Kalpataru Power Transmission Limited

September 7, 2017

Ratings

Instruments /Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	912.50 (reduced from Rs.920 crore)	**CARE AA; Stable (Double A; Outlook : Stable)**	Reaffirmed
Long Term / Short Term Bank Facilities	8,864.85 (enhanced from Rs.7,864.85 crore)	**CARE AA; Stable / CARE A1+ (Double A; Outlook : Stable / A One Plus)**	Reaffirmed
Total Bank Facilities	**9,777.35 (Rupees Nine Thousand Seven Hundred Seventy Seven Crore and Thirty Five Lakh Only)**		
Outstanding Non-Convertible Debenture Issue – IV and V*	#200.00	**CARE AA; Stable (Double A; Outlook : Stable)**	Reaffirmed
Outstanding Non-Convertible Debenture Issue – VI and VII*	200.00	**CARE AA; Stable (Double A; Outlook : Stable)**	Reaffirmed
Proposed Non-Convertible Debenture Issue – VIII and IX	200.00	**CARE AA; Stable (Double A; Outlook : Stable)**	Assigned
Commercial Paper Issue (carved out of working capital limits)	250.00 (enhanced from Rs.150.00 crore)	**CARE A1+ (A One Plus)**	Reaffirmed
Commercial Paper Issue (standalone)	50.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total Instruments	**900.00 (Rupees Nine Hundred Crore Only)**		

*Details of instruments/facilities in Annexure-1; * Outstanding as on March 31, 2017*
 # Rs.100 crore repaid on September 5, 2017

Detailed Rationale & Key Rating Drivers

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 international presence and its strong order book. The ratings also factor in KPTL's low overall gearing, comfortable liquidity and stable profitability along with a favourable industry scenario for TDI industry in the long term.

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 along with 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

Key Rating Strengths

Established position in TDI sector: 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, Americas and Australia, 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-; Stable) and Kalpataru Satpura Transco Pvt. Ltd. (KSTPL) along with

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

under implementation projects, Alipurduar Transmission Ltd. (ATL; rated CARE A-) and Kohima Mariani Transmission Ltd., the company is likely to further strengthen its position in the domestic TDI market.

Strong order book leading to healthy revenue visibility: KPTL had strong order book of around Rs.9,753 crore as on June 30, 2017 [1.97x of FY17 total operating income (TOI)] which was also fairly diversified with international transmission line orders consisting of 43% of the outstanding orders, while the balance was from domestic TDI orders (41%) and infrastructure construction orders (14%). 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.

Strong financial risk profile: KPTL's total operating income (TOI) increased by 13% y-o-y in FY17, with better execution in domestic TDI as well as infrastructure construction (both pipelines and railways), offsetting the decline in revenue from international business. TOI remained largely flat in Q1FY18, with steady project execution. PBILDT margin remained stable at 13.32% in FY17 with stable profitability in both TDI and infrastructure segments. Interest costs remained stable, as increase in bank charges offset the benefits from reduced interest rates due to borrowings in the form of NCDs and stable bank limit utilization during FY17. Accretion of profits to networth resulted in improvement in overall gearing to 0.28x as on March 31, 2017. KPTL's liquidity also remained comfortable during the period.

Favourable industry scenario in the long term: The long-term demand outlook for the domestic power transmission infrastructure is expected to be favourable as the Indian government continues to exert significant thrust on the sector. Huge investments have been planned and massive network interconnectivity is envisaged, with a focus on affordability and reliability, including substantial outlays by the state sector for expanding the intra-state transmission infrastructure, in addition to PGCIL's annual capital outlay. Amidst all these developments, on the ground level, issues related to smooth and timely project execution are quite dominant which include challenges such as Right of Way (RoW), land acquisition, environmental and forest clearances, end users (like power plants) not being ready, etc., impacting the project completion timelines. The Indian government envisages addition of 105,580 CKMs of transmission lines and 292,000 MVA of transformation capacity addition between 2017-2022, necessitating a humongous investment to the tune of Rs.260,000 crore. This is expected to unfold reasonable opportunities for players like KPTL. Apart from the domestic markets, power infrastructure development is also gaining pace in Middle East and North Africa (MENA) and Commonwealth of Independent States (CIS) regions. Substantial investments have been planned in the transmission sector due to largely underdeveloped power infrastructure and increased power generation in the region.

Key Rating Weaknesses

Propensity to support subsidiaries and group entities: KPTL has 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 funds was either to fund the initial development cost or to support subsidiaries where cash generation is inadequate. The total exposure of KPTL to its group entities increased to Rs.1,200 crore as on March 31, 2017 as compared to Rs.999 crore as on March 31, 2016.

Risk of land acquisition and clearances in a timely manner: 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.

High working capital intensity of operations: KPTL's operations remained highly 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 inherent to the TDI industry. KPTL's outstanding receivables increased as of end-FY17 compared to that as on March 31, 2016 due to higher project execution for domestic projects; however, its operating cycle remained stable on account of lower inventory and sizeable funding through creditors. The average utilization of KPTL's working capital limits remained comfortable at 44% during the 12 months ended June 2017, 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. Improvement in collections would be crucial for controlling its working capital intensity.

Analytical approach: Standalone with cash flow support to group entities

Majority of KPTL's income and cash flows are generated from its core TDI and infrastructure construction business. Over the years, KPTL has also invested in various entities including JMC Projects (India) Ltd. (JMC; rated CARE A+; Stable/ CARE A1+) and Shree Shubham Logistics Ltd. (SSLL; rated CARE BBB; Stable/ CARE A3). KPTL's outstanding investment stood at 49% of its standalone networth as on March 31, 2017 (45% as on March 31, 2016). KPTL has further investment requirements in it's under construction power transmission SPVs as well as additional support is expected to be granted to SSLL and Punarvasu Financial Services Pvt. Ltd. (PFSPL). The support provided by KPTL to various entities as stated above for enhancing their debt raising capability along with additional planned investments in these entities by KPTL have been suitably factored in the analysis.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology: Factoring linkages in ratings](#)
[Rating Methodology – Manufacturing Companies](#)
[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, infrastructure segment (which includes laying oil and gas pipelines and railway construction) while the balance 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, 2017. 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, 2017) engaged in diversified construction activities and Shree Shubham Logistics Ltd. (SSLL – 72% equity holding as on March 31, 2017) engaged in agri-warehousing and allied activities. Further, to support the operations of SSLL, the company has diversified into funding of commodity and non-commodity working capital through acquisition of PFSPL (100% stake through SSLL), a non-banking financial company, in Q3FY15.

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

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	4,361	4,943
PBILDT	572	658
PAT	192	269
Overall gearing (times)	0.36	0.28
Interest coverage (times)	3.45	3.83

Note: FY17 Financials are as per IndAS, while FY16 are as per Indian GAAP; A – Audited

Further, during Q1FY18, KPTL reported a total operating income of Rs.1,181 crore with a PAT of Rs.70 crore, as against a total operating income of Rs.1,166 crore with a PAT of Rs.65 crore during Q1FY17.

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.*

Analyst Contact:
Name: Naresh M. Golani
Tel: 079-4026 5618
Mobile: 98251 39613
Email: naresh.golani@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument/Bank Facilities	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	-	-	-	8,500.00	CARE AA; Stable / CARE A1+
Fund-based-Long Term	-	-	-	775.00	CARE AA; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	364.85	CARE AA; Stable / CARE A1+
Term Loan-Long Term	-	-	December 31, 2021	137.50	CARE AA; Stable
Non-Convertible Debentures (NCD – IV)#	September 5, 2014	10.05%	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
Non-Convertible Debentures (NCD – VI)	March 17, 2017	7.90%	May 15, 2020	100.00	CARE AA; Stable
Non-Convertible Debentures (NCD – VII)	May 25, 2017	8.45%	May 25, 2022	100.00	CARE AA; Stable
Proposed Non-Convertible Debenture Issue (NCD – VIII and IX)	-	-	-	200.00	CARE AA; Stable
Commercial Paper (Carved out)	-	-	-	250.00	CARE A1+
Commercial Paper (Standalone)	-	-	-	50.00	CARE A1+

 # Repaid on September 5, 2017

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.	Non- Convertible Debentures (NCD – I and II)	LT	-	Withdrawn	-	1)Withdrawn (23-Jan-17)	1)CARE AA (16-Dec-15)	1)CARE AA (03-Sep-14)
2.	Commercial Paper (Carved out)	ST	250.00	CARE A1+	-	1)CARE A1+ (23-Jan-17)	1)CARE A1+ (16-Dec-15)	1)CARE A1+ (03-Sep-14)
3.	Commercial Paper (Standalone)	ST	50.00	CARE A1+	-	1)CARE A1+ (23-Jan-17)	1)CARE A1+ (16-Dec-15)	1)CARE A1+ (03-Sep-14)
4.	Fund-based-Long Term	LT	775.00	CARE AA; Stable	-	1)CARE AA; Stable (23-Jan-17)	1)CARE AA (16-Dec-15)	1)CARE AA (03-Sep-14)
5.	Non-fund-based-LT/ST	LT/ST	8,500.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (23-Jan-17)	1)CARE AA / CARE A1+ (16-Dec-15)	1)CARE AA / CARE A1+ (03-Sep-14)
6.	Fund-based/Non-fund-based-LT/ST	LT/ST	364.85	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (23-Jan-17)	1)CARE AA / CARE A1+ (16-Dec-15)	1)CARE AA / CARE A1+ (03-Sep-14)
7.	Non- Convertible Debentures (NCD – III)	LT	-	Withdrawn	-	-	-	1)Withdrawn (03-Sep-14)
8	Non- Convertible Debentures (NCD – IV and V)	LT	#200.00	CARE AA; Stable	-	1)CARE AA; Stable (23-Jan-17)	1)CARE AA (16-Dec-15)	1)CARE AA (30-Mar-15) 2)CARE AA (03-Sep-14)
9.	Term Loan-Long Term	LT	137.50	CARE AA; Stable	-	1)CARE AA; Stable (23-Jan-17)	1)CARE AA (16-Dec-15)	1)CARE AA (03-Sep-14)
10.	Non- Convertible Debentures (NCD – VI)	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (23-Jan-17)	-	-
11.	Non- Convertible Debentures (NCD – VII)	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (23-Jan-17)	-	-
12.	Proposed Non-Convertible Debenture Issue (NCD – VIII and IX)	LT	200.00	CARE AA; Stable	-	-	-	-

 # Rs.100 crore repaid on September 5, 2017

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691