

October 09, 2024

Kalpa Power Private Limited: [ICRA]BB+(Stable)/[ICRA]A4+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	12.00	[ICRA]BB+ (Stable); assigned
Long-term/ Short-term – Non-fund-based limits	37.20	[ICRA]BB+ (Stable)/[ICRA]A4+; assigned
Long-term/ Short-term – Fund /Non-fund-based limits	0.80	[ICRA]BB+ (Stable)/[ICRA]A4+; assigned
Long-term/ Short-term – Unallocated limits	25.00	[ICRA]BB+ (Stable)/[ICRA]A4+; assigned
Total	75.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings factor in the established track record of Kalpa Power Private Limited (KPPL) and extensive experience of the promoters in solar engineering, procurement, and construction (EPC) and operations & maintenance (O&M) business. The ratings also positively factor in KPPL's healthy revenue growth (~78%) in FY2024, supported by its project execution. Further, KPPL has a healthy order book position of ~Rs. 254 crore as of July 2024 from the commercial & industrial (C&I) customers, translating to 2.4 times the operating income (OI) reported in FY2024, which provides near-term revenue visibility. The ratings also factor in the fund infusion of Rs.5 crores in the form of preference share capital by investors in the company during the current fiscal year.

The ratings, however, are constrained by the order book concentration risk, with the top three EPC projects constituting more than 50% of the order book. Further, the company remains exposed to project execution risks associated with the order book and stabilisation risks (i.e. achieving the required solar generation as per the contract terms) after the commissioning. The ratings are also constrained by the moderate working capital intensity on account of moderately high debtor days. Further, KPPL's ability to judiciously manage its working capital remains important from the credit perspective, given the expected increase in scale of operations. KPPL's profitability remains exposed to volatility in raw material (i.e. solar modules, inverters, mounting structures, cables and switchgear) prices, as most contracts are fixed price in nature. To mitigate this risk, KPL places back-to-back raw material orders with suppliers at the time of securing the orders. Further, intense competition in the solar EPC and O&M industry constrains its pricing flexibility.

The Stable outlook on KPPL's long-term rating reflects ICRA's opinion that the company will continue to benefit from its healthy order book and will maintain its execution momentum, along with the timely receipt of payments from its key customers.

Key rating drivers and their description

Credit strengths

Experience of promoters in solar energy sector - KPPL's promoters have extensive experience in solar EPC & O&M business, as reflected in the company's execution track record. Since its inception in 2017, KPPL has executed more than 175 solar EPC projects with a 125-megawatt peak (MWp) contracted capacity. Also, it has more than 200 MWp solar assets under operations & maintenance. It has successfully executed a 25 MW open-access solar park in Maharashtra and has plans to execute three more open-access solar parks, with 75MW aggregate capacity going forward. Overall, this experience has helped the company in new customer additions and securing repeat business from its existing customers.

Healthy order book position provides near-term revenue visibility - The company's order book position stood at ~Rs. 254.0 crore as of July 2024, translating to 2.4 times its FY2024 operating income, providing near-term revenue visibility. ICRA expects the order book to remain healthy going forward, backed by the rise in renewable capacity additions in the country.

Credit challenges

Order book execution risk - KPPL has a high order book concentration risk, with the top three EPC projects constituting more than 50% of the order book. The company also remains exposed to execution risks associated with its order book and project stabilisation risks (i.e. achieving the required solar generation as per the contract terms) after the commissioning. However, comfort can be drawn from the fact that the liquidated damages paid by the company for project delays is minimal since inception. Further, the timely execution of projects, along with regular receipt of payments from its key customers, remains important.

Moderate working capital intensity - The working capital intensity is moderate, as reflected in net working capital (NW)/OI of ~16% in FY2024 (vs.~22% in FY2023) on a standalone basis, owing to moderately high debtor days. The company has been focusing on milestone-based payments from its customers to improve the working capital intensity. Further, KPPL's ability to judiciously manage its working capital remains important, given the expected increase in its scale of operations.

Intense competition in industry - The solar EPC & maintenance industry is highly fragmented, exposing KPPL to intense competition and pricing pressures. Moreover, the company's scale remains modest, which constrains its bargaining power and results in limited margins, as reflected in the past financials.

Liquidity position: Adequate

The cash flow from operations is expected to remain adequate to meet its debt repayment obligations. The liquidity is supported by no long-term debt on its books, along with the cushion provided by the cash and bank balance (Rs. 7.2 crore on a standalone basis) as on August 31, 2024, and unutilised working capital limits. The average limit utilised remained at ~69% for fund-based and non-fund-based facilities for the twelve-month period ending April 30, 2024. ICRA also notes the recent fund infusion of Rs. 5.0 crore and increase in sanctioned fund-based and non-fund-based limits, which is expected to support the increase in the scale of operations.

Rating sensitivities

Positive factors – ICRA may upgrade KPPL's ratings if the company demonstrates substantial growth in earnings and net worth through an increase in order book execution while maintaining its debt coverage indicators at comfortable levels, along with adequate liquidity.

Negative factors – Pressure on the ratings could arise if the entity is unable to maintain a healthy order book position or reports execution-related delays, resulting in a decline in earnings on a sustained basis. Further, deterioration in the working capital cycle or inability to arrange incremental working capital lines in a timely manner, exerting pressure on its liquidity position, could also result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of company. Details in Annexure-II

About the company

Incorporated in 2017, KPPL is a turnkey solution provider for solar power generation systems, offering solar EPC and O&M services. Under its EPC business, the company provides rooftop solar installation services and open access/off-site solar installation solutions to C&I customers. Its comprehensive suite of services includes design, procurement, installation, project management, commissioning, along with maintenance and monitoring of solar power generation systems.

Key financial indicators (audited)

	Standalone		Consolidated
	FY2022	FY2023	FY2024
Operating income	57.1	59.6	108.1
PAT	1.6	2.1	5.9
OPBDIT/OI	5.9%	6.7%	8.9%
PAT/OI	2.9%	3.4%	5.5%
Total outside liabilities/Tangible net worth (times)	4.7	3.6	2.1
Total debt/OPBDIT (times)	3.6	2.7	1.6
Interest coverage (times)	2.7	4.2	7.9

Source: Company, ICRA Research; 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)	Oct 09, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based –Cash credit	Long-term	12.00	[ICRA]BB+ (Stable)	-	-	-	-	-	-
Non-fund-based limits	Long-term/ Short-term	37.20	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	-	-	-	-
Fund Based/Non-fund-based limits	Long-term/ Short-term	0.80	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	-	-	-	-
Unallocated limits	Long-term/ Short-term	25.00	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term/ Short-term – Non-fund-based limits	Very simple
Long-term/ Short-term – Fund Based/Non-fund-based limits	Very simple
Long-term/ Short-term – Unallocated limits	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	Long-term – Fund-based – Cash credit	Jul '24	NA	NA	12.00	[ICRA]BB+ (Stable)
NA	Long-term/ Short-term – Non-fund-based limits	Jul '24	NA	NA	37.20	[ICRA]BB+ (Stable)/[ICRA]A4+
NA	Long-term/ Short-term – Fund Based/Non-fund-based limits	Jul '24	NA	NA	0.80	[ICRA]BB+ (Stable)/[ICRA]A4+
NA	Long-term/ Short-term – Unallocated limits	Jul '24	NA	NA	25.00	[ICRA]BB+ (Stable)/[ICRA]A4+

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	Ownership	Consolidation Approach
Kalpa Power Private Limited	100.00%	Full Consolidation
Kalpa Power Solar Park Alpha LLP	50.00%	Full Consolidation

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About ICRA Limited:

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