

June 21, 2022

KPI Green Energy Limited: Ratings upgraded; outlook revised to Stable from Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	183.75	178.00	[ICRA]A-; upgraded from [ICRA]BBB+; outlook revised to Stable from Positive
Cash Credit	13.00	25.00	[ICRA]A-; assigned/upgraded from [ICRA]BBB+; outlook revised to Stable from Positive
Working Capital Demand Loans	2.75	55.75	[ICRA]A2+; assigned/upgraded from [ICRA]A2
Bank Guarantee	0.50	2.50	[ICRA]A2+; assigned/upgraded from [ICRA]A2
Bank Guarantee	(2.00)	-	-
Total	200.00	261.25	

*Instrument details are provided in Annexure-1

Rationale

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

The ratings upgrade factors in the expected improvement in scale and profitability at the Group level in FY2023 following the significantly higher execution of captive power plant (CPP) orders and commissioning of the ~28 MW capacities under the subsidiaries (full capacities expected to be operational from July 2022 onwards). The outstanding CPP order book as of May-2022 stood healthy at ~Rs. 350.0 crore compared to an order book of ~Rs. 180.0 crore (44.3 MW) as on December 14, 2021 (during the last rating exercise). These orders are expected to be executed over the next six to nine months, leading to significant revenue booking in the current fiscal. In FY2022, the Group's revenue more than doubled to Rs. 229.9 crore from Rs. 103.5 crore in FY2021 owing to a substantial increase in the CPP projects executed. ICRA expects the growing CPP business, commissioning of the new capacities with desired operating parameters under the IPP model 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 and medium-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) for the term loans availed for independent power producer (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, resulting from the debt-funded capex undertaken to increase the IPP capacities, which has led to a leveraged capital structure (TOL/TNW of 4.1 times as on March 31, 2022) at a consolidated level. Nevertheless, the TOL/TNW is expected to improve going forward, with the expected decline in debt levels following scheduled debt repayments as well as higher anticipated profitability. The ratings are also constrained by the risks associated with adequate generation levels in line with the P-90 PLF levels for the ~20 MW capacity at KPIGEPL and 8 MW capacity under SDEPL. The cash flows from the IPP segment are also susceptible to remunerative tariff realisation,

which remains exposed to grid tariff rates, open access/transmission charges and competition. 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 KPIGEL's engineering, procurement and construction (EPC) business for captive power plants (CPP).

The Stable outlook on the long-term rating reflects ICRA's opinion that KPIGEL will continue to benefit from the extensive experience of its promoter, and a 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 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 - KPIGEL 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 - KPIGEL provides solar power as an independent power producer (IPP) and as a service provider (EPC contractor) to CPP customers. The company's revenue has shown consistent growth over the past five fiscals. Its revenue grew at a healthy CAGR of ~53% over FY2017-FY2022 on account of healthy capacity additions at its Solarism plant along with a significant increase in the CPP revenues over the years. In FY2022, its revenue grew at a healthy rate of ~112% to Rs. 219.02 crore from Rs. 103.50 crore in FY2021 owing to a substantial increase in the CPP projects undertaken. Further, in the current fiscal as well, the Group's revenue is expected to almost double on a year-on-year (YoY) basis, driven by a significant increase in the CPP orders undertaken and the commencement of the IPP capacities at the subsidiaries.

Also, the Group's profitability is healthy, marked by an operating profit margin (OPM) of 47.36% in FY2022 compared with 56.43% in FY2021. The OPM moderated on a YoY basis in FY2022 owing to the higher contribution of the CPP segment to the revenue, which has a lower margin compared to the IPP segment. Nevertheless, at the absolute level, the OPBDITA increased by ~86% in FY2022 on a YoY basis. The debt protection metrics remain comfortable with an estimated interest coverage of ~3.8 times and DSCR of ~2.1 times for FY2023.

Presence of DSRA - 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

Leveraged capital structure and high working capital intensity - The Group's capital structure is expected to remain leveraged with a projected gearing of ~1.5 times and TD/OPBDITA of ~2.1 times (gearing and TD/OPBDITA adjusted for lease liabilities) as on March 31, 2023, owing to the high debt availed to build the IPP capacities. Further, KPIGEL availed a guaranteed emergency credit line (GECL) in the form of working capital term loan of Rs. 48.00 crore in FY2022 to fund the incremental

working capital requirements arising from the growing CPP business, which led to a rise in debt levels. Notwithstanding this, going forward, the debt levels are expected to decline with the scheduled debt repayments.

KPIGEL's working capital intensity remains high due to the high inventory and debtor levels in the EPC (CPP) projects. The NWC/OI declined to 26% in FY2022 from 69% FY2021 (100% in FY2020) owing to the reduction in debtor days in 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.

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. Notwithstanding this, historically, the Group has not witnessed any major PPA termination from its key clients. Also, KPIGEL has entered into additional PPAs (above its total IPP capacity of 66 MW) of ~24 MW capacity, which provide a cushion in case of termination by any of the customers. The total PPAs entered into by the Group (including subsidiaries) stand at ~122 MW against the total capacity (including the capacities at the subsidiaries yet to become operational) of ~94 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 KPIGEL'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.. Further, the increase in competition from other players could also result in lower per unit realisation going forward, impacting the revenue and profitability growth. 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 variation in solar levels has historically been much lower than other sources of renewable energy such as wind and hydropower projects. KPIGEL's PLF level in FY2022 was decent at 18.62% in FY2022; however, the same declined from 19.25% in FY2021 owing to an extended monsoon. Going forward, any sharp deterioration in the generation performance on a sustained basis will be a key credit monitorable.

Liquidity position: Adequate

The Group's liquidity is strengthened by the presence of a DSRA equivalent to one quarter for the term loans availed for the IPP assets. Also, the Group is expected to generate sufficient annual cash accruals of ~Rs. 98-111.0 crore over FY2023-FY2024 against the debt repayments of ~Rs. 32.9-35.6 crore every year. Further, KPIGEL's working capital limit utilisation was moderate at ~67% against the sanctioned limit for the 24-month period of April 2020 to March 2022.

Rating sensitivities

Positive factors - The ratings may be upgraded if the scale increases along with remunerative tariff realisations amid a healthy profitability at the Group level. 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, leading to a material deterioration in earnings and key credit metrics. A stretch in the working capital cycle or any further large 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	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 KPIGEL and its wholly owned subsidiaries, KPIGEPL and SDEPL.

About the company

KPI Green Energy Limited (previously known as K.P.I. Global Infrastructure Ltd.) (KPIGEL), 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 company carries out the entire business from its Solarism plant located at the Sudi, Samiyala & Tanchha villages in Bharuch, Gujarat. Currently, the company has an installed capacity of 66 MW of solar power under the IPP segment and has executed more than 65 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 solar power plants under the subsidiaries, i.e., ~20 MW under KPIGIL and 8 MW under SDEPL, are expected to be fully operational from July 2022. These plants are also located at Bharuch, Gujarat.

Key financial indicators (Consolidated)

	FY2021	FY2022
Operating Income (Rs. crore)	103.5	229.9
PAT (Rs. crore)	22.0	43.4
OPBDIT/OI (%)	56.4%	47.4%
RoCE (%)	15.1%	22.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	4.1
Total Debt/OPBDIT (times)	4.1	3.1
Interest Coverage (times)	3.6	2.9
DSCR (times)	1.7	2.0

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 (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Jun 21, 2022	Jan 11, 2022	Feb 02, 2021	Jan 14, 2021	-
1	Term Loans	Long-term	178.00	170.74	[ICRA]A-(Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-	-
2	Cash Credit	Long-term	25.00	-	[ICRA]A-(Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
3	Working Capital Demand Loans	Short-term	55.75	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	-	-
4	Bank Guarantee	Short-term	2.50	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	-	-
5	Bank Guarantee	Short-term	-	-	-	[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

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: 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	~7.45- 10.45%	~FY2033	178.00	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	25.00	[ICRA]A- (Stable)
NA	Working Capital Demand Loans	NA	NA	NA	55.75	[ICRA]A2+
NA	Bank Guarantee	NA	NA	NA	2.50	[ICRA]A2+

Please click [here](#) to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

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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