasing business.

Key weaknesses

Implementation and funding risk for EV manufacturing plant in its subsidiary

Gensol Electric Vehicles Private Limited (GEVPL), a subsidiary of GEL, is setting up an EV manufacturing plant in Pune to produce Electric Cars (two-seater reverse trike) and Electric Urban Cargo vehicles (capacity of 800 Kgs) with an installed capacity of 1200 units per month. The total cost of the project is expected to be around Rs.210 crore, to be funded by debt : equity ratio of 1.33:1. The project execution is currently at a very nascent stage and GEVPL is yet to achieve financial closure for the project debt. Hence, completion of the project along within envisaged cost and time parameters and its scaling up shall remain crucial from credit perspective. Moreover, support required from GEL till the project achieves break even remains a key monitorable.

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

Moderate financial risk profile

GEL capital structure moderated during FY22 with increase in working capital borrowings following scaling up of EPC operations and debt-funded acquisition of EV for its leasing business resulting in overall gearing at 1.71x (FY21: 0.15x). While overall gearing improved post augmentation of its net worth base with issue to new shares on preferential basis, overall gearing is envisaged to remain moderate considering aggressive debt-funded acquisition of EV for leasing business and proposed extension of corporate guarantee for the project debt for its EV manufacturing plant in its subsidiary.
The debt coverage indicators marked by PBILDT interest coverage remained healthy at 3.60x (PY: 3.66) during FY22. However, TD/GCA deteriorated to 5.58 times during FY22 (PY:1.37 times) owing to increase in debt levels. The TD/GCA is expected to deteriorate further owing to increase in debt due to purchase of electric cars in the projected years.

Modest albeit growing scale of operations

GEL reported a CAGR growth of ~54% over past three years and has surpassed pre-covid levels with TOI of Rs.153.31 crore in FY22 as against Rs.75.14 crore in FY20. On y-o-y basis, GEL's TOI grew by 155% on a covid affected base of FY21 owing to significant increase in its EPC and solar panels trading business. TOI of the company comprises of two components i.e. renewable power segment (solar advisory, EPC and trading of solar panels) and EV leasing business. While EV leasing income constituted a negligible share in FY22, it is expected to increase in the near term owing to significant addition in its fleet for leasing to Blu-Smart.
During H1FY23 (provisional), GEL has reported a TOI of Rs.179.19 crore (H1FY22: Rs.32.81 crore) backed by healthy orderbook execution and income from its leasing business.

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

GEL is a small size solar EPC player and company faces stiff competition from several established players. Solar developers in India face cost pressures due to rising cell and module prices, even as supply chain issues begin to ease. This has mainly been driven by disruptions to operations across the Chinese solar value chain and the spike in the cost of polysilicon, which is a key input for module producers. In addition, the increase in solar PV cell and module prices, along with the imposition of basic customs duty (BCD) on imported cells and modules, is leading to cost pressure for solar power projects.
However, GEL follows back-to-back procurement policy for its solar panels based on orders received, which insulates its profitability to a certain extent in absence of price variation clause in its contracts. Further, in March 2022 GEL procured solar panels of Rs.40 crore to take the benefit of reduced prices during that time.

Key strengths

Experienced promoters

GEL is founded by Mr. Anmol Singh Jaggi and his brother Mr. Puneet Jaggi, who have more than a decade of experience in the solar EPC industry. Further, the top management is assisted by a team of well qualified and experienced professionals having long standing exposure in the same industry. Currently the EPC business is headed by Mr. Imran Naqvi, CEO of Gensol Group.
Gensol group started operation in 2007 as carbon credit consultancy through Gensol Consultancy Private Limited (GCPL). Later on group had diversified into facilitating power trading, energy auditing and advisory in solar projects. In 2012, Group started focus on solar energy and incorporated GEL with aim to provide entire range of solar advisory and EPC services. Further, the promoters have demonstrated their ability to raise funds from the investors and have raised Rs.132.85 crore via preferential allotment during H1FY23.

Structured lease rental agreement with Blu-Smart for its EV leasing vertical

GEL, Blu-smart and lenders have entered into a tripartite agreement for electric four wheelers (4W) leasing, which are primarily operated by Blu-Smart entities on its ride hailing platform. GEL is acting as a facilitator between the lender and Blu-Smart and equity contribution, DSRA as well debt repayment for the EV will be funded by Blu-Smart. The lease rentals are structured in a way to cover the entire interest and principal repayment obligations during the tenor of the loan, resulting into nil cash outflow from GEL.

Healthy and geographically diversified orderbook from strong counterparties

As on December 31, 2022, GEL had an orderbook of Rs.844.61 crore, translating into healthy revenue visibility at 5.68x of its EPC sales of FY22. The EPC contracts are fixed price contracts to be executed in a timeframe of 6-10 months, hence there in no price escalation clause in any of the contracts awarded. Furthermore, GEL's order book is majorly from government entities and other private reputed players across more than four states, which translates into a low counterparty credit risk for the company.

Gradual scaling up of power EPC operations with improvement in its profitability
The PBILDT margin of the company improved significantly by 335 bps to 11.38% during FY22 as against 8.03% in FY21, after hitting a bottom of 3% margin in FY20. During FY22 the cost of raw materials have increased significantly as the company has received some BOS (balance of supply) contracts and trading of solar panels as well. Nevertheless, GEL's profitability improved on account of the benefit of economies of scale.
Further during H1FY23, GEL reported a PBILDT and PAT margin of 14.23% and 7.31% respectively. However, in FY23 the PAT margins are expected to decline owing to higher depreciation charges on cars procured for leasing business.

Liquidity: Adequate
Liquidity of the company remains adequate characterised by low debt repayment obligation on EPC business, repayment of leased EV being backed by lease rental receivable from Blu-Smart in a structured manner and inflow of funds via preferential allotment during H1FY23. A part of the equity proceeds are expected to be utilized for equity investment in its subsidiary for its EV manufacturing plant. As on September 30, 2022, GEL had cash and cash equivalent of Rs.193.67 crore (including lien marked FD's).
However, the CFO from operations remained negative during FY22 owing to significant increase in inventory as well as unbilled revenue as on March end. The ability of the company to fulfil its equity commitment towards its subsidiary and managing the working capital requirement of its EPC business, shall remain crucial from credit perspective.

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Solar Power Projects
Policy on Withdrawal of Ratings

About the company and industry
Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

About the company
Incorporated in 2012, Gensol Engineering Limited, the flagship company of Gensol Group, has an track record of more than a decade in the renewable power segment. GEL was initially incorporated as a private limited company and was later listed on BSE SME platform on October 11, 2019. Currently, GEL has two revenue streams viz. Solar EPC income and Electric Vehicle leasing income.
GEL is engaged in providing solar advisory services and EPC services for solar power projects. The major activities encompass from providing detailed project reports, techno commercial assessment, finalization of vendors, procurement, testing of equipment and supervision of execution, etc. Further, GEL also expects substantial revenue from its EV leasing business from FY23 onwards as a part of its agreement with Blu-Smart.
Apart from this, GEL has three subsidiaries engaged viz. Gensol Utilities Private Limited engaged in providing Operations & maintenance services to solar power plants, Gensun Renewables Private Limited having a small solar rooftop power generation plant of 1.337 MW and Gensol Electric Vehicle Private Limited which is currently setting up a electric manufacturing plant at Pune with a monthly capacity of 1200 units.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
Total operating income	60.13	153.57	179.19
PBILDT	4.83	17.47	25.50
PAT	3.13	11.01	13.09
Overall gearing (times)	0.15	1.71	0.77
Interest coverage (times)	3.66	3.60	7.33

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various 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 along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	July 31, 2028	267.79	CARE BB; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	-	27.00	CARE BB; Stable / CARE A4+
LT/ST Fund-based / Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	105.21	CARE BB; Stable / CARE A4+

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	267.79	CARE BB; Stable	-	-	-	-
2	Fund-based - LT/ ST-Cash Credit	LT/ST*	27.00	CARE BB; Stable / CARE A4+	-	-	-	-
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	105.21	CARE BB; Stable / CARE A4+	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:

Name of the Instrument	Detailed Explanation
A. Financial covenants	DSCR of 1.10x to be maintained after creation of DSRA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

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

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

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About us:
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