KPI Global Infrastructure Limited

April 30, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long term Facilities	121.08 (enhanced from Rs. 6.00 crore)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Long-term/ Short-term Facilities	2.50	**CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**	**Assigned**
Total facilities	**123.58 (Rs. One Hundred Twenty Three crore and Fifty Eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KPI Global Infrastructure Limited (KPIL) continue to derive strength from the experienced and resourceful promoter group, low off take and counterparty credit risk on account of long term Power Purchase Agreement (PPA) with reputed corporates for the entire existing and upcoming capacity of 15MW and 25MW respectively, established infrastructure for evacuation of power with timely receipt of payments from the off-takers. The ratings also take cognizance of favorable locational advantage of the solar power plant, satisfactory capacity utilisation factor (CUF), comfortable financial profile and favorable policy framework for solar power generation business on the back of various government-led reforms and 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, implementation & stabilisation risk associated with the upcoming solar plant of 25 MW, risk pertaining to continuity of PPA agreement and susceptibility of its profitability to fluctuation in interest rates, variation in climatic conditions & technological risk associated with the solar power plants.

The ability of KPIL to achieve and sustain the envisaged generation levels from its existing power plant, increase its scale of operations from the captive power production (CPP) segment, timely receipts of payments from the off takers and control over operations and maintenance (O&M) expenses shall be the key rating sensitivities. Further, timely commissioning and stabilization of upcoming 25MW solar power plant without any cost and time overrun shall also be critical.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoter group: Mr Faruk Patel is the Chairman cum Managing director of KPIL and founder of the KP Group. He has an experience of more than 18 years in diversified sectors including solar and wind energy space. The group has diversified operations in Renewable Energy (Solar & Wind). Since inception, the group has executed more than 100 MW of solar power plants under engineering, procurement and construction (EPC) mode before installation of their first independent power production. Further, the promoter group is supported by the experienced professionals, forming the strong second line of business.

Favorable geographical presence of the solar power plant: KPIL's existing solar power plant of 15 MW (Unit I) is located at Sudi & Tanchha village, Bharuch, Gujarat and the proposed solar power plant of 25MW (Unit II) is also being set up at the same location. The project location has good irradiation level and easy availability of water for maintenance requirement. Furthermore, the project is erected on black cotton soil land, which results in comparatively lower dust thus, reducing the annual maintenance cost and higher CUF levels. The operational 15 MW solar power plant (commissioned in a phase manner) generated a CUF of 20.70% and 19.02% in FY18 and FY19 respectively.

Established infrastructure for evacuating power: KPIL has established a 13.25 km long 66 KV transmission line suitable for double circuit of 'panther' conductors enabling transmission up to 100 MW capacity of power. The infrastructure is utilized to generate revenue from IPP and CPP customers. KPIL at present has obtained evacuation approval from GETCO for transmitting power up to 40 MW through the said transmission line and has filed an application for transmitting an additional 10 MW.

Long-term revenue visibility with off-take arrangement in the form of PPA: KPIL has entered into a long-term PPA with reputed corporates for supply of power generated from its operational 15 MW plant and upcoming 25MW for a period

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

of 3 years (option to renew till 15 years) and 15 to 20 years respectively. The counterparty risk is considered low, especially given strong credit profile of the off-takers.

Strong revenue rates per unit, provides healthy operating income and profitability: KPIL offers a discount (approximately 7%) on the prevailing per unit price of the power charged by the DISCOMs. This provides strong revenue rate at an average of Rs 6.17 per unit, thereby providing healthy revenue and profitability.

Moderate scale of operations and healthy profitability: KPIL operates on a moderate scale with major income in the past was earned from sale of plots for development of solar power plants. During FY18, sale of land plots remained a major activity and it contributed around 62% of Total Operating Income (TOI) of KPIL during FY18. Going forward, KPIL is envisaged to discontinue land sale operations and sale of solar power from its combined capacity of 40 MW is envisaged to contribute a major share of TOI. KPIL's profitability remained healthy on account of substantial margin earned on sale of plots. During FY18, PBILDT margin, albeit moderated due to reduction in sale of land plots, remained healthy at above 55% on account of scaling up of operations of solar power project and captive power production (CPP) sales.
As per provisional results for H1FY19, KPIL reported total sales of Rs.14.21 crore and PAT of Rs.3.87 crore.

Low leverage and moderate debt coverage indicators: The capital structure of the company remained comfortable marked by the overall gearing of 0.99 times as on March 31, 2018. The debt coverage indicators (interest coverage and total debt to gross cash accruals) also remained moderate at 7.07 times and 2.99 years respectively in FY18.
However, going forward, the overall gearing and debt coverage indicators are envisaged to deteriorate on account of large size debt funded capex.

Liquidity Profile: As per the PPAs, KPIL raises an invoice for the solar power supplied on the basis of bill and credit calculation sheet of DSICOM received from the buyer. There has been an established track record of payments within 30 to 45 days from the date of invoice. Receipt of monthly invoice reduces the need for working capital. KPIL has maintained the cash and bank balance of Rs. 1.12 crore as on March 31, 2018. KPIL reported GCA of Rs.14.76 crore during FY18 which were comfortable to discharge its debt obligations of FY18.

Key Rating Weakness
Implementation & stabilisation risk associated with solar power plant of 25 MW: KPIL is setting up an additional 25MW solar power plant with the estimated project cost of Rs.126 crore funded in the debt equity ratio of 2.15 times. KPIL has achieved financial closure for the project and the scheduled date of commencement of operations is July 01, 2019. Till March 14, 2018, KPIL had incurred 31% of total project cost, which was funded out of IPO proceeds and unsecured loans from promoters. Considering the size of the project, completion of the project within envisaged time and cost parameters and stabilisation of operations by achieving envisaged CUF level is 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' notice. 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.

Exposure to the risk of climate conditions and technological risk: Achievement of desired CUF going forward would be subject to climatic conditions, extent of degradation of modules as well as other technological risks. 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.

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 Independent Power Producer ("IPP") and Captive Power Producer ("CPP") under the brand name of 'Solarism' at Sudi & Tanchha village, Amod, Bharuch, Gujarat.

In 2016, KPIL commissioned its first solar power plant of 5 MW on a leased land and in 2017, KPIL commissioned another solar power plant of 10 MW on owned land.

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. In 2018, it has completed its first CPP sales of 0.45 MW.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	26.02	31.58
PBILDT	17.46	18.20
PAT	5.39	7.39
Overall gearing (times)	1.13	0.90
Interest coverage (times)	10.43	7.07

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

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
Fund-based - LT-Term Loan	NA	NA	July 2031	121.08	CARE BBB-; Stable
Non-fund-based - LT/ ST-Letter of credit	NA	NA	NA	2.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantees	NA	NA	NA	0.50	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 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	121.08	CARE BBB-; Stable	1)CARE BBB-; Stable / CARE A3 (16-Apr-19)	-	-	-
2.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	2.00	CARE BBB-; Stable / CARE A3	-	-	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	0.50	CARE BBB-; Stable / CARE A3	-	-	-	-

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