

February 02, 2021

K.P.I. Global Infrastructure Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	-	183.75	[ICRA]BBB+ (Stable); Assigned
Cash Credit	10.00	13.00	[ICRA]BBB+ (Stable); Reaffirmed/Assigned
Working Capital Demand Loans	-	2.75	[ICRA]A2; Assigned
Bank Guarantee	-	0.50	[ICRA]A2; Assigned
Bank Guarantee ^	(2.00)	(2.00)	[ICRA]A2; Reaffirmed
Total	10.00	200.00	

*Instrument details are provided in Annexure-1, ^ is a sublimit of cash credit

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the financials of K.P.I. Global Infrastructure Ltd. (KPIGIL) and its wholly owned subsidiary, KPIG Energia Private Limited (KPIGEPL) (referred to as the 'Group'). The assigned ratings factor in the extensive experience of the key promoter in the renewable energy sector and allied construction activities, which has resulted in healthy growth in the revenue along with healthy profitability over the years. The ratings also derive comfort from the long-term power purchase agreements (PPA) for its independent power producer (IPP) capacities with reputed counterparties and a track record of timely payment of bills from them. Furthermore, the ratings derive comfort from the presence of a debt service reserve account (DSRA) under the trust and retention account (TRA) along with a specified withdrawal/waterfall mechanism as defined in the TRA agreement, which are expected to support the servicing of debt obligations, providing sufficient cushion in case of any distress.

The ratings, however, are constrained by the leveraged capital structure, and high working capital intensity resulting from KPIGIL's engineering, procurement and construction (EPC) business for captive power plants (CPP). The ratings are also constrained by the risks pertaining to the termination of PPAs by the existing clients, given the weak exit clause of the PPAs. Further, the cash flows from the IPP segment are susceptible to climatic conditions, and tariff realisation, which remains exposed to the grid tariff rates and the open access/transmission charges. ICRA also notes the risks associated with the implementation and stabilisation of the ongoing debt funded expansion project of 20 MW capacity at KPIGIL and 12 MW under KPIGEPL.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of its promoter in the renewable energy sector.

Key rating drivers and their description

Credit strengths

Extensive experience of the key promoter in the renewable energy sector - The key promoter, Mr. Faruk G. Patel, who is the founding member of the Group, has over two decades of experience in the renewable energy sector and allied construction activities.

Presence of long term PPAs with reputed counterparties - KPIGIL has entered into long term PPAs of ~15-20 years for its IPP capacities with reputed counterparties such as Meghmani Organics Ltd., L&T, UPL, Cadila Pharmaceuticals Ltd. and Colourtex

Industries Pvt. Ltd. among others with a track record of timely payment of bills from them. This provides revenue visibility for the company's IPP business along with low counterparty credit risk.

Healthy growth in revenue over the years - KPIGIL's revenue grew at a healthy CAGR of ~21% over FY2016-FY2020 on account of steady capacity additions, with the operating profit margins staying healthy in the range of ~44-68% over the period. The tariff rates as per the PPA are linked to the prevailing discom rates. Moreover, the absence of cross subsidy surcharge (CSS) on solar energy generation from the installed projects so far, has resulted in high net realisations and, strong project profitability and return metrics. The DSCR is also expected to remain comfortable at above 1.30 times (consolidated) over the medium term.

Presence of DSRA under TRA - The receivables from the IPP segment will be routed through the trust and retention account and a debt service reserve account (DSRA) equivalent to two quarters of debt servicing obligations (interest + principal), which will be maintained under a waterfall mechanism after servicing statutory dues, operational and maintenance expenses, and debt repayments for the period. This will support the servicing of debt obligations in case of any distress.

Credit challenges

Leveraged capital structure and high working capital intensity - The Group's capital structure is leveraged with a projected gearing of 2.08 times and TD/OPBDITA of 5.02 times as on March 31, 2021, owing to the ongoing debt-funded capacity addition of 20 MW capacity being done at KPIGIL and 12 MW under KPIGEPL for the IPP business segment. Also, the Group is exposed to the risks associated with the implementation and stabilisation of these projects.

KPIGIL's working capital intensity remains high due to high inventory and debtor levels in the EPC projects. Its NWC/OI stood at ~100% in FY2019 and FY2020. The working capital intensity generally remains high for the months of September and March due to high sales/billing concentration of EPC segment in the stated months.

PPA termination risk - The cash flows from the IPP segment are susceptible to PPA termination by the existing clients, given the weak exit clause of the PPAs. The PPAs can be terminated by either party after giving a notice of six months/one year.

Susceptibility of IPP cash flows to other factors - The IPP segment cash flows are susceptible to climatic conditions, and tariff realisation—which remains exposed to the grid tariff rates and the open access/transmission charges. Further, the competition from other players could also result in lower per unit realisations going forward, impacting the revenue and profitability.

Liquidity position: Adequate

The Group's liquidity is supported by the presence of DSRA under the TRA along with a specified withdrawal/waterfall mechanism as defined in the TRA agreement for the debt taken for the IPP segment. Also, the Group is expected to generate sufficient annual cash accruals over FY2021-FY2024 against debt repayments with projected DSCR of greater than 1.30 times over the medium term. Notwithstanding this, KPIGIL's working capital limit utilisation (utilised for EPC/PPP segment) stood high at ~87% against the sanctioned limit from September 2019 to November 2020.

Rating sensitivities

Positive factors:

- Satisfactory generation track record in line with P90 PLF estimates on a sustained basis and significant scale-up of operations while maintaining healthy profitability
- Improvement in working capital cycle and liquidity

Negative factors:

- Any significant delay in the commissioning of the new IPP capacities, lower than expected ramp up of scale or operating profitability, leading to a deterioration in key credit metrics
- Stretch in working capital cycle adversely affecting liquidity
- Any further large debt funded capex that deteriorates the capital structure and coverage indicators

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of KPIGIL and its wholly owned subsidiary, KPIGEPL.

About the company

Incorporated on February 01, 2008, K.P.I. Global Infrastructure Ltd. (KPIGIL) is engaged in solar power generation. It provides solar power, both as an independent power producer (IPP) from its plant known as 'Solarism' and as a service provider (EPC contractor) to CPP customers. The company carries out the entire business from its 'Solarism' plant located at Sudi, Samiyala & Tanchha villages in Bharuch, Gujarat. Currently, the company has an installed capacity of supplying 40 MW of solar power under the IPP segment and has executed ~8.45 MW of EPC/CPP projects since its inception. The company is listed on the Small and Medium Enterprise (SME) platform of Bombay Stock Exchange (BSE), India.

The Group is currently building a solar power plant of 20 MW under KPIGIL, which is expected to be operational at full capacity by the end of January 2021 and 12 MW under its wholly owned subsidiary, KPIGEPL, which is expected to be fully operational by the end of June 2021. Apart from these, the Group also plans to build an 8 MW solar power plant at its wholly owned subsidiary, Sun Drops Energia Private Limited (SDEPL). These plants will also be located at Bharuch, Gujarat.

The key promoter, Mr. Faruk Patel, is also the founder of K.P. Energy Ltd. (involved in wind energy related projects) and KP Buildcon Private Limited (involved in fabrication and solar projects).

Key financial indicators (audited)

KPIGIL Standalone	FY2019	FY2020	H1 FY2021
Operating Income (Rs. crore)	34.51	59.28	41.64
PAT (Rs. crore)	8.90	6.56	4.62
OPBDIT/OI (%)	44.38%	45.75%	50.53%
RoCE (%)	17.31%	10.51%	12.67%
Total Outside Liabilities/Tangible Net Worth (times)	0.63	2.04	2.08
Total Debt/OPBDIT (times)	2.61	5.12	2.74
Interest Coverage (times)	3.95	3.46	2.82
DSCR (times)	1.25	2.00	-

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2020 (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					Feb 02, 2021	Jan 14, 2021				
1	Term Loans	Long-term	183.75	117.17	[ICRA]BBB+ (Stable)	-	-	-	-	-
2	Cash Credit	Long-term	13.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-	-
3	Working Capital Demand Loan	Short-term	2.75	3.83	[ICRA]A2	-	-	-	-	-
4	Bank Guarantee	Short-term	0.50	-	[ICRA]A2	-	-	-	-	-
5	Bank Guarantee ^	Short-term	(2.00)	-	[ICRA]A2	[ICRA]A2	-	-	-	-

^ is a sublimit of cash credit

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2018-FY2021	~10.50-10.90%	FY2033	183.75	[ICRA]BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	13.00	[ICRA]BBB+ (Stable)
NA	Working Capital Demand Loans	FY2020	~11.75%	FY2021	2.75	[ICRA]A2
NA	Bank Guarantee	NA	NA	NA	0.50	[ICRA]A2
NA	Bank Guarantee [^]	NA	NA	NA	(2.00)	[ICRA]A2

Annexure-2: List of entities considered for consolidated analysis

Company Name	KPIGIL Ownership	Consolidation Approach
KPIG Energia Private Limited	100.00%	Full Consolidation

Source: KPIGIL annual report FY2020

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Branches



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