# K.P. Energy Limited

February 24, 2020

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 33.06 | **CARE BBB-; Negative (Triple B Minus; Outlook: Negative)** | **Revised form CARE BBB-; Stable (Triple B Minus; Outlook: Stable)** |
| Short-Term Bank Facilities | 1.80 | **CARE A3 (A Three)** | **CARE A3 (A Three)** |
| Long-term/Short-term Bank Facilities | 36.00 | **CARE BBB-; Negative/CARE A3 (Triple B Minus; Outlook: Negative/ A Three)** | **Revised from CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/ A Three)** |
| **Total Facilities** | **70.86 (Rupees Seventy crore and Eighty Six 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 operational performance of its wind power plants with low counterparty risk, moderate liquidity with presence of a Debt Service Reserve Account (DSRA) for one quarter of principal debt repayment obligation for part of its debt obligations.

The ratings, however, continue to remain constrained on account of its moderate scale of operations, geographically concentrated revenue profile, high dependence of revenues on execution of a large sized wind power project with limited execution track record for the same, susceptibility of power generation to variation in climatic conditions, its presence in a fragmented & competitive renewable power industry which has faced frequent regulatory changes in the recent past.

The rating weakness also take into account reduction in income from its EPCC (Engineering, Procurement, Construction & Commissioning) business segment during Q3FY20 and moderation in its order book following regulatory changes.

**Outlook: Negative**

CARE expects KPEL's income from the EPCC segment to remain under pressure on account of decline in revenue from its sole large-size project following change in policy for land acquisition by the State Government. KPEL's profitability is also envisaged to remain under pressure resulting in deterioration in debt coverage indicators and liquidity.

The outlook may be revised to 'Stable' in case of sustained growth in income & profitability through execution of new EPCC contracts resulting in improved cash accruals and liquidity.

**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 project concentration risk on a sustained basis
- Successful execution of its ongoing/envisaged EPCC projects within envisaged cost and time parameters

**Negative**

- Decline in its TOI to less than Rs.95 crore or decline in operating profitability below 16% on a sustained basis.
- Any debt-funded capex or increase in working capital borrowings which results in deterioration in leverage above unity (1.00x) in the medium term.

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

**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, 2019, KPEL had a sizeable inventory of wind sites across various locations in Gujarat, with wind 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 FY19 (refers to the period April 01 to March 31), the power plants reported satisfactory capacity utilization factor (CUF) at all the four locations with an average CUF of 27.46%. Moreover, KPEL has entered into a power purchase agreement (PPA) with various off-takers, which in turn reduces its dependence on sole off-taker.
During 9MFY20 (refers to the period April 01 to December 31), KPEL reported growth of 10.94% in its revenue from sale of power to Rs.8.11 crore as compared to Rs.7.31 crore in 9MFY19.

***Moderate capital structure and debt coverage indicators:*** KPEL's overall gearing deteriorated marginally as on December 31, 2019 to 0.83 times on account of availing a corporate loan to fund working capital requirements. Interest coverage, albeit deteriorated on account of lower PBILDT, remained moderate at 5.49x as compared to 8.10x in FY19.

***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:*** During 9MFY20, KPEL's TOI reduced by 24% to Rs.69.36 crore as compared to Rs.90.71 crore in 9MFY19 on account of decline in revenue from its EPCC business (constituting approximately 93% of TOI in FY19). Major drop in EPCC segment was noted in Q3FY20 on account of negligible project progress of Gadhsisa project for GE India Industrial Private Limited (GEIIPL) owing to change in land policy. Delay in signing of definitive agreement with CLP India Private Limited for setting up of 250.8 MW wind power project also impacted EPCC revenue in Q3FY20.

***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 due to high dependence on execution of a large sized wind power project:*** KPEL's order book comprises only two EPC contracts for development of wind farms with a capacity of 331.5MW. Out of this, a single contract forms around 85% of the total order book. KPEL's scope includes getting all approvals & clearances, development of wind farms for installation of WTGs and setting up of power evacuation infrastructure.
Owing to increase in competition in the wind power segment in Gujarat, change in land policy in November 2019 and consequent cost overruns, the revenue visibility from its existing order book is impacted substantially with a high probability of de-scoping of work.

***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 the independent service providers (IPPs) and EPC arms of several WTG manufacturers. Major WTG manufacturers and its customers, IPPs are larger in size & hence hold high bargaining power. It also faces competition from several smaller players, who provide O&M services to wind power projects.

**Liquidity: Adequate**
Despite lower generation of cash accruals and increase in debt levels, KPEL's liquidity remained adequate with debt repayment obligation of around Rs.8.83 crore in FY20 as against cash accruals of Rs.11.00 crore during 9MFY20. KEPL has created DSRA equivalent to one quarter's debt servicing liability (only towards principal repayment) in the form of fixed deposit for part of its WTG debt.
During 9MFY20, KPEL has availed the suppliers finance credit of Rs.23 crore from GEIIPL for funding its working capital requirements and fund cost overruns. Utilisation of its fund-based and non-fund based working capital limits remained at 95.10% and 72.51% respectively during trailing twelve months ended January 2020.
KPEL had free cash and bank balance of Rs.4.57 crore (excluding lien marked balance in the form of fixed deposits of Rs.4.92 crore) as on December 31, 2019.

**Analytical approach:** Standalone

**Applicable Criteria**
Criteria on assigning Outlook to Credit Ratings
CARE's Policy of Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Infrastructure Sector Ratings
Rating Methodology: Wind Power Projects
Financial ratios - Non Financial Sector

**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) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 60.26 | 158.85 |
| PBILDT | 9.66 | 32.80 |
| PAT | 3.78 | 24.91 |
| Overall gearing (times) | 1.22 | 0.66 |
| Interest coverage (times) | 3.25 | 8.10 |

*A: Audited*

During 9MFY20, KPEL reported TOI of Rs. 69.36 crore with PBILDT and PAT of Rs. 15.09 crore and Rs. 6.75 crore respectively.

**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 | 29.06 | 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 | 36.00 | 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Term Loan-Long Term | LT | 29.06 | CARE BBB-; Negative | CARE BBB-; Stable (25-Jul-19) | 1)CARE BBB-; Stable (26-Sep-18) | 1)CARE BBB-; Stable (04-Sep-17) | 1)CARE BBB-; Stable (09-Mar-17) |
| 2. | Fund-based - LT-Cash Credit | LT | 4.00 | CARE BBB-; Negative | CARE BBB-; Stable (25-Jul-19) | 1)CARE BBB-; Stable (26-Sep-18) | 1)CARE BBB-; Stable (04-Sep-17) | 1)CARE BBB-; Stable (09-Mar-17) |
| 3. | Non-fund-based - LT/ ST-Bank Guarantees | LT/ST | 36.00 | CARE BBB-; Negative/ CARE A3 | 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) | 1)CARE BBB-; Stable / CARE A3 (09-Mar-17) |
| 4. | Fund-based - ST-Standby Line of Credit | ST | 1.80 | CARE A3 | CARE A3 (25-Jul-19) | 1)CARE A3 (26-Sep-18) | - | - |

***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:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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