August 30, 2024

KPIG Energia Private Limited: Long-term rating upgraded to [ICRA]A(CE) (Stable); short-term rating of [ICRA]A2+ withdrawn; simultaneously [ICRA]A2+(CE) assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - fund-based – Term loan	54.49	44.45	[ICRA]A(CE) (Stable); upgraded from [ICRA]A-(CE) (Stable)
Long-term - fund-based – Cash credit	20.00	50.00	[ICRA]A(CE) (Stable); upgraded from [ICRA]A-(CE) (Stable) and assigned to the enhanced amount
Short-term - Non-fund based	5.00	20.00	[ICRA]A2+ withdrawn; simultaneously [ICRA]A2+(CE) assigned
Short-term – CEL	1.50	1.50	[ICRA]A2+ withdrawn; simultaneously [ICRA]A2+(CE) assigned
Short-term – Unallocated	3.01	3.05	[ICRA]A2+ withdrawn; simultaneously [ICRA]A2+(CE) assigned
TOTAL	**84.00**	**119.00**	

Instrument details are provided in Annexure-I

Rating Without Explicit Credit Enhancement	[ICRA]BBB+

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The above ratings are based on the strength of the corporate guarantee provided by KPI Green Energy Limited (KPI Green; KPIGEL), the parent of KPIG Energia Private Limited (KPIG Energia; KPIGEPL), for the rated bank lines. ICRA has also withdrawn the A2+ rating assigned to the short-term facilities and simultaneously assigned an A2+(CE) rating to these facilities as the entire rated amount is now covered under the corporate guarantee. The rating action on the long-term rating takes into account the improvement in the credit profile of the guarantor. The ratings of the guarantor factor in the improvement in its capital structure, post the fund raising of Rs. 1,000 crore through the Qualified Institutional Placement (QIP) route in August 2024. The ratings also factor in the healthy improvement in the Group's scale and profitability in FY2024 & the current fiscal driven by higher execution of captive power plant (CPP)/engineering, procurement and construction (EPC) orders and commissioning of the additional IPP capacity. The Stable outlook on the long-term rating reflects ICRA's outlook on the rating of the guarantor, KPIGEL.

KPI Green/KPIGEL has requested ICRA to further review its ratings, which is currently under process. Once the review process is completed, ICRA will publish KPIGEL's rationale on its website. Also, if there is any change in KPIGEL's rating post the review, ICRA will also publish the updated rationale for KPIGEPL on its website.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by KPIGEL in favour of the rated instruments of KPIGEPL. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined payment and invocation mechanism, although the same is post default in nature. Given these attributes, the guarantee provided by KPIGEL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A (CE) against the rating of [ICRA]BBB+ without explicit credit enhancement. In case the rating of the guarantor undergoes a change in future, the same would be reflected in the rating of the aforesaid instrument as well.

The rating without explicit credit enhancement of [ICRA]BBB+ for KPIGEPL takes into account the revenue visibility for its ~25-MW solar power capacity owing to the long-term power purchase agreements (PPAs) inked with various commercial and industrial (C&I) customers. The rating also positively factors in the healthy execution of captive power plant (CPP)/engineering, procurement and construction (EPC) orders in FY2024 and the adequate order book. Further, the rating takes into account the benefits arising from the Group's experience and satisfactory track record in the renewable energy sector and allied construction activities. The rating is, however, constrained by the leveraged capital structure and the risks associated with adequate generation levels in line with the P-90 PLF levels and remunerative tariff rates. The rating is also constrained by the risks pertaining to the termination of PPAs, given the weak exit clause.

Salient covenants of the rated facility

- Pledge of 30% of the company's shares to the bank and undertaking on non-disposal of minimum 21% of shares of promoters as security
- Promoters' undertaking that in case of insufficient cash accruals, fresh funds shall be brought in towards repaying the term loan liabilities from their own sources
- Debt service coverage ratio (DSCR) of at least 1.20 times; no penalty up to 10% deviation in the same
- Debt service reserve account (DSRA) equivalent to 3 months' debt servicing (interest + principal)

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.

Explicit support through corporate guarantee from parent - KPIGEPL's credit profile is enhanced by the corporate guarantee provided by KPIGEL for the above-rated bank limits.

Long-term PPAs with reputed counterparties; adequate CPP/EPC order book - KPIGEPL has entered into long-term PPAs with reputed counterparties for 28-MW capacity against the total installed independent power producer (IPP) capacity of ~25 MW. This provides revenue visibility for the company's IPP business, mitigating the PPA termination risk to an extent. Also, the company's CPP/EPC order book stood adequate at ~Rs. 79.0 crore as of August 2024. The company's revenue increased by ~73% on a Y-o-Y basis to Rs. 271.82 crore in FY2024 from Rs. 156.94 crore in FY2023 driven by healthy increase in the CPP revenue. The operating profit margin, however, moderated to 18.7% in FY2024 from 29.3% owing to higher execution of CPP orders which have lower margin compared to the IPP business. Additionally, the company incurred high one-time expenses in FY2024 towards getting evacuation approval for additional capacity under the CPP orders, leading to lower operating profitability.

Credit challenges

Risks of adequate generation levels and remunerative tariff rates - KPIGEPL is exposed to the risks associated with adequate generation levels in line with the P-90 PLF levels and remunerative tariff rates under the PPAs with the C&I customers.

PPA termination risk - The cash flows from the IPP segment are susceptible to PPA termination, 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. Notwithstanding this, historically, the Group has not witnessed any major PPA termination from its key clients.

Susceptibility of IPP cash flows to tariff rates and other factors - The IPP segment's cash flows are susceptible to tariff realisation, which remains exposed to the grid tariff rates and the open access/transmission charges. Further, as the company 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.

IPP cash flows vulnerable 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 variation in weather conditions and/or module performance may impact the PLF and consequently the cash flows. The geographic concentration of the assets amplifies the generation risk.

Liquidity position: Adequate

For the rated entity KPIGEPL: Adequate

KPIGEPL's liquidity position remains adequate, marked by sufficient cash flows from operations in relation to the debt servicing requirements, along with the presence of a debt service reserve account (DSRA) of around one quarter. The company's working capital limit utilisation stood low at ~33% against the sanctioned limit for the 12-month period from August 2024 to July 2024.

For the guarantor KPIGEL: Adequate

The liquidity position of the Group remains comfortable supported by healthy cash accruals and the recent infusion of Rs. 1000.0 crore under KPI Green through the QIP route. Also, KPI Green has prepaid its entire debt outstanding using the QIP proceeds and is expected to have healthy free cash even after debt prepayment. Further, at the consolidated level, the Group is expected to generate sufficient cash flows from operations to meet the annual debt repayment obligations of ~Rs. 8.18-10.86 crore over FY2025-FY2026.

Rating sensitivities

Positive factors – The rating would remain sensitive to any movement in the rating or outlook of the guarantor, i.e. KPI Green Energy Limited.

Negative factors – The rating may be downgraded if there is sustained pressure on the earnings and profitability leading to weakening of debt metrics and liquidity. The rating would also remain sensitive to any movement in the rating or outlook of the guarantor, i.e. KPI Green Energy Limited.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Power-Solar
Parent/Group support	Parent Company: KPI Green Energy Limited The assigned CE rating is based on the unconditional and irrevocable corporate guarantee extended by KPIGEPL's parent company.

Consolidation/Standalone	The rating is based on the standalone financials of the entity

About the company

KPIG Energia Private Limited (KPIGEPL), incorporated in 2019, is a wholly-owned subsidiary of KPI Green Energy Limited (KPIGEL). It provides solar power as an independent power producer (IPP) and as a service provider (EPC contractor) to CPP customers from its plant, known as Solarism. The company has an installed IPP capacity of ~25 MW. The entire capacities (IPP+CPP) are located at Bharuch, Gujarat.

About the parent

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 ~110 MW including the recently developed hybrid capacity of ~36.2 MW in Bhavnagar and Bharuch districts of Gujarat. Also, there are installed IPP capacities of ~25 MW and ~21 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 ~156 MW; also, the Group had commissioned CPP projects of more than 287 MW as of June 2024.

Currently, KPI Green has under-development capacity of ~1.2-GW, including the recently awarded utility scale projects.

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

Key financial indicators (audited)

Standalone – KPIGEPL	FY2022	FY2023	FY2024*
Operating income	21.3	156.9	271.8
PAT	1.3	28.2	30.6
OPBDIT/OI	21.7%	29.3%	18.7%
PAT/OI	6.1%	17.9%	11.3%
Total outside liabilities/Tangible net worth (times)	3.0	2.6	1.5
Total debt/OPBDIT (times)	20.1	1.3	1.0
Interest coverage (times)	5.1	6.1	7.2

*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	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Aug 30, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
1 Term Loans	Long term	44.45	[ICRA]A(CE) (Stable)	09-May-23	[ICRA]A- (CE) (Stable)	18-Jan-23	[ICRA]A- (CE) (Stable)	28-Feb-22	[ICRA]BBB+ (CE) (Positive)
			-	-	-	21-Jun-22	[ICRA]A- (CE) (Stable)	11-Jan22	[ICRA]BBB+ (CE) (Positive)
2 Cash Credit	Long term	50.00	[ICRA]A(CE) (Stable)	09-May-23	[ICRA]A- (CE) (Stable)	18-Jan-23	[ICRA]A- (CE) (Stable)	28-Feb-22	[ICRA]BBB+ (CE) (Positive)
			-	-	-	21-Jun-22	[ICRA]A- (CE) (Stable)	-	-
3 Non-Fund Based	Short term	20.00	[ICRA]A2+(CE)	09-May-23	[ICRA]A2+	-	-	-	-
4 CEL	Short term	1.50	[ICRA]A2+(CE)	09-May-23	[ICRA]A2+	-	-	-	-
5 Unallocated	Short term	3.05	[ICRA]A2+(CE)	09-May-23	[ICRA]A2+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based – Cash credit	Simple
Short-term - Non-fund based	Very Simple
Short term – CEL	Very Simple
Short term – 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 Loan	FY2021	-	~FY2032	44.45	[ICRA]A(CE) (Stable)
NA	Cash Credit	NA	NA	NA	50.00	[ICRA]A(CE) (Stable)
NA	Non-Fund Based	NA	NA	NA	20.00	[ICRA]A2+(CE)
NA	CEL	NA	NA	NA	1.50	[ICRA]A2+(CE)
NA	Unallocated	NA	NA	NA	3.05	[ICRA]A2+(CE)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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