

K.P. Energy Limited

March 09, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	40.98	CARE BBB-; Stable (Triple B Minus ; Outlook : Stable)	Assigned
Long-term/Short-term Bank Facilities	9.00	CARE BBB- (Stable)/CARE A3 (Triple B Minus; Outlook: Stable/A Three)	Assigned
Total Facilities	49.98 (Rupees Forty Nine crore and Ninety Eight 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) take into account experienced promoters, healthy profitability margins and comfortable leverage as well as debt coverage indicators during past three years ending FY16 (refers to the period April 1 to March 31). Furthermore, the ratings also factor in KPEL's integrated services offerings in the area of wind farm development and operations, holding of sizable amount of lease hold land for development of new wind power projects and moderate order book provides reasonable revenue visibility over medium-term.

The ratings are however, constrained by the small albeit growing scale of operations of KPEL, high dependence on single customer along with geographical concentration. The ratings are further constrained by its presence in fragmented and competitive power infrastructure development activities.

The ability of KPEL to achieve the envisaged scale of operations and maintain its profitability margins and capital structure would be the key rating sensitivities. Furthermore, the setting up of its own wind turbine generators and achievement of envisaged benefits from its operation thereon would also be crucial.

Detailed description of the key rating drivers

Key Rating Strengths

Small albeit growing scale of operations and healthy profitability margins

The TOI of KPEL grew at a compounded annual growth rate (CAGR) of 109.26%, although on a smaller base, during the last three years ending FY16 on account of increase in the execution of number of wind generating turbines (WTG). The company has reported healthy profitability margins and PBILDT margin has shown improving trend in the past three years ending FY16. Furthermore, KPEL has set up its own WTG of 2.1 MW during FY16 operating at Matlapar, Bhavnagar which provides revenue diversification to its current EPC business and ensures stable source of income.

Moderate order book position

As on December 31, 2016, KPEL has order book for 75.6 MW of projects which is to be executed before end of CY2017. Furthermore, KPEL has a sizeable inventory of wind sites across seven locations in Gujarat, with wind generation potential aggregating to 258.3 MW (of which 65.10 MW is already commissioned).

Comfortable leverage and debt coverage indicators

The capital structure of the company remained comfortable with overall gearing remaining below unity as on March 31, 2016. Also, the debt coverage indicators have also remained comfortable during FY16. Furthermore, its operating cycle has shown improving trend in past three years ending FY16.

Key Rating Weaknesses

Dependence on sole customer and geographical concentration

KPEL provides services only to the Suzlon Group which reflects significant client concentration and its fortune is linked with the prospects of Suzlon. Furthermore, the company generates all of its revenue from Gujarat which exposes it to geographical concentration risk.

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

Presence in fragmented and competitive industry with low bargaining power

The industry is fragmented and the company faces competition from several established players. Its competitors include the independent service providers and EPC arms of several WTG manufacturers. It also faces competition from several smaller players, who provide O&M services to wind power projects. Major WTG manufacturers hold bargaining power, owing to their relatively larger size, compared to small EPC players such as KPEL.

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](#)

[Financial ratios - Non Financial Sector](#)

About the Company

K.P Energy Limited (KPEL) is a part of the KP Group of Surat founded by Mr Faruk Patel in the year 1994. The group is engaged in Renewable Energy Projects in Wind & Solar Sector. The group has presence in micro-grid solar Projects, Construction Projects, Fabrication and galvanizing, Telecom Infrastructure (Telecom Towers and OFC Network set up), real estate and FMCG.

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, EPC (Engineering, Procurement, & Commissioning) of Wind Project along with balance of plant (BoP) infrastructure and O&M of the projects. KPEL has commissioned 65.10 MW of wind energy projects at its Wind farms located at Porbander and Bhavnagar (Gujarat) since inception.

As per audited FY16 results, KPEL reported a total operating income (TOI) of Rs.41.47 crore with a PAT of Rs.5.20 crore as against a TOI of Rs.27.03 crore and a PAT of Rs.2.94 crore in FY15. Furthermore, as per the provisional results for 6MFY17, KPEL reported TOI of Rs.34.06 crore and PAT of Rs.5.20 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	May, 2024	36.58	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	4.40	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	9.00	CARE BBB-; Stable / 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Term Loan-Long Term	LT	36.58	CARE BBB-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	4.40	CARE BBB-; Stable	-	-	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	9.00	CARE BBB-; Stable / CARE A3	-	-	-	-

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