Kalpataru Power Transmission Limited

January 23, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	920.00	**CARE AA; Stable (Double A; Outlook : Stable)**	Reaffirmed
Long Term / Short Term Bank Facilities	7,864.85 (enhanced from Rs.5,864.85 crore)	**CARE AA; Stable / CARE A1+ (Double A; Outlook : Stable / A One Plus)**	Reaffirmed
Total Facilities	**8,784.85 (Rupees Eight Thousand Seven Hundred Eighty Four Crore and Eighty Five Lakh Only)**		
Non-Convertible Debenture Issue – I*	-	-	Withdrawn
Non-Convertible Debenture Issue – IV and V**	200.00 (Rupees Two Hundred Crore Only)	**CARE AA; Stable (Double A; Outlook : Stable)**	Reaffirmed
Proposed Non-Convertible Debenture Issue – VI	200.00 (Rupees Two Hundred Crore Only)	**CARE AA; Stable (Double A; Outlook : Stable)**	Assigned
Commercial Paper Issue (carved out of working capital limits)	150.00 (Rupees One Hundred Fifty Crore Only)	**CARE A1+ (A One Plus)**	Reaffirmed
Commercial Paper Issue (standalone)	50.00 (Rupees Fifty Crore Only)	**CARE A1+ (A One Plus)**	Reaffirmed

Details of instruments/facilities in Annexure-1;
** Withdrawn on full redemption; ** outstanding as on September 30, 2016;*

Detailed Rationale

The ratings for various bank facilities and instruments of Kalpataru Power Transmission Ltd. (KPTL) continue to draw strength from its established position in the power transmission and distribution infrastructure (TDI) sector with growing international presence and its strong order book. The ratings also factor in KPTL's low overall gearing, comfortable liquidity and stable profitability.

The long term rating, however, continues to be constrained on account of the high working capital intensity of KPTL's business along with the risk associated with volatility in raw material prices and foreign exchange rates; risks related to project execution including securing right of way and various clearances in a timely manner and increased propensity to support some of its subsidiaries where cash generation is inadequate.

The ability of KPTL to maintain its profitability while sustaining the growth in its operations and efficient management of working capital would be the key rating sensitivities. The nature and extent of further support provided to its subsidiaries would also be crucial from the credit perspective.

Detailed description of the key rating drivers

KPTL has an established position in the domestic TDI market and is one of the leading players in the industry with an execution track record of more than three decades and has also diversified organically into overseas markets, across Africa, South East and Middle East regions of Asia, Eastern Europe and Americas, Commonwealth of Independent States (CIS) and South Asian Association for Regional Cooperation (SAARC) countries. Further, with the ownership of infrastructure assets in the power transmission sector through operational projects, Jhajjar KT Transco Pvt. Ltd. (JKTPL; rated CARE A-) and Kalpataru Satpura Transco Pvt. Ltd. (KSTPL) along with under construction project, Alipurduar Transmission Ltd. (ATL; rated CARE A-), the company is likely to further strengthen its position in the domestic TDI market.

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

KPTL had strong order book of around Rs.9,400 crore as on September 30, 2016 [2.13x of FY16 total operating income (TOI)] which was also fairly diversified with international transmission line orders consisting of 57% of the outstanding orders. Most of KPTL's international projects are funded by multilateral development agencies or are covered under letter of credit opened in favour of KPTL, lowering KPTL's counterparty credit risk. A majority of the domestic TDI order book of KPTL was from Power Grid Corporation of India Ltd. (PGCIL; rated CARE AAA/CARE A1+), the dominant power transmission utility in the country.

KPTL has also infused funds in its subsidiaries and group entities to fund their capex/development plans as well as for augmenting their long-term resources. The funding to these entities exposes KPTL to the risks of business carried out by these subsidiaries, involved in infrastructure, construction, real estate and agri-warehousing businesses. The infusion of the funds was either to fund the initial projected development cost or to support subsidiaries where cash generation is inadequate. The total exposure of KPTL to its group entities stood at Rs.990 crore as on March 31, 2016. Further, during Q1FY17, KPTL infused Rs.70 crore in Shree Shubham Logistics Ltd. (SSLL – 73% equity holding as on March 31, 2016; rated CARE BBB+/CARE A3+) towards subscription of additional equity through its rights issue.

KPTL needs to acquire Right of Use (RoU) of land as well as Right of Way (RoW) from private parties as well as government agencies for its infrastructure projects as well as for laying transmission towers. This exposes it to risk of delays in the project execution, if these rights are not obtained in time. In certain cases, if the rights are denied, the path/orientation of the line might have to be changed, resulting in time and cost overrun at times.

The operations of KPTL remained working capital intensive, largely due to milestone based payments in almost all its contracts as well as retention money being held up by clients till end of performance guarantee period (12-24 months), a norm in the TDI industry. The average utilization of KPTL's working capital limits remained comfortable at 44% during the 12 months ended October 2016, as a sizeable portion of the company's cash accruals are reinvested in its working capital and the company has relied on alternative low cost borrowings.

KPTL's total operating income (TOI) remained largely flat on a y-o-y basis in FY16, despite decline in commodity prices, indicating some increase in project execution. TOI increased by 8% y-o-y in H1FY17, with increase in execution in the TDI segment. PBILDT margin improved to 13.21% in FY16 vis-à-vis 11.30% in FY15 with better profitability in both TDI and infrastructure segments. Interest costs remained stable, as increase in bank charges offset the benefits from lower bank limit utilization during FY16. Lower working capital bank borrowings and accretion of profits to networth resulted in improvement in overall gearing to 0.35x as on March 31, 2016. KPTL's liquidity also remained comfortable during the period.

Analytical approach: Standalone

A majority of KPTL's income and cash flows are generated from its core TDI and infrastructure construction business. Further, except a medium-term loan availed by JMC, none of the loans taken by the various subsidiaries and step-down subsidiaries, including in road and power transmission SPVs of KPTL is with recourse in nature. Hence, standalone approach has been considered for analysis. Over the years, KPTL has also invested in various entities including JMC and SSLL. KTPL's outstanding investment stood at 44% of its standalone networth as on March 31, 2016. Additional planned investment in these entities by KPTL has been factored suitably in the analysis.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Policy on Withdrawal of Ratings
Rating Methodology: Factoring Linkages in Ratings
Financial Ratios: Non-Financial Sector

About the Company

Promoted by Mr. Mofatraj Munot in 1981, Kalpataru Power Transmission Ltd. (KPTL; CIN: L40100GJ1981PLC004281) is one of the top three players in the domestic TDI sector. Presently, it operates in TDI segment, which contributed 85% to its standalone total operating income in FY16 (refers to the period April 1 to March 31), infrastructure segment (13%, which includes laying oil and gas pipelines and railway construction) while the balance 2% was contributed by others including power generation through bio-mass. KPTL's manufacturing facilities for transmission tower structures are situated at Gandhinagar in Gujarat and Raipur in Chhattisgarh with a combined installed capacity of 180,000 metric tonne per annum (MTPA) as on March 31, 2016.

In addition to its TDI business, KPTL has also diversified inorganically by acquiring majority stake in JMC Projects (India) Ltd. (JMC – 67% equity holding of KPTL as on March 31, 2016; rated CARE A+; Stable / CARE A1+) engaged in diversified construction activities and Shree Shubham Logistics Ltd. (SSLL – 73% equity holding as on March 31, 2016; rated CARE BBB+ / CARE A3+) engaged in agri-warehousing and allied activities.

In addition to acquisitions, KPTL has also ventured into asset ownership in power transmission sector through its SPVs, Jhajjar KT Transco Pvt. Ltd. (JKTPL; rated CARE A-), Kalpataru Satpura Transco Pvt. Ltd. (KSTPL) and Alipurduar Transmission Ltd. (ATL; rated CARE A-) and in road sector through JMC's four SPVs. Further, KPTL has invested in real estate projects through its wholly-owned subsidiaries, Energylink (India) Ltd. (EIL) and Amber Real Estate Ltd. (AREL).

Based on the audited standalone financials, KPTL registered a total operating income of Rs.4,415 crore with a PAT of Rs.200 crore in FY16 (refers to the period from April 1 to March 31) compared with a total operating income of Rs.4,474 crore with a PAT of Rs.166 crore in FY15. Further, as per unaudited results for H1FY17, the company reported a PAT of Rs.122 crore on a total operating income of Rs.2,358 crore, compared with a PAT of Rs.91 crore on a total operating income of Rs.2,181 crore during H1FY16.

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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About CARE Ratings:

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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
Non Fund Based – Long Term / Short Term	-	-	-	7,500.00	CARE AA; Stable / CARE A1+
Fund Based – Long Term	-	-	-	775.00	CARE AA; Stable
Fund Based/Non Fund Based – Long Term/Short Term	-	-	-	364.85	CARE AA; Stable / CARE A1+
Term Loan – Long Term	-	-	December 31, 2021	145.00	CARE AA; Stable
Non-Convertible Debentures (NCD – IV)	September 5, 2014	10.50%	September 5, 2017	100.00	CARE AA; Stable
Non-Convertible Debentures (NCD – V)	March 26, 2015	9.55%	May 20, 2018	100.00	CARE AA; Stable
Proposed Non-Convertible Debentures (NCD – VI)	-	-	-	200.00	CARE AA; Stable
Commercial Paper (Carved out)	-	-	7-364 days	150.00	CARE A1+
Commercial Paper (Standalone)	-	-	7-364 days	50.00	CARE A1+

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Non-Convertible Debentures (NCD – I and II)	LT	26.67	Withdrawn	-	1)CARE AA (December 16, 2015)	1)CARE AA (September 03, 2014)	1)CARE AA (October 07, 2013)
2.	Commercial Paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (December 16, 2015)	1)CARE A1+ (September 03, 2014)	1)CARE A1+ (October 07, 2013)
3.	Fund Based-Long Term	LT	775.00	CARE AA; Stable	-	1)CARE AA (December 16, 2015)	1)CARE AA (September 03, 2014)	1)CARE AA (October 07, 2013)
4.	Non Fund Based-LT/ST	LT/ST	7,500.00	CARE AA; Stable / CARE A1+	-	1)CARE AA / CARE A1+ (December 16, 2015)	1)CARE AA / CARE A1+ (September 03, 2014)	1)CARE AA / CARE A1+ (October 07, 2013)
5.	Fund Based/Non Fund Based-LT/ST	LT/ST	364.85	CARE AA; Stable / CARE A1+	-	1)CARE AA / CARE A1+ (December 16, 2015)	1)CARE AA / CARE A1+ (September 03, 2014)	1)CARE AA / CARE A1+ (October 07, 2013)
6.	Term Loan-Long Term	LT	1.51	Withdrawn	-	-	-	1)Withdrawn (October 07, 2013)
7.	Commercial Paper (Standalone)	ST	50.00	CARE A1+	-	1)CARE A1+ (December 16, 2015)	1)CARE A1+ (September 03, 2014)	1)CARE A1+ (October 07, 2013)
8.	Non-Convertible Debentures (NCD – III)	LT	60.00	Withdrawn	-	-	1)Withdrawn (September 03, 2014)	1)CARE AA (July 04, 2013)
9.	Non-Convertible Debentures (NCD – IV and V)	LT	200.00	CARE AA; Stable	-	1)CARE AA (December 16, 2015)	1)CARE AA (March 30, 2015) 2)CARE AA (September 03, 2014)	-
10.	Term Loan-Long Term	LT	145.00	CARE AA; Stable	-	1)CARE AA (December 16, 2015)	1)CARE AA (September 03, 2014)	
11.	Proposed Non-Convertible Debentures (NCD – VI)	LT	-	CARE AA; Stable	-	-	-	-

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