January 11, 2022

K.P.I. Global Infrastructure Ltd.: Ratings reaffirmed; outlook changed to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	183.75	183.75	[ICRA]BBB+; Reaffirmed; outlook changed to Positive from Stable
Cash Credit	13.00	13.00	[ICRA]BBB+; Reaffirmed; outlook changed to Positive from Stable
Working Capital Demand Loans	2.75	2.75	[ICRA]A2; Reaffirmed
Bank Guarantee	0.50	0.50	[ICRA]A2; Reaffirmed
Bank Guarantee^	(2.00)	(2.00)	[ICRA]A2; Reaffirmed
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-1*

Rationale

To arrive at the ratings, ICRA has considered consolidated financials of K.P.I. Global Infrastructure Ltd. (KPIGIL) and its wholly-owned subsidiaries, KPIG Energia Private Limited (KPIGEPL) and Sun Drops Energia Private Limited (SDEPL), referred to as the Group. The revision in the outlook to Positive reflects the expected improvement in the scale and profitability at the Group level following higher execution of captive power plant (CPP) orders and commissioning of ~28 MW capacities under the subsidiaries (full capacities expected to be operational from Q1 FY2023 onwards) in the near term. The outstanding CPP order book as on December 14, 2021 was healthy at ~Rs. 180.00 crore (44.3 MW), which is expected to be executed over the next six months. In FY2021, KPIGIL's revenue grew at a healthy rate of ~75% to Rs. 103.50 crore from Rs. 59.28 crore in FY2020 owing to the increase in the independent power producer (IPP) capacity and substantial increase in the CPP projects undertaken. Further, in the current fiscal, the Group achieved a revenue of Rs. 92.85 crore (including CPP sales in KPIG Energia) in 6M FY2021, and is expected to post a healthy YoY revenue growth of more than 90% in FY2022. ICRA expects the growing CPP business, timely commissioning of the new capacities under IPP and the remunerative tariff rates to improve the credit profile of the Group going forward.

The ratings 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 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) under the trust and retention account (TRA) and a specified withdrawal/waterfall mechanism as defined in the TRA agreement, which are expected to support the servicing of debt obligations, providing sufficient cushion in case of any distress.

The ratings, however, are constrained by the Group's high debt levels, resulting from the debt-funded capex undertaken to increase the IPP capacities and the risks associated with the commissioning and stabilisation of the ongoing debt-funded expansion project of ~20 MW capacity at KPIGEPL and 8 MW under SDEPL. Further, the cash flows from the IPP segment are susceptible to tariff realisation, which remains exposed to the grid tariff rates and the open access/transmission charges. The ratings are further constrained by the risks pertaining to the termination of PPAs by the existing clients, given the weak exit clause of the PPAs. ICRA also notes the Group's relatively high working capital intensity resulting from KPIGIL's engineering, procurement and construction (EPC) business for captive power plants (CPP).

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 the fabrication and solar projects).

Long term PPAs with reputed counterparties - KPIGIL has entered into long-term PPAs of ~15-20 years for its IPP capacities with reputed counterparties such as Meghmani Organics Ltd., L&T, UPL, Cadila Pharmaceuticals Ltd. and Colourtex Industries Pvt. Ltd. among others 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.

Healthy growth in revenue over the years along with healthy profitability - KPIGIL's revenue has shown consistent growth over the past five fiscals. Its revenue grew at a healthy CAGR of ~30% over FY2016-FY2021 on account of healthy capacity additions at its Solarism plant along with the increase in the CPP revenues over the years. In FY2021, its revenue grew at a healthy rate of ~75% to Rs. 103.50 crore from Rs. 59.28 crore in FY2020 owing to the increase in the IPP capacity and substantial increase in the CPP projects undertaken. Further, in the current fiscal, the Group achieved a revenue of Rs. 92.85 crore (including CPP sales in KPIG Energia) in 6M FY2021. KPIGIL's profitability is healthy, marked by an operating profit margin (OPM) of 56.62% in FY2021 compared with 45.75% in FY2020. The OPM increased in FY2021 on a YoY basis owing to the increase in the IPP revenue with the increase in capacity. Also, the DSCR is comfortable at 1.75 times in FY2021 and 1.84 times (projected) in FY2022.

Presence of DSRA under TRA - The receivables from the IPP segment are routed through the trust and retention account and a debt service reserve account (DSRA) equivalent to two quarters of debt servicing obligations (interest + principal), maintained under a waterfall mechanism after servicing statutory dues, operational and maintenance expenses and debt repayments for the period. This will 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 leveraged with a projected gearing of ~2.0 times and TD/OPBDITA of ~3.8 times (gearing and TD/OPBDITA adjusted for lease liabilities) as on March 31, 2022, owing to the ongoing debt-funded capacity addition of ~20 MW at KPIGIL and 8 MW under SDEPL for the IPP business segment. Also, the Group is exposed to the risks associated with the timely commissioning and stabilisation of these projects.

KPIGIL's working capital intensity remains high due to the high inventory and debtor levels in the EPC (CPP) projects. Its NWC/OI stood at 69% FY2021 (100% in FY2020). The working capital intensity is generally high in September and March due to high sales/billing concentration of the EPC segment during the stated 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. However, KPIGIL has entered into additional PPAs (above its total IPP capacity of 60 MW) of ~16 MW capacity, which provide cushion in case of termination by any of the customers. The total PPAs entered into by the Group (including subsidiaries) stand at ~96 MW against the total capacity (including the capacities at the subsidiaries yet to become operational) of ~88 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 the grid tariff rates and the open access/transmission charges. Under the new Gujarat

Solar Power Policy 2021, the net realisations have lowered owing to the introduction of banking charges of Rs. 1.50/unit and the increase in the cross-subsidy surcharge. However, most of KPIGIL's capacity is registered under the older regime, resulting in better realisations. Notwithstanding this, the capacities under the subsidiaries will fall under the new policy, resulting in lower realisations. The competition from other players could also result in lower per unit realisation going forward, impacting the revenue and profitability. However, the Group has a competitive advantage owing to its huge 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 solar radiation levels, losses in PV systems due to temperature and climatic conditions and inverter efficiency and module degradation owing to ageing. However, the variance in solar levels has historically been much lower compared with other sources of renewable energy such as wind and hydro-power projects. KPIGIL's PLF levels in 6M FY2022 stood lower with an average PLF of ~16.4% due to the extended monsoon compared with an average PLF of 19.25% in FY2021.

Liquidity position: Adequate

The Group's liquidity is strengthened by the DSRA under the trust and retention account along with a specified withdrawal/waterfall mechanism as defined in the TRA agreement. Also, the Group is expected to generate sufficient annual cash accruals of ~Rs. 55-77.00 crore over FY2022-FY2023 against debt repayments of ~Rs. 22.10-32.80 crore every year. Further, KPIGIL's working capital limit utilisation stood moderately high at ~72% against the sanctioned limit for the 19-month period of April 2020 to October 2021.

Rating sensitivities

Positive factors:

The ratings may be upgraded if there is an:

- Increase in the scale following the successful commissioning and stabilisation of the new capacities along with remunerative tariff realisations, while maintaining healthy profitability at the Group level
- Improvement in working capital cycle and liquidity position

Negative factors:

The ratings may be downgraded if there is a:

- Lower generation level or any significant delay in the commissioning of the new IPP capacities or lower tariff realisation with increasing open-access charges, leading to lower-than-expected earnings and deterioration in key credit metrics
- Stretch in the working capital cycle or any further large capex that deteriorates the capital structure and liquidity
- Deterioration in specific credit metrics such as a DSCR of less than 1.2 times at a consolidated level on a sustained basis

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 KPIGIL and its wholly owned subsidiaries, KPIGEPL and SDEPL.

About the company

K.P.I. Global Infrastructure Ltd. (KPIGIL), incorporated on February 01, 2008, is engaged 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 the Sudi, Samiyala & Tanchha villages at Bharuch, Gujarat. Currently, the company has an installed capacity of 60 MW of solar power under the IPP segment and has executed ~23.4 MW of EPC/CPP projects since its inception. The company is listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange, India.

The Group is currently building a solar power plant of ~20 MW under KPIGIL and 8 MW under SDEPL, which are expected to be operational at full capacity by March 2022. These plants are also located at Bharuch, Gujarat.

Key financial indicators (Consolidated – KPIGIL and KPIGEPL)

	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	59.3	103.5	92.8
PAT (Rs. crore)	6.5	22.0	20.2
OPBDIT/OI (%)	45.6%	56.4%	47.6%
RoCE (%)	10.5%	15.1%	-
Total Outside Liabilities/Tangible Net Worth (times)	2.0	2.4	-
Total Debt/OPBDIT (times)	5.1	4.1	3.2
Interest Coverage (times)	3.4	3.6	3.0
DSCR (times)	2.0	1.7	1.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year).

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Jan 11, 2022	Feb 02, 2021	Jan 14, 2021	-	-
1	Term Loans	Long-term	183.75	183.40	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-	-	-
2	Cash Credit	Long-term	13.00	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3	Working Capital Demand Loans	Short-term	2.75	-	[ICRA]A2	[ICRA]A2	-	-	-
4	Bank Guarantee	Short-term	0.50	-	[ICRA]A2	[ICRA]A2	-	-	-
5	Bank Guarantee^	Short-term	(2.00)	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Cash Credit	Simple
Working Capital Demand Loans	Simple
Bank Guarantee	Very Simple
Bank Guarantee^	Very Simple

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2018-FY2021	~10.65-11.80%	~FY2033	183.75	[ICRA]BBB+ (Positive)
NA	Cash Credit	NA	NA	NA	13.00	[ICRA]BBB+ (Positive)
NA	Working Capital Demand Loans	NA	NA	NA	2.75	[ICRA]A2
NA	Bank Guarantee	NA	NA	NA	0.50	[ICRA]A2
NA	Bank Guarantee^	NA	NA	NA	(2.00)	[ICRA]A2

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

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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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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