K. P. Energy Limited

August 14, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	29.27 (Reduced from 33.06)	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	Reaffirmed
Long Term / Short Term Bank Facilities	11.00 (Reduced from 36.00)	**CARE BBB-; Negative / CARE A3 (Triple B Minus ; Outlook: Negative / A Three)**	Reaffirmed
Short Term Bank Facilities	1.80	**CARE A3 (A Three)**	Reaffirmed
Total Facilities	**42.07 (Rs. Forty-Two Crore and Seven Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of K.P. Energy Limited (KPEL) continue to derive strength from its experienced and resourceful promoter group, long and established track record of the group in the renewable energy sector, integrated services offered by KPEL in constructing, operating and maintaining wind farms, possession of sizeable leasehold land-bank by KEPL for development of new wind power projects, reputed clientele and stable industry outlook.

The ratings also continue to take into account satisfactory capacity utilisation factor (CUF) of KPEL's wind power plant since commencement of operations and low counterparty credit risk due to presence of power purchase agreement (PPA) with reputed entities, adequate liquidity with creation of a Debt Service Reserve Account (DSRA) for one quarter of its repayment obligation for project debt and comfortable financial leverage.

The ratings, however, continue to remain constrained on account of its geographically concentrated revenue profile, susceptibility of power generation to variation in climatic conditions and its presence in a fragmented & competitive renewable power industry which has faced frequent regulatory changes in the recent past.

The ratings also takes cognizance of decline in revenue and profitability of its EPCC (Engineering, Procurement, and Construction & Commissioning) business segment during H2FY20 (refers to the period October 01 to March 31) and moderation in its order book following regulatory changes.

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 working capital facilities and term debt.

Key Rating Sensitivities

Positive

- Increase in total operating income (TOI) above Rs.200 crore along with improvement in PBILDT margin on a sustained basis.
- Growth in its order book along with successful execution thereof and reduction in concentration risk on a sustained basis

Negative

- Any debt-funded capex or increase in working capital borrowings which results in deterioration in leverage above unity (1.00x) in the medium term.
- Non-execution of definitive agreement with CLP/ building up its order book to atleast 2 times of its income in FY20 by September 30, 2020.
- Lower than envisaged realisation from sale of its circuit line along with prolonged delay in its sales beyond FY22.
- Levy of interest on advances granted by GE India Industrial Private Limited (GEIIPL) for the 300 KW project or crystallization of compensation claimed by Gujarat Urja Vikas Nigam Limited (GUVNL) for delay in execution of the project in KPEL's subsidiary i.e. Evergreen Mahuva Wind Farms Private Limited (EMWPL).

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

Outlook: Negative

CARE believes KPEL's income and profitability from the EPCC segment to remain under pressure on account of decline in revenue visibility following de-scoping of its sole large-size project following change in policy for land acquisition by the State Government and non-execution of definitive agreement with CLP India Private Limited (CLP). Losses in EPCC segment is also envisaged to exert pressure on surplus from power generation & O&M segment.

The outlook may be revised to 'Stable' in case EPCC segment reports improvement in terms of revenue visibility, successful execution of new contracts resulting in improved cash accruals and liquidity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter group and established track record of the group in infrastructure sector: KPEL is a part of Surat-based KP group, which has an established track record of operations with presence in renewable energy (Solar and Wind), manufacturing & galvanizing of telecom towers, manufacturing of textiles and Fast Moving Consumer Goods (FMCG).

KPEL is promoted by Mr. Faruk Patel and Mr. Ashish A Mithani, who possess more than two decades of experience in various industries and around a decade in the wind energy segment. The promoter group is ably supported by the experienced professionals, forming a strong second line of management for execution of complex projects.

Availability of sizeable land for development of projects: As on March 31, 2020, KPEL had a sizeable inventory of wind sites across various locations in Gujarat with power generation potential of above 1000 MW.

Satisfactory operational performance of its wind power plants and low off-take risk with multiple off-takers: KPEL owns and operates four Wind Turbine Generators (WTGs) with an installed capacity of 8.4MW (4 WTG*2.1 MW) in Gujarat. During FY20, the power plants reported satisfactory CUF at all the four locations with an average CUF of 26.73% (PY: 27.46%). Moreover, KPEL has entered into a power purchase agreement (PPA) with four entities (one for each WTG) having low counterparty credit risk. Periodic renewal of PPAs with each party mitigates the risk arising from shorter tenure PPAs and its dependence on sole off-taker.

The revenue from sale of power in FY20 remains stable at Rs. 9.34 crore when compared to Rs. 9.86 crore in FY19.

Comfortable capital structure and debt coverage indicators: KPEL's capital structure remained comfortable at below unity level at 0.59 times as on March 31, 2020 (0.66 times as on March 31, 2019) on account of scheduled repayment of term debt and accretion of profits to reserves. Interest coverage ratio, however remaining comfortable, deteriorated to 2.86 times during FY20 as against 8.10 times in FY19 owing to lower operating profits from its EPCC segment.

Stable industry outlook: There is great thrust from Govt. for improving the share of renewable power in India's overall power mix which is reflected from various policy initiatives. Looking at the already allotted capacity and govt.'s push for achieving targeted capacity of 60 GW by end FY22, capacity additions are likely to improve in next two to three years.

However, there are concerns like increased difficulties in land acquisition, inadequate grid connectivity on account of poor evacuation infrastructure, backing down of the projects by few state Discoms, weak credit profile of WTG manufacturers, regulatory haze in terms of renegotiation of tariff in concluded PPAs and cancellation of concluded auctions, weak financial risk profile of Discoms with significant delays in payment by few state Discoms, increased difficulties in debt tie-up and inherent risk of variation in wind patterns. Overall, positive and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook.

Key Rating Weaknesses

Moderate scale of operations and profitability: During FY20, KPEL's TOI reduced by 53% to Rs.74.63 crore as compared to Rs.158.85 crore in FY19 on account of decline in revenue from its EPCC business (constituting approximately 84% of TOI in FY20). Major drop in EPCC segment during FY20 was on account of slower than envisaged project progress of Gadhsisa project for GEIIPL owing to change in land policy in November 2019. As a result, the cost for execution of balance GE project increased significantly, leading to cost overrun. Owing to this, the project was de-scoped and KPEL reported substantial dip in revenue in H2FY20, leading to underachievement in projected TOI.

Furthermore, a definitive agreement with CLP, which was envisaged to be executed in Q3FY20 was also delayed due to change in government policies and subsequently due to COVID-19. Consequently, advance received from CLP also remain unbilled and impacted the EPCC revenue in FY20.

During FY20, the PBILDT and PAT margin moderated by 529 bps (to 15.36%) and 1077 bps (to 1.47%) respectively due to loss reported in the EPC segment during the year owing to cost-over runs in the GE project and continued fixed expenses.

Geographical concentration of revenue profile: Geographical concentration of KPEL's entire order book in Gujarat exposes the company to risk associated with adverse changes in government policies towards wind power projects, land acquisition, and local issues. However, Gujarat has the second highest share in total installed wind capacity in India due to financially healthy DISCOMs, vast potential wind sites and readiness of various IPPs to take the projects in Gujarat.

Moderation in EPCC order book position: As on March 31, 2020, KPEL's order book comprised of only one tentative contract from CLP of Rs. 192.12 crore for the development of wind farms with a capacity of 250.80 MW. However, signing of the definitive agreement for the said project is pending. The execution of the agreement within the envisaged time i.e. by August 31, 2020 is critical from credit perspective. As on March 31, 2020 CLP has already advanced Rs.14.85 crore towards the project and work related to approvals and land allocation has already started.
Further, under the project from GEIIPL, KPEL has already executed work of approximately 59% of the contract value as on March 31, 2020. However, owing to change in land policy by the state government the balance work of Rs.124.35 crore has been de-scoped and shall be executed as and when the land parcels are made available by GEIIPL.

Cost overrun in Extra High Voltage (EHV) line project: VG DTL Transmission Projects Private Limited (VGDTL), a SPV promoted by KPEL and GEIIPL, has been awarded a fixed price project for laying dedicated circuit lines for 73 Km for the above 300 MW Gadhisa project in JV with GE, to be completed by Q3FY20. KEPL also constructed an additional EHV line which will be sold to third parties. However, owing to change in law regarding land acquisition, the same was delayed and the project ran into cost-overruns. As on June 30, 2020, 97% of the project has been completed and balance work is expected to be completed by August 2020. As against the original contracted value for this project of Rs.49.20 crore (each partner to invest 50%), actual cost incurred till June 30, 2020 for this project was around Rs.117 crore. Currently, the entire cost overrun has been funded by GEIIPL by way of extension of interest free advances to KPEL. The project is envisaged to be completed by August 31, 2020. Realisation of envisaged consideration from sale of EHV circuit line is crucial for repayment of advances granted by GEIIPL.

Presence in 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 service providers (IPPs) and EPC arms of several WTG manufacturers, who holds a high bargaining power. It also faces competition from several smaller players, who provide O&M services to wind power projects.

Liquidity: Adequate
KPEL's liquidity remains adequate with surplus from KPEL's power generation and O&M segment been sufficient enough to meet its debt repayment obligations, which consists of term loan availed to set up its power plant. As against debt repayment obligation of around Rs.2.78 crore, KPEL is envisaged is generate cash accruals of Rs.11.34 crore during FY21. Also, KEPL has created DSRA equivalent to one quarter's debt servicing liability in the form of fixed deposit.
During FY20, KPEL has availed advances of Rs.50.00 crore from GEIIPL to fund its working capital requirements and fund cost overruns. Average utilisation of its fund-based and non-fund based working capital limits remained at 39% and 78% respectively during trailing twelve months ended June 30, 2020.
KPEL had free cash and bank balance of Rs.0.44 crore (excluding lien marked balance in the form of fixed deposits of Rs.6.68 crore) as on March 31, 2020.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology - Private Power Producers
Rating Methodology: Wind Power Projects
CARE's Policy on Default Recognition
CARE's Policy on Curing period
Criteria for Short Term Instruments
Financial ratios - Non- Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
KPEL is a part of the KP Group of Surat founded by Mr Faruk Patel in the year 1994. KPEL has started its business operations in 2010. Further, in February 2016, the equity shares of KPEL got listed on BSE SME exchange and on October

10, 2018 KPEL migrated from BSE SME exchange to Main Board of BSE. KPEL is jointly promoted by Mr. Faruk Patel and Mr. Ashish Mithani.
KPEL is involved in the development of utility scale wind power generation infrastructure and its operations and maintenance (O&M) work. The major activities encompass siting of wind-farms, lands & permits acquisition, EPCC of wind projects along with balance of plant (BoP) infrastructure and O&M of the projects. KPEL also owns & operates four WTGs with an installed capacity of 8.4 MW as an Independent Power Producer (IPP).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A*)
Total operating income	158.85	74.63
PBILDT	32.80	11.47
PAT	19.44	1.10
Overall gearing (times)	0.66	0.59
Interest coverage (times)	8.10	2.86

A: Audited; Based on abridged financial results published on BSE*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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
Term Loan-Long Term	NA	NA	August 2027	25.27	CARE BBB-; Negative
Fund-based - LT-Cash Credit	NA	NA	NA	4.00	CARE BBB-; Negative
Non-fund-based - LT/ ST-Bank Guarantees	NA	NA	NA	11.00	CARE BBB-; Negative / CARE A3
Fund-based - ST-Standby Line of Credit	NA	NA	NA	1.80	CARE A3

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.	Term Loan-Long Term	LT	25.27	CARE BBB-; Negative	-	1)CARE BBB-; Negative (24-Feb-20) 2)CARE BBB-; Stable (25-Jul-19)	1)CARE BBB-; Stable (26-Sep-18)	1)CARE BBB-; Stable (04-Sep-17)
2.	Fund-based - LT-Cash Credit	LT	4.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (24-Feb-20) 2)CARE BBB-;	1)CARE BBB-; Stable (26-Sep-18)	1)CARE BBB-; Stable (04-Sep-17)

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
						Stable (25-Jul-19)		
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	11.00	CARE BBB-; Negative / CARE A3	-	1)CARE BBB-; Negative / CARE A3 (24-Feb-20) 2)CARE BBB-; Stable / CARE A3 (25-Jul-19)	1)CARE BBB-; Stable / CARE A3 (26-Sep-18)	1)CARE BBB-; Stable / CARE A3 (04-Sep-17)
4.	Fund-based - ST-Standby Line of Credit	ST	1.80	CARE A3	-	1)CARE A3 (24-Feb-20) 2)CARE A3 (25-Jul-19)	1)CARE A3 (26-Sep-18)	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Standby Line of Credit	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
4.	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. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

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About CARE Ratings:
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