Kalpataru Power Transmission Limited

January 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	484.75	CARE AA; Stable	Assigned
Long-term bank facilities	2,050.00 (Enhanced from 1,300.00)	CARE AA; Stable	Reaffirmed
Long-term / Short-term bank facilities	17,789.00 (Enhanced from 11,789.00)	CARE AA; Stable / CARE A1+	Reaffirmed
Non-convertible debentures	349.00	CARE AA; Stable	Assigned
Non-convertible debentures	200.00	CARE AA; Stable	Reaffirmed
Commercial paper	50.00	CARE A1+	Reaffirmed
Commercial paper (Carved out)*	150.00	CARE A1+	Assigned
Commercial paper (Carved out)*	250.00	CARE A1+	Reaffirmed

*Carved out of working capital limits
Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of Kalpataru Power Transmission Limited (KPTL) take cognisance of amalgamation of JMC Projects (India) Limited with KPTL as per the scheme approved by National Company Law Tribunal (NCLT) on December 21, 2022, with an appointed date of April 1, 2022, and effective date being January 4, 2023. The merger is envisaged to translate in synergistic benefits in the form of enhanced operational, organisational, financial efficiencies with likely expansion of PBILDT margins of the KPTL group (group refers to KPTL [standalone] +JMC [Standalone]).

The ratings take into account the established position of the KPTL group in transmission & distribution, oil & gas infrastructure, water pipelines & distribution, railways and civil construction EPC business, and strong revenue visibility led by strong and diversified order book position with healthy order inflows. The financial risk profile of the group remains comfortable, marked by large scale of its operations, stable capital structure, and strong debt coverage indicators albeit moderate profitability. The ratings also take note of the sizeable cash inflow from divestment of KPTL's stake in its four transmission subsidiaries during the last three years ended FY22 (refers to the period April 1 to March 31).

The above rating strengths are partially offset by the relatively high working capital intensity of operations largely at KPTL standalone level. The exposure to state transmission projects as well as few overseas projects, price variations and milestone-based payment terms in composite railway and oil & gas infrastructure projects are the prominent reasons for the high current assets of KPTL. The management of KPTL has articulated significant realisation of the slow-moving debtors through expedited project closures and timely collections during 9MFY23. Timely fructification of the same is a key rating monitorable. The KPTL group also has exposure to weak toll-based build-operate-transfer (BOT) projects. In contrast to CARE Ratings Limited's (CARE Ratings') earlier expectation of timely resolution, debt restructuring in one of the special purpose vehicles (SPVs) has been delayed, while stake sale intention in another SPV is now proposed to be timed after the outcome of some arbitration matters and replacement of existing debt with longer tenure debt refinance. KPTL envisages fructification of these aforementioned strategies by March 2023. Furthermore, no major cash outflow is envisaged from the KPTL group for funding of shortfall in debt due in one project wherein termination notice is issued. However, CARE Ratings expects that the total support towards the above-mentioned weak toll-based BOT projects shall not exceed ₹100 crore. The KPTL group also estimates sizeable cash inflow from one of its Indore real estate projects by FY23 and FY24, which shall aid its liquidity. The ratings also take cognisance of pledge of around 52% of the promoter stake at KPTL and exposure of the promoter entities of KPTL towards cyclical real estate business. Nevertheless, CARE Ratings understands that real estate vertical at the promoter level is without any recourse to the KPTL group and relies on the management's articulation that the pledge level shall start reducing from December 2022. In light of the high

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

leverage of JMC and increased working capital intensity of KPTL, fructification of the aforementioned plans within the envisaged timelines in FY23 shall be crucial from the credit perspective and thus form key rating sensitivities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in gross current asset days on a sustained basis while improving profitability and growth in the scale of operations.
- Monetisation of non-core investment or rationalisation of current asset levels leading to improvement in the total outside liabilities/tangible net worth (TOL/TNW) of around unity on continual basis.

Negative factors

- Delays in improvement in stretched current assets days of the KPTL group beyond envisaged timelines.
- Delay in materialisation of plans of JMC's SPVs necessitating support from the KPTL group beyond FY23.
- Any direct or indirect support to the real estate business by the KPTL group.
- Non meaningful reduction in pledge of shares of KPTL beyond March 2023.

Analytical approach: Standalone

Earlier, the analytical approach was combined by combining financials of KPTL (standalone) and JMC (standalone) together referred to as KPTL group while factoring their equity commitment and support requirement in subsidiaries/SPVs considering merger of JMC and KTPL. Pursuant to completion of merger, the approach has been changed to Standalone financials of KPTL while factoring their equity commitment and support requirement in subsidiaries/SPVs.

Key strengths

Established presence of the KPTL group in transmission & distribution segment as well as civil construction and infrastructure industry

KPTL has an established position in transmission & distribution (T&D), oil & gas infrastructure and railways engineering, procurement, and construction (EPC) business, 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 of over two decades in the infrastructure construction business in various areas, including civil construction of industrial, commercial and residential buildings and water pipelines and distribution EPC business.

Strong revenue visibility led by healthy and diversified order book position

The KPTL group has strong outstanding order book of ₹38,550 crore as on September 30, 2022, translating revenue visibility of 3.08x based on the total operating income (TOI) of FY22. Besides this, the KPTL group has L1 position in excess of ₹6,000 crore. The order book is well diversified into various business with T&D segment contributing 33%, buildings & factories contributing 23%, water pipelines (22%), urban, infra & railways (17%) and oil & gas pipelines (5%). The overseas orders also constituted 43% 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.

The clientele of JMC largely consists of reputed government companies or private companies with comfortable credit profile, thus mitigating the counterparty risk to a large extent. The diversified order book position is also expected to protect the KPTL group from increase in competition in one segment.

Comfortable financial risk profile marked by growth in the scale of operations albeit moderate profitability

During FY22 (refers to the period from April 01 to March 31), the TOI of the KPTL group has increased to ₹12,521 crore (FY21: ₹11,386 crore) marking growth of around 10%. The growth is driven by strong execution in JMC Projects, marking standalone growth of 46% in FY22 on account of healthy execution in Buildings & Factories (B&F) as well as water business. However, the scale of operations for KPTL marginally declined by around 7% during FY22 on account of lower inflow of orders in the previous period and lower dispatches given high commodity prices and slow execution in select projects. During H1FY23, the KPTL group reported a stable performance by registering TOI of ₹6,485 crore as against TOI of ₹5,649 crore during H1FY22 marking growth of around 15%.

The KPTL group reported a moderate PBILDT margin of 9.50% during FY22 due to increase in the commodity prices, higher freight cost. The said impact continues to be observed in H1FY23 in which the group's PBILDT margins further moderated to 8.33%. However, owing to hedging practice for commodity prices, the impact was comparatively lower than the peers. The margins are envisaged to firm-up from Q4FY23 onwards considering softening of commodity prices and execution of orders bid in last six months, which were quoted in alignment with increased commodity prices. Furthermore, with completion of merger, it is expected to boost profitability of the KPTL group due to operational and financial synergies.

Healthy debt coverage indicators coupled with stable capital structure: The debt coverage indicators of the KPTL group remained comfortable marked by interest coverage of 3.34x and net debt to PBILDT of 2.10x during FY22. Of the total combined debt of ₹3,583 crore as on March 31, 2022, external debt is ₹2,166 crore, followed by mobilisation advances of ₹1,316 crore and lease liabilities of ₹101 crore, against which the KPTL group has free cash and bank balance of ₹1,089 crore resulting in net external debt of ₹1,077 crore against a net worth base of ₹4,896 crore.
Nevertheless, the TOL/TNW of the KPTL group remained range-bound at 2.09x during FY22 (FY21: 2.04x) and was expected to remain range-bound owing to the working capital intensive operations.

Key weaknesses

Working capital intensive nature of operations albeit improvement in JMC: The operations of the KPTL group remained working capital intensive marked by gross current asset days (gross cash accruals [GCA]) of 345 days during FY22.
During FY22, the receivable cycle of JMC has been significantly improved to 91 days as against 133 days in FY21 on account of significant realisation from debtors, thereby leading to overall improvement in GCA days at 223 days as against 287 days in FY21. The said improvement is partially offset by elongation in the GCA days from 307 days in FY21 to 345 days in FY22. Exposure to state transmission projects as well as overseas projects in some of the countries, price variations and milestone-based payment terms in composite railways and oil & gas infrastructure projects are the prominent reasons. The management of KPTL has articulated significant realisation of the slow-moving debtors through expedited project closures and timely collections along with reduction in unbilled revenue during 9MFY23. Rationalisation of current asset days is expected to improve GCA days of the KPTL group by around 30 days in FY23 over FY22. Going forward, rationalisation of envisaged stretched current assets during 9MFY23 shall be a key rating sensitivity.

Exposure to weaker road SPVs of JMC: KPTL has demonstrated its ability to unlock its capital while selling stake in all four transmission projects with valuation of 1.80x of its invested equity during FY21 and FY22. KPTL has also earlier envisaged sizeable cash flow from its real estate project having nil external debt. However, the said inflow got delayed and entire sale proceeds are expected to be realised in FY23 and FY24.
The KPTL group is exposed to JMC's exposure in weaker operational toll-based road SPVs wherein there were delays in materialisation of various transactions including restructuring and stake sale. In one SPV, named, Wainganga Expressway Private Ltd, the timeline for restructuring of debt had been revised to Q3FY23 from Q1FY23. In another SPV, i.e., Vindhyachal Expressway Limited (VEPL), stake sale intention is now proposed to be timed after the outcome of some arbitration matters and replacement of existing debt with longer tenure debt refinance. The transaction is expected to be complete by Q4FY23. Furthermore, one of SPVs (in joint venture), i.e., Kurukshetra Expressway Private Ltd (KEPL), in Haryana, was issued termination notice by National Highways Authority of India (NHAI) owing to sustained force majeure event (farmer agitation), and no major cash outflow is envisaged from the KPTL group due to shortfall between debt due and termination payment. Till March 31, 2022, JMC had infused ₹596 crore net off provisioning of ₹413 crore towards impairment and excepted credit loss in investment as well as loans and advances in above SPVs. Moreover, the management has articulated to provide minimal support to these SPVs to the extent of major maintenance and will not foray into BOT projects going forward, and majorly focus only on the engineering, procurement and construction (EPC) segment thereby improving its liquidity. Materialisation of the aforementioned transactions by Q4FY23 will be crucial from the credit perspective and will be a key rating sensitivity.

High pledge of promoter shares: The promoter stake has reduced from 56.49% as on March 31, 2021, to 51.55% as on September 30, 2022. Moreover, 50.39% of the total promoter shareholding was pledged as on September 30, 2022. Of the total promoter holding of 51.55% of KPTL, the promoter companies, i.e., Kalpataru Construction Private Limited and K. C. Holdings Private Limited, jointly hold 29.88% in the entity. Both the entities are into real estate business. These entities have pledged majority of the shares of KPTL to raise debt at other multiple promoter companies, which are into real estate business by giving security and corporate guarantee. As articulated by the management, gradual reduction in pledge shares is expected by March 2023, which remains a rating sensitivity.

Liquidity: Strong

The KPTL group has strong liquidity despite working capital intensive operations marked by free cash and cash equivalent of ₹661 crore as on September 30, 2022. Average utilisation of the fund-based working capital limit was 72% for the KPTL group for trailing 12 months ended November 2022. KPTL has enhanced sanctioned fund-based working capital limits from ₹925 crore to ₹1,300 crore to shore-up the working capital.

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
Short Term Instruments
Construction
Policy on Withdrawal of Ratings

About the company

Promoted by Mofatraj Munot in 1981, KPTL is one of the top three players in the domestic TDI sector. Presently, it operates in the 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, 2022. 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 December 31, 2022) engaged in diversified construction activities and Shree Shubham Logistics Ltd. (SSLL –100% holding as on March 31, 2022) 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. Furthermore, KPTL has invested in the real estate project through its wholly-owned subsidiaries, Energylink (India) Ltd. (EIL). Pursuant to the announcement of scheme of amalgamation of JMC with KPTL, NCLT has accord its approval on December 21, 2022. The scheme has been effective dated January 04, 2023.

Brief Combined Financials (₹ crore)	March 31, 2021 (UA)	March 31, 2022 (UA)	H1FY23 (UA)	9MFY23 (UA)
Total operating income	11,386	12,521	6,485	NA
PBILDT	1,231	1,190	540	NA
PAT	686	364	279	NA
Overall gearing (times)	0.69	1.53	NA	NA
Interest coverage (times)	3.94	2.79	3.96	NA

UA: Unaudited; NA: Not available

Please note the above financials are combined by CARE Ratings as per CARE Ratings' internal standards. Lower PAT in FY22 was attributed to impairment of investment in weaker SPVs of JMC.

Brief Standalone Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)	9MFY23 (UA)
Total operating income	7,671	7,103	3,070	NA
PBILDT	869	714	255	NA
PAT	615	515	175	NA
Overall gearing (times)	0.36	0.34	NA	NA
Interest coverage (times)	5.08	3.84	4.05	NA

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (Carved out)	-	-	-	7 – 364 days	250.00	CARE A1+
Commercial paper-Commercial paper (Carved out)	-	-	-	7 – 364 days	150.00	CARE A1+
Commercial paper-Commercial paper (Standalone)	-	-	-	7 – 364 days	50.00	CARE A1+
Debentures-Non-convertible debentures	INE220B08084	12-01-2022	6.15	10-01-2025	200.00	CARE AA; Stable
Fund-based-Long term	-	-	-	-	2050.00	CARE AA; Stable
Debentures-Non-convertible debentures	INE890A07054	28-08-2018	9.95	28-08-2023	75.00	CARE AA; Stable
Debentures-Non-convertible debentures	INE890A08029	15-12-2021	9.80	15-06-2023	25.00	CARE AA; Stable
Debentures-Non-convertible debentures	INE890A08037	15-12-2021	9.80	15-12-2023	25.00	CARE AA; Stable
Debentures-Non-convertible debentures	INE890A08045	15-12-2021	9.80	14-06-2024	25.00	CARE AA; Stable
Debentures-Non-convertible debentures	INE890A08052	15-12-2021	9.80	13-12-2024	24.00	CARE AA; Stable
Debentures-Non-convertible debentures	INE890A08060	17-10-2022	Linked to repo rate	17-10-2024	37.50	CARE AA; Stable
Debentures-Non-convertible debentures	INE890A08078	17-10-2022	Linked to repo rate	17-10-2025	37.50	CARE AA; Stable
Debentures-Non-convertible debentures	INE890A08086	04-11-2022	Linked to repo rate	04-11-2025	50.00	CARE AA; Stable
Debentures-Non-convertible debentures	INE890A08094	04-11-2022	Linked to repo rate	04-11-2024	50.00	CARE AA; Stable
Non-fund-based-LT/ST		-	-	-	697.90	CARE AA; Stable / CARE A1+
Non-fund-based-LT/ST		-	-	-	17091.10	CARE AA; Stable / CARE A1+
Term loan-Long term		-	-	31-03-2025	484.75	CARE AA; Stable

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	Commercial paper-Commercial paper (Carved out)	ST	250.00	CARE A1+	1)CARE A1+ (17-Oct-22)	1)CARE A1+ (03-Mar-22) 2)CARE A1+ (07-Jul-21) 3)CARE A1+ (01-Apr-21)	1)CARE A1+ (03-Apr-20)	-
2	Fund-based-Long term	LT	2050.00	CARE AA; Stable	1)CARE AA; Stable (17-Oct-22)	1)CARE AA; Stable (03-Mar-22) 2)CARE AA; Stable (07-Jul-21) 3)CARE AA; Stable (01-Apr-21)	1)CARE AA; Stable (03-Apr-20)	-
3	Non-fund-based-LT/ST	LT/ST*	697.90	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (17-Oct-22)	1)CARE AA; Stable / CARE A1+ (03-Mar-22) 2)CARE AA; Stable / CARE A1+ (07-Jul-21) 3)CARE AA; Stable / CARE A1+ (01-Apr-21)	1)CARE AA; Stable / CARE A1+ (03-Apr-20)	-
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	-	1)Withdrawn (03-Apr-20)	-
5	Non-fund-based-LT/ST	LT/ST*	17091.10	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (17-Oct-22)	1)CARE AA; Stable / CARE A1+ (03-Mar-22) 2)CARE AA; Stable / CARE A1+ (07-Jul-21)	1)CARE AA; Stable / CARE A1+ (03-Apr-20)	-

						3)CARE AA; Stable / CARE A1+ (01-Apr-21)		
6	Commercial paper-Commercial paper (Standalone)	ST	50.00	CARE A1+	1)CARE A1+ (17-Oct-22)	1)CARE A1+ (03-Mar-22) 2)CARE A1+ (07-Jul-21) 3)CARE A1+ (01-Apr-21)	1)CARE A1+ (03-Apr-20)	-
7	Term loan-Long-term	LT	-	-	-	1)Withdrawn (03-Mar-22) 2)CARE AA; Stable (07-Jul-21) 3)CARE AA; Stable (01-Apr-21)	1)CARE AA; Stable (03-Apr-20)	-
8	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (01-Apr-21)	1)CARE AA; Stable (03-Apr-20)	-
9	Debentures-Non-convertible debentures	LT	-	-	1)Withdrawn (17-Oct-22)	1)CARE AA; Stable (03-Mar-22) 2)CARE AA; Stable (07-Jul-21) 3)CARE AA; Stable (01-Apr-21)	1)CARE AA; Stable (03-Apr-20)	-
10	Debentures-Non-convertible debentures	LT	-	-	1)Withdrawn (17-Oct-22)	1)CARE AA; Stable (03-Mar-22) 2)CARE AA; Stable (07-Jul-21) 3)CARE AA; Stable (01-Apr-21)	1)CARE AA; Stable (03-Apr-20)	-
11	Debentures-Non-convertible debentures	LT	200.00	CARE AA; Stable	1)CARE AA; Stable (17-Oct-22)	1)CARE AA; Stable (03-Mar-22) 2)CARE AA; Stable (07-Jul-21)	1)CARE AA; Stable (03-Apr-20)	-

						3)CARE AA; Stable (01-Apr-21)		
12	Debentures-Non-convertible debentures	LT	349.00	CARE AA; Stable				
13	Commercial paper-Commercial paper (Carved out)	ST	150.00	CARE A1+				
14	Term loan-Long term	LT	484.75	CARE AA; Stable				

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Total debt / Tangible net worth	The ratio of total debt / tangible net worth not exceeding 1.00 times
II. DSCR	DSCR not to reduce to less than 1.25x
Of erstwhile JMC Projects (India) Limited	
III. For ISIN INE890A08060, INE890A08078, INE890A08086, INE890A08094	Ratio of standalone Debt (including corporate guarantees/ LOC) to EBITDA not to exceed [3.75x]
	Ratio of standalone Debt (including corporate guarantees/ LOC/Shortfall undertaking) to EBITDA not to exceed [4.50x]
	Total standalone Debt (including corporate guarantees LOCs/Shortfall undertaking) to tangible networth not to exceed [1.30x]
B. Non-financial covenants	
I. Accelerated repayments	1. Promoter holding falls below 51% 2. Current promoters cease of have management control over the company, as defined in the term sheet
II. Prior approval of Debenture Trustee for any transaction of change in control or merger, de-merger, consolidation, reorganization or scheme of arrangement, etc.	
Of erstwhile JMC Projects (India) Limited	
III. For ISIN INE890A08060, INE890A08078, INE890A08086, INE890A08094	Kalpataru Group shall hold at least 40% (Forty Percent) of the equity share capital in the merged entity (taken on a fully diluted basis) and must maintain Management Control of the Company

Annexure-4: Complexity level of the various instruments rated

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	Complex
4	Fund-based-Long term	Simple
5	Non-fund-based-LT/ST	Simple
6	Term Loan-Long erm	Simple

Annexure-5: Lender details

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

Note on the 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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