# K. P. Energy Limited

September 03, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 255.21 (Enhanced from 92.79) | CARE BBB; Negative | Reaffirmed; Outlook revised from Stable |
| Long Term / Short Term Bank Facilities | 71.00 (Enhanced from 31.00) | CARE BBB; Negative / CARE A3+ | Reaffirmed; Outlook revised from Stable |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of K. P. Energy Limited (KPEL) factor in its growing scale of operations in engineering, procurement, construction and commissioning (EPCC) business and satisfactory power generation from independent power producing (IPP) segment in FY24 (refers to April 01 to March 31) and Q1FY25 (refers to April 01 to June 30), and sizable-though-concentrated order book position from reputed clients depicting revenue visibility in the near term. Ratings continued to derive strength from the vast experience of its promoter group in the infrastructure sector, integrated services offered by KPEL and healthy profit margins. Ratings also factor in its comfortable capital structure and debt coverage indicators, which moderated in FY24.

However, rating strengths are partially offset due to stretched liquidity position marked by significant increase in the gross current assets (GCA) period due to elongation in the collection period and project execution and funding risk for the debt funded capex of 30MW wind power project undertaken to increase the IPP capacities in the wind segment. This project was earlier to be undertaken in its subsidiary and was delayed, hence timely completion of the project and getting requisite approvals would remain a key credit monitorable.

Ratings also continued to be constrained by susceptibility of power generation to variations in climatic conditions, and its presence in a fragmented and competitive renewable power industry and order book is concentrated towards a single state, Gujarat.

## Rating sensitivities: Factors likely to lead to rating actions.

**Positive factors**

- Growing order book and successful execution thereof, reducing concentration risk leading to increase in total operating income (TOI) on sustained basis.
- Improving profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin over 20% on a sustained basis.
- Timely recovery of debtors leading to improving liquidity position on sustained basis.
- Sustaining total debt to gross cash accruals below 3.5x.

**Negative factors**

- Declining order book to TOI ratio below 1.5x on a sustained basis.
- Deteriorating adjusted overall gearing over 1.5x on a sustained basis.
- Elongating operating cycle above 120 days leading to deteriorating liquidity position on a sustained basis.
- Delaying execution and/or getting requisite approvals for its on-going hearing for its IPP project of 30 MW of windmill capacity.

**Analytical approach**: Standalone

**Outlook:** Negative

Revision in the rating outlook to "Negative" from "Stable" factors in CARE Ratings Limited's (CARE Ratings) expectation of continued stretch in its liquidity considering funding requirement for its IPP project, working capital requirements with growing scale of operations and elongation of collection period. CARE Ratings expects the working capital requirement to remain high in Q4 considering the seasonality associated with its execution. The outlook may be revised to 'Stable' if the company reduces its receivables position and successfully completes the debt funded capex in timely manner.

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

**Detailed description of key rating drivers**

## Key strengths

**Experienced promoters and established track record in 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 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 companies. KPEL is promoted by Faruk Patel, who possess over two decades of experience across 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.

**Sizable-but-concentrated order book position, which increased significantly in the last 12 months**

As on June 01, 2024, KPEL's outstanding order book position significantly improved to ₹1,320 crore (2.81x of TOI of FY24) compared to unexecuted order book of ₹65.16 crore as on June 01, 2023. However, order book is concentrated with top two orders constituted 68% of the total order book. The customer profile remained reputed, which largely mitigates concentration risk.

**Growing scale of operations**

KPEL's TOI has been growing at compound annual growth rate (CAGR) of 63% for the four years ending FY24. In FY24, KPEL reported growth of 8.15% in its TOI to ₹469.50 crore as compared to ₹434.12 crore in FY23 primarily considering revenue from sale of power doubled in FY24 compared to FY23 and marginal increase in EPC income in FY24 from healthy execution of orders continued during the year.
In FY24, the wind power plants reported a satisfactory Plant Load Factor (PLF) at four locations with an average PLF of 23.47% (PY: 24.03%) and satisfactory PLF from solar power plants in the range of 20-22%. KPEL reported revenue of ₹18.08 crore in FY24 from sale of power (FY23: ₹9.90 crore).
In Q1FY25, TOI grew by 11% on y-o-y basis to ₹125.67 crore compared to ₹113.01 crore in Q1FY24 considering increased revenue from EPC and IIP business.

**Healthy profit margins**

KPEL's PBILDT margin continued to remain healthy and improved to 18.25% in FY24 against 16.01% FY24 considering increase in sales from both business segments and decline in cost of material consumed, which remained at 69% in of TOI in FY24 against 75% in FY23 and decline in power and fuel expenses in FY24. Profit after taxes (PAT) margin also improved to 12.49% in FY24 as compared to 10.09% in FY23 in line with improvement in PBILDT margin and increase in non-operating income of ₹11.77 crore in FY24 (compared to ₹4.26 crore in FY23) mainly earned through receipt of insurance claim of ₹9.83 crore, interest from fixed deposit of ₹1.22 crore, lease income of ₹0.25 crore.
In Q1FY25, PBILDT margin and PAT margin remained at 17.74% and 14.72% respectively compared to 18.33% and 13.31% in Q1FY24 respectively.

**Comfortable capital structure and debt coverage indicators though moderated in FY24**

The company's capital structure continued to remain comfortable, however, overall gearing deteriorated to 0.90x as on March 31, 2024, compared to 0.54x as on March 31, 2023. Deterioration in gearing level is considering increase in debt level from term loan to set up wind power plant, increase in financial lease liability with additional land taken on lease for wind power plant and increased utilisation of working capital bank borrowing as on March 31, 2024. Post adjusting loans and advances extended to subsidiaries of ₹37.65 crore from net worth, adjusted overall gearing remained moderated at 1.20x as on March 31, 2024, compared to 0.79x as on March 31, 2023. The company is in process of equity infusion of ₹28.38 crore by issuing share warrants, of which, ₹7.10 crore was already raised in August 2024, and the balance is to be raised over the 18 months from first issuance. Debt coverage indicators continued to remain healthy, however, interest coverage ratio deteriorated to 6.78x in FY24 against 12.85x in FY23 considering increase in interest cost in FY24. Total debt to gross cash accruals also deteriorated to 2.41x in FY24 against 1.23x in FY23. In Q1FY25, interest coverage ratio further moderated to 4.63x (10.90x in Q1FY24).
The capital structure is expected to deteriorate in the near term due to availing additional term debt to fund its on-going capex and enhancement in working capital limits to support growing scale of operations.

## Key weaknesses

**Increase in working capital intensity**

Working capital intensity increased significantly marked by significant increase in the gross current asset (GCA) period to 263 days in FY24 from 117 days in FY23 considering elongation in the collection period. The collection period elongated to 121 days in FY24 compared to 33 days in FY23 partly due to significant sales booked in Q4FY24 (44% of TOI). Absolute receivables (excluding unbilled revenue of ₹66.83 crore) increased to ₹188.67 crore as on March 31, 2024, compared to ₹58.77 crore (excluding unbilled revenue of ₹1.31 crore) as on March 31, 2023. Although, absolute receivables have decreased to ₹178.36 crore as on August 21, 2024, as against ₹203.92 crore as on June 30, 2024, it continued to remain high which is impacting its liquidity position. As a result of this, utilisation of fund-based working capital limits stood high.

**Project execution and funding risk**
The company has undertaken IPP project of 30 MW wind power in Bharuch Gujarat. This project was initially awarded in 2018 to a subsidiary, Evergreen Mahuva Wind Farms Private Limited (a joint venture between KPEL and Evergreen Power Mauritius Private Limited), however, due to force majeure issue in Mahuva, the project remained standstill. It has been now undertaken by KPEL and it changed the location of the project from Mahuva to Vagra, Bharuch and signed a fresh PPA with Gujarat Urja Vikas Nigam Limited (GUVNL) dated January 25, 2024, under sole capacity for 25 years at a tariff rate of ₹2.43 per unit. The Gujarat Electricity Regulatory Commission (GERC) approval for it is awaited.
Total cost of the project is estimated at ₹231.91 crore, which is being funded through term loan of ₹120 crore from Axis bank and remaining of ₹111.91 crore through equity and Internal accruals. KPEL has incurred cost of ₹175.03 crore till August 28, 2024, which has been funded through ₹84 crore from term loan and ₹91.03 crore through internal accruals. As per the PPA, the scheduled commercial operation date (SCOD) is January 24, 2025. Inability to achieve the SCOD will lead to submission of additional bank guarantee in favour of GUVNL of ₹46.94 crore and applicable interest from July 2020 which GUVNL reserves right to encash.
Although, timely arrangement of the remaining funds from internal accruals amidst tightly matched cash accruals and delayed recovery from debtors and complete the project in timely manner without cost and time overruns to avoid penalties remain critical from the company's credit perspective. The subsequent stabilisation also remains a key monitorable.

**Geographical concentration of revenue profile**
KPEL's entire order book is in the vicinity of Gujarat, which exposes it to the risk associated with the geographical concentration of revenue. 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 financially healthy discoms, vast potential wind sites, and readiness of IPPs to take projects in Gujarat.

**Presence in a fragmented and competitive industry with low bargaining power**
KPEL is a mid-sized player operating in an intensely competitive and fragmented industry. Its competitors include IPPs and 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.

## Liquidity: Stretched

The liquidity position remained stretched as characterised by tightly matched gross accruals against repayment obligations of ₹15.12 crore in FY25 considering capital commitments towards ongoing capex. KPEL has low free cash and bank balance of ₹0.84 crore (against ₹0.16 crore as on March 31, 2023) apart from lien-marked fixed deposits of ₹22.45 crore (against ₹12.83 crore as on March 31, 2023). The average of maximum utilisation of fund-based limits remained at 97% with average utilization stood at 75% in 12-months ended June 2024. The average utilization of non-fund-based limits remained at 83% for the same period. Net cash flow from operating activities turned negative at ₹5.87 crore in FY24 against positive of ₹47.19 crore in FY23 considering significant increase in working capital requirements. The current ratio and quick ratio stood moderate at 1.09x and 0.89x respectively as on March 31, 2024.

**Environment, social, and governance (ESG) risks:**

| Particulars | Company's initiative |
|---|---|
| Environmental | KPEL generates power from renewable energy sources, which not only helps to reduce greenhouse gas emissions but also helps to propel economic growth in a more environmentally friendly manner. The company also assists its customers in meeting their goals for reducing carbon emissions and achieving growth with minimal environmental impact. |
| Social | KPEL is undertaking diverse range of programmes and projects in core areas of education, infrastructure, health, etc. as a Corporate Social Responsibility (CSR) activity. |
| Governance | The company has been in compliance with SEBI Regulations, 2015, as per corporate governance report, June 30, 2024. |

## Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Solar Power Projects
Wind Power Projects
Construction
Short Term Instruments

## About the company and industry

### Industry classification

| Macro-economic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Industrials | Construction | Construction | Civil construction |

KPEL is part of the KP Group of Surat, founded by Faruk Patel in 1994. KPEL commenced its business operations in 2010. In February 2016, KPEL's equity shares were listed on the Bombay Stock Exchange (BSE) small and medium enterprises (SME) exchange and on October 10, 2018, KPEL migrated from the BSE SME exchange to the Main Board of BSE. KPEL is involved in development of utility scale wind power generation infrastructure. Major activities encompass siting of wind farms, acquisition of lands and permits, EPCC of wind projects, and 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.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | June 30, 2024 (UA) |
|---|---|---|---|
| Total operating income | 434.12 | 469.50 | 125.67 |
| PBILDT | 69.49 | 85.67 | 22.30 |
| PAT | 43.82 | 58.65 | 18.50 |
| Overall gearing (times) | 0.54 | 0.90 | NA |
| Interest coverage (times) | 12.85 | 6.78 | 4.63 |

A: Audited, UA: Unaudited, NA: Not available, Note: These are latest available financial results.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instruments/facilities:** Annexure-3

**Complexity level of 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 | | - | - | - | 80.80 | CARE BBB; Negative |
| Non-fund-based - LT/ ST-Bank Guarantee | | - | - | - | 71.00 | CARE BBB; Negative / CARE A3+ |
| Term Loan-Long Term | | - | - | March 2042 | 174.41 | CARE BBB; Negative |

### Annexure-2: Rating history for 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 2024-2025 | 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 |
| 1 | Term Loan-Long Term | LT | 174.41 | CARE BBB; Negative | - | 1)CARE BBB; Stable (03-Aug-23) | 1)CARE BBB; Stable (06-Jul-22) | 1)CARE BBB-; Stable (02-Sep-21) |
| 2 | Fund-based - LT-Cash Credit | LT | 80.80 | CARE BBB; Negative | - | 1)CARE BBB; Stable (03-Aug-23) | 1)CARE BBB; Stable (06-Jul-22) | 1)CARE BBB-; Stable (02-Sep-21) |
| 3 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST | 71.00 | CARE BBB; Negative / CARE A3+ | - | 1)CARE BBB; Stable / CARE A3+ (03-Aug-23) | 1)CARE BBB; Stable / CARE A3+ (06-Jul-22) | 1)CARE BBB-; Stable / CARE A3 (02-Sep-21) |
| 4 | Fund-based - ST-Standby Line of Credit | ST | - | - | - | - | 1)Withdrawn (06-Jul-22) | 1)CARE A3 (02-Sep-21) |

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

### Annexure-4: Complexity level of 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

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|---|
| To view lender-wise details of bank facilities please click here |

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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