K. P. Energy Limited

September 02, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	25.31 (Reduced from 29.27)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long Term / Short Term Bank Facilities	11.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	1.80	CARE A3 (A Three)	Reaffirmed
Total Facilities	38.11 (Rs. Thirty-Eight Crore and Eleven Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of K.P. Energy Limited (KPEL) continue to remain underpinned by vast experience of its promoter group in the infrastructure sector, integrated services offered by KPEL in constructing, operating and maintaining wind farms along with possession of sizeable lease hold land for development of new projects. The ratings also continue to derive strength from satisfactory operational performance of its wind power plants since commencement of operations, low off-take risk due to presence of power purchase agreement (PPA) with multiple reputed off-takers, adequate liquidity backed by presence of Debt Service Reserve Account (DSRA) equivalent to one quarter of its debt obligation and moderate capital structure & debt coverage indicators.

The above rating strengths however are partially offset by its moderate scale of operations and profitability, moderate order book with high geographical concentration, susceptibility of power generation to variation in climatic conditions and its presence in a fragmented & competitive renewable power industry.

Rating Sensitivities

Positive Factors: Factors that could lead to positive rating action/upgrade:

- Increase in total operating income (TOI) above Rs.200 crore along with improvement in PBILDT margin on a sustained basis.
- Growth in its order book along with successful execution thereof and reduction in concentration risk on a sustained basis

Negative Factors: Factors that could lead to negative rating action/downgrade:

- Any debt-funded capex or increase in working capital borrowings which results in deterioration in leverage above 1.50x in the medium term.
- Levy of interest on advances granted by GE India Industrial Private Limited (GEIIPL) for the 300 MW project or crystallization of compensation claimed by Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA-; Stable/ CARE A1+) for delay in execution of the project in KPEL's subsidiary i.e. Evergreen Mahuva Wind Farms Private Limited (EMWPL).

Outlook: Stable

The revision in the outlook for the long-term bank facilities from 'Negative' to 'Stable' is on account of improvement in KPEL's financial risk profile marked by improvement in its profitability, gross cash accruals and debt coverage metrics during FY21 (refers to the period April 01 to March 31). The revision also takes cognizance of improvement in revenue visibility with signing of definitive agreement for an EPC contract of 251 MW with CLP India Private Limited, which was delayed due to change in land acquisition policies by the state government and subsequently due to outbreak of COVID-19 pandemic.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record in infrastructure sector: KPEL is a part of KP group which has an established track record of more than two decades in infrastructure industry. KP group is engaged in businesses of utility scale renewable energy projects, micro grid solar projects, construction projects, fabrication & galvanizing and telecom infrastructure (telecom tower & OFC network) through its group companies.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

KPEL is promoted by Mr. Faruk Patel and Mr. Ashish A Mithani, who possess more than two decades of experience in various industries and around a decade in the wind energy segment. The promoter group is ably supported by the experienced professionals, forming a strong second line of management for execution of complex projects.

Availability of sizeable land for development of projects: As on March 31, 2021, KPEL had a sizeable inventory of wind sites across various locations in Gujarat with power generation potential of above 1000 MW.

Satisfactory operational performance of its wind power plants and low off-take risk with multiple off-takers: KPEL owns and operates four Wind Turbine Generators (WTGs) with an installed capacity of 8.4MW (4 WTG*2.1 MW) in Gujarat. During FY21, the power plants reported satisfactory CUF at all the four locations with an average CUF of 22.83% (PY: 26.73%). Marginal decline was owing to adverse weather conditions. Moreover, KPEL has entered into a power purchase agreement (PPA) with four reputed corporates (one for each WTG) having low counterparty credit risk. Periodic renewal of PPAs with each party mitigates the risk arising from shorter tenure PPAs and concentration risk.
During FY21, KPEL reported revenue of Rs.8.09 crore from sale of power (FY20: Rs. 9.34 crore).

Moderate capital structure and debt coverage indicators: The overall gearing of KPEL remained comfortable at 0.64x as on March 31, 2021 (0.59x as on March 31, 2020). The marginal deterioration is on account of creation of lease liability. Interest coverage ratio remained comfortable at 3.76x during FY21 (2.86x in FY20) owing to higher operating profits from its EPC segment. Accordingly, total debt to GCA also improved to 3.18x during FY21 (4.69x in FY20).

Key Rating Weaknesses
Moderate scale of operations and profitability: During FY21, KPEL reported a TOI of 67.10 crore as against TOI of Rs.74.63 crore during FY20 primarily on account of lower income from the EPC segment. Definitive agreement with CLP, which was envisaged to be executed in Q3FY20, was delayed due to change in government policies and COVID-19 pandemic. This resulted in lower than envisaged TOI for FY21. PBILDT margin improved significantly and remained healthy to 28.36% during FY21 as against 15.36% in FY20 owing to decrease in site expenses during FY21. Resultantly, PAT margin also improved to 10.74% during FY21 from 1.47% in FY20. During FY21, KPEL reported a GCA of Rs.12.34 crore.
As per provisional results for Q1FY22, KPEL reported TOI of Rs.20.47 crore and earned PBILDT and PAT of Rs.4.73 crore and Rs.2.03 crore respectively.

Geographical concentration of revenue profile: The entire order book of KPEL is in vicinity of Gujarat, which exposes the company to risk associated with geographical concentration of revenue. Any changes in government policies towards wind power projects and land acquisition, and local issues may significantly affect its revenue profile and profitability thereon. However, Gujarat has the second highest share in total installed wind capacity in India due to financially healthy DISCOMs, vast potential wind sites and readiness of various IPPs to take the projects in Gujarat.

Moderation in EPCC order book position: As on March 31, 2021, KPEL's order book comprised of one order of 250.80 MW from CLP India Private Limited (under SECI-VIII bid) with a contract value of 255 crore to be executed by FY22. Further, under the project from GEIIPL, KPEL has already executed work of approximately 59% of the contract value as on March 31, 2021. However, owing to change in land policy by the state government the balance work of Rs.124.35 crore has been de-scoped and shall be executed as and when the land parcels are made available by GEIIPL. Furthermore, under GUVNL wind tender, the consortium of KPEL and Evergreen Power Mauritius Private Limited had been awarded a contract of 31.5 MW wind power project. However, due to delay in receipt of minimum committed advances and notice to proceed (NTP) from client, project is at standstill and is not considered in the order book.

Presence in fragmented and competitive industry with low bargaining power: KPEL is a mid-sized player operating in the intensely competitive and fragmented industry. Its competitors include Independent service providers (IPPs) and EPC arms of several WTG manufacturers, who holds a high bargaining power. It also faces competition from several smaller players, who provide O&M services to wind power projects.

Liquidity: Adequate
Average utilisation of fund-based limits of KPEL has remained moderate at 77% during trailing twelve months ended June 2021. As on March 31, 2021, KPEL has free cash and bank balance of Rs.1.13 crore (Rs.0.44 crore as on March 31, 2020) besides lien marked bank deposits of Rs.15.49 crore (Rs.6.68 crore as on March 31, 2020). The FDs have been lien marked towards one quarter of DSRA and margin for BG. KPEL has a fixed annual repayment of Rs.4.74 crore during FY21, against which power sales and PBIT from the IPP segment was Rs.8.09 crore and Rs.5.69 crore respectively.
KPEL's operating cycle elongated to 276 days (70 days in FY20) due to increase in WIP stock from Rs.61.12 crore as at FY20 end to Rs.77.58 crore as at FY21 end. It mainly comprises of 220 KW EHV circuit line, which KEPL plans to sell in FY23.

Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning Rating Outlook and Credit Watch]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Power Generation Projects]
[Rating Methodology: Wind Power Projects]
[Financial ratios – Non-Financial Sector]
[Liquidity analysis of Non-financial Sector Entities]

About the Company
K.P Energy Limited (KPEL) is a part of the KP Group of Surat founded by Mr Faruk Patel in year 1994. KPEL has started its business operations in 2010. Further, in February 2016, the equity shares of KPEL got listed on BSE SME exchange and on October 10, 2018, KPEL migrated from BSE SME exchange to Main Board of BSE. KPEL is jointly promoted by Mr. Faruk Patel and Mr. Ashish Mithani.
KPEL is involved in the development of utility scale wind power generation infrastructure and its operations and maintenance (O&M) work. The major activities encompass siting of wind-farms, lands & permits acquisition, EPCC of wind projects along with balance of plant (BoP) infrastructure and O&M of the projects. KPEL also owns & operates four WTGs with an installed capacity of 8.4 MW as an Independent Power Producer (IPP).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	74.63	67.10
PBILDT	11.47	19.03
PAT	1.10	7.21
Overall gearing (times)	0.59	0.64
Interest coverage (times)	2.86	3.76

A: Audited

As per provisional results for Q1FY22, KPEL reported TOI of Rs.20.47 crore and earned PBILDT and PAT of Rs.4.73 crore and Rs.2.03 crore respectively.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated instrument/facility: Please refer Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Bank lender details: Please refer Annexure-5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	August 2027	21.31	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	11.00	CARE BBB-; Stable / CARE A3
Fund-based - ST-Standby Line of Credit	-	-	-	1.80	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Term Loan-Long Term	LT	21.31	CARE BBB-; Stable	-	1)CARE BBB-; Negative (14-Aug-20)	1)CARE BBB-; Negative (24-Feb-20) 2)CARE BBB-; Stable (25-Jul-19)	1)CARE BBB-; Stable (26-Sep-18)
2.	Fund-based - LT-Cash Credit	LT	4.00	CARE BBB-; Stable	-	1)CARE BBB-; Negative (14-Aug-20)	1)CARE BBB-; Negative (24-Feb-20) 2)CARE BBB-; Stable (25-Jul-19)	1)CARE BBB-; Stable (26-Sep-18)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	11.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Negative / CARE A3 (14-Aug-20)	1)CARE BBB-; Negative / CARE A3 (24-Feb-20) 2)CARE BBB-; Stable / CARE A3 (25-Jul-19)	1)CARE BBB-; Stable / CARE A3 (26-Sep-18)
4.	Fund-based - ST-Standby Line of Credit	ST	1.80	CARE A3	-	1)CARE A3 (14-Aug-20)	1)CARE A3 (24-Feb-20) 2)CARE A3 (25-Jul-19)	1)CARE A3 (26-Sep-18)

Annexure 3: Covenants of rated instrument/facility: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Standby Line of Credit	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
4.	Term Loan-Long Term	Simple

Annexure 5: Bank lender details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mr. Mradul Mishra
+91-22-6837 4424
mradul.mishra@careratings.com

Analyst Contact
Mr. Ujjwal Patel
+91-79-4026 5649
ujjwal.patel@careratings.com

Business Development Contact
Mr. Deepak Prajapati
+91-79-4026 5656
deepak.prajapati@careratings.com

About CARE Ratings:
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