Press Release

K P I Global Infrastructure Limited

October 13, 2021

Rating Withdrawn

Total Facilities Rated	Rs. 25.00 Cr
Long Term Rating	Provisional ACUITE A- (Withdrawn)

** Refer Annexure for details*

Rating Rationale

Acuité has withdrawn the long-term rating of **'Provisional ACUITE A- '(read as Provisional ACUITE A minus)** to the Rs. 25.00 Cr proposed non-convertible debentures of K P I Global Infrastructure Limited. The rating is being withdrawn on account of request received from the client as per Acuité's policy on withdrawal of ratings

Surat, Gujarat based KPI Global Infrastructure Limited (KGIL) was incorporated in 2008 and is engaged in the developing of captive solar power plant for other industries, and also function as an independent power producer (IPP) under the brand name 'Solarism'.

Background of KP Group

KP Group was founded by Mr. Faruk G. Patel in 1994 and it started the operations as a logistics service provider with owned & hired feet 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 galvanizing, 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 had 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 of more than two decades 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 its foray into the independent power producer (IPP) segment in 2009. KPIGIL 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' premises and also by leasing KPIGIL's premises for monthly rentals. 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 has reported Rs. 103 Cr of revenue in FY2021 compared to Rs. 59 Cr in FY2020. 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**

KGIL has a complete tie up for its 60 MW Independent Power Producing (IPP) projects through long-term power purchase agreements (PPA) with reputed corporate clients namely, Larsen & Toubro Limited, UPL Ltd, Meghmani Organics Ltd amongst others for a period of more than 20 years. The units charged to these corporates are linked to the existing DISCOM tariff rates with a 7 percent discount on the same. 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. This further assures low off-take risk and provides long-term revenue visibility.

- **Moderate financial risk profile supported by above average debt protection indicators**
  KGIL's financial risk profile is moderate, marked by average net worth, moderate gearing and comfortable debt protection metrics. The tangible net worth stood average at Rs. 120 Cr as on March 31, 2021 as against Rs. 97 Cr in the previous year. The company's leverage has remained high considering the asset heavy business model. The leverage capital structure reflected through its peak gearing and Total Outside Liabilities to Tangible Net worth (TOL/TNW) level of 2.01 times and 2.42 times as on March 31, 2021, respectively. The total debt of the group stood at Rs. 240 Cr as on March 31, 2021, comprising of 87 percent of long-term loans. Further, the long-term borrowings increased in FY2021 on account of the planned 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 position is expected to moderate over the medium term, the gearing levels are likely to remain in the range of 1.50 to 1.80 times in the near to medium term. KPIGIL has reported comfortable profitability margins, in the range of 45 to 55 percent over the last three year ended FY2021. The comfortable profitably levels vis-à-vis its debt level has resulted in above average debt protection metrics. The interest coverage ratio stood (ICR) and debt service coverage ratio (DSCR) stood at 3.63 and 1.50 times, respectively for FY2021. Acuité believes that the financial risk profile of the company will remain moderate given the asset heavy nature of business model and debt funded capex in the near term.

- **Continued improvement and healthy growth trajectory in operations**
  The revenue and profitability metrices have reported continued improvement from Rs. 31 Cr in FY2018 to Rs. 103 Cr in FY2021 on account of growing orders from the EPC business coupled with continuous additions in the IPP segment with long term PPAs. 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. 8 Cr in FY2018 to Rs. 48 Cr in FY2021 and is expected grow further in the near term in accordance with ongoing capacity additions. This has also led to a sustainable growth in the profitability margins. Further, the company's EPC segment has also projected healthy revenue growth from Rs. 4 Cr in FY2018 to Rs. 49 Cr in FY2021. The EPC segment has also helped in the growth of margins through O&M services and income from leased out premises. 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. 100 Cr for H1FY2022. Acuité believes that the company's operations are expected to improve over the near to medium term owing to healthy orderbook size in EPC segment and regular receipt of funds from IPP segment.

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 419 days as on March 31, 2021 against 332 days as on March 31, 2020 influenced majorly by the inventory holding which includes high stock in progress (WIP) for the EPC business. The inventory days were recorded at 270 days in FY2021 against 182 days in FY2020 on account of WIP build up in the CPP segment in the year end. The debtor's days were recorded at 176 days for FY2021 as against 175 days in FY2020 due to the billing system followed in the IPP and CPP segments. The working capital bank limits of Rs.13 Cr have recorded a rather judicious utilization pattern at 66 percent through eleven months ending July, 2021. 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
- Expected growth in the operations with sustained improvement in the profitability margins
- Deterioration in the capital structure leading to negative impact on the liquidity profile
- Any stretch in working capital operations leading to liquidity constraints

Liquidity: Adequate

The liquidity position of the company stood adequate reflected by the healthy cash accruals of Rs. 34 Cr in FY2021 against the repayment obligations of Rs. 17 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.30 Cr to Rs. 40 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. However, the working capital operations remained intensive, as reflected from the high GCA days at 419 days in FY2021 due to high inventory holding accruing majorly from the EPC business model as work-in-progress on site leading to bank limits utilized inordinately at 65 percent through last 11 months ending July, 2021. The current ratio stood at 2.47 times as on March 31, 2021 coupled with encumbrance free cash and bank balances of Rs. 6.08 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: Not Applicable

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	103.50	59.28
PAT	Rs. Cr.	21.92	6.44
PAT Margin	(%)	21.18	10.86
Total Debt/Tangible Net Worth	Times	2.01	1.42
PBDIT/Interest	Times	3.63	3.47

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

- Maintenance of DSRA with lenders from project cash flows
- 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)

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)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
03-Dec-2020	Proposed NCD	Long Term	25.00	*Provisional* ACUITE A-/Stable (Assigned)

***Annexure – Details of instruments rated**

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

Contacts

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About Acuité Ratings & Research:
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