

CRISIL Research assigns SME fundamental grade 'SME 3/5' to K.P. Energy Ltd

CRISIL Research has assigned CRISIL SME fundamental grade '3/5' (pronounced 'SME three on five') to K.P. Energy Ltd (KPEL). The grade indicates that the fundamentals of the company are **'good'** relative to other SMEs in India. However, it is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. Nor is it a recommendation to buy/ sell/ hold the securities it relates to (or any other securities). It does not comment on the issue price, future market price or suitability for a particular investor.

The assigned grade reflects KPEL's ability to provide a wide range of services to the wind energy sector, such as EPC (engineering, procurement and construction) and O&M (operations and maintenance) for balance of plant (excluding wind turbine and components) aspects of a wind project. Further, it acquires land for setting up wind mills (wind sites) and related infrastructure (for power evacuation), which constitutes its inventory. The company has so far acquired 123 such wind sites – representing a wind generation potential aggregating 258.3 MW – in Gujarat, which is a key strength. While it has a short operating history of four years, KPEL has ramped up its operations significantly in the last 18 months. It has provided services to wind power projects totalling 33.6 MW, representing ~10% of total wind power installations in Gujarat during this period. Also, the company has been able to establish a healthy working relationship with Suzlon Energy Ltd (a leading wind turbine manufacturer), which has helped it garner a healthy order book over the past two years. Its current order book stands at ₹360 mn (as of November 2015), which is 1.4x its FY15 revenues.

The wind energy sector in India is expected to grow at a healthy rate, aided by several benefits announced by central and state governments. Given its inventory of wind sites and track record of project execution, KPEL is likely to be a key beneficiary of this.

The grade, however, is constrained by concentration risks the company faces, given that it generates all its revenue in Gujarat. Also, KPEL faces competition from several EPC players, including Veer Energy and Infrastructure, Intech Energy Systems, Weizmann Energy and Maruti Wind Power, besides the EPC arms of wind turbine generator manufacturers such as Inox Wind, Gamesha and Suzlon. The company plans to enter power generation segment by setting up wind generation assets of 2.1 MW – expected to be part-funded by IPO proceeds. This exposes it to several operational risks (such as seasonal wind volatility) and financial risks (given the capital-intensive nature of the business).

KPEL's revenue grew to ₹269 mn in FY15 from ₹94 mn in FY14 as it commissioned wind farm-related infrastructure in Ratadi, Gujarat. EBITDA margin has been volatile over the past five years as it was on an expansion spree and the nature of EPC contracts undertaken was different each year. In FY15, when the company commissioned its first wind farm project, EBITDA margin was 17.8%. In line with a sharp rise in EBITDA, PAT jumped to ₹29 mn in FY15 from ₹3 mn in FY14.

About the company and the issue

KPEL, incorporated in 2010 and headquartered in Surat, provides services to the wind energy sector. Its activities include identifying wind sites, acquiring land and permits, EPC services for setting up wind project infrastructure – including power transmission and O&M services for the entire balance of plant aspects of a wind farm – during the life of the project post commissioning.

The proposed IPO is in the form of a fresh issue (book building) of 0.92 mn equity shares. The company plans to spend most of it towards funding its capital requirements to set up a 2.1 MW wind power project in Matalpur, Gujarat.

About CRISIL SME Fundamental Grading

CRISIL SME Fundamental Grading is an opinion on the fundamentals of the graded issue. This opinion is expressed as a relative assessment in relation to other SMEs in India. A CRISIL SME Fundamental Grade 5/5 indicates excellent fundamentals and a CRISIL SME Fundamental Grade 1/5 indicates poor fundamentals. CRISIL SME Fundamental Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL SME Fundamental Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.