May 09, 2023

KPI Green Energy Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	178.00	328.90	[ICRA]A- (Stable); reaffirmed/assigned
Cash Credit	25.00	25.00	[ICRA]A- (Stable); reaffirmed
Working Capital Demand Loan	55.75	59.19	[ICRA]A2+; reaffirmed/assigned
Bank Guarantee	2.50	2.50	[ICRA]A2+; reaffirmed
Unallocated	0.00	8.26	[ICRA]A- (Stable)/[ICRA]A2+; assigned
Total	**261.25**	**423.85**	

**Instrument details are provided in Annexure-I*

Rationale

To arrive at the ratings, ICRA has considered the consolidated financials of KPI Green Energy Limited (KPIGEL) and its wholly-owned subsidiaries, KPIG Energia Private Limited (KPIGEPL) and Sun Drops Energia Private Limited (SDEPL), referred to as the Group.

The ratings continue to factor in the healthy improvement in scale and profitability at the Group level in FY2023 following the significantly higher execution of captive power plant (CPP)/engineering, procurement and construction (EPC) orders and commissioning of ~30-MW capacities under the subsidiaries. The consolidated revenue and OPBDITA were Rs. 461.4 crore and Rs. 154.3 crore, respectively, in 9M FY2023 against Rs. 155.1 crore and Rs. 73.2 crore, respectively, in 9M FY2022. The consolidated CPP/EPC order book continues to grow at a rapid pace and stood at ~Rs. 512.0 crore as of February 2023 compared with ~Rs. 350.0 crore as of May 2022. These orders are expected to be executed over the next six to nine months. In FY2024 as well, the Group is expected to post healthy growth in revenues and profitability, led by higher execution of CPP orders and commissioning of the 26.1-MW hybrid power project.

The ratings also continue to factor in the extensive experience of the key promoter in the renewable energy sector and allied construction activities. The ratings also derive comfort from the long-term and medium-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. Further, the ratings derive comfort from the debt service reserve account (DSRA) for the term loans availed for independent power producer (IPP) assets, which is expected to support the servicing of debt obligations, providing sufficient cushion in case of any distress.

The ratings, however, are constrained by the increase in the Group's debt levels because of the debt-funded capex undertaken to increase the IPP capacities, which continue to result in a leveraged capital structure (estimated TOL/TNW of ~3.5 times as on March 31, 2023) at the consolidated level. The Group incurred debt-funded capex in FY2023 as well for developing a 26.1-MW hybrid capacity at KPIGEL and is also expected to undertake debt-funded capex in the future to build IPP capacities. Nevertheless, the leveraging at the Group level is expected to improve, going forward, as the IPP assets start generating commensurate returns with plant stabilisation, scheduled debt repayments, and healthy revenue and profitability. The cash flows from the IPP segment remain susceptible to adequate generation levels in line with the P-90 PLF levels, remunerative tariff realisation, PPA termination risk, open access charges and competition. The ratings are further constrained by the geographical concentration risk as the Group's entire power generation capacities (IPP+CPP) are in Gujarat. ICRA also notes the Group's relatively high working capital intensity emanating from the fast-growing CPP/EPC business.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of its promoter, and a healthy order book position in the CPP segment providing near-term revenue visibility. Also, the IPP segment is expected to demonstrate satisfactory generation levels, as witnessed in the past, leading to stable cash inflows that would support the company's profitability and debt servicing.

Key rating drivers and their description

Credit strengths

Experience of key promoter in 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. He 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).

Long-term PPAs with reputed counterparties and healthy order book position in EPC segment provides revenue visibility - The Group has entered into long-term PPAs of ~15-20 years for its IPP capacities, totaling ~128 MW, with reputed counterparties 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. Moreover, at a consolidated level, the CPP/EPC order book continues to grow at a rapid pace and stood at ~Rs. 512.0 crore as of February 2023 compared with ~Rs. 350.0 crore as of May 2022. These orders are expected to be executed over the next six to nine months. In FY2024 as well, the Group is expected to post healthy growth in revenues and profitability, led by higher execution of CPP orders and commissioning of the 26.1-MW hybrid project.

Steady growth in revenue over the years along with healthy profitability - The Group provides solar power as an independent power producer (IPP) and as a service provider (EPC contractor) to CPP customers. The Group's revenue has shown consistent growth over the years. The revenue grew at a healthy rate ~122% in FY2022 and ~100% in 9M FY2023 on a YoY basis on account of healthy CPP/EPC order execution and addition of IPP capacities.

Also, the Group's profitability is healthy, marked by an operating profit margin (OPM) of 47.4% in FY2022 and 33.4% in 9M FY2023 compared with an OPM of 61.6% in FY2021. The OPM moderated YoY owing to the higher contribution of the CPP segment to the revenue, which has a lower margin compared to the IPP segment. Nevertheless, at the absolute level, the OPBDITA increased by ~71% in FY2022 and ~41% in 9M FY2023 on a YoY basis. The operating profit margin is expected to remain healthy in FY2023 as well; however, it will moderate to an extent owing to the higher contribution of CPP sales to the total revenue.

The debt coverage metrics are expected to remain comfortable with an estimated interest coverage of ~4.0 times and DSCR of ~2.2 times in FY2023. Also, the receivables from the IPP segment are routed through an escrow account into a debt service reserve account (DSRA) equivalent to one quarter of debt servicing obligations (interest + principal). This is expected to 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 expected to remain leveraged with a projected TD/OPBDITA of ~3.3 times and TOL/TNW of ~3.5 times as on March 31, 2023, owing to the high debt availed to build the IPP capacities. Also, the debt levels have increased to support the working capital requirements arising from the fast-growing CPP/EPC order book.

The Group's working capital intensity remains high due to the high inventory and debtor levels in EPC (CPP) projects. The NWC/OI declined to 26% in FY2022 from 69% FY2021 (100% in FY2020) owing to the reduction in debtor days in the CPP segment. The working capital intensity is generally high in September and March due to high sales/billing concentration of the EPC segment during these 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 agreements. The PPAs can be terminated by either party after giving a notice of six months/one year. Notwithstanding this, historically, the Group has not witnessed any major PPA termination from its key clients. Also, the Group has a practice of entering into additional PPAs over and above the installed IPP capacities, which provides a cushion in case of termination by any of the customers. The total PPAs entered into by the Group (including subsidiaries) stand at ~157 MW against the total installed capacity (including the recently installed 26.1 MW hybrid capacity at KPIGEL) of ~128 MW.

Susceptibility of IPP cash flows to tariff rates/regulatory changes - The IPP segment's cash flows are susceptible to tariff realisation, which remains exposed to grid tariff rates and open access/transmission charges. Further, as the Group has the entire capacity (IPP+CPP) in Gujarat, the geographical concentration risk amplifies the regulatory risk arising from any adverse policy change in the state or increase in competition at a regional level, which may impact its margins. However, the Group has a competitive advantage owing to its land bank and established evacuation infrastructure, with a successful track record of operations.

Susceptibility of IPP cash flows to climatic conditions - The IPP segment's cash flows remain vulnerable to the PLF levels, given the one-part tariff structure under the PPA. Hence, any adverse variations in weather conditions and/or module/turbine performance may impact the PLF and consequently the cash flows. The geographic concentration of the assets amplifies the generation risk. KPIGEL's PLF level in FY2022 was decent at 18.62% in FY2022; however, the same declined from 19.25% in FY2021 owing to an extended monsoon. The PLF level in 9M FY2023 was 16.39% compared with 17.23% in 9M FY2022. Going forward, any sharp deterioration in the generation performance on a sustained basis will be a key credit monitorable.

Environmental and Social Risks

The KPI Group generates power through renewable energy (mainly solar), which produces clean power and reduces greenhouse gases compared to other conventional modes of power generation. All its operational units are compliant with all the environmental regulations and various statutory approvals/permits granted by the authorities. Thus, the Group exhibits low environment risks. Notwithstanding this, given the large land requirement for RE projects, social risks manifest when there are disagreements on compensation between the developers and landowners. The KPI Group has put in place a safety organisation structure and conducts various certification programmes, safety audits and assessments to ensure enhanced safety requirements at its sites.

Liquidity position: Adequate

The Group's liquidity is strengthened by the presence of one quarter's DSRA for the term loans availed for the IPP assets. Also, the Group is expected to generate sufficient annual cash accruals of ~Rs. 158-175.0 crore over FY2024-FY2025 against annual debt repayments of ~Rs. 64-66.0 crore over the period. Further, KPIGEL's working capital limit utilisation stood low at ~12% against the sanctioned limit for the 12-month period from March 2022 to February 2023.

Rating sensitivities

Positive factors – The ratings may be upgraded if the scale increases significantly along with remunerative tariff realisations amid a healthy profitability, leading to an improvement in the leverage and coverage metrics at the Group level. An improvement in the working capital cycle and liquidity position will also support an upgrade.

Negative factors – The ratings may be downgraded if the generation level or tariff realisation is lower with increasing open-access charges, or if the CPP revenue is lower-than-estimated, leading to a material deterioration in earnings and key credit metrics. A stretch in the working capital cycle or any further large capex that deteriorates the capital structure and liquidity will also affect the ratings. An interest coverage of less than 3.8 times at the consolidated level on a sustained basis may also warrant a ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Consolidation Rating Methodology for Solar Power Producers
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of KPIGEL and its wholly-owned subsidiaries, KPIGEPL and SDEPL

About the company

KPI Green Energy Limited (previously known as K.P.I. Global Infrastructure Ltd.) (KPIGEL), incorporated on February 01, 2008, is engaged in solar power generation. It provides solar power, both as an independent power producer (IPP) and as a service provider (EPC contractor) to CPP customers. The company has also recently commissioned a 26.1-MW hybrid (16.1 MW wind & 10 MW solar) capacity, taking the company's total installed IPP capacity to ~98 MW. The entire capacities are located at Bharuch and Bhavnagar in Gujarat. The company is listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange, India.

Also, the Group has installed IPP capacities of ~22 MW and ~8 MW under the subsidiaries, KPIGEPL and SDEPL, respectively. These plants are also located at Bharuch, Gujarat. At a Group level, the current installed IPP capacity stands at ~128 MW; also, the Group had commissioned CPP projects of more than 130 MW as of December 2022.

Key financial indicators

Consolidated	FY2021	FY2022	9M FY2023*
Operating income	103.5	230.1	461.4
PAT	14.5	43.4	77.9
OPBDIT/OI	61.6%	47.4%	33.4%
PAT/OI	13.9%	18.8%	16.9%
Total outside liabilities/Tangible net worth (times)	3.3	4.1	-
Total debt/OPBDIT (times)	4.9	4.1	-
Interest coverage (times)	2.5	2.9	4.6

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * unaudited provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					May 09, 2023	Jun 21, 2022	Jan 11, 2022	Feb 02, 2021	Jan 14, 2021
1	Term Loans	Long term	328.90	302.94*	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-
2	Cash Credit	Long term	25.00		[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Working Capital Demand Loans	Short-term	59.19		[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	-
4	Bank Guarantee	Short-term	2.50		[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
5	Unallocated	Long term/ Short-term	8.26		[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-	-

** company data*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Cash Credit	Simple
Working Capital Demand Loans	Simple
Bank Guarantee	Very Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2018-FY2023	~9.10-10.10%	~FY2036	328.90	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	25.00	[ICRA]A- (Stable)
NA	Working Capital Demand Loans	NA	NA	NA	59.19	[ICRA]A2+
NA	Bank Guarantee	NA	NA	NA	2.50	[ICRA]A2+
NA	Unallocated	NA	NA	NA	8.26	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis

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

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