K.P. Energy Limited

September 26, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	37.28 (reduced from Rs. 40.57 crore)	**CARE BBB-; Stable (Triple B Minus ; Outlook : Stable)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	11.00 (enhanced from Rs.9.00 crore)	**CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**	**Reaffirmed**
Short-Term Bank Facilities	1.80	**CARE 3 (CARE A Three)**	**Assigned**
Total Facilities	**50.08 (Rupees Fifty crore and 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) continue to take into account vast experience of the promoters in renewable energy (RE) sector, healthy order book position with low counter party risk, integrated services offered by KPEL in setting up, operate and maintain wind farms, sizable amount of lease hold land for development of new wind power projects. The ratings continue to derive strength from KPEL's moderate financial profile as well as debt coverage indicators in FY18 (FY refers to the period April 01 to March 31).

The ratings are however, constrained on account of weak financial performance of KPEL in FY18 in terms of substantial decline in TOI and profitability on account of slower than envisaged execution of contracts on hand, lower than envisaged revenue from the sale of power and change in regulatory structure of the wind power industry from feed-in-tariff mechanism to auction-based regime. The ratings continues to be constrained on account of working capital intensity of operations, high geographical concentration and its presence in fragmented and competitive power infrastructure development activities.

The ability of KPEL to increase its scale of operations as envisaged by timely execution of the existing order book, 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.

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 2 decades of experience in various industries and about 6 years in the Wind Energy Segment. Mr. Faruk Patel is the Managing Director of KPEL and the founder of the KP group. The group has diversified operations with presence in Renewable Energy (Solar and Wind), textiles, and FMCG. Mr. Ashish A Mithani, is the Whole-time Director & Chief Executive Officer (CEO) of Company. The promoter group is supported by experienced professionals, forming a strong second line of management.

Healthy order book position: As on March 31, 2018, KPEL has a sizeable inventory of wind sites across various locations in Gujarat, with wind generation potential aggregating to 1366 MW. During FY18, the company has been awarded two EPC contracts to develop wind farms with a capacity of 600 MW (300 MW each) from GEIPL and SWTPL.

Moderate capital structure and debt coverage indicators: The capital structure of the company, albeit deteriorated, remained moderate with an overall gearing of 1.22 times as on March 31, 2018 (PY end: 0.63 times) on account of increase in term debt for purchasing wind turbine generator and increase in bank borrowings for working capital requirements. The debt coverage indicators remained moderate despite dip in cash accruals and higher debt levels.

Reduced customer concentration and counterparty risk: KPEL has diversified its customer base and signed contracts with original equipment manufacturers such as Senvion Wind Technologies Private Limited and GE India Industrial Private Limited. This shall also reduce the dependence on sole customer and reduce counter party risk.

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

Key Rating Weaknesses

Weak financial performance in FY18: The total operating income (TOI) of KPEL declined by 47% to Rs.60.26 crore primarily on account of slower than envisaged execution of contracts on hand, lower than envisaged revenue from the sale of power and change in regulatory structure of the wind power industry from feed-in-tariff mechanism to auction-based regime.

During FY18, PBILDT and APAT margin also declined by 960 bps (to 16.13%) and 1183 bps (to 3.11%) respectively in FY18 on account of increase in employee cost and other overhead expenditure. While the company has a healthy order book of 1366 MW, execution on the same in timely manner would be crucial.

Risk associated with the execution of a large size wind power projects: KPEL is executing two EPC contracts to develop wind farms with a capacity of 600 MW [300 MW each except erection, installation and commissioning work (EICW) of wind turbine generator (WTG)] for OEMs i.e. GE India Industrial Private Limited (GEIPL) and Senvion Wind Technologies Private Limited (SWTPL). KPEL's scope include getting all approvals & clearances, development of wind farms for installation and setting up of the transmission network. Considering KPEL's experience of executing relatively smaller size wind farm projects in the past and stringent commissioning timeline of 18 months from signing of the PPA, delay in execution of the project is crucial from the credit perspective.

Working capital intensity of operations: KPEL's operations are working capital intensive in nature. The average utilization of the fund based working capital limits in the trailing twelve months ended July 31, 2018 remained high.The receivables period elongated from 53 days in FY17 to 147 days in FY18 on account of high receivables despite substantial reduction in TOI. The current ratio and quick ratio remained low at 0.95 times and 0.76 times respectively.

Presence in fragmented and competitive industry with low bargaining power

The industry is fragmented and the company faces stiff 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. 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)	FY17 (A)	FY18 (A)
Total operating income	113.05	60.26
PBILDT	29.09	9.72
PAT	16.89	1.88
Overall gearing (times)	0.63	1.22
Interest coverage (times)	16.55	3.27

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	NA	NA	August 2027	33.28	CARE BBB-; Stable
Fund-based - LT-Cash Credit	NA	NA	NA	4.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	NA	NA	NA	11.00	CARE BBB-; Stable / 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	33.28	CARE BBB-; Stable	-	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 (04-Sep-17)	1)CARE BBB-; Stable (09-Mar-17)	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	11.00	CARE BBB-; Stable / CARE A3	-	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	-	-	-	-

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