

March 31, 2024

## KPI Green Energy Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

| Instrument*                 | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action  |
|-----------------------------|--------------------------------------|-------------------------------------|--|
| Term loan                   | 328.90                               | 356.91                              | [ICRA]A- (Stable); reaffirmed/ assigned for enhanced amount            |
| Cash credit                 | 25.00                                | 250.00                              | [ICRA]A- (Stable); reaffirmed/ assigned for enhanced amount            |
| Working capital demand loan | 59.19                                | 101.77                              | [ICRA]A2+; reaffirmed/ assigned for enhanced amount                    |
| Bank guarantee              | 2.50                                 | 125.00                              | [ICRA]A2+; reaffirmed/ assigned for enhanced amount                    |
| CEL                         | -                                    | 10.00                               | [ICRA]A2+; assigned  |
| Unallocated limits          | 8.26                                 | 30.17                               | [ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed/ assigned for enhanced amount |
| <b>Total</b>                | <b>423.85</b>                        | <b>873.85</b>                       |  |

\*Instrument details are provided in Annexure-I

### Rationale

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

The ratings reaffirmation factors in the improvement in scale and profitability at the Group level in the FY2024 following the significantly higher execution of captive power plant (CPP)/engineering, procurement and construction (EPC) orders and commissioning of the ~30-MW hybrid independent power producer (IPP) capacity under KPI Green. The consolidated revenue and OPBDITA were Rs. 734.5 crore and Rs. 244.0 crore, respectively, in 9M FY2024 against Rs. 461.4 crore and Rs. 154.3 crore, respectively, in 9M FY2023. The consolidated CPP/EPC order book continues to grow at a rapid pace and stood at ~Rs. 1,040.0 crore as of March 2024 compared with ~Rs. 512.0 crore as of February 2023. The CPP order book includes ~100-MW order from Maharashtra State Power Generation Company (MAHAGENCO), which will be executed over the next 18 months; remaining orders are from the usual commercial and industrial (C&I) customers, which will be executed over the next 6-8 months.

The ratings also factor in the extensive experience of the key promoter in the renewable energy sector and allied power plant setting-up activities. The ratings derive comfort from the long-term and medium-term power purchase agreements (PPA) for its 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 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 mainly because of the debt-funded capex undertaken to increase the IPP capacity along with the increase in the working capital debt to support the growing CPP order book. This continues to result in a leveraged capital structure (estimated Total Debt/OPBDITA of ~2.8 times as on March 31, 2024) at the consolidated level. Also, KPI Green has been recently awarded a 200-MWac utility scale solar power project by Gujarat Urja Vikas Nigam Limited (GUVNL) through the tender bidding route. The long-term debt is further expected to increase in FY2025 owing to the debt funded capex that will be incurred for this project. The Group remains exposed to the execution risks associated with the project pertaining to timely execution without any major cost overrun. The equity tie-up for the project has already been done through successful completion of the qualified institutional placement (QIP issue) of Rs. 300.0 crore in December 2023, of which, ~Rs. 224.0 crore will be utilized towards equity requirement for the project. Also, the project

has high revenue visibility and low offtake risk owing to the presence of a long-term (25 years) PPA at a highly competitive tariff of Rs. 2.70 per unit for the entire project capacity with GUVNL. Further, comfort is drawn from the presence of a strong counterparty, i.e., GUVNL (*rated [ICRA]AA- (Stable)/[ICRA]A1+*), which is expected to lead to timely realisation of payments under the PPA.

The cash flows from the IPP segment remain susceptible to adequate generation levels in line with the P-90 PLF levels. Under the third-party open access route, the cashflows remains exposed to 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. This risk will be mitigated to some extent owing to the recent award of a CPP order by MAHAGENCO, which is to be executed in the state of Maharashtra. 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 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 power plant setting-up activities. He is also the founder of K.P. Energy Ltd. (involved in wind energy projects) and KP Green Engineering (previously known as KP Buildcon Private Limited, involved in providing one-stop solution for the infrastructure needs of renewable energy projects). The extensive experience of the promoter has enabled the Group to build an in-depth understanding of the dynamics of the market and the industry, resulting in a well-established network of suppliers and customers. This has aided the sustained healthy growth in revenues over the last five years.

**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 under the third party open access route, totaling ~137 MW, with reputed C&I customers 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. For the recently awarded utility scale project of 200 MWac, the company has signed a long-term PPA of 25 years with a strong counterparty, i.e., GUVNL (*rated [ICRA]AA- (Stable)/[ICRA]A1+*), leading to revenue visibility and 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. 1,040.0 crore as of March 2024 compared with ~Rs. 512.0 crore as of February 2023. These orders are expected to be executed over the next 6-18 months.

**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 healthy growth over the years. The consolidated revenue grew at a healthy rate of ~180% in FY2023 and ~59% in 9M FY2024 on a year-on-year (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 32.4% in FY2023 and 33.2% in 9M FY2024 compared with an OPM of 47.4% in FY2022. The OPM moderated YoY owing to higher contribution of the CPP segment to the revenue, which has a relatively lower margin compared to the IPP segment. Nevertheless, at the absolute level, the OPBDITA increased by ~92% in FY2023 and ~58% in 9M FY2024 on a YoY basis. The operating profit margin is expected to remain healthy in full year FY2024 as well; however, it will moderate to an extent owing to the higher contribution of CPP sales to the total revenue.

Further, the debt coverage metrics are expected to remain comfortable with an estimated interest coverage of ~4.0 times and DSCR of ~2.1 times in FY2024. 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

**Project execution risk** - KPI Green has recently won a 200-MWac utility scale solar power project through the bidding process for the tender floated by GUVNL. The estimated cost for this project is Rs. 893.0 crore, which will be funded through equity of Rs. 224.0 crore and term debt of Rs. 669.0 crore. The scheduled commercial operation date (SCOD) for the project is November 30, 2025, which is 21 months from the date of PPA signing; or actual COD of associated transmission system of Khavda (Kutch, Gujarat) Solar Park, whichever is earlier, subject to a minimum period of 15 months from the date of signing the PPA. The company has signed a 25-year PPA with GUVNL at a competitive tariff rate of Rs. 2.70/unit for the project.

The Group remains exposed to the execution risks associated with this project pertaining to timely approvals and execution without any major cost overrun, given that the project is in the initial stage of execution. The equity tie-up for the project has already been done through successful completion of the qualified institutional placement (QIP issue) of Rs. 300.0 crore in December 2023, of which, ~Rs. 224.0 crore will be utilized towards equity requirement for the project. Going forward, timely debt tie-up and progress on the project will remain a key credit monitorable.

**Leveraged capital structure and high working capital intensity** - The Group's capital structure is expected to remain leveraged with a projected TD/OPBDITA of ~2.8 times as on March 31, 2024, owing to the high long-term debt availed to build the IPP capacities. The short-term debt has also increased to fund the working capital requirements arising from the fast-growing CPP/EPC order book. Additionally, the long-term debt is further expected to increase in FY2025 owing to the debt funded capex to be incurred for the 200-MWac GUVNL project.

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 21% in FY2023 from 44% FY2022 (91% in FY2020) owing to lower inventory days for 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.

**Susceptibility of IPP cash flows to PPA termination risk and tariff rates; regulatory risks** - The cash flows from the IPP segment under the third party open access route 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 ~180 MW against the total installed capacity of ~137 MW. Further, the IPP cash flows under the third party open access route are susceptible to tariff realisation, which remains exposed to grid tariff rates and open access/transmission charges.

Additionally, as the Group has the entire operational 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. Going forward, any sharp deterioration in the generation performance on a sustained basis will be a key credit monitorable.

**Interest rate risk** - The capital structure of the Group is leveraged, evident from the debt-funded capex required for setting up the IPP projects (including the recently awarded utility scale project). Therefore, the debt coverage metrics of the Group remain exposed to interest rate movement, given the fixed tariff under the PPA.

### Liquidity position: Adequate

The Group's liquidity remains adequate supported by the presence of one quarter's DSRA for the term loans availed for the IPP assets and the undrawn working capital limits of ~Rs. 77.0 crore as on March 12, 2024. Also, the Group is expected to generate sufficient annual cash flows to meet the annual debt repayment obligations of ~Rs. 35.96-62.93 crore over FY2024-FY2025. Further, comfort is derived from the available free cash and liquid investments of ~Rs. 65.0 crore as on March 12, 2024 and the equity tie-up for the relatively large capex to be incurred for the 200-MWac GUVNL project.

### Rating sensitivities

**Positive factors** – The ratings may be upgraded if there is a sustained increase in the scale aided by healthy order inflows for the CPP/EPC segment along with remunerative tariff realisations for the IPP capacity while maintaining healthy profitability, leading to an improvement in the leverage and coverage metrics at the Group level; and timely progress on the under construction projects. 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; or in case of significant delays in commissioning or major cost overrun for the under-construction projects, leading to a material deterioration in the earnings and key credit metrics/liquidity. A stretch in the working capital cycle or larger than expected 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 | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Power-Solar</a>           |
| 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 (KPIGEL, previously known as K.P.I. Global Infrastructure Ltd.), 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 current operational IPP capacity of the company under the third party open access route is ~104 MW including the recently developed hybrid capacity of ~30.2 MW in Bhavnagar and Bharuch districts of Gujarat. Also, there are installed IPP capacities of ~25 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 ~137 MW; also, the Group had commissioned CPP projects of more than 176 MW as of December 2023.

KPI Green has recently won a 200-MWac utility scale solar power project through the bidding process for the tender floated by GUVNL. The project is expected to become operational in Q3-Q4 of FY2026. The company has signed a 25-year PPA with GUVNL at a tariff rate of Rs. 2.70/unit for the project.

The company is listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange, India.

### Key financial indicators (audited)

| Consolidated   | FY2022 | FY2023 | 9M FY2024* |
|--|--------|--------|------------|
| Operating income                                     | 230.1  | 644.3  | 734.5      |
| PAT  | 43.4   | 110.1  | 118.6      |
| OPBDIT/OI  | 47.4%  | 32.4%  | 33.2%      |
| PAT/OI   | 18.8%  | 17.1%  | 16.2%      |
| Total outside liabilities/Tangible net worth (times) | 4.1    | 3.9    | -          |
| Total debt/OPBDIT (times)                            | 4.1    | 3.2    | -          |
| Interest coverage (times)                            | 3.0    | 4.5    | 4.0        |

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

| Instrument                    | Type                  | Current rating (FY2024)  |   |                            |                            | Chronology of rating history for the past 3 years |                      |                         |                    |                         |
|-------------------------------|-----------------------|--------------------------|---|----------------------------|----------------------------|---|----------------------|-------------------------|--------------------|-------------------------|
|                               |                       | Amount rated (Rs. crore) | Amount outstanding as of Mar 18, 2024 (Rs. crore) | Date & rating in FY2024    |                            | Date & rating in FY2023                           |                      | Date & rating in FY2022 |                    | Date & rating in FY2021 |
|                               |                       |                          |   | Mar 31, 2024               | May 09, 2023               | Jun 21, 2022                                      | Jan 11, 2022         | Feb 02, 2021            | Jan 14, 2021       |                         |
| 1 Term loan                   | Long term             | 356.91                   | 337.39  | [ICRA]A-(Stable)           | [ICRA]A-(Stable)           | [ICRA]A-(Stable)                                  | [ICRA]BBB+(Positive) | [ICRA]BBB+(Stable)      | -                  |                         |
| 2 Cash credit                 | Long term             | 250.00                   |   | [ICRA]A-(Stable)           | [ICRA]A-(Stable)           | [ICRA]A-(Stable)                                  | [ICRA]BBB+(Positive) | [ICRA]BBB+(Stable)      | [ICRA]BBB+(Stable) |                         |
| 3 Working capital demand loan | Short term            | 101.77                   |   | [ICRA]A2+                  | [ICRA]A2+                  | [ICRA]A2+   | [ICRA]A2             | [ICRA]A2                | -                  |                         |
| 4 Bank guarantee              | Short term            | 125.00                   |   | [ICRA]A2+                  | [ICRA]A2+                  | [ICRA]A2+   | [ICRA]A2             | [ICRA]A2                | [ICRA]A2           |                         |
| 5 CEL                         | Short term            | 10.00                    |   | [ICRA]A2+                  | -                          | -   | -                    | -                       | -                  |                         |
| 6 Unallocated limits          | Long term /Short term | 30.17                    |   | [ICRA]A-(Stable)/[ICRA]A2+ | [ICRA]A-(Stable)/[ICRA]A2+ | -   | -                    | -                       | -                  |                         |

### Complexity level of the rated instruments

| Instrument  | Complexity Indicator |
|-------------|----------------------|
| Term Loan   | Simple               |
| Cash Credit | Simple               |

|                                    |             |
|------------------------------------|-------------|
| <b>Working Capital Demand Loan</b> | Simple      |
| <b>Bank Guarantee</b>              | Very Simple |
| <b>CEL</b>                         | Very Simple |
| <b>Unallocated</b>                 | NA          |

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   | <b>Term loans</b>                   | FY2018-FY2024    | -           | ~FY2036  | 356.91                   | [ICRA]A- (Stable)            |
| NA   | <b>Cash credit</b>                  | NA               | NA          | NA       | 250.00                   | [ICRA]A- (Stable)            |
| NA   | <b>Working capital demand loans</b> | NA               | NA          | NA       | 101.77                   | [ICRA]A2+                    |
| NA   | <b>Bank guarantee</b>               | NA               | NA          | NA       | 125.00                   | [ICRA]A2+                    |
| NA   | <b>CEL</b>                          | NA               | NA          | NA       | 10.00                    | [ICRA]A2+                    |
| NA   | <b>Unallocated limits</b>           | NA               | NA          | NA       | 30.17                    | [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 |
|--|------------------|------------------------|
| <b>KPIG Energia Private Limited</b>      | 100.00%          | Full Consolidation     |
| <b>Sun Drops Energia Private Limited</b> | 100.00%          | Full Consolidation     |

Source: Company

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