KPI Global Infrastructure Limited

February 26, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long term Facilities	119.37 (reduced from Rs. 121.08 crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**
Long-term/ Short-term Facilities	14.50 (enhanced from Rs. 2.50 crore)	**CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)**	**Revised from CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/A Three)**
Total facilities	**133.87 (Rs. One Hundred Thirty Three crore and Eighty Seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of KPI Global Infrastructure Limited (KPIL) takes into account commencement of commercial operations of its 25MW solar power plant without any cost & time overrun, satisfactory operations of its existing 15MW solar power plant with generation levels in-line with the P-90 capacity utilization factor (CUF) levels, low counterparty credit risk on account of long term Power Purchase Agreement (PPA) with reputed corporates having a strong financial risk profile and timely receipts of monthly payments. The rating also take the cognizance of ring fencing along with defined waterfall mechanism of cash flows from its 25MW solar power plant through setting up a Trust & Retention Account (TRA).

The ratings continue to derive strength from the experienced and resourceful promoter group, favorable location of the solar power plant, satisfactory power evacuation infrastructure, comfortable financial profile and favorable policy framework for solar power generation business on the back of various government-led reforms & incentives to encourage investments in this segment.

The ratings, however, continue to remain constrained on account of limited operational track record of its existing 15MW power plant, risk pertaining to terms and continuity of PPA agreements, susceptibility of its profitability to fluctuation in interest rates, variation in climatic conditions & technological risk associated with the solar power plants. The ratings weakness also takes into account lower than envisaged CUF levels during 10MFY20 and higher than envisaged working capital intensity of its captive power plant (CPP) segment.

Detailed description of the key rating drivers

Key Rating Strengths

Successful completion of 25MW solar power plant without any cost and time overrun: KPIL has successfully completed its brownfield solar power project of 25MW without any cost and time overrun. Total cost incurred for the project was Rs.126 crore, funded in the debt equity ratio of 2.36:1. KPIL commenced commercial operations in a phased manner starting from April 2019 (2.20 MW) to January 2020 (25 MW). As on February 15, 2020, KPIL has total operational solar power capacity of 40 MW as an Independent Power Producer (IPP).

Satisfactory operational performance of existing 15MW solar power plant: The operating performance of 15 MW solar power plant commissioned in January 2019 has been in line with the P-90 estimates. During FY19, the plant generated CUF of 19.01% as against net CUF of 20.07% in FY18. The marginal decline during FY19 was on account of several shutdowns at Gujarat Energy Transmission Company (GETCO) substation due to up gradation activity of the transmission line from 66KV to 220KV. During 10MFY20, KPIL reported CUF of 18.67% from the entire capacity of 40MW (25 MW capacity commissioned in phase manner). The performance during 10MFY20 was lower than FY19 on account of planned outages due to upgradation activity and heavy rains.

Low counterparty risk due to long-term off take arrangement in the form of PPA signed with reputed corporates: KPIL has entered into a long-term PPA with reputed corporates for supply of power from its 15 MW and 25MW solar power plant for a period of 3 years (option to renew till 15 years) and 15-20 years respectively. Presence of long-term PPA with

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

a strong counterparty ensures timely receipts of payments and cash-flow sustainability. Average collection period remained moderate at 138 days during FY19
KPIL offers a discount of approximately 7% on the prevailing per unit price of the power charged by the DISCOMs; a healthy average rate of Rs 6.60 per unit, resulting in healthy profitability and surplus.

Experienced and resourceful promoter group: KPIL is a part of Surat-based KP group, which has diversified operations in Renewable Energy (Solar & Wind) segment. Since inception, the group has executed more than 100 MW of solar power plants under engineering, procurement and construction (EPC) mode. Mr Faruk Patel, Chairman cum Managing director of KPIL, has an experience of more than 18 years in diversified sectors including solar and wind energy space. Further, the group is supported by the experienced professionals, forming the strong second line of business.

Favorable geographical presence of the solar power plant: The entire solar power capacity of 40 MW [15 MW (Unit I) and 25MW (Unit II)] is located at Sudi & Tanchha village, Bharuch, Gujarat. The site has good irradiation levels and easy availability of water for maintenance requirements. Further, the project is erected on black cotton soil land, which results in comparatively lower dust, which in turn reduces annual maintenance cost and improves CUF levels.

Established infrastructure for evacuating power: KPIL has set up a 13.25 km long 220 KV double conductor transmission line which is capable of transmitting up to 100 MW of power.
The infrastructure is utilized to transmit power generated from both IPP as well as CPP segment. During 10MFY20, KPIL has obtained evacuation approval from GETCO for transmitting power up to 70MW through the said transmission line and has filed an application for balance 30 MW.

Moderate scale of operations and healthy profitability: KPIL's TOI grew by 10% y-o-y to Rs. 34.58 crore during FY19. The revenue from the sale of captive power plant remained major source of revenue in FY19 contributing around 49% of TOI at Rs.11.17 crore. Revenue from sale of power grew by 40% y-o-y to Rs.17.03 crore and it contributed 32% of TOI during FY19. The growth in CPP and IPP income was offset by dip in revenue from the sale of land.
During FY19, the PBILDT margin, albeit moderated due to reduction in revenue from sale of land plots, remained healthy at 44.52% backed by scaling up of operations of 15MW solar power plant and CPP sales.
As per provisional results for H1FY20, KPIL reported total sales of Rs.25.02 crore and PAT of Rs.0.52 crore.

Comfortable leverage and moderate debt coverage indicators: The capital structure of the company improved and remained comfortable marked by the overall gearing of 0.37 times as on March 31, 2019 (0.90 times as on March 31, 2018). The debt coverage indicators (interest coverage and total debt to gross cash accruals) also remained moderate at 4.33 times (PY:7.07 times) and 4.63 years (PY:2.99 years) respectively in FY19.
However, the overall gearing and debt coverage indicators deteriorated in FY20 on account of debt funded capex of setting up a 25MW solar power plant.

Favorable renewable energy framework with stable industry outlook: Outlook for solar industry remains stable due to government's thrust on renewable energy sector, with a targeted solar power generation capacity of 175 GW till FY22 along with various government-led reforms and incentives to encourage investments in this segment. Solar projects have relatively lower execution risks, stable long term revenue visibility with long term off take arrangements at a fixed tariff, minimal O&M requirements, tariffs comparable to conventional power generation, must run status of solar power projects and upwards revision in solar renewable purchase obligation (RPO) achievement targets. However, the industry continues to face operating challenges such as weak financial risk profile of discoms, very high dependence on imported solar cells & modules, relatively lesser track record of technology in Indian conditions, regulatory haze in terms of renegotiation of tariff in concluded PPAs and bottleneck in transmission infrastructure which requires timely addressal to support the huge capacity addition targets.

Key Rating Weakness
Susceptibility of power generation to climatic conditions along with technological risk: The power generation level of a solar power plant primarily depends upon factors like solar radiation levels, temperature & climatic conditions and transmissions efficiency of the plant and inverters installed, module aging and degradation etc. While losses in photovoltaic (PV) systems, design parameters, inverter efficiency and module degradation depend on the overall manufacturing pattern and technical soundness of the modules, solar radiance levels and overall climatic conditions beyond human control and thus have the potential to adversely affect the operational efficiency of a solar power plant. Further, the performance track record of the PV modules in Indian conditions is relatively limited. Although, the modules and other equipment have been sourced from reputed suppliers, technological risk persists for the project

duration. Further, the project is based on thin film photovoltaic (PV) solar cells technology, which has a relatively short performance track record in Indian conditions and consequently achievement of envisaged CUF levels remains crucial.

Risk pertaining to terms and continuity of PPA agreement: The PPA executed by KPIL doesn't have a lock-in period and it can be terminated by either party by giving a six months' and twelve months' notice for 15 MW and 25MW respectively. Further, in case of few contracts, the PPA is to be renewed after three years. Consequently, KPIL is exposed to risk arising out non continuity by any of the customer in the long term.
Apart from above, KPIL has also provided minimum generation guarantee which is 20% of the expected output each year, adjusted proportionately for solar irradiation. However, the risk is partly offset by charging higher rate per unit of solar power, as compared to peers.

Interest rate fluctuation risk: The interest rate for the project debts is floating in nature thereby exposing the company to fluctuations in the interest rates. Any adverse movement of interest rate could hamper the company's financial profile and eventually its debt servicing capabilities.

Liquidity: Adequate
The liquidity position of KPIL remained adequate with increasing revenue from CPP business, generation of healthy CUF level and receipt of payments from the sale of power within 45 days of submission of monthly bill. The working capital cycle during FY19 elongated to 208 days primarily on account of increase in inventory level owing to the ongoing power projects and receivables under CPP model.
In September 2019, KPIL have sanctioned working capital limit of Rs.3 crore and its average utilisation remained at 89% during the trailing five months ended January 2020. KPIL has free cash and bank balance of Rs.1.99 crore as on March 31, 2019. Going forward, liquidity is envisaged to remain adequate considering defined cash flow mechanism in place through TRA and cash accruals from IPP segment of around Rs.21-26 crore as against debt repayment obligation of Rs.15-19 crore.

Analytical approach: Standalone

Applicable criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Infrastructure sector ratings
CARE's methodology for private power producers
Financial ratios – Non-financial sector

About the company
Incorporated on February 01, 2018, KPIL is engaged in generation of solar power, both as an IPP and CPP under the brand name of 'Solarism' at Sudi & Tanchha village, Amod, Bharuch, Gujarat.
In 2016, KPIL commissioned its first solar power plant (Unit I) of 5 MW on a leased land and in 2017, KPIL commissioned another solar power plant of 10 MW on owned land. Further, KPIL commissioned Unit 2 with an installed capacity of 25 MW in October 2019 at the same location.
KPIL also develops, transfer, operate and maintain grid connected solar power projects for CPP customers and generate revenue by selling these projects to third parties for their captive use requirements. By the end of March, 2019, KPIL has successfully completed CPP project of 2.43MW capacity of solar power plant and has entered into LOI's for another 7.69 MW solar power project.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	31.58	34.58
PBILDT	18.20	15.39
PAT	7.39	8.90
Overall gearing (times)	0.90	0.37
Interest coverage (times)	7.24	4.33

A: Audited

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
Fund-based - LT-Term Loan	NA	NA	July 2032	116.37	CARE BBB; Stable
Non-fund-based - LT/ ST-Letter of credit	NA	NA	NA	14.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-Bank Guarantees	NA	NA	NA	0.50	CARE BBB; Stable / CARE A3+
Fund-based - LT-Cash Credit	NA	Na	NA	3.00	CARE BBB; Stable

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.	Fund-based - LT-Term Loan	LT	116.37	CARE BBB; Stable	1)CARE BBB-; Stable (30-Apr-19) 2)CARE BBB-; Stable / CARE A3 (16-Apr-19)	-	-	-
2.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	14.00	CARE BBB; Stable / CARE A3+	1)CARE BBB-; Stable / CARE A3 (30-Apr-19)	-	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	0.50	CARE BBB; Stable / CARE A3+	1)CARE BBB-; Stable / CARE A3 (30-Apr-19)	-	-	-
4.	Fund-based - LT-Cash Credit	LT	3.00	CARE BBB; Stable	-	-	-	-

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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