

Fundamental Analysis of KPI Green Energy – Profitability & Sustainability

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Fundamental Analysis of KPI Green Energy: Renewable energy giants such as Adani Green and Suzlon have been in the news over the past three years. The Centre is providing all the catalysts needed for the renewable power revolution in India.

You would be surprised to know that smaller companies are not behind in the race. Many small cap stocks have given multi-bagger returns to their investors. In this article, we'll conduct a fundamental analysis of KPI Green Energy, one such small cap renewable energy stock.

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Fundamental Analysis of KPI Green Energy



KPI Green Energy Limited

(Formerly known as K.P.I. Global Infrastructure Limited)

We'll begin our study by learning about the business and scale of operations of the company. Next, we'll brief ourselves on the industry landscape followed by a quick read of the financials of the stock. A highlight of the future plans and a summary conclude the article at the end.

Company Overview

KPI Green Energy (previously known as KPI Global Infrastructure) is a small-cap solar power generation company with a market capitalisation of Rs 3,060 crore. It was established in 2008 and has evolved into a prominent renewable power developer in Gujarat.

It has a cumulative capacity of over 312 MW with a cumulative power evacuation capacity of 846MW. The company has a large bank of owned and leased land totalling more than 1,374 acres.

Its solar plants on owned and leased land allow it to function as an independent power producer (IIP) as well as a captive power producer (CPP) for other companies. Its 'Solarism' brand is a well-respect name in the region.

Furthermore, it also executes hybrid power projects of solar and wind power for its CPP clients as per their requirements.

Talking about the share of revenue from different sources, the captive power producer (CPP) segment accounted for 85% of the total income of KPI Green Energy in FY23. The rest 15% came from its IIP division.

The promoter group holds a majority of 54.81% shareholding in KPI Green Energy. The public shareholding is also significant at 41.66% with the balance 3.48% in the hands of FI. DII shareholding is negligible at 0.06%.

We got a good understanding of the business of the company for our fundamental analysis of KPI Green Energy. Let us move forward to learn about the renewable energy landscape in India.

Industry Overview

India is one of the leading countries in the world when it comes to renewable energy generation. It ranks 4th in renewable power installed capacity, 4th in wind energy capacity and 4th in solar power generation capacity.

As per the annual report from the Ministry of New & Renewable Energy, the Government of India, the total installed capacity of solar power stood at 63.30 GW at the end of FY23 with 51.13 GW under execution. The total installed green capacity stood at 167.5 GW at the end of the 2022 calendar year with 78.75 GW under implementation.

According to some estimates, the total population of the nation is set to reach 1.51 billion by 2030. Thus, the government is actively pushing for green energy initiatives to reduce carbon emissions and dependency on fossil fuels to meet energy demand in future.

Along these lines, the Centre has provided an ambitious target of 500 GW of green energy capacity by 2030. The objective is to fulfill close to 50% of energy needs from clean energy sources.

Overall, the solar power generation industry in India is expected to benefit from rising demand for energy, gradual change in climate, government initiatives, high foreign investment inflow, and more.

Thus we can say that solar power developer is well-placed in a rapidly growing market. Let us now move forward to study the financials of the stock for our fundamental analysis of KPI Green Energy.

KPI Green Energy – Financials

Revenue and Net Profit Growth

The operating revenue and net profit of the renewable energy company grew at a whopping CAGR of 108% and 87% in the previous five years to Rs 644 crore and Rs 110 in FY23 respectively on account of low base and fast growth both. The company executed multiple projects during the period.

The figures below highlight the growth in operating revenue and net profit of KPI Green Energy over the past five financial years.

Fiscal Year	Operating Revenue	Net Profit
2023	644	110
2022	230	43
2021	104	14
2020	59	6
2019	35	9
5-Yr CAGR	108%	87%

(figures in Rs Cr except for CAGR)

Profit Margins

Talking about the margins, they remained volatile during the period due to low base and exceptional items. Overall, the company reported a high operating profit margin and net profit margin of 29.4% and 17.0% in FY23 respectively.

The table below presents the operating profit margin and net profit margin of KPI Green Energy over the previous five fiscals.

Fiscal Year	Operating Margin	Net Profit Margin
2023	29.4	17.0
2022	41.9	18.8
2021	44.8	21.2
2020	33.4	10.9
2019	31.7	25.8

(figures in %)

Return Ratios

Returning on to studying the profitability of the company, KPI Green ranks low on the return on capital employed (RoCE) front signalling the low return on investment of the solar energy business. However, the company makes use of debt to generate a higher return on equity. Its RoE and RoCE stood at 21.3% and 10.7% in FY23 respectively.

The table below highlights the return ratios: RoCE and RoE of KPI Green Energy over the past few years.

Fiscal Year	RoE	RoCE
2023	21.3	10.7
2022	28.1	16.2
2021	18.3	13.1
2020	6.6	9.0
2019	9.0	7.7

(figures in %)

Debt Analysis

Debt is an important component of KPI Green's balance sheet as it has a debt/equity ratio of 2. Furthermore, its interest coverage ratio was slightly low at 4.5 times in FY23. However, as a utility company with power purchase agreements, KPI's downside is protected to a large extent.

The table below shows the rise in the debt/equity ratio and interest coverage ratio of KPI Green Energy over the last five years.

Fiscal Year	Debt / Equity	Interest Coverage
2023	2.0	4.5
2022	2.2	3.0
2021	1.9	8.9
2020	1.2	2.5
2019	0.3	2.8

Future Plans of KPI Green Energy

So far we looked at the previous fiscals' data for our fundamental analysis of KPI Green Energy. In this article, let us try to get some sense of what lies ahead for the company and its investors.

- At the end of FY23, KPI had 42+ power purchase agreements on a consolidated basis providing strong revenue visibility to the company.
- Furthermore, it has more than 116 orders for IPP and CPP projects, out of which 74+ are for CPP further strengthening the future income prospects.
- The management has given a target of a cumulative portfolio of 1000 MW by 2025, in line with the Central government's audacious target of 500 GW of green energy target by 2030.
- In addition to this, the company will be making use of robots for waterless and more efficient cleaning of solar panels, thereby increasing efficiency.
- The solar power developer is using high technology M10 or M12 cells for larger capacity solar panels to improve the levelized cost of energy (LCoE).

Key Metrics

We are almost at the end of our fundamental analysis of KPI Green Energy. Let us take a quick look at the key metrics of the stock.

Particulars	Amount	Particulars	Amount
CMP	₹835	Market Cap (Cr.)	₹2,938
EPS	₹30	Stock P/E	26
RoE	21%	RoCE	11%
Promoter Holding	55%	Book Value	₹71
Debt to Equity	2.0	Price to Book Value	11.80
Net Profit Margin	17.0%	Operating Margin	29.4%

Conclusion

As we conclude our fundamental analysis of KPI Green Energy, we can say that the company handsomely reward its investors with growth in its P&L figures.

Its stock generated a return of close to 225% over the past five years. Going forward, investors should closely track the execution of more power projects which can act as a trigger for the stock price.

In your opinion, will KPI Green be able to generate such similar sales growth in the coming quarters? What are your opinions of the solar power development company? How about we continue this conversation in the comments below?