K. P. Energy Limited

July 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	27.79 (Enhanced from 25.31)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	31.00 (Enhanced from 11.00)	CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable/ A Three Plus)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**58.79 (₹ Fifty-Eight Crore and Seventy-Nine Lakh Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of K.P. Energy Limited (KPEL) considers substantial growth in its scale of operations during FY22 (refers to the period April 01 to Mach 31), albeit on a low base and its comfortable financial risk profile.

The ratings 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 factors satisfactory operational performance of KPEL's wind power plants since commencement of its operations, low off-take and counterparty risk due to the presence of power purchase agreement (PPA) with reputed corporates, and adequate liquidity backed by the presence of Debt Service Reserve Account (DSRA) equivalent to one quarter of its debt servicing obligations.

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

CARE has withdrawn the rating assigned to the bank facility of stand by letter of credit (SLC) as it has been discontinued as per the latest bank sanction letter.

Rating sensitivities

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

- Increase in total operating income (TOI) above Rs.375 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 0.50x in the medium term.
- Levy of interest on advances granted by GE India Industrial Private Limited (GEIIPL) or crystallization of penalty claimed by Gujarat Urja Vikas Nigam Limited (GUVNL) for delay in execution of the project in KPEL's subsidiary i.e. Evergreen Mahuva Wind Farms Private Limited (EMWPL).

Detailed description of the key rating drivers

Key rating strengths

Substantial growth in scale of operations and moderate profitability:

During FY22, KPEL reported substantial growth in its TOI to Rs.250.38 crore (PY: Rs.66.36 crore) on account of increase in revenue from Engineering Procurement & Construction (EPC) business.

KPEL's PBILDT margin moderated in FY22 to 13.69% (PY: 27.56%) owing to trading of turbine. Excluding the trading business, PBIT margin from EPC, power generation and O&M segment remained stable and improved in O&M category at 14.06%, 69.54% and 75.55% (PY:14.30%, 70.33% and 53.06%) respectively.

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

While PAT margin moderated by 250 bps y-o-y to 8.36% in FY22 due to thin markup on trading sales, KPEL reported a two-fold growth in its gross cash accruals (GCA) to Rs. 25.70 crore (PY:Rs.12.34 crore).

Comfortable capital structure:

KPEL has a comfortable capital structure marked by overall gearing to 0.28x as at FY22 end (0.64x as at FY21 end) on account of lower debt levels and accretion of profit to reserves. KPEL's LT debt mainly comprises of term debt for its 8.4 MW power plant, EPC business is funded by working capital borrowings, utilisation of which remained low during FY22.

With scaling up of operations and improvement in PBILDT vis-à-vis reduction in debt levels, KPEL's debt coverage indicators improved marked by interest coverage and total debt to GCA of 7.93 times (PY: 3.62 times) and 0.91x (3.18x in FY21) respectively during FY22.

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 the 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.

Promoted by Mr. Faruk Patel and Mr. Ashish A Mithani, KPEL is current managed by Mr Faruk Patel who possess more than two decades of experience in various industries and around a decade in the wind energy segment. He is ably supported by his son Mr Affan Patel and a team of experienced professionals, forming a strong second line of management for execution of projects.

Availability of sizeable land for development of projects:

As on March 31, 2022, KPEL had a sizeable inventory of wind sites across various locations in Gujarat with power generation potential of above 1008 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 FY22, the power plants reported satisfactory Capacity Utilisation Factor (CUF) at all the four locations with an average CUF of 24.75% (PY: 22.83%).

Established infrastructure for power evacuation, satisfactory capacity utilisation factor (CUF), low off-take and counterparty credit risk on account of PPA with two reputed corporates and timely receipt of monthly payments results in steady cash flows. Periodic renewal of PPAs with each party mitigates the risk arising from shorter tenure agreements and concentration risk. During FY22, KPEL reported revenue of Rs.7.88 crore from sale of power (FY20: Rs. 8.09 crore).

<u>**Key rating weaknesses**</u>

Improvement in order book position, albeit high customer concentration

Although KPEL has added a new contract of Rs.265 crore in its order book since the last review and had an order book of Rs.274.73 crore (Rs.135.85 crore as on August 31, 2021) as on April 01, 2022. In terms of revenue visibility, KPEL's orderbook to TOI for FY22 remained 1.09x times, indicating moderate revenue visibility in near-term.

Moreover, the order book remains concentrated with a major high value contract from a single client i.e. Apraava Energy Private Limited. Nevertheless, KPEL has enhanced its customer base with contracts from different parties in FY22, thus mitigating the client concentration risk to an extent.

Furthermore, under GUVNL wind tender, the consortium of KPEL and EMWPL 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. GUVNL has issued a Default Notice dated June 01, 2020 and Termination Notice dated June 01, 2020 to EMWPL. The matter is under process at Hon'ble Gujarat Electricity Regulatory Commission (GERC).

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.

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
The average utilisation of fund-based limits of KPEL has remained low at 18% during trailing 12 months ended April 2022. As on March 31, 2022, KPEL has free cash and bank balance of Rs.12.28 crore (Rs.1.13 crore as on March 31, 2021) besides lien marked bank deposits of Rs.8.67 crore (Rs.15.49 crore as on March 31, 2021). The FDs have been lien marked towards one quarter of Debt Service Reserve Account (DSRA) and margin for bank guarantee (BG). KPEL has a fixed annual repayment obligation of Rs.6.80 crore during FY23, against which power sales and PBIT from the IPP segment was Rs.7.88 crore and Rs.5.48 crore respectively.
Further, KPEL's operating cycle improved to 76 days (276 days in FY21) owing to reduction in inventory days and creditors period to 170 days (PY: 529 days) and 114 days (PY: 295 days) in FY22 respectively.

Analytical approach: Standalone

Applicable criteria

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

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 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 (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (Abridged)
Total operating income	74.12	66.36	250.38
PBILDT	10.95	18.29	34.28
PAT	1.10	7.21	20.92
Overall gearing (times)	0.59	0.64	0.28
Interest coverage (times)	2.73	3.62	7.93

A: Audited

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 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 (₹ crore)	Rating Assigned along with Rating Outlook
Term Loan-Long Term		-	-	August 2029	21.99	CARE BBB; Stable
Fund-based - LT-Cash Credit		-	-	-	5.80	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	31.00	CARE BBB; Stable / CARE A3+
Fund-based - ST-Standby Line of Credit		-	-	-	0.00	Withdrawn

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	Term Loan-Long Term	LT	21.99	CARE BBB; Stable	-	1)CARE BBB-; Stable (02-Sep-21)	1)CARE BBB-; Negative (14-Aug-20)	1)CARE BBB-; Negative (24-Feb-20) 2)CARE BBB-; Stable (25-Jul-19)
2	Fund-based - LT-Cash Credit	LT	5.80	CARE BBB; Stable	-	1)CARE BBB-; Stable (02-Sep-21)	1)CARE BBB-; Negative (14-Aug-20)	1)CARE BBB-; Negative (24-Feb-20) 2)CARE BBB-; Stable (25-Jul-19)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	31.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (02-Sep-21)	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)
4	Fund-based - ST-Standby Line of Credit	ST	-	-	-	1)CARE A3 (02-Sep-21)	1)CARE A3 (14-Aug-20)	1)CARE A3 (24-Feb-20) 2)CARE A3 (25-Jul-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not Applicable

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

Sr. No.	Name of 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 Guarantee	Simple
4	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 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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