

K.P. Energy Limited

September 4, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	40.57	CARE BBB-; Stable (Triple B Minus ; Outlook : Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	9.00	CARE BBB- (Stable)/CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Total Facilities	49.57 (Rupees Forty Nine crore and Fifty 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) continues to takes into account vast experience of the promoters in renewable energy (RE) sector, significant growth in Total Operating Income (TOI), albeit on a modest base, along with healthy profitability margins during FY17 (refers to the period April 01 to March 31) as envisaged, low leverage and comfortable debt coverage indicators. The ratings also factor in KPEL's integrated services offerings in the area of setting up, operation and maintenance (O&M) of wind farms, moderate order book position, stable revenue envisaged from own 6.3 Mega Watt (MW) Wind Turbine Generators (WTG) and operations and maintenance income; and holding of sizable amount of lease hold land for development of new wind power projects.

The ratings, however, continues to be constrained by 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 grow its scale of operations, maintain its profitability margins and capital structure would be the key rating sensitivities. Furthermore, achievement of envisaged benefits from its operation thereon would also be crucial.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters: KPEL is promoted by Mr. Faruk Patel, and Mr. Ashish A Mithani, who possess more than 20 years of industrial experience, including 5 years in the Wind Energy Segment. Mr. Faruk Patel is the Managing Director of KPEL and is also the founder of the KP group. The group operates multiple entities in RE (Solar and Wind), textile, Engineering and FMCG. Mr. Ashish A Mithani, is the Whole-time Director and Chief Executive Officer (CEO) of Company. The promoter group is supported by experienced professionals, forming the second line of management being in-charge of various functions such as project management, planning, HR and administration, quality control and compliance.

Moderate order book position: As on March 31, 2017, KPEL had a sizeable inventory of wind sites across seven locations in Gujarat, with wind generation potential aggregating to 258.30 MW (of which 147 MW is already commissioned). Furthermore, during Q1FY18, KPEL has been granted approval for setting up wind farms aggregating 84MW across three sites in Gujarat.

Comfortable leverage and debt coverage indicators: The capital structure of the company remained comfortable with overall gearing remaining below unity as on March 31, 2017. Also, the debt coverage indicators have also remained comfortable during FY17.

Key Rating Weaknesses

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

Small albeit growing scale of operations and healthy profitability margins: As envisaged, the TOI grew from Rs.41.48 crore in FY16 to Rs.113.05 core in FY17 on the back of increase in the execution of contracts for WTGs installation. The company has reported healthy PBILDT and PAT margin of 25.73% (23.17% in FY16) and 14.94% (12.54%) respectively. Furthermore, KPEL has set up its own WTG of 8.4 MW out of which 2.1MW was operational in FY16, the other 4.2MW was commissioned during Q1FY18 and the last 2.1MW is envisaged to be commissioned in Q2FY18. This provides revenue diversification to its current EPC business and ensures stable source of income.

Dependence on sole customer and geographical concentration: KPEL provides services majorly to the Suzlon Group which reflects significant client concentration risk Furthermore, the company generates all of its revenue from Gujarat which exposes it to geographical concentration risk.

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.

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. The group is engaged in RE 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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	41.48	113.05
PBILDT	9.61	29.09
PAT	5.20	16.89
Overall gearing (times)	0.59	0.63
Interest coverage (times)	9.93	16.55

A: Audited; P: Provisional

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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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	36.17	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	36.17	CARE BBB-; Stable	-	1)CARE BBB-; Stable (09-Mar-17)	-	-
2.	Fund-based - LT-Cash Credit	LT	4.40	CARE BBB-; Stable	-	1)CARE BBB-; Stable (09-Mar-17)	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	9.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (09-Mar-17)	-	-

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