Kalpataru Power Transmission Limited (Revised)

March 03, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,125.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	11,360.00	CARE AA; Stable / CARE A1+ (Double A ; Outlook: Stable/ A One Plus)	Reaffirmed
Long Term Bank Facilities^	-	-	Withdrawn
Total Bank Facilities	**12,485.00 (Rs. Twelve Thousand Four Hundred Eighty-Five Crore Only)**		
Non-Convertible Debentures	33.34	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	150.00 (Reduced from 200.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	200.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	**383.34 (Rs. Three Hundred Eighty-Three Crore and Thirty-Four Lakhs Only)**		
Commercial Paper	50.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial Paper (Carved out)*	250.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-Term Instruments	**300.00 (Rs. Three Hundred Crore Only)**		

Details of facilities/instruments in Annexure-1
^withdrawn based on no dues certificate received from lenders
*carved out of fund based working capital limits

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed the ratings assigned to the various bank facilities and instruments of Kalpataru Power Transmission Limited (KPTL) after taking into cognizance the recent decision of Board of Directors (BoD) of KTPL where in it announced the amalgamation scheme of KPTL with its subsidiary JMC Projects (India) Limited (JMC; rated CARE AA- placed under credit watch with positive implications /CARE A1+) subject to receipt of necessary approvals from regulators and stakeholders. The amalgamation is envisaged to translate in synergistic benefits in the form of enhanced operational, organisational, financial efficiencies with likely expansion of business footprint in domestic and overseas markets. Pursuant to the amalgamation announcement, CARE Ratings has revised its analytical approach for KPTL from standalone factoring support to subsidiaries to combined approach. This encompasses assessment of KPTL (standalone) plus JMC (standalone) while factoring support requirement to their subsidiaries.

The ratings assigned to the bank facilities and instruments of KPTL factors in the established position of the KPTL group (group refers to KPTL + JMC) in transmission & distribution segment and civil construction segment, and strong revenue visibility led by healthy and diversified order book position. The financial risk profile of the group remains comfortable marked by large scale of its operations, stable profitability, strong debt coverage indicators albeit moderate capital structure. The ratings also take note of the sizeable cash inflow from divestment of KPTL's stake in its three transmission subsidiaries in FY21 and FY22; expected cash inflows from its real estate project cumulatively leading to strengthened liquidity position of the group.

The above rating strengths are partially offset by relatively high working capital intensity of operations and exposure to weaker BOT-toll based subsidiaries of JMC. JMC has issued termination notice in one of the SPVs while lenders' approval for debt restructuring is received in another SPV. JMC has also planned stake sale in the third SPV. Fructification of the aforementioned plans within envisaged timelines in FY23 are key rating sensitivities in light of high leverage of JMC. Ratings also take cognizance of pledge of around 50% of the promoter stake at KPTL and exposure of promoter entities of KPTL towards cyclical real estate

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

business. Nevertheless, CARE Ratings understands that real estate business at promoter level is without any recourse and support from KPTL group.

Rating Sensitivities
Positive Factors - Factors that could lead to positive rating action/upgrade:
- Significant improvement in gross current asset days on sustained basis while improving profitability and maintaining scale of operations
- Monetization of non-core investment or rationalization of current asset levels leading to improvement in TOL/TNW of around unity on continual basis

Negative Factors - Factors that could lead to negative rating action/downgrade:
- Delay in turnaround/ monetisation plans of JMC's SPVs leading to additional support beyond FY23
- Slow movement of debtors/delay in realization of debtors resulting into further elongation of gross current asset days on sustained basis.
- Unfavourable movement in the pledge of shares of promoters and outflow of non-core advances by the group

Detailed description of the key rating drivers
Key Rating Strengths
Established presence of KPTL group in transmission & distribution (T&D) segment as well as civil construction & infrastructure industry
KPTL has an established position in the domestic TDI market and is one of the top three leading players in the industry with an execution track record of more than four decades. In addition to its strong position in the domestic market, KPTL has also diversified organically to over 67 countries and inorganically into Brazil and Sweden. JMC has an established track record in infrastructure construction business of over two decades in various areas including industrial, commercial and residential buildings and infrastructure segment (roads and pipeline laying).

Strong revenue visibility led by healthy and diversified order book position
KPTL group has strong outstanding order book of Rs. 37,000 crore as on December 31, 2021. Order book is well diversified into various segments with T&D segment contributing 30%, Buildings contributing 30%, water pipelines (24%), railways (10%) and oil & gas pipelines (6%). Overseas orders also constituted 35% of the order book. The group has international presence in over 67 countries. Majority of international orders are backed by multilateral funding agencies which mitigates the counterparty risk to a large extent. In domestic T&D segment, KPTL has increased its focus on PGCIL orders in order to reduce its counterparty risk. Further, KPTL has only 6% of the domestic T&D orders outstanding as on December 31, 2021 from State Transmission and Distribution Companies.
Clientele of JMC largely consist of reputed government companies or private companies with comfortable credit profile mitigating the counterparty risk to a large extent. Diversified order book position is also expected to protect KPTL group from increase in competition in one segment.

Comfortable financial risk profile marked by growth in scale of operations, stable profitability
During FY21 (refers to the period from April 01 to March 31) the total operating income (TOI) of KPTL group remained stable at Rs.11,480 crore (FY20: Rs.11,755 crore) amidst execution challenges due to COVID-19 related disruption. The operating margin for JMC declined by 196 bps during FY21 mainly due to incremental costs for maintaining COVID-19 precautions. However, operating margins at combined level remained stable at 11.54% during FY21 as against 12.21% during FY20.
During 9MFY22 (refers to the period from April 01 to December 31), JMC registered TOI of Rs.3816 crore as against TOI of Rs.2356 crore during 9MFY21 led by timely execution of orders in hand. As a result, the TOI of KPTL group registered a y-o-y growth of 15.15% during 9MFY22 to Rs.8930 crore as against TOI of Rs.7,755 crore during 9MFY21. The operating margins moderated to 9.58% during 9MFY22 largely on account of decline in profitability of JMC to 8.17% due to disproportionate hike in the commodity prices. However, there are suitable contractual provisions for price escalations but there is a lag in the incurring of expense, execution and subsequent billing and collection . During 9MFY22, KPTL group registered exceptional loss of Rs.164 crore as JMC has written off investment, loan & advances to the tune of Rs.380.62 crore towards investment in two of its SPVs while KPTL registered exceptional gain of Rs.217 crore due to stake sale in one of its SPVs. As indicated by the management, KPTL group envisages expansion in operating margins post amalgamation due to savings in overhead costs by around Rs.100 crore and economies of scale. Ability of the group to improve the profitability shall remain crucial from credit perspective.

Healthy debt coverage indicators albeit with moderate capital structure
The debt coverage indicators of the group remained strong marked by interest coverage of 4.25 times and total debt to PBILDT of 2.37 times during FY21. Interest coverage of the group continued to remain strong at 4.74 times during 9MFY22 while net

debt (excluding mobilization advances and acceptances from debt)/PBILDT continued to remain at 1.01 times despite decline in operating margins of JMC on account of increase in cash and cash equivalent of KPTL group post receipt of stake sale proceeds. Nevertheless, TOL/TNW of KPTL group was moderate at 2.04 times during FY21 and expected to remain muted owing to working capital intensive operations and relatively higher leverage of JMC. Going forward, improvement in the capital structure of KPTL group through debt rationalization post fructification of various plans as aforementioned is a key rating sensitivity.

Key Rating Weaknesses

Working capital intensive nature of operations

KPTL group's operations remained highly working capital intensive, largely due to milestone-based payment terms in almost all its contracts; retention money and exposure to some of the weaker transmission and distribution companies leading to higher receivable days. Exposure to receivables from projects in Afghanistan and higher proportion of debtors more than six months of JMC also contributed to higher working capital intensity of KPTL group. The receivable days increased from 185 days during FY20 to 202 days during FY21.Further, the gross current asset days of the group also continued to remain high at 298 days during FY21. Company expects receipt of insurance claims proceeds against Afghanistan receivables. Moreover, focus on PGCIL's projects and gradual debtors realization from transmission companies based out of Tamilnadu and Maharashtra are expected to reduce working capital intensity in the medium term. Improvement in working capital intensity as envisaged shall remain key rating monitorable.

Exposure to weaker SPVs of JMC

KPTL has demonstrated its ability to unlock its capital while selling stake in all four transmission projects with valuation of 1.80 times of its invested equity. As on December 31, 2021 there are no under construction transmission BOT projects in KPTL group. KPTL also envisages sizeable cash flow from its real estate from project having nil external debt. The management has also indicated plans to divest its stake in Shree Shubham Logistics Ltd. However, KPTL group is exposed to JMC's exposure in weaker operational toll SPVs. In order to curtail future support to weaker SPVs, Wainganga Expressway Private Ltd (WEPL, rated CARE D) has applied for the debt restructuring which has been approved by its lenders. Another toll project in Haryana is terminated by JMC owing to prolonged Farmers' agitation. However, receipt of adequate termination payment to cover lenders dues is crucial to limit support from JMC. JMC is also pursuing stake sale options in Vindhyachal Expressway Private Ltd (VEPL; rated CARE BBB-; Stable) which has longer tail period of 15 years. Till March 31, 2021, JMC had infused Rs.789 crore in all its BOT Road SPVs, (Rs.366 crore higher than the initial planned investment in these SPVs). Hence, materialization of the aforementioned transactions by FY23 is crucial from credit perspective.

Liquidity: Strong

KPTL group has strong liquidity despite working capital intensive operations marked by free cash and cash equivalent of Rs.774 crore as on December 31, 2021. Average utilization of the fund based working capital limit was 75% for the JMC and 81% for KPTL. However, post receipt of stake sale proceeds at KPLT utilization of working capital has reduced significantly due to retirement of working capital borrowings by end of December 2021.

JMC has enhanced sanctioned fund based working capital limits from Rs.419 crore to Rs.500 crore to shore up working capital. Although JMC has relatively higher repayment obligations in the medium term, low leverage of KPTL aids liquidity for KPTL group.

Analytical approach:

CARE has combined the financials of KPTL (standalone) and JMC (standalone) together referred to as KPTL group while factoring their equity commitment and support requirement in subsidiaries and SPVs.

Till the last review, CARE Ratings had analyzed KPTL's financial risk profile on a standalone basis while factoring in the equity commitment and cash-flow support required to be extended to its subsidiaries including JMC its various power transmission special purpose vehicles (SPV). KPTL has 67.75% stake in JMC as on December 31, 2021 and therefore strong economic incentive and strategic importance of JMC for KPTL has been factored in the JMC's ratings. Pursuant to merger announcement, CARE Ratings has revised the analytical approach of KPTL to KPTL (standalone) plus JMC (standalone) while factoring support requirement to its subsidiaries.

Applicable Criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Construction
Policy on Withdrawal of Ratings

About the Company

Promoted by Mr. Mofatraj Munot in 1981, KPTL is one of the top three players in the domestic TDI sector. Presently, it operates in TDI segment, railways and oil & gas. KPTL's manufacturing facilities for transmission tower structures are situated at Gandhinagar in Gujarat and Raipur in Chhattisgarh with a combined installed capacity of 240,000 metric tonne per annum (MTPA) as on March 31, 2021. In addition to its TDI business, KPTL has also diversified inorganically by acquiring majority stake in JMC Projects (India) Ltd. (JMC – 67.75% equity holding of KPTL as on March 31, 2021) engaged in diversified construction activities and Shree Shubham Logistics Ltd. (SSLL –100% holding as on March 31, 2021) engaged in agri-warehousing and allied activities. In addition to the above, KPTL has also ventured into asset ownership in power transmission sector through its SPVs (all SPVs have been divested), and in the road construction sector through JMC and its four SPVs. Further, KPTL has invested in real estate project through its wholly-owned subsidiaries, Energylink (India) Ltd. (EIL). As per the recent BSE announcement, Board of Directors of KPTL has announced scheme of amalgamation of JMC with KPTL. The amalgamation is expected to materialized by FY23.

Brief Standalone Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
TOI	7,980	7,745	5,114
PBILDT	976	943	544
PAT	463	615	428
Overall gearing (times)	0.50	0.36	0.35
Interest coverage (times)	4.34	5.52	5.79

A: Audited; UA: Unaudited

Brief Combined Financials (Rs. crore)	31-03-2020 (UA)	31-03-2021 (UA)	9MFY22 (UA)
TOI	11,755	11,480	8,930
PBILDT	1,436	1,325	856
PAT	542	686	213
Overall gearing (times)	0.26	0.23	0.18
Interest coverage (times)	3.87	4.25	4.74

UA: Unaudited;

Please note the above financials are combined by CARE Ratings as per CARE's internal standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	-	1125.00	CARE AA; Stable
Non-fund-based-LT/ST	-	-	-	-	697.90	CARE AA; Stable / CARE A1+
Non-fund-based-LT/ST	-	-	-	-	10662.10	CARE AA; Stable / CARE A1+
Term Loan-Long Term	-	-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE220B08043	May 25, 2017	8.45% p.a.	May 25, 2022	33.34	CARE AA; Stable
Debentures-Non Convertible Debentures	INE220B08050	September 27, 2017	8.11% p.a.	September 27, 2022	50.00	CARE AA; Stable
Debentures-Non Convertible Debentures	INE220B08068	September 12, 2018	Zero coupon	March 11, 2022	50.00	CARE AA; Stable
Debentures-Non Convertible Debentures	INE220B08076	September 12, 2018	Zero coupon	September 12, 2022	50.00	CARE AA; Stable
Debentures-Non Convertible Debentures	INE220B08084	January 12, 2022	6.15% p.a.	January 10, 2025	200.00	CARE AA; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7-364 days	50.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	-	-	-	7-364 days	250.00	CARE A1+

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	Commercial Paper-Commercial Paper (Carved out)	ST	250.00	CARE A1+	1)CARE A1+ (07-Jul-21) 2)CARE A1+ (01-Apr-21)	1)CARE A1+ (03-Apr-20)	-	1)CARE A1+ (07-Dec-18)
2	Fund-based-Long Term	LT	1125.00	CARE AA; Stable	1)CARE AA; Stable (07-Jul-21) 2)CARE AA; Stable (01-Apr-21)	1)CARE AA; Stable (03-Apr-20)	-	1)CARE AA; Stable (07-Dec-18)
3	Non-fund-based-LT/ST	LT/ST*	697.90	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (07-Jul-21) 2)CARE AA; Stable / CARE A1+ (01-Apr-21)	1)CARE AA; Stable / CARE A1+ (03-Apr-20)	-	1)CARE AA; Stable / CARE A1+ (07-Dec-18)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	1)Withdrawn (03-Apr-20)	-	1)CARE AA; Stable / CARE A1+

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
								(07-Dec-18)
5	Non-fund-based-LT/ST	LT/ST*	10662.10	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (07-Jul-21) 2)CARE AA; Stable / CARE A1+ (01-Apr-21)	1)CARE AA; Stable / CARE A1+ (03-Apr-20)	-	1)CARE AA; Stable / CARE A1+ (07-Dec-18)
6	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A1+	1)CARE A1+ (07-Jul-21) 2)CARE A1+ (01-Apr-21)	1)CARE A1+ (03-Apr-20)	-	1)CARE A1+ (07-Dec-18)
7	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (30-Nov-18)
8	Term Loan-Long Term	LT	-	-	1)CARE AA; Stable (07-Jul-21) 2)CARE AA; Stable (01-Apr-21)	1)CARE AA; Stable (03-Apr-20)	-	1)CARE AA; Stable (07-Dec-18)
9	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (01-Apr-21)	1)CARE AA; Stable (03-Apr-20)	-	1)CARE AA; Stable (07-Dec-18)
10	Debentures-Non Convertible Debentures	LT	33.34	CARE AA; Stable	1)CARE AA; Stable (07-Jul-21) 2)CARE AA; Stable (01-Apr-21)	1)CARE AA; Stable (03-Apr-20)	-	1)CARE AA; Stable (07-Dec-18)
11	Debentures-Non Convertible Debentures	LT	150.00	CARE AA; Stable	1)CARE AA; Stable (07-Jul-21) 2)CARE AA; Stable (01-Apr-21)	1)CARE AA; Stable (03-Apr-20)	-	1)CARE AA; Stable (07-Dec-18)
12	Debentures-Non Convertible Debentures	LT	200.00	CARE AA; Stable	1)CARE AA; Stable (07-Jul-21) 2)CARE AA; Stable (01-Apr-21)	1)CARE AA; Stable (03-Apr-20)	-	-

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

Name of the Instrument – Non-Convertible Debentures	Detailed explanation
A. Financial covenants	
1. Total Debt / Tangible Net-worth not exceeding 1.00 times	All financial covenants are met.
2. DSCR not to reduce to less than 1.25 times	
B. Non-financial covenants	
1. Accelerated repayments	• Promoter holding falls below 51% • Current promoters cease of have management control over the company, as defined in the term sheet
2. Prior approval of Debenture Trustee for any transaction of change in control or merger, de-merger, consolidation, re-organization or scheme of arrangement, etc.	

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

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Commercial Paper-Commercial Paper (Standalone)	Simple
3	Debentures-Non Convertible Debentures	Simple
4	Fund-based-Long Term	Simple
5	Non-fund-based-LT/ST	Simple
6	Term Loan-Long Term	Simple

Annexure-5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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