

February 11, 2021

KPIG Energia Private Limited: [ICRA]BBB+(CE) (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	35.00	[ICRA]BBB+(CE) (Stable); Assigned
Total	35.00	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement	[ICRA]BBB
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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 rating is based on the strength of the corporate guarantee provided by K.P.I. Global Infrastructure Ltd. (KPIGIL), the parent of KPIG Energia Private Limited (KPIGEPL), for the rated bank lines. The Stable outlook on this rating reflects ICRA's outlook on the rating of guarantor, KPIGIL (rated at [ICRA]BBB+ (Stable)/A2).

Adequacy of credit enhancement

The rating is based on the guarantee, which is legally enforceable, joint and several, irrevocable, unconditional and covers the entire amount and tenure of the rated instrument. Nevertheless, the guarantee is devoid of any defined invocation and payment mechanism. Given these attributes, the guarantee provided by KPIGIL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]BBB+(CE) against the rating of [ICRA]BBB without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

For detailed rating rationale of KPIGIL, [Click here](#)

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » The guarantee is absolute, unconditional and irrevocable.
- » The guarantee shall be valid and binding on the Guarantor and operative until repayment of all the payments due to the lender.
- » The guarantee is a continuing security for the entire facility amount.
- » Obligations of the guarantor under the guarantee deed are joint and several.
- » In case of any variation made in the facility document, the guarantor shall not be released or discharged of its obligations under the guarantee deed.
- » Guarantee would not be affected in case the borrower avails other loans or facilities.
- » The guarantors have waived their rights under Sections 133,134,135,139 and 141 of the Indian Contract Act, 1872.

Key rating drivers and their description

Credit strengths

Extensive 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.

Corporate guarantee from parent - KPIGEPL's credit profile is enhanced by the corporate guarantee provided by KPIGIL for the above-rated bank limits.

Presence of long-term PPAs with reputed counterparties - KPIGEPL has already entered a long-term PPA for 8.95 MW (~75% of total capacity) of 20 years for its upcoming IPP capacity with reputed counterparties. This provides revenue visibility to the company's IPP business along with ensures low counterparty credit risk.

Credit challenges

Risks associated with stabilisation and successful scale up of operations - Being in a nascent stage (plant expected to be fully operational by June 2021), KPIGIL remains exposed to risks associated with stabilisation and successful scale up of the plant's operations as per the expected parameters. Also, the financial risk profile in the near term will remain average owing to the debt-funded nature of the project (project D/E of ~1.81 times).

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.

Susceptibility of cash flows to other factors - The cash flows from power generation 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, thereby impacting the revenue and profitability.

Liquidity position of the guarantor: Adequate

The Group's liquidity is supported by 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 for the debt taken for the IPP segment by KPIGIL. 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/CPP segment) stood high at ~87%, against the sanctioned limit, from September 2019 to November 2020.

Rating sensitivities

Positive factors:

- Expected improvement in the entity's financial risk profile and enhancement in the guarantor's credit profile

Negative factors:

- Any significant delay in the commissioning of the IPP capacity, lower-than-expected ramp up of scale or operating profitability
- Deterioration in the guarantor's credit profile

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Support from parent – K.P.I. Global Infrastructure Ltd. (KPIGIL) Explicit support in the form of corporate guarantee for the rated bank lines
Consolidation/Standalone	The ratings are based on the standalone financials of KPIG Energia Private Limited (KPIGEPL).

About the company

Incorporated in 2019, KPIG Energia Private Limited (KPIGEPL) is a wholly owned subsidiary of K.P.I. Global Infrastructure Ltd. (KPIGIL). The Group is currently building solar power plants of 12 MW under KPIGEPL and 20 MW under the parent company, KPIGIL. Apart from these, the Group also plans to build an 8 MW solar power plant under KPIGIL's wholly owned subsidiary, Sun Drops Energia Private Limited (SDEPL). These plants will be located at Bharuch, Gujarat. The cost for the 12 MW plant under KPIGEPL is expected to be ~Rs. 54.00 crore (~Rs. 33.00 crore incurred till December 31, 2020) and for the 20 MW plant under KPIGIL, it is expected to be Rs. 76.00 crore. The planning for the 8 MW plant under Sun Drops Energia is currently in its initial stage and the cost estimate has not been prepared yet. The 12 MW plant at KPIG Energia will be installed in a phase-wise manner, while the total operational capacity for FY2022 is expected to be 10MW. The plant is expected to operate at full capacity by June 2021.

About the parent

Incorporated on February 01, 2008, K.P.I. Global Infrastructure Ltd. (KPIGIL) is involved 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 and 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 the Bombay Stock Exchange (BSE), India.

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): Not applicable as the company is currently in project phase

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 Dec 31, 2020 (Rs. crore)	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					Feb 11, 2021	-	-	-	-
1	Term Loan	Long-term	35.00	18.36	[ICRA]BBB+(CE) (Stable)	-	-	-	-

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 www.icra.in

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 Loan	FY2021	~10.85%	~FY2032	35.00	[ICRA]BBB+(CE) (Stable)

Annexure-2: List of entities considered for consolidated analysis - Not Applicable

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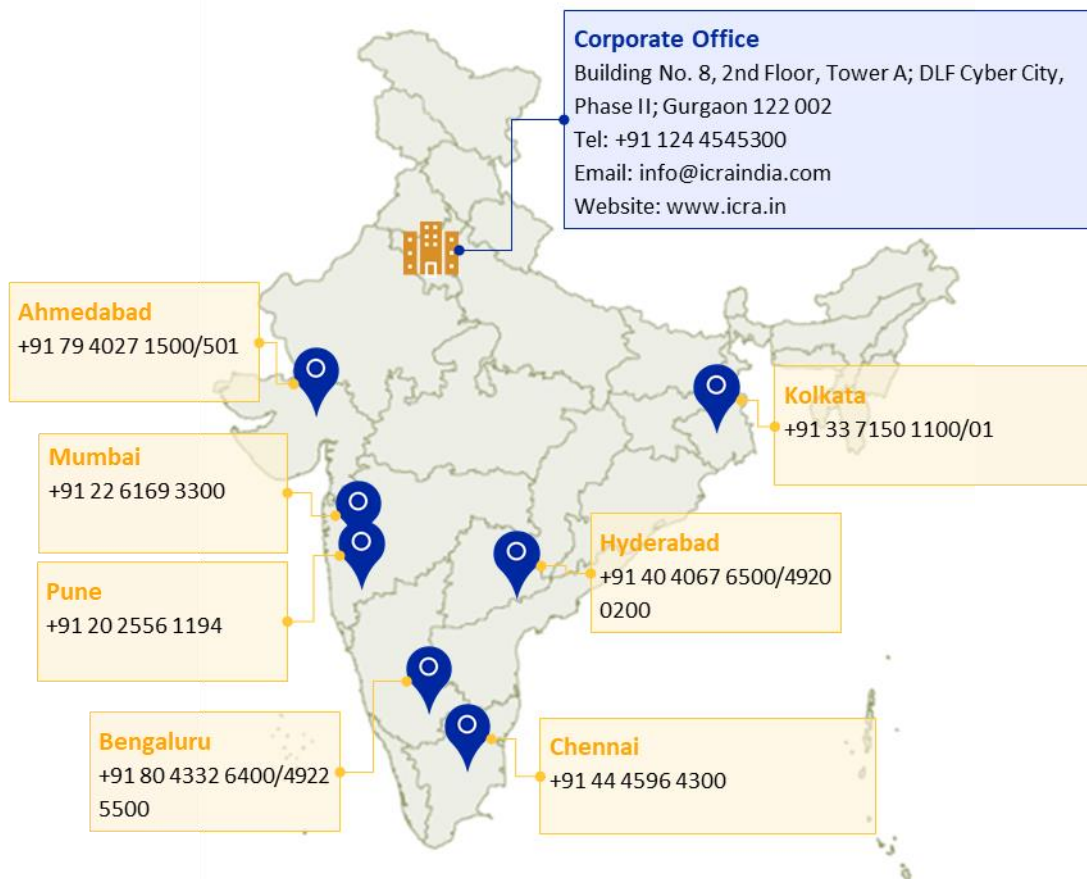


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