Kalpataru Power Transmission Limited

December 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	879.00 (reduced from Rs.912.50 crore)	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	9,724.85 (enhanced from Rs.8,864.85 crore)	**CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable / A One Plus)**	**Reaffirmed**
Total Facilities	**10,603.85 (Rupees Ten Thousand Six Hundred Three Crore and Eighty Five Lakh Only)**		
Outstanding Non-Convertible Debenture Issue – VI and VII*	200.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Outstanding Non-Convertible Debenture Issue – VIII and IX*	200.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Commercial Paper Issue (carved out of working capital limits)	250.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Commercial Paper Issue (standalone)	50.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Instruments	**700.00 (Rupees Seven Hundred Crore Only)**		

*Details of instruments/facilities in Anneuxre-1; *Outstanding as on September 30, 2018*

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 favourable industry scenario which has further strengthened its order book. The ratings also factor KPTL's low overall gearing, comfortable debt coverage indicators and stable profitability.

The ratings also take cognizance of the fact that the order book and revenue profile of the company has further diversified with increase in share of infrastructure segment (mainly railways and pipeline construction).

The long term rating, however, continues to be constrained on account of the high working capital intensity of KPTL's business along with risk associated with volatility in raw material prices and foreign exchange rates; risk related to project execution including securing right of way (RoW) and various clearances in a timely manner. The rating also continues to be constrained by its propensity to support some of its subsidiaries where cash generation is inadequate and those special purpose vehicles (SPVs) which entail scheduled investment requirements during their project phase.

The ability of KPTL to improve its profitability while sustaining the growth in its operations along with reduction in its working capital intensity 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 along with increasing focus towards enhancing execution capacity in railway and pipeline segment

KPTL has an established position in the domestic TDI market and is one of the top three 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, during FY18 (refers to the period April 1 to March 31), KPTL continued to focus on building and enhancing its technical qualification and execution capacity in the railway and pipeline business segments, which contributed around 20% to its total operating income (TOI)

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

in FY18 as against 15% in FY17. With the ownership of infrastructure assets in the power transmission sector through operational projects/SPVs, viz. Jhajjar KT Transco Pvt. Ltd. (JKTPL; rated CARE A-; Stable) and Kalpataru Satpura Transco Pvt. Ltd. (KSTPL) along with under construction projects/SPVs, viz. Alipurduar Transmission Ltd. (ATL; rated CARE A-; Stable) and Kohima Mariani Transmission Ltd. (KMTL; rated CARE A-; Stable), and the government's plan for gauge conversion of 5,000 km of railway line and 4,000 km of railway line electrification, the company is likely to further strengthen its position not only in the domestic TDI market but in the railway and pipeline segments as well.

Further strengthening of order book leading to healthy revenue visibility

KPTL had strong order book of around Rs.14,179 crore as on September 30, 2018 [2.45x of FY18 TOI] as against Rs.9,620 crore as on September 30, 2017 [1.95x of FY17 TOI], which was also fairly diversified with international transmission line orders consisting of 33% of the outstanding orders, coupled with robust growth in orders from railway and pipeline segment, contributing 44% to the outstanding orders (as against 26% earlier), while the balance was from domestic TDI orders (23%). 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 17% y-o-y in FY18 with growth in domestic operations by 15% and international operations by 20% (in TDI as well as pipelines and railways business segments). As per the provisional results published for H1FY19, KPTL reported TOI of Rs.2,899 crore which increased by 19% as compared to that in H1FY18. PBILDT margin remained stable at 13.18% in FY18 and 12.42% in H1FY19 with stable profitability in both TDI and infrastructure segments. Interest cost remained stable, as increase in bank charges largely against non-fund based limit utilization offset the benefits from reduced interest rates due to borrowings in the form of NCDs and stable fund-based bank limit utilization during FY18. Accretion of profits to net-worth also resulted in stable overall gearing and total debt to gross cash accruals at 0.28x and 1.91x respectively as on March 31, 2018.

Favourable industry scenario in the long term

The long-term demand outlook for the domestic power transmission infrastructure as well as for railway and oil and gas pipeline industry is expected to be favourable as the Indian government continues to exert significant thrust on these sectors. Huge investments have been planned and massive network interconnectivity is envisaged, with 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 result in 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.

Further, the Indian government has also envisaged expenditure of around Rs.1.48 lakh crore towards its plans for doubling 18,000 km of the railway network and achieving 100% electrification for the entire railway network by FY2021-22.

Also, with the government's thrust towards city gas distribution and increase in the consumption of natural gas, various policy measures have been taken to keep up with the demand for liquefied natural gas at high levels. With the decline in gas prices over the last few years, the demand for natural gas has increased from various end users, which now contributes around 6% of the overall energy mix. Steps are being taken by oil and gas exploration companies to increase the domestic natural gas production. KPTL, being one of upcoming players in the oil and gas pipeline industry, is expected to benefit from this opportunity.

<u>Key Rating Weaknesses:</u>

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 businesses carried out by these subsidiaries, involved mainly in infrastructure, construction, real estate and agri-warehousing businesses. The infusion of funds by KPTL is either to fund the initial project development cost or to support subsidiaries where cash generation is inadequate. The total exposure of KPTL to its group entities increased to Rs.1,323 crore as on March 31, 2018 [48% of tangible net-worth as at FY18-end] as compared to Rs.1,200 crore as on March 31, 2017. Further, investment requirement is expected to remain high during FY19 largely on account of funding requirements of its subsidiaries.

Risk of land acquisition/use and clearances in a timely manner across projects in wide geography
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. With growing international presence, KPTL is also exposed to country and political risks associated with execution of its projects in those regions, especially considering its presence in many African and Middle-East Asian countries; albeit the company's Board has a well-defined strategy to mitigate these risks by way of limiting their exposure to a single country, taking ECGC cover, bidding for multilateral agencies funded projects etc.

Liquidity analysis: High working capital intensity of operations
KPTL's operations remained highly working capital intensive, largely due to milestone based payment terms in almost all its contracts as well as retention money being held up by clients till the end of performance guarantee period (12-24 months), a norm inherent to the TDI industry. KPTL's outstanding receivables increased from Rs.2,385 crore as at FY17-end (~48% of TOI for FY17) to Rs.3,041 crore as at FY18-end (~53% of TOI for FY18) and operating cycle remained stable at 126 days in FY18 largely on account of higher project execution for domestic projects, especially for some railway orders where majority funds are released towards the latter-stage of the project execution. Further, its operating cycle is expected to remain stable on account of lower inventory and sizeable funding through creditors with back-to-back payment clauses for most of its contracts. The average utilization of KPTL's short-term fund based working capital limits also remained moderate at 59% during the 12-months ended October 2018 (as against 44% during the 12-months ended June 2017), as a sizeable portion of the company's cash accruals are reinvested for meeting its long-term working capital/capex/investment requirements and the company has relied on short-term bank borrowings/commercial paper issue for meeting its inherent large working capital requirements. The average utilization of its large non-fund based limits too stood at a moderate level of 77% during the trailing 12-months ended October 2018. Also, net working capital as proportion to its Operating capital employed increased from 58% in FY17 to 69% in FY18 indicating increase in working capital intensity of its business. Although, the credit quality of most of KPTL's clients is good, improvement in its average collection period leading to reduction in its working capital intensity would be a key rating sensitivity. Despite its inherent working capital intensive operations, KPTL's liquidity remained comfortable due to its healthy cash generation vis-à-vis upcoming debt repayment obligations. Also, it had free cash & bank balance of Rs.93.59 crore as on September 30, 2018.

Analytical approach: Standalone along with cash flow support to group entities
KPTL is the flagship entity of the Kalpataru Power group and substantial portion of the group's business operations vest in it. Its subsidiaries are either in different business segments or are in the nature of a Special Purpose Vehicle which is ring-fenced from the parent. Hence, standalone approach has been considered for its analysis. 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). Consequently, KPTL's outstanding investments stood at 47% of its standalone net-worth as on March 31, 2018 (49% as on March 31, 2017).
However, as KPTL has investment requirements in its 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 likely support envisaged to be provided by KPTL to the entities as stated above for meeting their shortfall requirement (if any), enhancing their debt raising capability along with additional planned investments in these entities by KPTL have been suitably factored in its 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, 2018. 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 September 30, 2018; rated

CARE A+; Stable/CARE A1+) engaged in diversified construction activities and Shree Shubham Logistics Ltd. (SSLL – 72% equity holding as on September 30, 2018; rated CARE BBB; Stable/CARE A3) 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 Punarvasu Financial Services Pvt. Ltd. (PFSPL; 100% stake through SSLL), a non-banking financial company, in Q3FY15.
In addition to the above, 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 the road construction sector through JMC and its 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).

Brief Financials (Rs. crore) – Standalone	FY17 (A)	FY18 (A)
Total operating income	4,943	5,789
PBILDT	658	763
PAT	269	322
Overall gearing (times)	0.28	0.28
Interest coverage (times)	3.83	4.09

A – Audited
As per the provisional results published for H1FY19, KPTL reported a total operating income of Rs.2,899 crore with PAT of Rs.172 crore as against a total operating income of Rs.2,430 crore with PAT of Rs.142 crore during H1FY18.

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:
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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	-	775.00	CARE AA; Stable
Non-fund-based-LT/ST	-	-	-	-	697.90	CARE AA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	364.85	CARE AA; Stable / CARE A1+
Non-fund-based-LT/ST	-	-	-	-	8662.10	CARE AA; Stable / CARE A1+
Term Loan-Long Term	-	-	-	September 30, 2022	104.00	CARE AA; Stable
Non-Convertible Debentures (NCD – VI)	INE220B08035	March 17, 2017	7.90% p.a.	May 15, 2020	100.00	CARE AA; Stable
Non-Convertible Debentures (NCD – VII)	INE220B08043	May 25, 2017	8.45% p.a.	May 25, 2022	100.00	CARE AA; Stable
Non-Convertible Debentures (NCD – VIII)	INE220B08050	September 27, 2017	8.11% p.a.	September 27, 2022	100.00	CARE AA; Stable
Non-Convertible Debentures (NCD – IX)	INE220B08068	September 12, 2018	Zero coupon	March 11, 2022	50.00	CARE AA; Stable
Non-Convertible Debentures (NCD – IX)	INE220B08076	September 12, 2018	Zero coupon	September 12, 2022	50.00	CARE AA; Stable
Commercial Paper-Commercial Paper (Carved out)	-	-	-	7 to 364 days	250.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7 to 364 days	50.00	CARE A1+

CARE Ratings
Professional Risk Opinion

Annexure – 2: Rating History (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.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (23-Jan-17)	1)CARE AA (16-Dec-15)
2.	Commercial Paper-Commercial Paper (Carved out)	ST	250.00	CARE A1+	-	1)CARE A1+ (07-Sep-17)	1)CARE A1+ (23-Jan-17)	1)CARE A1+ (16-Dec-15)
3.	Fund-based-Long Term	LT	775.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Sep-17)	1)CARE AA; Stable (23-Jan-17)	1)CARE AA (16-Dec-15)
4.	Non-fund-based-LT/ST	LT/ST	697.90	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (07-Sep-17)	1)CARE AA; Stable / CARE A1+ (23-Jan-17)	1)CARE AA / CARE A1+ (16-Dec-15)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	364.85	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (07-Sep-17)	1)CARE AA; Stable / CARE A1+ (23-Jan-17)	1)CARE AA / CARE A1+ (16-Dec-15)
6.	Non-fund-based-LT/ST	LT/ST	8662.10	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (07-Sep-17)	1)CARE AA; Stable / CARE A1+ (23-Jan-17)	1)CARE AA / CARE A1+ (16-Dec-15)
7.	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A1+	-	1)CARE A1+ (07-Sep-17)	1)CARE A1+ (23-Jan-17)	1)CARE A1+ (16-Dec-15)
8.	Debentures-Non Convertible Debentures (NCD – IV and V)	LT	-	-	1)Withdrawn (30-Nov-18)	1)CARE AA; Stable (07-Sep-17)	1)CARE AA; Stable (23-Jan-17)	1)CARE AA (16-Dec-15)
9.	Term Loan-Long Term	LT	104.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Sep-17)	1)CARE AA; Stable (23-Jan-17)	1)CARE AA (16-Dec-15)
10.	Debentures-Non Convertible Debentures (NCD – VI)	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Sep-17)	1)CARE AA; Stable (23-Jan-17)	-
11.	Debentures-Non Convertible Debentures (NCD – VII)	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Sep-17)	-	-
12.	Debentures-Non Convertible Debentures (NCD – VIII and IX)	LT	200.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Sep-17)	-	-

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