

## KPI Global Infrastructure Limited

January 25, 2021

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable (Triple B; Outlook: Stable) and withdrawn
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus) and withdrawn
<b>Total Facilities</b>	-		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB; Stable/CARE A3+' (Triple B; Outlook: Stable/ A Three Plus) assigned to the bank facilities of KPI Global Infrastructure Limited (KPIL) with immediate effect. The above action has been taken at the request of KPIL and 'No Objection Certificate' received from the banks that has extended the facilities rated by CARE.

The ratings continue to remain underpinned by experienced promoter group, favorable location of the solar power plant along with established infrastructure for power evacuation resulting in satisfactory capacity utilisation factor (CUF), low off-take and counterparty credit risk on account of long term Power Purchase Agreements (PPA) with reputed corporates and timely receipt of monthly payments.

The ratings also derive strength from healthy growth in its total operating income (TOI) during FY20 (refers to the period April 01 to March 31) and H1FY21 (refers to the period April 01 to September 30) with healthy profitability, moderate debt coverage indicators, adequate liquidity position and favorable policy framework for solar power generation business on the back of various government-led reforms & incentives to encourage investments in this segment. The ratings also take cognizance of ring fencing and defined waterfall mechanism of cash flows from its 25MW solar power plant through setting up a Trust & Retention Account (TRA) along with partial creation of Debt Service Reserve Account (DSRA) in the form of fixed deposits.

The ratings, however, continue to remain constrained on account of limited operational track record of its recently commissioned 25 MW power plant, risks pertaining to terms and continuity of PPAs, susceptibility of its profitability to fluctuation in the interest rates and variation in climatic conditions & technological risk associated with the solar power plants. The ratings are further constrained on account of implementation and stabilization risk associated with its upcoming solar capacity of 40 MW (20 MW in KPIL and 20 MW in its wholly owned subsidiaries), leveraged capital structure which is envisaged to deteriorate even further due to ongoing debt-funded capex along with working capital intensive nature of operations in its captive power plant (CPP) segment.

CARE also takes cognizance of the company availing the moratorium granted by its lenders as a COVID-19 relief measure (as permitted by the Reserve Bank of India) on debt repayment of its bank facilities (except for project debt of its 25 MW solar power plant).

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced promoter group:** KPIL is a part of Surat-based KP group, which has diversified operations in Renewable Energy (Solar & Wind) segment. Since inception, the group has executed more than 100 MW of solar power plants under engineering, procurement and construction (EPC) mode. Mr Faruk Patel, Chairman & Managing director of KPIL, has an experience of more than 18 years in diversified sectors including solar and wind energy space. Further, the group is supported by the experienced professionals, forming the strong second line of business.

**Favorable geographical presence of the solar power plant along with established power evacuation infrastructure:** The entire solar power capacity of 40 MW is located at Sudi & Tanchha village, Bharuch, Gujarat. The site has good irradiation levels and easy availability of water for maintenance requirements. Furthermore, the project is erected on black cotton soil land, which results in comparatively lower dust, which in turn reduces annual maintenance cost and improves CUF levels.

KPIL has set up a 13.25 km long 220 KV double conductor transmission line which is capable of transmitting up to 100 MW of power. The infrastructure is utilized to transmit power generated from capacity erected under both IPP as well as CPP

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

segment. As on September 30, 2020, KPIL has obtained evacuation approval from GETCO for transmitting power up to 74 MW through the said transmission line.

**Satisfactory operational performance of existing 40 MW solar power plant:** KPIL has commissioned solar power capacity in a phased manner over 2016-2019, of which 15 MW was commissioned in January 2019, while 25 MW was commissioned in November 2019. During FY20, the plant generated satisfactory CUF of 19.10% as against CUF of 19.01% in FY19. The CUF during Q1FY21 (refers to the period April 01 to June 30) also remained healthy at 21.58% as against 20.43% during Q1FY20.

**Low off-take and counterparty risk along with healthy per unit revenue realisation:** KPIL has entered into multiple long-term PPAs with reputed corporates having a strong credit profile in a range of 3 years (option to renew till 15 years) to 20 years. Presence of long-term PPA with a strong counterparty ensures timely receipts of payments and cash-flow sustainability.

KPIL offers a discount of approximately 7% on the prevailing per unit price of the power charged by the DISCOMs. The revenue per unit during FY20 remained healthy at Rs.6.41 (PY: Rs.6.45/unit). Nevertheless, as per the terms of PPA, the transmission losses and transmission charges are to be borne by KPIL.

**Healthy growth in its scale of operations along with stable profitability:** During FY20, KPIL reported a healthy y-o-y growth of over 72% on account of its 25 MW power plant becoming operational along with significant increase in its CPP sales. Power sales more than doubled from Rs.11.17 crore in FY19 to Rs.27.88 crore during FY20, whereas CPP sales registered a healthy y-o-y growth of over 50% to Rs.25.95 crore. PBILDT margin during FY20 remained largely stable at 45.30% registering a marginal y-o-y increase of 78 bps. However, due to significant depreciation charge, higher interest expenses and provision of deferred tax, PAT margin, albeit declined, remained moderate at 10.91% (FY19: 25.75%). However, KPIL reported a healthy gross cash accruals (GCA) of Rs.19.48 crore during FY20 as compared to Rs.8.07 crore in FY19.

During H1FY21 (Provisional), KPIL reported a TOI of Rs.41.76 crore, registering a healthy y-o-y growth of 67% as compared to H1FY20. Furthermore, due to increase in high margin IPP power sales, PBILDT margin during H1FY21 improved to 50.69% as compared to 38.61% during H1FY20.

**Favorable renewable energy framework with stable industry outlook:** There is a great thrust from the Government for improving the share of solar power in India's overall power mix which is reflected from various policy initiatives. There had been muted solar power generation capacity additions during last two years due to imposition of safeguard duty on import of solar modules and cancellation of large amount of solar auctions among others. However, looking at the already allotted capacity and government's push for achieving targeted solar capacity of 100 GW by end of FY22, capacity additions are likely to improve in next two to three years. However, there are concerns like increased difficulties in land acquisition, poor evacuation infrastructure, very high dependence on imported solar cells & modules, regulatory haze in terms of renegotiation of tariff in concluded PPAs and cancellation of concluded auctions, weak financial risk profile of few Discoms resulting in significant delays in payment and increased difficulties in debt tie-up. Overall, positive and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook.

#### Key Rating Weakness

**Implementation & stabilization risk associated with its upcoming 40 MW solar capacity expansion:** KPIL is setting up an additional 20 MW solar power plant in Gujarat at an estimated project cost of Rs.76 crore to be funded entirely through debt. KPIL has given EPC contract for entire capacity to a third party and has achieved financial closure for the project. As on November 02, 2020, KPIL had incurred total project cost of Rs.49.30 crore, which has been funded through project creditors.

As on November 02, 2020, KPIL has already completed work of 12 MW, of which commissioning certificate for 2.12 MW has been received. KGIL expects the project to be fully commissioned and operational by February 2021.

KPIL is also setting up another 20 MW solar power capacity in its two wholly owned subsidiaries i.e. KPIG Energia Pvt Ltd (KPIGEPL; 12 MW) & Sundrops Energia Pvt Ltd (SEPL; 8 MW). The total project cost is estimated at Rs.91.10 crore, to be funded in debt:equity ratio of 1.90:1. Project under both subsidiaries is envisaged to be commissioned by December 2021. Financial closure for KPIGEPL has been achieved, while that of SEPL is under progress. The debt availed by KPIGEPL has been guaranteed by KPIL. Of the total equity commitment of Rs.31.34 crore, Rs.10.61 crore has already been infused in FY20 from internal accruals and balance funds shall be infused in FY21-FY22.

Considering the size of the projects, completion of the project within envisaged time and cost parameters and stabilization of operations by achieving envisaged CUF level shall remain crucial.

**Leveraged capital structure and moderate debt coverage indicators:** KPIL's overall gearing was envisaged to deteriorate on account of ongoing debt-funded 25 MW solar power plant in FY20. However, the deterioration was much higher than envisaged as on FY20 end to 1.42x as at FY20 end (0.40x as at FY19 end) due to increase in working capital intensity of CPP segment which was met by working capital borrowings. Debt coverage indicators, however, remained moderate marked by an interest coverage of 3.64x (PY: 4.33x) and total debt to GCA of 7.13x (PY: 4.95x).

Going forward, the capital structure is envisaged to deteriorate even further due to ongoing 20 MW capex plan, which is to be funded entirely by debt and proposed extension of corporate guarantee to subsidiaries.

**Risk pertaining to terms and continuity of PPA agreement:** The PPA executed by KPIL doesn't have a lock-in period and it can be terminated by either party by giving 6-12 months' notice. Further, in case of few contracts, the PPA is to be renewed after three years. Consequently, KPIL is exposed to risk arising out non continuity by any of the customer in the long term.

Apart from above, KPIL has also provided minimum generation guarantee which is 20% of the expected output each year, adjusted proportionately for solar irradiation. However, the risk is partly offset by charging higher rate per unit of solar power, as compared to peers.

**Susceptibility of power generation to climatic conditions along with technological risk:** The power generation level of a solar power plant primarily depends upon factors like solar radiation levels, temperature & climatic conditions and transmissions efficiency of the plant and inverters installed, module aging and degradation etc. While losses in photovoltaic (PV) systems, design parameters, inverter efficiency and module degradation depend on the overall manufacturing pattern and technical soundness of the modules, solar radiance levels and overall climatic conditions are beyond human control and thus have the potential to adversely affect the operational efficiency of a solar power plant. Although, the modules and other equipment have been sourced from reputed suppliers, technological risk persists for the project duration. Further, the project is based on thin film photovoltaic (PV) solar cells technology, which has a relatively short performance track record in Indian conditions and consequently achievement of envisaged CUF levels remains crucial.

**Interest rate fluctuation risk:** The interest rate for the project debt is floating in nature thereby exposing the company to fluctuations in the interest rates. Any adverse movement of interest rate could hamper the company's financial profile and eventually its debt servicing capabilities.

**Analytical approach:** Standalone

#### Applicable criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Rating Methodology: Solar Power Projects](#)

[Rating Methodology - Power Generation Projects](#)

[Financial ratios - Non- Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

#### About the company

Incorporated on February 01, 2018, KPIL is engaged in generation of solar power, both as an IPP and CPP under the brand name of 'Solarism' at Sudi & Tanchha village, Amod, Bharuch, Gujarat.

In 2016, KPIL commissioned its first solar power plant (Unit I) of 5 MW on a leased land and in 2017, KPIL commissioned another solar power plant of 10 MW on owned land. Further, KPIL additional solar capacity of 25 MW in November 2019 at the same location. Currently, KPIL is undertaking commissioning of solar power plants of 20 MW and another 20 MW in its subsidiaries at the same project location.

KPIL also develops, transfer, operate and maintain grid connected solar power projects for CPP customers and generate revenue by selling these projects to third parties for their captive use requirements. By the end of September 2020, KPIL has successfully completed CPP project of 8.45 MW capacity of solar power plant and has entered into LOI's for additional 6.64 MW.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	34.58	59.56
PBILDT	15.39	26.98
PAT	8.90	6.50
Overall gearing (times)	0.40	1.42
Interest coverage (times)	4.33	3.64

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

Complexity level of various instruments rated for this Company: Please refer Annexure-3

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ST-Letter of credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	0.00	Withdrawn
Fund-based - LT/ST-Cash Credit	-	-	-	0.00	Withdrawn

#### 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB; Stable (01-Dec-20)	1)CARE BBB; Stable (26-Feb-20) 2)CARE BBB-; Stable (30-Apr-19) 3)CARE BBB-; Stable / CARE A3 (16-Apr-19)	-	-
2.	Non-fund-based - LT/ST-Letter of credit	LT/ST	-	-	1)CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (26-Feb-20) 2)CARE BBB-; Stable / CARE A3	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
					(01-Dec-20)	(30-Apr-19)		
3.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	-	-	1)CARE BBB; Stable / CARE A3+ (01-Dec-20)	1)CARE BBB; Stable / CARE A3+ (26-Feb-20) 2)CARE BBB-; Stable / CARE A3 (30-Apr-19)	-	-
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	1)CARE BBB; Stable / CARE A3+ (01-Dec-20)	1)CARE BBB; Stable (26-Feb-20)	-	-

**Annexure 3: Complexity level of various instruments rated for this Company**

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mr. Mradul Mishra  
Contact no. – +91-22-6837 4424  
Email ID – mradul.mishra@careratings.com

### Analyst Contact

Mr. Ujjwal Patel  
Contact no.- +91-85-11193123  
Email ID- ujjwal.patel@careratings.com

### Business Development Contact

Mr. Deepak Prajapati  
Contact no. - +91-79-4026 5656  
Email ID – deepak.prajapati@careratings.com

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#### Disclaimer

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