Zodiac Energy Limited

Q1 FY25 Earnings Conference Call

August 22, 2024

MANAGEMENT: **MR. KUNJ SHAH – CHAIRMAN AND MANAGING DIRECTOR LIMITED – ZODIAC ENERGY LIMITED**

MODERATOR: **MS. PREETI BHARADWAJ – KIRIN ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the Zodiac Energy Limited Q1 FY25 Earnings Conference Call, hosted by Kirin Advisors. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Preeti Bharadwaj. Thank you and over to you, ma'am.

Preeti Bharadwaj: Good afternoon. Thank you. On behalf of Kirin Advisors, I welcome you all to the conference call of Zodiac Energy Limited. From the management team, we have Mr. Kunj Shah, Chairman and Managing Director. Now I hand over the call to Mr. Kunj Shah, Chairman and Managing Director. Over to you, sir.

Kunj Shah: Good afternoon, everyone. I am Kunj Shah, Chairman and Managing Director of Zodiac Energy Limited. I warmly welcome each one of you to our first conference call for Zodiac Energy Limited.

Before we delve into any specifics of our performance of Q1 FY25, let me offer a brief overview of our company. Zodiac Energy Limited was established as Zodiac Genset Private Limited in Ahmedabad back in May 1992. Our beginnings were modest and we started by assembling diesel generator sets to meet the growing demand for standby electrical power.

The industrial policy of 1991 opened up new opportunities for small scale industries and we positioned ourselves to cater to emerging needs in Gujarat and neighboring regions. Our company's growth trajectory mirrored the rapid technological advancement of the time and between 1993 to 2000, India experienced a telecom boom fueled by introduction of CDOT technology and later on mobile technology. We actively partnered with Department of Telecom to supply diesel generator sets to newly established telephone exchanges in Gujarat and Maharashtra.

And later on, when mobile telephony gained momentum, we aligned ourselves with companies like Facial, which is now Vodafone, Airtel, Birla AT&T and Tata Tele Services, providing DG sets for their main switching center as well as their mobile tower sites. The availability of natural gas in Western India presented yet another opportunity for our company and between 2002 to 2012, we offered natural gas-based captive and cogeneration power plants, partnering with industries leader like GE Jenbacher, represented by their distributor Clarke Energy India Limited and Caterpillar, which was represented by their distributor Jamco Limited. And over the past three decades, we installed more than 80 megawatts of diesel and gas-based generators and power plant nationwide.

Since 2012, our foreign solar energy began and we have started with solar water heaters and then later on off-grid and on-grid solar PV power plants. We became accredited channel partner of Ministry of New and Renewable Energy, Government of India. Earlier, receiving our initial

SP3B grading from CARE rating and over time, since our capacity and capabilities enhanced, we have received SP2C grading from Brickwork rating in 2016.

Today, with more than 80 megawatt installation of various kind of solar power plants and servicing a diverse clientele that includes individual residents, large corporations and government organizations, Zodiac Energy Limited is a formidable force in solar energy sector. In solar energy sector, we are working in many verticals. Some of them are new initiatives like residential rooftop systems, commercial and industrial rooftop solar, ground-mounted open access for captive solar power plants, utility-scale solar projects.

We have installed solar tree of 15 kilowatt, which is one of the biggest in country. We have installed 800 kilowatt floating solar power plant for GSFC in Sikka. We have installed numerous car parking installation where solar was fitted above car parking.

We also take operation and maintenance of solar power plants. So we have wide variety of offerings for solar power sector. We also into policy advocacy by actively engaged in policy advocacy field and we are privileged our company has privileged to represent platforms on SOKM, Gujarat Council, Gujarat Chamber of Commerce and Industries, National Solar Energy Federation of India and so on.

Our participation in Surya Shakti Kisan Yojana, which was precursor to PM Kusum Yojana was a rewarding experience and we contributed to increased farmer's income through solar power. We have, our journey has been marked by numerous awards and recognition. Which you can have on our website.

Being named as emerging MSME in solar industry in 2019 and recent awards includes best project developer of the year in 2022 and best solar park developer of the year in 2023. Building on this strong performance, our Q1 FY25 results showcased an impressive start to the new fiscal year. Our total income surged by 144.56% Y-o-Y to INR79.59 crores reflecting our continued momentum. Our EBITDA increased by 76.68% to INR4.44 crores on a Y-o-Y basis.

Though the EBITDA margin contracted to 5.58 compared to 7.72 in Q1 FY24 due to investment in growth initiatives, net profit showed an exceptional growth of 184.36% on Y-o-Y basis reaching INR2.33 crores with the net profit margin improving to 2.93% from 2.52% in the corresponding quarter of the previous year. And additionally, the earning per share for Q1 FY '25 climbed by 183.93% to INR1.59 for the quarter. These financial achievements highlight our consistent progress towards strategic growth objectives, reinforcing our commitment to delivering sustainable value to our stakeholders.

As we look forward, we are excited about entering the Independent Power Producer segment having secured a PPA with UGVCL of 26.56 megawatt AC capacity under PM KUSUM scheme. This project valued at INR152 crores reflecting our ongoing commitment to contribute to India's renewable energy ambitions with all projects expected to be completed within this

financial year, we are confident that Zodiac Energy will continue to be a key player in the energy solution industry.

On the EPC front, we have very healthy order book for more than 50 megawatt of captive projects. We are also having good response in PM Surya Ghar Yojana for residential rooftop segment. We are also expanding our footprint outside India, predominantly in Africa, and soon we will convert our leads into confirm order.

As our company continues to grow, we are investing in talent and bringing in experienced professionals from outside and within organization to build a more skilled and professional workforce. We are also adapting new technologies and systems to cater our growth. And as solar technology is advancing fast, we are also keeping pace with that and adopting new technologies. Thank you very much.

Now I request to open the floor for questions and answers. Over to you, Preeti.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Yashesh, who is an individual investor. Please go ahead.

Yashesh: Hello. Sir, I had a couple of questions to ask. So my first question is that in the Annual Report, we mentioned that we want to have a nationalized presence and are planning to open offices in Lucknow and Pune. So I wanted to know if these offices will be like corporate offices and if they're already operational?

And my second question was that I also saw that our employee cost is only INR6.3 crores, which increased only marginally in spite of the drastic increase in our turnover. And out of these two, majorly employee cost comprised of the Director remuneration. And to add to this, the recent resignation of the statutory auditor. So I want to just ask the management if they have any comments as this seems like a corporate governance issue. And then I have one more question, but I can ask later on.

Kunj Shah: Okay. So first, I will answer your question about national presence. Yes, we had planned for offices in Lucknow and Pune. So Lucknow office is operational and it is operational since last four months. And we are slowly and gradually gaining good orders from Lucknow office. Pune office is under process and soon it will be within a month or two, it will start operating -- we will start operating in Pune.

Second thing regarding employee cost. Employee cost, we invested in employee in last year to get the better result this year. So compared to last year, our employee cost may not increase much because we have invested in our employees one year back. And annualized basis, our employee cost has already increased roughly to around INR8 crores.

Yashesh: Noted. Thank you, sir. And sir, I also had one last question. I can also see that we do have…

Moderator: Ladies and gentlemen, we have lost the connection of the current participant. We will move on to the next participant. The next question is from the line of Neena Deshpande from CR Advisors. Please go ahead. Ms. Neena, may I request you to please unmute your line and speak? Thank you.

Neena Deshpande: Good afternoon. I'm Neena. Sir, my question is, apart from Adani, Torrent and RBI, who are our key clients?

Kunj Shah: So apart from Adani, Torrent and RBI, we have served Nirma Limited. We have served Honda Motorcycle & Scooters India Limited. We have served UGVCL. We have also served IRM Energy. We are serving GIFT City. We have worked with Ahmedabad Municipal Corporation. We have worked with Gujarat State Fertilizer Corporation and so on so forth.

Neena Deshpande: Okay, sir. And my second question is, what is the repeat business from our clients?

Kunj Shah: So normally, all the corporate I have seen like GIFT -- with Adani Group, we have done more than total 100 projects. With Torrent Power, we have done more than 20 projects, Torrent Power and Torrent Pharma. And now we are working with Torrent Gas. With Nirma, we have done three, four projects. With AMC, Ahmedabad Municipal Corporation, we have done around three projects. And fourth is going on. With GIFT City, we have done three projects and many more projects are in pipeline. So these are the -- and apart from that private clients those who are going for installed rooftop solar from us they are going for now bigger projects, capacity for ground mounted projects.

Neena Deshpande: Okay sir. I understood. If I have any more questions, I'll get into the queue. Thank you for answering these.

Moderator: Thank you. The next follow up question is from the line of Yashesh who is an Individual Investor. Please go ahead.

Yashesh: Sir my final question I can also see that we have borrowings in our book and I referred to our credit rating, especially from Informatics rating where they mentioned that we are not cooperating and they also withdrew our rating. So I just wanted to check if we have any comments on this?

Kunj Shah: So we did not engage them for rating. We from Informatics, we received solar grading which was mandatory for MNRE grading and so they have done our debt rating on a complimentary basis, which we discontinued after one year, but somehow they were not relieving us from that and they were showing that we are not responding. Ultimately, we complained to SEBI and RBI and after intervention for RBI and SEBI, Informatics has dropped our rating.

Yashesh: Okay, understood. All right. That's it from my end. Thank you so much.

Moderator: Thank you. The next question is from the line of Narendra Prasad from ABC Consultancy. Please go ahead.

Narendra Prasad: Sir, my basic question is that from last quarter, our operating margin has been decreased. Is there any specific one time is there and what will be the expected yearly basis operating margin we can expect?

Kunj Shah: See, the margin in Q1 is lesser than margin in Q4 of last year for various reasons. Number one, in the Q4 24, the margin was increased because of economy of scale as well as there were reduction in solar panel prices in that quarter. Q1 FY25 is steady. The prices of solar panel are steady and the volume is normally we are into capex. We are into capex industry. EPC of solar project considered as a capital goods.

And Q1 are normally, if you can historically see the Q1 are normally lean period. So it is expected that now from Q2, the margins will increase and it will surpass on Y-o-Y basis for FY25, the margin will surpass FY24.

Narendra Prasad: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Rahul Singh from Priya Angel Advisors. Please go ahead.

Rahul Singh: Sir my first question is what is our future capex requirements?

Kunj Shah: Future capex requirements.

Rahul Singh: Yes.

Kunj Shah: So we are looking for the investment opportunities as we have entered the IPP segment. We are evaluating the opportunities as and when like PM Kusum is one of the promising opportunity for investment. And other than that, there are C&I segment where group captive and third party solar power plants are now coming involved. So we are looking for investment opportunity and as and when the opportunity arises, we will come back to market.

Rahul Singh: Okay sir. Sir my next question is what is current debt and rate of interest?

Kunj Shah: Current debt is from banks and it is in line with the banking norms. Our current working capital is from Axis Bank is in tune of around INR50 crores and the average rate of interest is in tune of around 9.35%.

Rahul Singh: Okay sir. Thank you sir.

Moderator: Thank you. The next question is from the line of Rahul Jain from Angel Broking. Please go ahead.

Rahul Jain: Hello. Good afternoon. If I can ask, can you please just share us some details around the existing order book that companies are prevailing? And the second question, if you can provide some status only that INR3,000 crores I mean, the order that we received in the beginning of this year, I believe from the Gujarat government something?

Kunj Shah: So we have done MOU with Gujarat government in Vibrant Gujarat for bringing investment of INR3,000 crores in next five years. And in line with that MOU we are putting up solar power plant under PM Kusum scheme at the cost of INR150 crores. Apart from that, we are getting in terms of our customers, they are investing in tune of around INR300 crores in various captive projects which we are executing in Gujarat.

So we are very much on line with our commitment with MOU and we are sure that we will in five years, we will bring investment of INR3,000 crores.

Rahul Jain: Perfect. And, sir, do you also have, I mean, if you can just put some light over the current order book the company has?

Kunj Shah: Yes, we have order book for rooftop as well as the ground-mounted open-access captive project in more than 50 megawatts. And all the projects are under various stage of implementation.

Moderator: Thank you. The next question is from the line of Yash Rani, who is an individual investor. Please go ahead. Mr. Yash.

Yash Rani: My question is, whom would solar generation be sold?

Kunj Shah: Pardon?

Yash Rani: Whom would solar energy should be sold?

Kunj Shah: So we, the investment we are making in PM Kusum, we have a PPA with UGVCL, Uttar Gujarat Vij Company Limited. So, the power generated from this 26.5 megawatt solar power, various solar power plant in PM Kusum scheme, the power will be sold to UGVCL, that is Uttar Gujarat Vij Company Limited, which is subsidiary of Gujarat Urja Vikas Nigam Limited. And rest of the business, we are into EPC. So, we are putting up solar power plant on behalf of our customers. So there the electricity, solar power is consumed by our customers for their captive requirement.

Yash Rani: Okay. And my next question is, what is our current working capital cycle?

Kunj Shah: Current working capital cycle is roughly 90 to 100 days. Depending on the project, it may vary. But average current working capital cycle is around 90 to 100 days.

Moderator: Thank you. The next question is from the line of Pooja Gupta, who is an individual investor. Please go ahead.

Pooja Gupta: My question is, from when we can see our distribution from solar to our revenue and profitability?

Kunj Shah: Pardon me, can you repeat, madam? Your voice was blurry.

Pooja Gupta: Yes. So, my question is, from when we can see contribution from solar to our revenue and profitability?

Kunj Shah: I am not able to understand your question, madam. Can you repeat?

Pooja Gupta: Okay. Sir, I just wanted to know that your contribution from solar?

Kunj Shah: So currently, the major vertical is from solar energy. Almost all the revenue comes from solar energy-related business.

Pooja Gupta: Okay. And my next question is, with QIP, what will the promoter stake?

Kunj Shah: Pardon?

Pooja Gupta: With QIP, what will the promoter stake?

Kunj Shah: So, before QIP, promoter stake was approximately 72.8%. With QIP, it will, I have not exact numbers, but it will marginally reduce to around 71.5% or 72%.

Pooja Gupta: Okay. Thank you very much.

Moderator: The next question is from the line of Aditi Roy, who is an individual investor. Please go ahead.

Aditi Roy: Congratulations, sir. And thank you for giving me the opportunity. My question is, please explain your business model and vertical-wise contribution?

Kunj Shah: We are operating in various verticals, like residential rooftop segment, then commercial and industrial rooftop segment, commercial and industrial ground-mounted power plants. And we are also participating in government tenders. So, our rooftop, residential rooftop is around 30% of our revenue. And our commercial and industrial segment with government business and distribution business is contributing balance 70%.

Aditi Roy: And my next question is, you will start with the 145% top-line growth and 184% bottom-line growth in Q1 FY '25. What are the growth drivers and your outlook on sustainability for the rest of the year?

Kunj Shah: Can you repeat, ma'am?

Aditi Roy: Yes, sir. Your 145% top-line growth and 184% bottom-line growth in Q1 FY '25. What are the growth drivers and your outlook on sustainability for the rest of the year?

Kunj Shah: So, the growth driver is, see, the solar energy sector is growing at a very breakneck pace. And the deployment of solar power in the country is rising exponentially. Now, compared to Q1 FY '24, in Q1 FY '25, the underlining factors for the industry are very positive, like prices have stabilized compared to the last year where the price volatility was very high.

Customers are now confident of investing in solar. PM Surya Ghar Yojana announced by Prime Minister, Honorable Prime Minister Shri Narendra Modi for 1 crores household is gaining momentum. And government across country have come up with a very lucrative policy for industries to adopt solar power plants. As well as the credit availability to customers for installing solar has grown significantly. These are the factors who have driven the growth. And I'm sure in coming years also, the solar energy sector will go at the same rate. Thank you.

Aditi Roy: So my next question is, in FY '24, our EBITDA margin was at approximately 9%. Why our EBITDA margin fallen to 5.6% and net profit margin at 2.93% in Q1 FY '25? When we can see it improving and what will drive growth in profitability margin?

Kunj Shah: Ma'am, can you repeat once again, because your voice is blurry.

Aditi Roy: Sorry, sir, for that. In FY '24, our EBITDA margin was approximately 9%. Why our EBITDA margin falling to 5.6% and net profit margin at 2.93% in Q1 FY '25? When we can see it improving and what will drive growth in profitability margin?

Kunj Shah: So our EBITDA margin in Q1 FY '25 was lesser than the EBITDA margin of Q1 FY '24. Because there were in Q1 FY '24 there were price volatility. And because of that, number one and number two, due to the execution of some profitable government business, our EBITDA in Q1 FY '24 was higher than our EBITDA in Q1 FY '25. But overall scenario, because now the market is again very buoyant and prices have steadied down. So we are looking for improvement in EBITDA margin in coming quarters.

Aditi Roy: Okay, sir. Thank you, sir, for answering me.

Moderator: Thank you. The next question is from the line of Mahesh Sheth, who is an individual investor. Please go ahead. Mr. Mahesh, I would request you to please unmute your line and speak.

Mahesh Sheth: Sir, I had a few questions. So the first one is, how much of our top 10 clients contribute to our revenues?

Kunj Shah: Around top 10 clients contribute around, say around 12% to 15% of our revenues.

Mahesh Sheth: Okay. 12% to 15% of our overall revenue is contributed by our top 10 clients. Okay.

Kunj Shah: Yes.

Mahesh Sheth: And I also had one question that, do we serve to government contracts also?

Kunj Shah: Yes, we are sure. We participate in government tenders and serve government contracts.

Mahesh Sheth: Okay. So can you tell me how much it contributes to our revenues? Is there any bifurcation you have?

Kunj Shah: We don't have. We categorize government contract and commercial and industrial contracts in the same category. So we don't differentiate between them two.

So as I earlier told, our residential rooftop segment is around 30% of our revenue and government contract as well as commercial and industrial, plus our distribution business, all put together is rest of the 70%.

Mahesh Sheth: Okay. Got it. My next question is, AMC part of our order contract?

Kunj Shah: Pardon?

Mahesh Sheth: Is AMC part of our order contract?

Kunj Shah: AMC?

Mahesh Sheth: Yes.

Kunj Shah: Yes. Whenever we take order from C&I or government client, we normally take O&M for around five years. Normally the five years O&M is bundled into that contract.

Mahesh Sheth: Okay. Can you also tell me what is our current order book and also executable time for execution period for the firm?

Kunj Shah: So current order book is about 50 megawatt and the execution is depending on a lot of factors like land availability and everything. So I cannot be able to give you exact numbers of orders nor I will be able to give you exact timeline but majority of the order will be executed within this financial year.

Mahesh Sheth: Okay. So like in FY '25, we'll be able to execute most of our order, right?

Kunj Shah: Yes.

Mahesh Sheth: Okay. And you also mentioned that our EBITDA margin contracted due to investment in business growth. So can you elaborate more on this point? I mean, like which is...

Kunj Shah: Can you repeat?

Mahesh Sheth: Yes. I mean, you mentioned that our EBITDA margin contracted due to investment in business growth. So can you elaborate more on this?

Kunj Shah: So we, compared to Q1 last year, our salary cost has increased, our interest cost has increased and we have invested in good manpower as well as we have taken some orders with higher working capital requirement. That is where our EBITDA margin has contracted because of high interest costs as well as high expenses.

But those growth drivers have created new mark, like we executed floating solar project for GSFC where the lead time was very high and initial investment was very high in terms of in

EPC business. So these are the factors which have contracted our EBITDA margin. But now because of opening up of newer values, we are confident that now our EBITDA margin will improve and come back to the original form.

Mahesh Sheth: Okay. So you mentioned that salary expense has increased from year-on-year. So can I know the total staff strength?

Kunj Shah: It is more than 100 people.

Mahesh Sheth: Okay. Thank you for answering my question, sir. Thank you.

Moderator: Thank you. The next question is from the line of Saniya Sharma from Unity Finance. Please go ahead.

Saniya Sharma: We are raising funds through QIP. What is fund objective and when do you expect funds?

Kunj Shah: The purpose for going for QIP is to get an equity for investing into PM KUSUM projects where we have one project worth 26.56 megawatt and then the PPA with UGVCL. So the overall project size is INR150 crores, approximately INR150 crores. And for that, we have raised INR30 crores as an equity balance we are getting from internal accounts as well as bankers.

Saniya Sharma: Okay. So how do we enter into contract with our clients? Is this a relationship and marketing network or it is through tender process?

Kunj Shah: So for private clients, we are having marketing team who understand the requirement of client and see the opportunity where the client needs the solar power plant. And through submitting offer plus and techno commercial discussions and negotiation, we secure the order. For government contracts, we participate in tender and through tendering process, we secure the order.

Saniya Sharma: Okay. And how are our payment terms with clients?

Kunj Shah: It varies from contract to contract. So the payment terms with private client is different and with government clients are different. So there is some advance, then some against material supply and some after completion of the payment.

Saniya Sharma: Okay. Thank you, sir.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Ms. Preeti Bharadwaj for closing comments.

Preeti Bharadwaj: Thank you everyone for joining the conference call of Zodiac Energy Limited. If you have any queries, you can write a research @kirinadvisor.com. Once again, thank you everyone for joining the conference call.

Moderator: On behalf of Kirin Advisors, that concludes this conference. Thank you for joining us and you may now disconnect your lines.