# Kalpataru Power Transmission Limited

July 07, 2021

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 1,161.75 (Enhanced from 961.75) | **CARE AA; Stable (Double A; Outlook: Stable)** | **Reaffirmed** |
| Long Term / Short Term Bank Facilities | 11,360.00 (Enhanced from 10,860.00) | **CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)** | **Reaffirmed** |
| **Total Bank Facilities** | **12,521.75 (Rs. Twelve Thousand Five Hundred Twenty-One Crore and Seventy-Five Lakhs Only)** | | |
| Outstanding Non-Convertible Debentures | 33.34 (Reduced from 66.67) | **CARE AA; Stable (Double A; Outlook: Stable)** | **Reaffirmed** |
| Outstanding Non-Convertible Debentures | 200.00 | **CARE AA; Stable (Double A; Outlook: Stable)** | **Reaffirmed** |
| Proposed Non-Convertible Debentures | 200.00 | **CARE AA; Stable (Double A; Outlook: Stable)** | **Reaffirmed** |
| **Total Long-Term Instruments** | **433.34 (Rs. Four Hundred Thirty-Three Crore and Thirty-Four Lakhs Only)** | | |
| Commercial Paper (Standalone) | 50.00 | **CARE A1+ (A One Plus)** | **Reaffirmed** |
| Commercial Paper (Carved out of working capital limits) | 250.00 | **CARE A1+ (A One Plus)** | **Reaffirmed** |
| **Total Short-Term Instruments** | **300.00 (Rs. Three Hundred Crore Only)** | | |

*Details of facilities in Annexure-1*

**Detailed rationale & key rating drivers**

The ratings assigned to the bank facilities and instruments of Kalpataru Power Transmission Limited (KPTL) continue to derive strength from its strong and established position in domestic and international transmission and distribution infrastructure (TDI) sector and increasing presence in infrastructure and railway segment. The ratings also derive strength from healthy and geographically diversified order book position of around Rs.14,000 crore as on March 31, 2021 translating into order book to total operating income of 1.79x with around 47% of order book from the overseas market spread over diversified geographies. The ratings also take cognisance of the fact the KPTL has acquired entities involved in Transmission and Distribution (T&D) EPC in Brazil and Sweden to geographically expand its footprints.

The ratings also factor in strong financial risk profile of the company marked by stable scale of operations and profitability, comfortable gearing and debt coverage indicators.

The ratings also factor in the receipt of stake sale proceeds from its power transmission special purpose vehicles which were partly utilized for meeting working capital requirements. Further, the stake sale of Kohima Mariani Transmission Limited (KMTL; rated CARE A+; Credit Watch with Developing Implications) is at an advanced stage and is likely to be completed in the medium term.

The long-term rating, however, continues to remain constrained on account of its inherently high working capital intensity operations which was further intensified due to Covid-19 pandemic. High retention money requirements in majority of the projects, milestone-based payment terms in railways and pipeline laying segment and exposure to state transmission companies (albeit the same has gradually reduced) collectively result into high working capital requirements.

Susceptibility of the operating profitability to volatile raw-material prices which increased during FY21 (refers to period April 01 to March 31), foreign exchange fluctuation risk, risk related to project execution including securing of right of way (RoW) and exposure to various subsidiaries involved in various non-core businesses (albeit the funding requirement to these subsidiaries have gradually reduced) also continues to constrain the ratings.

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

**Key Rating Sensitivities**

**Positive Factors:**

- Significant improvement in gross current asset days on a 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 a sustained basis.

**Negative Factors:**

- Higher than envisaged debt either due to large debt funded capex or increase in the working capital borrowings on a sustained basis
- Higher than envisaged support to group entities in the form of equity, loans and advances and or moderation in performance of the subsidiaries
- Slow movement of debtors/delay in realization of debtors resulting into further elongation of gross current asset days on sustained basis.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Established position in domestic TDI market with growing presence in overseas market coupled with increased focus on railways and pipeline segment**

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 three decades. In addition to its strong position in the domestic market, KPTL has also diversified organically to over 62 countries and inorganically into Brazil and Sweden.

The share of export revenue increased from 35% during FY20 to 46% during FY21 on account of higher execution of export orders due to lockdown restrictions in India.

Furthermore, during FY21, KPTL continued its focus on enhancing its technical qualification and execution capacity in railways and pipeline segment as revenue from these segments contributed around 35% of FY21 TOI (as against 38% of share of TOI in FY20).

**Strong revenue visibility backed by healthy and diversified order book**

KPTL had outstanding order book of around Rs.14,000 crore as on March 31, 2021 which was 1.79x FY21 TOI (as compared to 1.67x in FY20). The order book of KPTL is diversified across various segments with 59% of the outstanding order book from domestic and overseas T&D segment and the balance 41% in railways and infrastructure.

In domestic T&D segment, KPTL has increased its focus on Power Grid Corporation of India (PGCIL; rated CARE AAA; Stable / CARE A1+) orders in order to reduce its counterparty risk. Further, KPTL has only 40% of the domestic T&D orders outstanding as on March 31, 2021 from State Transmission and Distribution Companies.

KPTL has increased its focus on railway projects i.e. electrification and construction of railway lines. As a result, the outstanding order book position in railways segment has increased over the past couple of years and contributes around 24% of the order book position as on March 31, 2021. Orders from pipeline and other infrastructure segments contributed 17% of the order book.

**Strong financial risk profile**

KPTL's TOI in FY21 largely remained stable amidst challenges of slower execution of infra and railway orders. KPTL has largely executed international orders during due to lower restrictions in countries other than India which has led to increase in export orders from 35% of TOI in FY20 to 46% of TOI in FY21. Segment-wise breakup of revenue has been largely stable. The operating margins of the company have moderated marginally in Q4FY21 on account of significant increase in raw material prices. However, the PAT margin has improved in FY21 on account of exceptional gain on sale of stake in two of its operational SPVs.

Overall gearing of KPTL improved marginally as on March 31, 2021 due to reduction in working capital debt and customer advances from the stake sale proceeds.

KPTL has also extended corporate guarantee & letter of comfort to its various group entities which increases the adjusted overall gearing marginally.

**Favourable industry scenario in the long term**

The Indian government envisages addition of 105,580 CKMs of transmission lines and 292,000 MVA of transformation capacity addition between 2017-2022, necessitating a sizeable investment to the tune of Rs.260,000 crore. This is expected to unfold reasonable opportunities for players like KPTL.

The power transmission industry overseas in expected to grow led by ever increasing demand for power and challenges in attaining grid stability due to addition of large renewable energy projects. Further, there is increase in opportunity in high voltage transmission networks globally.

Apart from the domestic markets, power infrastructure development is also gaining pace in MENA and CIS regions. Substantial investments have been planned in the transmission sector due to largely underdeveloped power infrastructure and increased power generation in the region. KPTL with its experience of developing transmission networks in over 55 countries is likely to gain a fair share in these markets going forward.
Industry outlook of oil and gas pipeline industry is also stable as Government of India is planning to invest Rs 70,000 crore to expand the gas pipeline network across the country. Further, regulations are favourable with Petroleum and Natural Gas Regulatory Board (PNGRB) in November 2020, simplifying the India's gas pipeline tariff structure to make fuel more affordable for distant users and attract investment for building gas infrastructure. Furthermore, steps are being taken by oil and gas exploration companies to increase the domestic natural gas production. KPTL, being one of upcoming players in the oil and gas pipeline industry, is expected to benefit from this opportunity.
Indian Railways has set a target an aggressive target of electrification of the entire network by 2024-25. The same is expected to order well for players like KPTL which have rich experience with domestic T&D and railway industry.

**Key Rating Weaknesses**
**Working capital intensive nature of operations**
KPTL's operations remained highly working capital intensive, largely due to milestone-based payment terms in almost all its contracts as well as retention money being held up by clients till the end of performance guarantee period (12-24 months), a norm inherent to the TDI industry. Furthermore, change in revenue mix towards railways and pipeline laying which have relatively back ended cash-flows in comparison to T&D segment.
With higher revenue growth witnessed in railway and infrastructure segment, the working capital intensity of KPTL had increased during FY20 and has continued at similar levels in FY21 as both these segments have longer receivable days due to back ended nature of projects i.e. cash flow is realized post achievement of certain milestone and execution during FY21 has been slow. In addition, delay in the receivables from certain T&D players had also increased reliance on external working capital bank borrowings. However, KPTL has reduced its reliance on working capital borrowings post receipt of stake sale proceeds. As a result, interest cost of the company has reduced in FY21. This has led to decent improvement in interest coverage in FY21. The average working capital utilisation was 66% during 12-month period ended December 31, 2020.
KPTL derives flexibility to fund working capital requirement through advances from customers and creditors with back-to-back payment clauses for most of the contracts. However, this resulted in moderate TOL/TNW.
The receivables of KTPL (including retention money and unbilled revenues) increased resulting into marginal increase in receivable days in FY21. Further, gross current assets days also continued to remain high during FY21. Going forward, extent of improvement in current asset days through realization of old debtors from weaker state counterparties and higher focus on stronger counterparty in domestic market is key rating monitorable.

**Increased exposure to group entities albeit with expected reduction in exposure going forward post stake-sale in SPVs**
KPTL remains exposed to the business risk of its various subsidiaries and associates. KPTL's exposure to its group entities stood at 46% of its net-worth as on March 31, 2021 as compared to 53% as on March 31, 2020. This is further expected to reduce post sale of balance stake in Alipurduar Transmission Limited and divestment of KMTL.
KPTL has diversified in road and civil construction through its holding in JMC Projects (India) Limited (rated CARE A+; Stable / CARE A1). JMC has healthy performance and does not require any support from KPTL. Further, KPTL has sold its stake in 3 of its transmission BOOT projects and is in advanced stage for transferring one SPV as well. Hence no support is expected to be extended by KPTL.
Shree Shubham Logistics Limited (SSLL; rated CARE BBB+; Stable/ CARE A3+) has also not availed any support from KPTL during FY21 and is likely to remain self-sustainable. Also, SSLL reported PAT of Rs.5 crore during FY21. During FY21, KPTL has infused loans and advances towards its Indore real estate project along with extending support to its overseas subsidiaries. Saicharan properties and Energy link are developing a real-estate project in Indore. The project is in advance stage of construction. KPTL is expected to extend need based support for the balance construction of the project.
KPTL has also recently floated a Brazilian subsidiary (Kalpataru Power Do Brasil Participacoes Ltda) for acquiring 51% stake in Fasttel Engenharia Ltda (Fasttel) for USD 8.8 million (~Rs.66 crore). Fasttel operates in EPC of substation, transmission lines and power distribution services.

**Susceptibility of operating profitability to volatile raw-material prices and foreign exchange fluctuation risk**
A sizeable portion of the international orders of KPTL are on a fixed price basis which exposes it to volatility in raw-material prices. While KPTL hedges aluminium, zinc and copper through commodity derivatives, the exposure towards steel remains unhedged. Given that raw material prices have surged significantly in FY21, the fluctuation in steel prices is expected to exert pressure on the profit margins.
However, KPTL manages the risk to an extent through a mix of back-to-back sourcing of materials and commodity futures along with hedging of its forex and commodity position. This protects its profitability to a certain extent from volatility in both material and forex rates. In the domestic market, most of the TDI orders have a price variation clause linked to applicable industry indices protecting the profitability from volatility in major input prices to a certain extent.

**Risk of land acquisition/use and clearances in a timely manner across projects in wide geography**
KPTL needs to acquire Right of Use (RoU) of land as well as Right of Way (RoW) from private parties as well as government agencies for its infrastructure projects as well as for laying transmission towers. This exposes it to risk of delays in the project execution, if these rights are not obtained in time. In certain cases, if the rights are denied, the path/orientation of the line might have to be changed, resulting in time and cost overrun at times. With growing international presence, KPTL is also exposed to country and political risks associated with execution of its projects in those regions, especially considering its presence in many African and Middle-East Asian countries; albeit the company's Board has a well-defined strategy to mitigate these risks by way of limiting their exposure to a single country, taking ECGC cover, bidding for multilateral agencies funded projects etc.

**Liquidity: Strong**
Liquidity of the company is marked by strong cash accruals from business operations as against scheduled debt repayment obligations of Rs.201 crore during FY22. The average utilization of the fund based working capital limits was around 66% for the trailing twelve months ended December 2020 while the utilization of the non-fund-based limits was around 80% for the same period. Further, company had free cash and cash equivalents to the tune of Rs.309 crore as on March 31, 2021 aiding its liquidity position. In addition, net cash inflow from the stake sale of KMTL is further expected to boost the liquidity position of the company.

**Analytical approach:**
CARE has analysed 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 and its various power transmission special purpose vehicles (SPV). KPTL is flagship entity of the Kalpataru group and substantial portion of the group's business operations vests in it. KPTL through its subsidiaries has invested in diverse businesses like civil & road construction, agri warehousing, real-estate etc. Further, KPTL has also invested in power transmission assets on build own operate Maintain (BOOM) basis structured in the form of SPVs. Hence, CARE has appropriately factored in KPTL's equity commitment and support required to be extended to its subsidiaries and its SPVs in the form of equity commitment, advances towards shortfall and cost over-runs as well as guarantees, if any.

**Applicable Criteria**
**Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings**
**CARE's Policy on Default Recognition**
**Criteria for Short Term Instruments**
**Rating Methodology: Notching by factoring linkages in Ratings**
**Rating Methodology – Construction Sector**
**Liquidity Analysis of Non-Financial Sector Entities**
**Financial ratios - Non- Financial Sector**

**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, infrastructure segment (which includes laying oil and gas pipelines and railway construction) while the balance was contributed by others including power generation through bio-mass. 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. Further, to support the operations of SSLL, the company has diversified into funding of commodity and non-commodity working capital through acquisition of Punarvasu Financial Services Pvt. Ltd. (PFSPL; 100% stake through SSLL). In addition to the above, KPTL has also ventured into asset ownership in power transmission sector through its SPVs, and in the road construction sector through JMC and its four SPVs. Further, KPTL has invested in real estate projects through its wholly-owned subsidiaries, Energylink (India) Ltd. (EIL) and Amber Real Estate Ltd. (AREL).

(Rs. Crore)

| Brief Financials of KPTL – Standalone | FY20 (A) | FY21 (A) |
|---|---|---|
| Total operating income | 7,980 | 7,744 |
| PBILDT | 976 | 949 |
| PAT | 463 | 615 |
| Overall gearing (times; incl. mobilization advances) | 0.50 | 0.40 |
| Interest coverage (times) | 4.34 | 5.51 |

A-Audited

**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:** Detailed explanation of covenants of the rated instruments is given in Annexure-3

**Complexity level of various rated instruments for this company:** Please refer 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 | - | - | - | - | 1,125.00 | CARE AA; Stable |
| Non-fund-based-LT/ST | - | - | - | - | 697.90 | CARE AA; Stable / CARE A1+ |
| Non-fund-based-LT/ST | - | - | - | - | 10,662.10 | CARE AA; Stable / CARE A1+ |
| Term Loan-Long Term | - | - | - | September 30, 2022 | 36.75 | CARE AA; Stable |
| 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 | 100.00 | 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 @ | Not Applicable | Not Applicable | Not applicable | Not applicable | 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+ |

@not applicable as it is a proposed NCD issue

**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+ (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 (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+ (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+ (07-Dec-18) |
| 5. | Non-fund-based-LT/ST | LT/ST | 10662.10 | CARE AA; Stable / CARE A1+ | 1)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+ (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 | 36.75 | CARE AA; Stable | 1)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 (01-Apr-21) | 1)CARE AA; Stable (03-Apr-20) | - | 1)CARE AA; Stable (07-Dec-18) |
| 11. | Debentures-Non Convertible Debentures | LT | 200.00 | CARE AA; Stable | 1)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 (01-Apr-21) | 1)CARE AA; Stable (03-Apr-20) | - | - |

**Annexure-3: Detailed explanation of covenants of the rated instruments**

| 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.Step-up of coupon rate | Coupon rate to be revised upwards by 0.30% p.a. (for every notch) for downgrade in credit rating to “A+” or below by any rating agency. |
| 2. Accelerated repayments | • Promoter holding falls below 51%<br>• Current promoters cease of have management control over the company, as defined in the term sheet |
| 3. 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 the 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 |

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

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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