KPI/BSE-MAT/JAN/2021/134

Date: January 16, 2021

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001

Ref: Scrip Code: 542323

Sub: Intimation of assignment of rating from ICRA for the Total facilities of Rs. 10 Crores (Rs. Ten Crore only)

Ref: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

With reference to the captioned subject and pursuant to Regulation 30 of SEBI (Listing Obligation and Disclosure Requirement) Regulations, 2015, we are pleased to inform you that ICRA has assigned rating of **[ICRA] BBB+ (Stable) / A2 (Triple B Plus; Outlook: Stable/ A Two)** for total long Term / short term Cash Credit facilities of Rs. 10 Crores (Rupees Ten Crores only) availed by the Company. The press release for the same, dated January 14, 2021 issued by ICRA Ratings is annexed herewith.

Request you to please take the same on your record.

Thanking you,

Yours faithfully,

For K.P.I. Global Infrastructure Limited

K.P.I. GLOBAL INFRASTRUCTURE LIMITED SURAT

Farukbhai Gulambhai Patel
Chairman & Managing Director
DIN: 00414045

Encl.: a/a

January 14, 2021

K.P.I. Global Infrastructure Ltd.: [ICRA]BBB+ (Stable)/A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	10.00	[ICRA]BBB+ (Stable); Assigned
Bank Guarantee^	(2.00)	[ICRA]A2; Assigned
Total	**10.00**	

**Instrument details are provided in Annexure-1; ^ is a sublimit of cash credit*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the financials of K.P.I. Global Infrastructure Ltd. (KPIGIL) and its wholly owned subsidiary, KPIG Energia Private Limited (KPIGEPL) (referred to as the 'Group'). The assigned ratings factor in the extensive experience of the key promoter in the renewable energy sector and allied construction activities, which has resulted in healthy growth in the revenue along with healthy profitability over the years. 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. Furthermore, the ratings derive comfort from the presence of a debt service reserve account (DSRA) under the trust and retention account (TRA) along with 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 leveraged capital structure, and high working capital intensity resulting from KPIGIL's engineering, procurement and construction (EPC) business for captive power plants (CPP). The ratings are also constrained by the risks pertaining to the termination of PPAs by the existing clients, given the weak exit clause of the PPAs. Further, the cash flows from the IPP segment are susceptible to climatic conditions, and tariff realisation, which remains exposed to the grid tariff rates and the open access/transmission charges. ICRA also notes the risks associated with the implementation and stabilisation of the ongoing debt funded expansion project of 20 MW capacity at KPIGIL and 12 MW under KPIGEPL.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of its promoter in the renewable energy sector.

Key rating drivers and their description

Credit strengths

Extensive experience of the key promoter in the 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.

Presence of 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 - KPIGIL's revenue grew at a healthy CAGR of ~21% over FY2016-FY2020 on account of steady capacity additions, with the operating profit margins staying healthy in the range of ~44-68% over the period. The tariff rates as per the PPA are linked to the prevailing discom rates. Moreover, the absence of cross subsidy charge on solar energy generation from the project results in high net realisations and, strong project profitability and return metrics. The DSCR is also expected to remain comfortable at above 1.30 times (consolidated) over the medium term.

Presence of DSRA under TRA - The receivables from the IPP segment will be routed through the trust and retention account and a debt service reserve account (DSRA) equivalent to two quarters of debt servicing obligations (interest + principal), which will be 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 2.08 times and TD/OPBDITA of 5.02 times as on March 31, 2021, owing to the ongoing debt-funded capacity addition of 20 MW capacity being done at KPIGIL and 12 MW under KPIGEPL for the IPP business segment. Also, the Group is exposed to the risks associated with the implementation and stabilisation of these projects.

KPIGIL's working capital intensity remains high due to high inventory and debtor levels in the EPC projects. Its NWC/OI stood at ~100% in in FY2019 and FY2020. The working capital intensity generally remains high for the months of September and March due to high sales/billing concentration of EPC segment in 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 PPAs. The PPAs can be terminated by either party after giving a notice of six months/one year.

Susceptibility of IPP cash flows to other factors - The IPP segment cash flows are susceptible to climatic conditions, and tariff realisation—which remains exposed to the grid tariff rates and the open access/transmission charges. Further, the competition from other players could also result in lower per unit realisations going forward, impacting the revenue and profitability.

Liquidity position: Adequate

The Group's liquidity is supported by the presence of DSRA under the TRA along with a specified withdrawal/waterfall mechanism as defined in the TRA agreement for the debt taken for the IPP segment. Also, the Group is expected to generate sufficient annual cash accruals over FY2021-FY2024 against debt repayments with projected DSCR of greater than 1.30 times over the medium term. Notwithstanding this, KPIGIL's working capital limit utilisation (utilised for EPC/CPP segment) stood high at ~87% against the sanctioned limit from September 2019 to November 2020.

Rating sensitivities

Positive Triggers

- Satisfactory generation track record in line with P90 PLF estimates on a sustained basis and significant scale-up of operations while maintaining healthy profitability
- Improvement in working capital cycle and liquidity

Negative Triggers

- Any significant delay in the commissioning of the new IPP capacities, lower than expected ramp up of scale or operating profitability, leading to a deterioration in key credit metrics

- Stretch in working capital cycle adversely affecting liquidity
- Any further large debt funded capex that deteriorates the capital structure and coverage indicators

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Solar Power Producers] [Consolidation and Rating Approach]
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of KPIGIL and its wholly owned subsidiary, KPIGEPL.

About the company

Incorporated on February 01, 2008, K.P.I. Global Infrastructure Ltd. (KPIGIL) 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 Sudi, Samiyala & Tanchha villages in Bharuch, Gujarat. Currently, the company has an installed capacity of supplying 40 MW of solar power under the IPP segment and has executed ~8.45 MW of EPC/CPP projects since its inception. The company is listed on the Small and Medium Enterprise (SME) platform of Bombay Stock Exchange (BSE), India.

The Group is currently building a solar power plant of 20 MW under KPIGIL, which is expected to be operational at full capacity by the end of January 2021 and 12 MW under its wholly owned subsidiary, KPIGEPL, which is expected to be fully operational by the end of June 2021. Apart from these, the Group also plans to build an 8 MW solar power plant at its wholly owned subsidiary, Sun Drops Energia Private Limited (SDEPL). These plants will also be located at Bharuch, Gujarat.

The key promoter, Mr. Faruk Patel, is also the founder of K.P. Energy Ltd. (involved in wind energy related projects) and KP Buildcon Private Limited (involved in fabrication and solar projects).

Key financial indicators

	Standalone		
	FY2019	FY2020	H1 FY2021
Operating Income (Rs. crore)	34.51	59.28	41.64
PAT (Rs. crore)	8.90	6.56	4.62
OPBDIT/ OI (%)	44.38%	45.75%	50.53%
PAT/OI (%)	25.79%	11.07%	11.08%
Total Outside Liabilities/Tangible Net Worth (times)	0.63	2.04	2.08
Total Debt/ OPBDITA (times)	2.61	5.12	2.74
Interest Coverage (times)	3.95	3.46	2.82

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					14-Jan-2021	NA	NA	NA
1	Cash Credit	Long Term	10.00	-	[ICRA]BBB+ (Stable)	NA	NA	NA
2	Bank Guarantee^	Short Term	(2.00)	-	[ICRA]A2	NA	NA	NA

^ is a sublimit of cash credit

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	10.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	(2.00)	[ICRA]A2

Source: KPIGIL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
KPIG Energia Private Limited	100%	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.

For more information, visit www.icra.in

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