

Energy Development Company Limited

August 04, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	4.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	7.00	CARE A4 (A Four)	Reaffirmed
Total Facilities	11.00 (Rs. Eleven Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Energy Development Company Limited continue to be constrained by volatility in revenue streams, weak financial performance in FY21, moderate debt coverage indicators, working capital intensive nature of operations and significant exposure to group entities. The ratings, however, derive strength from experience of the company in power generation, diversified revenue stream albeit growing reliance on generation division, comfortable capital structure and presence of long term power purchase agreements.

Key Rating Sensitivities

Positive Factors:

- Stable power generation in the power plants and realizing the dues timely.
- Ability of the company to execute orders in contracts division in timely manner and timely realization of payments from contracts division
- Substantial reduction in Group exposure

Negative Factors:

- Further substantial increase in exposure to group companies
- Any inordinate delays in receipt of payments from counter-parties

Detailed description of the key rating drivers

Key Rating Weaknesses

Variability in revenue streams

EDCL faces variability in hydro and wind power generation as the same is subject to vagaries of nature. The units generated from Hydro & Wind power improved to 32.82 million units in FY21 compared to 28.93 million units in FY20. In FY21, the revenue from the contract division declined by 63% to Rs.0.69 crore from Rs.1.87 crore in FY20 on account of slowing down of construction activities due to outbreak of COVID pandemic. Further, going ahead, revenue from contract division is expected to be muted since the company has not bid for any new projects currently and focused on executing projects in hand.

Weak financial performance albeit improvement in FY21

The total operating income witnessed y-o-y improvement of 6% from Rs.10.77 crore in FY20 to Rs.11.37 crore in FY21 on account of increase in units generated from 28.93 mn units in FY20 to 32.82 mn units in FY21 along with increase in average tariff from Rs.3.08/unit in FY20 to Rs.3.25/unit in FY21. The improvement in units generated was on account of good monsoon season as compared to previous year. The company reported operating profit (PBILDT) of Rs.1.01 crore in FY21 vis-à-vis operating loss of Rs.1.85 crore in FY20. The company incurred net loss of Rs.0.50 crore in FY21 vis-à-vis net loss of Rs.3.01 crore in FY20. During FY21, the company earned cash profit (GCA) of Rs.2.24 crore vis-à-vis nil debt repayment obligation.

Elongated working capital cycle albeit improvement in FY21

The operating cycle of the company is elongated however improved in FY21 to 685 days vis-à-vis 851 days in FY20 on account of decline in average collection period from 1174 days in FY20 to 1122 days in FY21. The receivables beyond 180 days stood at Rs.34 cr as on March 31, 2021 which constitutes 95% of the total receivables of Rs.35.80 crore. Majority of receivables outstanding for more than 6 months pertain to projects in construction sector which were executed in the last few years. Generally, the retention money is held for one to one and half years.

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Significant exposure to group entities

EDCL's exposure to its subsidiary companies by way of investments and loans & advances increased from Rs.108.97 crore as on March 31, 2020 to Rs. 114.39 cr as on March 31, 2021 accounting for 71% of its tangible net worth as on that date. Majority of the investment was in Ayyappa Hydro Power Ltd (AHPL) which has completed a 15 MW Hydropower project in Kerala in May, 2017.

Other than the fund based exposure, EDCL has provided corporate guarantee of Rs.95 crore for term loan availed by Ayappa for setting up the project; the outstanding of which being Rs.81.98 crore as on March 31, 2021. Moratorium has been availed on IREDA's term loan instalment under Covid-19 as per RBI guidelines for March 2020 to August 2020.

EDCL had entered into an agreement with Essel Infraprojects Ltd (EIL) for divesting 76% of its stake in its subsidiaries setting up projects in Uttarakhand and Arunachal Pradesh. EIL was supposed to invest in these 15 Hydro power projects earlier held by EDCL through its various subsidiaries. The project has been kept on hold.

Key Rating Strengths**Experience of the company in power generation business**

EDCL is engaged in the power generation from renewable sources (hydro and wind) as well as execution of construction contracts since 1996. The company has experienced management personnel on its board and has demonstrated a track record in operating hydel power plants. In the absence of the chairman of the company, Shri Amar Singh who passed away on August 01, 2020 due to prolonged illness, Mrs. Pankaja Singh Kumari, wife of Mr. Singh has become actively involved with the day to day affairs of the company along with Mr. Vinod Kumar Sharma, an Executive Director of the company.

Revenue concentration

The company primarily operates in 2 business segments- Engineering (Construction) and power Generation segment. It is currently operating 15MW of hydro power plants and 3MW of wind power plants. The engineering or the construction sector includes construction of bridges, roads, power plants, operation & maintenance of power plants etc. and providing consultancy services. However, the company has not bid for new contracts in Engineering/Construction sector in recent past. The breakup of revenues from the various segments was 94% in FY21 (83% in FY20) from power division and 6% in FY21 (17% in FY20) from contract division.

Presence of long term power purchase agreements with state utilities

EDCL has in place long-term power purchase agreements (PPAs) with the state utilities for the hydro and wind power generation capacity which ensures steady revenue from sale of power. During FY21, EDCL entered into PPA with CESIPL for supply of electricity at a rate of Rs.3.95 per unit for 9 MW. The Agreement with CESIPL came into effect from Apr 01, 2021 and shall be valid unless mutually terminated with a minimum lock-in term of 12 months from Apr 01, 2021.

Comfortable capital structure; albeit moderate debt coverage indicators

Debt-equity ratio moderated slightly and stood at 0.13x as on March 31, 2021 (0.11x as on March 31, 2020) due to marginal increase in unsecured loan and decrease in net worth due to loss incurred in FY21. The overall gearing ratio stood at 0.13x as on March 31, 2021. However, on adjustment in networth with respect to long pending receivables which are outstanding for more than 180 days, the adjusted overall gearing ratio stood at 0.17x as on March 31, 2021 against 0.14x as on March 31, 2020. In spite of capital structure continuing to remain comfortable, the debt coverage indicators are weak due to negative cash accruals.

Liquidity – Stretched

The liquidity profile is weak with low cash balance and stuck debtors. However, the company does not have any term loan obligations and liquidity is supported through unsecured loans from related parties. The company reported cash accruals of Rs. 2.24 cr in FY21 vis-à-vis nil debt repayment obligation in FY21. Average fund based utilization for 11 months ended Feb 28, 2021 remained comfortable at ~34%.

Analytical approach: Standalone**Applicable criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Power Generation Project](#)

[Rating Methodology: Wind Power Projects](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology- Short term instruments](#)

[Liquidity Analysis of Non- financial sector entities](#)

About the Company

Energy Development Company Limited (EDCL), incorporated in 1995, is engaged in power generation from renewable sources (hydro and wind), contract management in the construction sector (construction of bridges, roads, power plants, operation & maintenance of power plants etc.) and providing consultancy services in setting up hydro power plants (engineering, designing, project management services, etc). It is currently operating 15MW of hydro power plant in Harangi, Karnataka and 3MW of wind power plant in Hassan and Chitradurga, Karnataka.

Further, the company has operational hydro power capacity in Kerala of 15 MW and 7 MW in its subsidiaries Ayyappa Hydro Power Ltd (AHPL) and EDCL Power Projects Ltd (EPPL) respectively. EDCL is promoted by Late Shri Amar Singh, who was actively involved in the management of the company. After the demise of Shri Amar Singh on August 02, 2020, Mr. Vinod Kumar Sharma, Executive Director in the company, who looks after the day to day affairs, has been joined by Mrs. Pankaja Kumari Singh, wife of Mr. Amar Singh.

Brief Financials- Standalone (Rs. crore)	FY20 (A)	FY21 (Abridged)
Total operating income	10.77	11.37
PBILDT	-1.85	1.01
PAT	-3.01	-0.50
Overall gearing (times)	0.11	0.13
Interest coverage (times)	-0.84	0.42

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

Rating History (Last three years): Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE B+; Stable
Non-fund-based - ST-BG/LC	-	-	-	7.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	4.00	CARE B+; Stable	-	1)CARE B+; Stable (22-Sep-20)	1)CARE B+; Stable (05-Jul-19)	1)CARE B+; Stable (04-Feb-19)
2.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A4	-	1)CARE A4 (22-Sep-20)	1)CARE A4 (05-Jul-19)	1)CARE A4 (04-Feb-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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