Press Release

K P I Global Infrastructure Limited

December 03, 2020

Rating Assigned

Total Instruments Rated*	Rs. 25.00 Cr.
Long Term Rating	Provisional ACUITE A-/ Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned a provisional long-term rating of '**ACUITE A-**' **(read as ACUITE A minus)** on the Rs. 25.00 Cr proposed Non-convertible Debentures (NCD) of K P I Global Infrastructure Limited. The outlook is **'Stable'**.

Surat, Gujarat based KPI Global Infrastructure Limited (KGIL) is part of the KP Group and was incorporated in 2008. It is engaged in the development of solar power plant and captive power plant for other industries as well as in independent power generation (IPP) under the brand name 'Solarism'.

The rating on the Rs. 25 Cr NCD is provisional and the final rating is subject to:

1. Appointment of a SEBI registered debenture trustee
2. Receipt of the executed trust deed
3. Receipt of final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions

Background of KP Group

KP Group was founded by Mr. Faruk G. Patel in 1994 and it started operations as a logistics service provider with owned and hired fleet of vehicles. Later in 2008, the group moved on to the renewable energy sector (solar and wind) and telecom infrastructure development. During the last decade, the company has diversified into fabrication and metal galvanization, renewable energy sector (Solar & Wind) and telecom infrastructure through its group companies.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of KGIL and its wholly owned subsidiaries namely, KPIG Energia Private Limited and Sun Drops Energia Private Limited for arriving at the rating. Acuité has factored in the benefits derived from the Structured Payment Mechanism (SPM) and Debt Service Reserve Account (DSRA) for arriving at the rating of these NCDs. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Experienced team of management and resourceful promoters aided by defined business segments**
  Mr. Faruk G Patel, the founder of the KP Group has extensive experience in the infrastructure sector majorly solar and wind energy space. He is also supported by a competent management team who also has rich experience in similar line of businesses. This has helped the company to build strong relationships with reputed clients, namely Larsen & Toubro Limited, UPL Ltd, among others. The Group has executed more than 100 MW of solar projects under EPC contracts before a foray into the independent power producer (IPP) segment in 2009. KGIL operates in three business segments; first as an Independent Power Producer (IPP) which contributes about 47 percent of the total operating income, wherein the company builds, owns, operates and maintains grid connected solar project with a current capacity of 40 MW and upcoming another 20 MW. The company generates revenue by entering into bilateral agreements with third parties for selling power. The second business segment, i.e. Captive Power Producer (CPP) segment contributes about 44 percent of the total operating income; KGIL undertakes EPC contract of captive solar projects wherein it sets up a solar power plant on the clients' own premises. Lastly, the company also sells land parcels to third parties

which are leased back for foraying into solar power generation for 25 years. The company pays a fixed rental to the landowners as per the lease agreement, generating about 9 percent to the total operating income. The company reported Rs.59 Cr of revenue in FY2020 compared to Rs.31 Cr in FY2017. Acuité believes that the promoter's extensive industry experience and KGIL's established client relationships will support its business risk profile over the medium term.

- **Long-term power purchase agreements with established corporate clients**
  KGIL has entered into long-term power purchase agreements (PPA) with reputed clients namely, Larsen & Toubro Limited, UPL Ltd, Meghmani Organics Ltd, among others for a period of more than 20 years. The tariff charged to these corporates are linked to the existing DISCOM but with a 7 percent discount currently applicable. There is a minimum offtake clause stipulated in the PPAs of 95 percent and whatever energy is not consumed by the companies, the remaining is sold to the DISCOMs at a rate of Rs.2.60-Rs.3.00 per unit.

- **Moderate financial risk profile supported by comfortable debt protection metrics**
  KGIL's financial risk profile is average, marked by moderate net worth, moderate gearing and comfortable debt protection metrics. The tangible net worth stood average at Rs.97.95 Cr as on March 31, 2020 as against Rs.99 Cr in the previous year. The company's leverage has remained high considering the asset heavy business model although it is partly offset by comparatively moderate networth level, reflected through its peak gearing and Total Outside Liabilities to Tangible Net worth (TOL/TNW) level of 1.42 times and 2.05 times as on March 31, 2020. The total debt of the group stood at Rs.138.97 Cr as on March 31, 2020, comprising of 87 percent of long-term loans. Further, the long-term borrowings are expected to move up in FY2021 on account of the on-going capital expenditure for setting up a 20 MW with a project cost of Rs.76 Cr completely funded by a long-term loan from Power Finance Corporation (PFC). While the leverage is expected to increase, however, it is likely to remain in the range of 1.50 to 1.80 times in the near to medium term.

  KGIL has comfortable profitability margins, in the range of 45 to 50 percent over the last three year ended FY2020. The comfortable profitably levels vis-à-vis its debt level has resulted in moderate debt protection metrics. The interest coverage ratio stood (ICR) and debt service coverage ratio (DSCR) stood at 3.47 and 1.59 times, respectively for FY2020. Acuité believes that the financial risk profile of the company will remain moderate despite debt funded capex in the near term. The company is expected to generate healthy cash flows on account of increasing capacity.

- **Improvement in scale of operations and profitability with no significant impact of Covid – 19**
  The revenue and profitability metrices have improved from Rs.31 Cr in FY2018 to Rs.59 Cr in FY2020 on account continuous additions made in the capacity coupled with growing orders from the EPC business. The growth in EPC and IPP income was offset by dip in revenue from the sale of land. The revenue from the sale of power has increased over the years from Rs.11 Cr in FY2018 to Rs.27 Cr in FY2020 and is expected grow further in the near term in accordance with on going capacity additions. This has also led to a sustainable growth in the profitability margins. The company's power generation has remained unaffected in the pandemic period with regular receipt from power bills and it achieved an operating income of Rs.42 Cr for H1FY2021.

Weaknesses

- **Working capital intensive operations characterized by the nature of business model**
  KGIL's working capital operations are intensive reflected from the GCA days of 332 days in FY2020 against 501 days in FY2019 influenced majorly by the inventory holding which includes high stock in progress (WIP) for the EPC business. The inventory days were recorded at 182 days in FY2020 against 231 days in FY2019 on account of WIP build up in the CPP segment in the year end. The debtor's days were recorded at 175 days for FY2020 as against 143 days in FY2019 due to the billing system followed in the IPP and CPP segments. The working capital bank limits of Rs.13 Cr have recorded a high utilization pattern through nine months ending August, 2020. Acuité believes that given the company's nature of business, the operations are expected to remain working capital intensive over the near to medium term.

Rating Sensitivities

1. Timely completion of the on-going capital expenditure without time or cost overrun
2. Expected growth in revenues with sustained improvement in the profitability margins
3. Deterioration in the capital structure leading to negative impact on the liquidity profile

Liquidity: Adequate

The liquidity position of the company stood adequate reflected by the healthy cash accruals of Rs.13.92 Cr in FY2020 against the repayment obligations of Rs.5.83 Cr for the same period. The cash accruals are expected to be in the range of Rs.30 Cr to Rs.40 Cr in the near to medium term against debt obligations ranging from Rs.12 Cr to Rs.18 Cr for the same period. The liquidity position is further expected to improve on account of elongated repayment tenor of 13.5 years with 1-year moratorium for loan of Rs.76 Cr. Further, there is also a DSRA of 2 quarters of principal and interest; pertaining to the on-going 20 MW project. Further, the working capital operations remained intensive, as reflected from the high GCA days at 446 days in FY2020 due to high inventory holding accruing majorly from the CPP business model as work-in-progress on site leading to bank limits utilized inordinately at 95 percent through last 9 months ending August, 2020. The current ratio stood at 1.07 times as on March 31, 2020 coupled with encumbrance free cash and bank balances of Rs.1.35 Cr for the same period. Acuité believes the liquidity position is expected to remain satisfactory over the medium term on account of elongated repayment schedules in term loans within a secured mechanism coupled with adequate net cash accruals against its payment obligations.

Outlook: Stable

Acuité believes KGIL will continue to benefit from its promoter's industry experience and the healthy booking rates witnessed in its ongoing projects. The outlook may be revised to 'Positive' if ongoing projects generate more-than-expected sales realisation leading to larger than expected cash flow along with timely completion of the on-going projects. Conversely, the outlook may be revised to 'Negative' in case of any time or cost overrun in the on-going projects or if there is higher than expected investments in new projects leading to stretch in liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	59.28	34.51
PAT	Rs. Cr.	6.44	8.90
PAT Margin	(%)	10.86	25.80
Total Debt/Tangible Net Worth	Times	1.42	0.40
PBDIT/Interest	Times	3.47	5.46

Status of non-cooperation with previous CRA

CRISIL, vide its press release dated March 19, 2019, has denoted the rating of K P I Global Infrastructure Limited as 'CRISIL BB+/Stable/A4+; WITHDRAWN, ISSUER NOT COOPERATING' on account of lack of adequate information required to monitor the ratings.

Any other information

Not Applicable

Any Material Covenants

1. DSCR > 1.10 x
2. Borrower/Promoter shall not withdraw surplus funds from TRA during moratorium period and till perfection of securities (including creation of DSRA) for all three projects (i.e. 60 MW funded by PFC)
3. To maintain promoter's fund of Rs.91 Cr (including free reserves and unsecured loan od Rs.2.56 Cr) in the company and erosion shall be funded by the promoter

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.htm
- Consolidation of Companies - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)
Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Non-convertible Debentures (NCD)	Not Applicable	Not Applicable	Not Applicable	25.00	Provisional ACUITE A-/Stable (Assigned)

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About Acuité Ratings & Research:
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