K. P. Energy Limited

August 03, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	92.79 (Enhanced from 27.79)	CARE BBB; Stable	Reaffirmed
Long-term/Short-term bank facilities	31.00	CARE BBB; Stable/CARE A3+	Reaffirmed

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 (KEPL) continue to derive strength from the vast experience of its promoter group in the infrastructure sector, the integrated services offered by KPEL in constructing wind farms along with the possession of sizeable lease hold land for the development of new projects, and its comfortable financial risk profile.

The ratings also factor in the satisfactory operational performance of KPEL's 8.4 MW wind power plants since the commencement of its operations, the newly set up 10 MW solar power plants along with the presence of a long-term power purchase agreement (PPA) for its independent power producer (IPP) capacities with reputed corporates, mitigating the counterparty risk, and the adequate liquidity backed by the presence of a 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, which is concentrated towards few clients and its presence in a single state, ie, Gujarat, project execution and funding risk as the company has undertaken a debt-funded capex to increase the IPP capacities in the wind segment, the susceptibility of power generation to variations in climatic conditions, and its presence in a fragmented and competitive renewable power industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in its order book along with successful execution thereof and reduction in concentration risk on a sustained basis.
- Improvement in the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 20% on a sustained basis.

Negative factors

- Decline in the total operating income (TOI) below ₹400 crore on a sustained basis.
- Deterioration in the overall gearing above 1x on a sustained basis.
- Levy of interest on advances granted by GE India Industrial Private Limited (GEIIPL) or crystallisation of penalty claimed by Gujarat Urja Vikas Nigam Limited (GUVNL) for delay in execution of the project in KPEL's subsidiary, ie, Evergreen Mahuva Wind Farms Private Limited (EMWPL).
- Inability of the company to complete and fund the capex in a timely manner.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' rating outlook reflects that KEPL will continue to benefit from the vast experience of its promoters, the successful receipt and execution of the order book going forward. Also, the IPP segment is to generate satisfactory power generation levels, leading to stable cash flows.

Detailed description of the key rating drivers

Key strengths

Experienced promoters and established track record in the infrastructure sector

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

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

companies. KEPL is promoted by 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, Affan Patel, and a team of experienced professionals, forming a strong second line of management for the execution of projects.

Growth in the scale of operations and moderate profitability
During FY23, KPEL reported a growth of 73.38% in its TOI to ₹434.12 crore as compared to ₹250.38 crore in FY22, primarily on account of an increase in the engineering, procurement and construction (EPC) income to ₹423.93 crore in FY23 as compared to ₹237.06 crore in FY22 along with an increase in revenue from the sale of power to ₹9.90 crore in FY23 as compared to ₹7.88 crore during FY22.

Comfortable capital structure and debt coverage indicators
The capital structure of the company continued to remain comfortable, however, the overall gearing of KPEL moderated to 0.54x as on March 31, 2023, as compared to 0.40x as on March 31, 2022. The moderation in the gearing level is on account of an increase in the debt level with the availment of term loan to set up a solar power plant, an increase in financial lease liability with additional land taken on lease for the solar power plant, and an increased utilisation of the working capital bank borrowing as on March 31, 2023.

The debt coverage indicators continued to remain healthy, marked by an interest coverage ratio of 12.85x in FY23 vis-à-vis 7.93x in FY22 on account of an increase in the PBILDT in FY23. However, the total debt (TD) to gross cash accruals (GCA) remained stable at 1.23x in FY23 vis-à-vis 1.28x in FY22. Furthermore, KPEL's long-term debt consists of term loan availed to set up a wind power plant and the cash accruals of the power generation segment is sufficient to meet the long-term debt repayment obligations.

Availability of sizeable land for development of projects
As on June 2023, KPEL has a sizeable inventory of wind sites across various locations in Gujarat with a power generation potential of above 830 MW.

Satisfactory operational performance of its wind power plants and low off-take risk with multiple off-takers
During FY23, the power plants reported a satisfactory capacity utilisation factor (CUF) at all the four locations with an average CUF of 24.03% (PY: 24.75%). KPEL reported a revenue of ₹9.90 crore in FY23 from the sale of power (FY22: ₹7.88 crore) with a profit before interest and taxes (PBIT) margin of 57.84% (PY: 69.54%). Furthermore, the company has added 10 MW capacity of solar power plant as an IPP in Gujarat, which commissioned in April 2023, therefore the revenue from solar power generation will start reflecting from FY24. The established infrastructure for power evacuation, satisfactory CUF, low off-take and counterparty credit risk on account of the PPA with two reputed corporates and the timely receipt of monthly payments results in steady cash flows. The periodic renewal of PPAs with each party mitigates the risk arising from shorter tenure agreements.

Key weaknesses

Moderate order book position
As on June 01, 2023, KPEL's order book comprised three EPC orders with a contract value of ₹558.38 crore (unexecuted order book of ₹65.16 crore). Moreover, the order book remains concentrated with a major high value contract from a single client, ie, Apraava Energy Private Limited. Apart from the above order book, the company is at an advanced stage of discussion for two projects of 300 MW at Dwarka site with Apparva Energy Private Limited for a contract value of ₹500 crore and a 300-MW project at Vanki site with Ayana Renewable Private Limited for a contract value of ₹500 crore. At the same time, KEPL has also bided with NTPC Limited for the same capacity of 600 MW project of a contract value of ₹1,200 crore.

Furthermore, under the GUVNL wind tender, the consortium of KPEL and EMWPL had been awarded a contract of a 31.5-MW wind power project. However, due to a delay in the receipt of minimum committed advances and notice to proceed (NTP) from client, the project is at a standstill. GUVNL has issued a Default Notice dated June 01, 2020, and a Termination Notice dated June 01, 2020, to EMWPL. The matter is under process at the Gujarat Electricity Regulatory Commission (GERC).

Geographical concentration of revenue profile
The entire order book of KPEL is in the vicinity of Gujarat, which exposes the company to the risk associated with the 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 the total installed wind capacity in India due to the financially healthy discoms, the vast potential wind sites, and the readiness of various IPPs to take the projects in Gujarat.

Presence in a 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 power providers (IPPs) and engineering, procurement, construction and commissioning (EPCC) arms of several wind turbine generator (WTG) manufacturers, who hold a high bargaining power. It also faces competition from several smaller players, who execute wind power projects.

Project execution and funding risk

KEPL has undertaken a project, wherein it is planning to set up seven windmills carrying a capacity of 19.6 MW collectively in Vagra, Gujarat. The total cost of the project is ₹171 crore, which will be funded in a debt-to-equity ratio (DER) of 40:60 as a term loan of ₹68.10 crore and an equity of ₹102.90 crore. The company has planned to start the project in Q4FY24 and is expected to commission in FY25. It has already placed the purchase order of seven wind turbines with Suzlon Energy Limited. The company has not incurred any cost towards the project. Thus, going forward, KEPL's ability to arrange sufficient funds to complete the project in a timely manner without any cost and time overruns and the subsequent stabilisation of the same remains critical from the credit perspective. Nevertheless, comfort can be drawn from the fact that the group has successfully executed several projects of similar size and has demonstrated strong project execution capabilities in the renewable sector in the past.

Liquidity: Adequate

The liquidity position remained adequate, characterised by sufficient cushion in gross accruals vis-à-vis repayment obligations. Furthermore, the average utilisation of the fund-based limits remained low at 24% during the trailing 12 months ended April 30, 2023. As on March 31, 2023, KPEL had free cash and bank balance of ₹0.16 crore (vis-à-vis ₹3.16 crore as on March 31, 2022), besides lien-marked fixed deposits (FDs) of ₹12.83 crore (vis-à-vis ₹17.79 crore as on March 31, 2022). The FDs have been lien marked towards one quarter of the DSRA and the balance towards bank guarantee (BG) margin. Furthermore, the operating cycle of KPEL improved from 76 days in FY22 to 33 days in FY23, mainly on account of an improvement in the inventory period to 97 days in FY23 from 170 days in FY22.

Applicable criteria

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

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

KPEL is a part of the KP Group of Surat, founded by Faruk Patel in 1994. KPEL commenced its business operations in 2010. Furthermore, in February 2016, the equity shares of KPEL got listed on the Bombay Stock Exchange (BSE) SME exchange and on October 10, 2018, KPEL migrated from the BSE SME exchange to the Main Board of the BSE. KPEL is involved in the development of utility scale wind power generation infrastructure. The major activities encompass siting of wind farms, acquisition of lands and permits, EPCC of wind projects, along with balance of plant (BoP) infrastructure. KPEL also owns and operates four WTGs with an installed capacity of 8.4 MW as an IPP and the company has set up a 10-MW capacity solar power plant as an IPP in Gujarat, which was commissioned in April 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	250.38	434.12	NA
PBILDT	34.28	69.49	NA
PAT	20.92	43.82	NA
Overall gearing (times)	0.40	0.54	NA
Interest coverage (times)	7.93	12.85	NA

A: Audited, UA: Unaudited, NA: Not available. Note: The above results are the latest financial results 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
Fund-based - LT-Cash Credit		-	-	-	32.62	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	31.00	CARE BBB; Stable / CARE A3+
Term Loan-Long Term		-	-	January 2033	60.17	CARE BBB; 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 2023-2024	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
1	Term Loan-Long Term	LT	60.17	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Jul-22)	1)CARE BBB-; Stable (02-Sep-21)	1)CARE BBB-; Negative (14-Aug-20)
2	Fund-based - LT-Cash Credit	LT	32.62	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Jul-22)	1)CARE BBB-; Stable (02-Sep-21)	1)CARE BBB-; Negative (14-Aug-20)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	31.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (06-Jul-22)	1)CARE BBB-; Stable / CARE A3 (02-Sep-21)	1)CARE BBB-; Negative / CARE A3 (14-Aug-20)
4	Fund-based - ST-Standby Line of Credit	ST	-	-	-	1)Withdrawn (06-Jul-22)	1)CARE A3 (02-Sep-21)	1)CARE A3 (14-Aug-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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