K.P. Energy Limited

July 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	33.06 (reduced from Rs.37.28 crore)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Short-Term Bank Facilities	1.80	**CARE A3 (A Three)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	36.00 (enhanced from Rs.11.00 crore)	**CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**	**Reaffirmed**
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 infrastructure sector (including renewable energy projects), 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, moderate order book position, reputed clientele and stable industry outlook.

The ratings also take into account the satisfactory operational performance of its wind power plants with low off take risk on account of multiple off takers, growth in its total operating income with revival in profitability during FY19 (refers to the period April 1 to March 31) post registering significant dip in FY18, improvement in capital structure & debt coverage indicators and moderate liquidity with presence of a Debt Service Reserve Account (DSRA) for one quarter of principal debt repayment obligation.

The ratings, however, continue to remain constrained on account of its moderate scale of operations with 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 power infrastructure industry and its exposure to the regulatory changes in the industry.

KPEL's ability to grow its order book with higher geographical diversification, scale up its operations through timely execution of orders in hand and procurement of new orders, improve its profitability and capital structure, sustain any change in the regulatory policy along with effective management of its working capital requirements are the key rating sensitivities. Furthermore, acquisition of new orders for which KPEL is in advanced stage of negotiation will also remain a key rating monitorable.

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 diversified 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.

Moderate order book position with availability of sizeable land for development of projects: KPEL has an outstanding order book of Rs.193.59 crore [1.22x of total operating income (TOI) of FY19] as on June 30, 2019, indicating moderate revenue visibility. The order book majorly comprises one large sized engineering, procurement and construction (EPC) contract awarded by reputed clientele i.e. GE India Industrial Private Limited (GEIIPL), resulting in low counterparty credit risk. Furthermore, KPEL is in advanced stage of negotiation for select orders & procurement of which shall remain crucial.

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

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, 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.

Improvement in capital structure and debt coverage indicators: Capital structure of KPEL improved during FY19; marked by a below unity overall gearing of 0.66x as on March 31, 2019 (1.22x as on March 31, 2018). The improvement was on account of scheduled repayments coupled with accretion to reserves.
The debt coverage indicators also improved during FY19; marked by PBILDT interest coverage of 8.10x (FY18: 3.25x) and total debt to gross cash accruals of 1.35x (FY18: 6.12x); on account of reduction in term debt and healthy operating profitability.

Stable industry outlook: Outlook for wind industry remains stable due to continued emphasis by the government to increase capacity addition in the sector with targeted capacity of 60GW by FY22, vast wind potential, established technology with faster & modular nature of implementation. The favourable environment is anticipated for wind energy sector as bids get driven by the central government agencies and power purchase agreements are becoming favourable to developers.
However, with competitive bidding in place which led to drastic fall in tariffs, lack of availability of inter-state transmission system infrastructure and other regulatory challenges which may create hurdles for execution.

Key Rating Weaknesses
Moderate scale of operations; albeit growth in income and revival in profitability: During FY19, KPEL reported a two fold increase in its TOI from Rs.60.26 crore to Rs.158.85 crore on back of satisfactory progress in execution of the project from GEIIPL; along with satisfactory power generation income. However, scale of operations remained moderate. Furthermore, profitability, post registering significant dip in FY18, revived to a certain extent in FY19 as indicated by a PBILDT & PAT margin of 20.65% and 12.24% respectively during FY19, as against 16.04% and 3.11% in FY18 (25.73% and 14.94% in FY17). The improvement in profitability was on account of growth in scale and improvement in margin from EPC as well as power generation segment.

Geographical concentration of revenue profile: The entire order book of KPEL is in vicinity of Gujarat, which exposes the company to risk associated with geographical concentration of revenue. Any adverse changes in government policies towards wind power projects, land acquisition, and local issues may significantly affect its revenue profile and profitability thereon.
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.

High dependence of revenues 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. Considering KPEL's experience of executing relatively smaller size wind farm projects in the past and stringent project commissioning timeline in the current orders, any delay in execution of these projects is crucial from the credit perspective.

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:
KPEL's liquidity remained moderate with low scheduled repayments of around Rs.4.95 crore in FY20, as against reported cash accruals of Rs.26.48 crore during FY19. Also, KEPL has created DSRA equivalent to one quarter's debt servicing liability (only towards principal payment) in the form of fixed deposit. However, utilisation of its working capital limits remained largely full during trailing twelve months ended March 2019. The working capital cycle continued to remain negative during FY19 on account of high creditors' days.
KPEL had free cash and bank balance of Rs.0.21 crore (excluding lien marked balance in the form of fixed deposits of Rs.6.66 crore) as on March 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]
[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 (Engineering, Procurement, Construction & Commissioning) of wind project 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). All the WTGs are operational during FY19.

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; *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	-	-	August 2027	29.06	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	36.00	CARE BBB-; Stable/ CARE A3
Fund-based - ST-Standby Line of Credit	-	-	-	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-; Stable	-	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-; Stable	-	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-	LT/ST	36.00	CARE	-	1)CARE BBB-;	1)CARE BBB-;	1)CARE BBB-;

	Bank Guarantees			BBB-; Stable / CARE A3		Stable / CARE A3 (26-Sep-18)	Stable / CARE A3 (04-Sep-17)	Stable / CARE A3 (09-Mar-17)
4.	Fund-based - ST-Standby Line of Credit	ST	1.80	CARE A3	-	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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