Industrial Energy Limited

April 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	587.96 (Reduced from 686.91)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**587.96** **(Rs. Five Hundred Eighty-Seven Crore and Ninety-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the long term bank facilities of Industrial Energy Limited (IEL) continues to factor in the majority ownership by The Tata Power Company Ltd (TPCL; rated 'CARE AA; Stable'; holds 74% equity stake in IEL), strategic importance of IEL's power plants to Tata Steel Ltd. (TSL; rated 'CARE AA/CARE AA-; Negative'; holds 26% equity in IEL); IEL being conversion agent of TSL (converting coal & gas supplied by TSL into power), PPA/tolling agreement in place for its entire operating capacity of about 442.5.MW as on March 31, 2021 (excluding assets acquired from TSL which includes 120 MW under construction, 40MW operational capacity and including 67.5MW capacity which is operating boiler only) leading to stable operating cash flows.

The ratings also positively factor in the low conversion prices and uninterrupted supply of power from the conversion to TSL, pass-through nature of fuel cost and 'take or pay' nature of arrangement mitigate the off-take risk, stable operational performance of power plants during FY20 & 9MFY21, strong financial risk profile and comfortable debt coverage indicators.

The rating strengths are partially tempered by presence of single counter party exposing to counter party risk and project execution risk. The credit profile of IEL is closely linked to the credit profiles of its promoters and sole off taker.

Rating Sensitivities

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Change in the credit rating of the sole off-taker i.e. Tata Steel Limited
- Inability to maintain normative PLF as per PPA/tolling agreements
- Any new significant debt funded capex/acquisition impacting the capital structure and repayment ability resulting in overall gearing and total debt to gross cash accruals (GCA) of more than 1.5x and 6x respectively

Detailed description of the key rating drivers

Strong promoters and experienced management providing strong operational, managerial and financial support to IEL

IEL is a joint venture company formed by Tata Power Company Limited (TPCL, rated CARE AA; Stable) and Tata Steel Limited *(TSL; rated 'CARE AA/CARE AA-; Negative')*. As on December 31, 2020, TPCL holds 74% equity stake and TSL holds 26% equity stake in IEL. IEL benefits from the technical, managerial and financial support it gets from the promoters with demonstrated track record of efficient operations. Tata Sons Ltd. is the largest shareholder of both TPCL and TSL. As at December 31, 2020 Tata Sons Ltd. held 45.21% in TPCL and 32.93% stake in TSL. By virtue of being part of the Tata Group, the company enjoys significant level of financial flexibility and access of capital market.

Power Purchase Agreement (PPA)/Tolling agreement in place for the entire operational capacity

IEL has PPA/tolling agreement for its entire operational capacity of 442.5 MW (including 67.5MW capacity which is operating boiler only) along with recently acquired under construction 120 MW capacity and 40 MW operational capacity from TSL. Under this agreement TSL supplies coal and waste gas free of cost to Industrial Energy Limited. Industrial Energy Limited acts as a conversion agent and supplies power to TSL. TSL pays conversion cost plus ROE to IEL.

Pass-through nature of fuel cost and 'take or pay' nature of arrangement mitigates off-take risk and provide stable and low risk cash flows

IEL has entered into PPA/tolling agreement with TSL for its existing plants that are in the nature of 'take or pay'. The favorable terms of the PPAs/tolling agreement, including pass-through of fuel cost, mitigate the off-take and fuel cost risk for the IEL and ensure generation of stable cash flow from operation to meet debt obligation.

Healthy operational performance of power plants during FY20 & 9MFY21

The plants of the company have been operating satisfactorily and meeting all the normative parameters as envisaged in the PPA/tolling agreements. The company has hence been able to recover all its costs from TSL.

Strong financial risk profile and coverage indicators

The overall gearing improved from 0.88x as on March 31, 2019 to 0.82x as on March 31, 2020 on account of repayment of debt as well as increase in net-worth. Further PBILDT interest coverage ratio also improved from 3.51x in FY19 to 3.69x in FY20. The debt levels are expected to increase post FY23 due to addition of incremental debt for the recently acquired assets as well as proposed acquisitions.

Key Rating Weaknesses

Close linkages with credit profile of promoters and exposure to counter party risk

IEL is promoted by TPCL and TSL (holding 74% and 26% respectively). IEL's credit profile is closely linked to the credit profile of its promoters and the sole off taker of power. The routine operation and maintenance (O&M) of the plants of the company is undertaken by the personnel of the company who were earlier a part of TPCL. Having an in-house team with extensive experience in managing the plants helps saving of cost without compromising on the quality. Further, the company supplies power only to TSL, exposing it to the credit profile of TSL.

Project risk for execution of CPP#2 (120 MW waste gas based) at- Kalinganagar, Odisha

During October, 2019, IEL has acquired of 120 MW Gas-based power plant (CPP#2) and 40 MW Diesel generating station (DGS) at Kalinganagar from TSL. CPP#2 is under construction and is expected to be operational by FY2025, while 40 MW DGS is already operational. IEL has already signed tolling agreements with TSL for supply of power for a period of 30 years from the commencement date of CPP#2 and 15 years from the date of purchase of DGS. Timely completion of CPP#2 power plant by FY25 will remain key monitorable.

Liquidity analysis: Strong

The company operates captive power plant and has only one customer TSL which remits payment in 30-35 days on average. IEL had cash and liquid investments of Rs. 63.93 crore as on March 31, 2020 and Rs.158.50 crore as on December 31, 2020. The available liquidity and expected gross cash accruals of Rs. 173.44 crore for FY21 is expected to remain sufficient to meet debt repayment obligations of Rs. 140.00 crore in FY21. Also, the promoters of the company have infused funds as and when required to meet debt repayment obligations/funding for projects. IEL, being part of the Tata Group, enjoys immense financial flexibility and access of capital market.

Analytical approach: Standalone approach, factoring in parent subsidiary linkages with TPCL which holds 76% and TSL which holds 24% shareholding in IEL. Moreover, the operational, managerial and financial linkages with TPCL & TSL, which are integral to the operations of IEL have also been considered.

Applicable Criteria

Criteria on assigning rating outlook and credit watch
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Infrastructure Sector Ratings
Rating Methodology – Power Generation projects
Rating Methodology- Thermal Projects
Financial ratios – Non-Financial Sector
Rating Methodology- Liquidity analysis of Non-financial sector entities

About the Company

IEL is a joint venture company formed by Tata Power Company Limited (TPCL) and Tata Steel Limited (TSL). As on December 31, 2019, TPCL holds 74% equity stake and TSL holds 26% equity stake in IEL. IEL is involved in the business of power generation with installed capacity of 240 MW (two units of 120 MW each) at Jamshedpur and 242.5 MW at Kalinganagar. Further, IEL also has 120 MW capacity at Kalinganagar under construction. All the plants are classified as captive power plant of TSL and supplying power to TSL's steel plant. IEL has tolling agreement in place with TSL for its entire operational as well as under-construction capacities.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	315.54	306.36
PBILDT	226.79	198.54
PAT	111.13	148.52
Overall gearing (times)	0.88	0.82
Interest coverage (times)	3.51	3.69

A: Audited

Note: The financials have been reclassified as per CARE internal standards

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for 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-Term Loan	-	-	-	587.96	CARE AA; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	587.96	CARE AA; Stable	1)CARE AA; Stable (06-Apr-20)	1)CARE AA; Stable (05-Apr-19)	1)CARE AA; Stable (04-Apr-18)	1)CARE AA; Stable (02-May-17)
2.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (02-May-17)
3.	Fund-based - ST-Working Capital Demand loan	ST	-	-	1)Withdrawn (06-Apr-20)	1)CARE A1+ (05-Apr-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Debt Service Reserve Account (DSRA)	The company has to maintain DSRA equivalent to cover principal and interest payments for one quarter in the form of cash/bank guarantee.
Ii Debt to Equity Ratio	Debt: Equity <=2.5:1
Iii Fixed Asset Coverage Ratio (FACR)	FACR>1.25x
Iv Debt Service Coverage Ratio (DSCR)	DSCR> 1.25x
V Curative equity	In case the DSCR falls below 1.10x on any testing date, the company would have the option to cure the breach and restore it back to 1.25x within 30 days of becoming aware of the breach by infusing funds in the form of shareholder loan/equity (curative equity).
Vi call option	In one of the term loan availed by the company, post March 31, 2026 and thereafter annually, the lender has call option to seek repayment of entire balance outstanding as on the option date without any prepayment penalty by providing a 60 day notice to the company.
B. Non-financial covenants	
I minimum shareholding	Tata Power Company Limited to retain at least 51% shareholding and management control in IEL till tenor of the project.
Ii management control	Tata group to retain management control directly or indirectly

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	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.*

.Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Mr. Ratnam Raju Nakka
Group Head Contact no.- 022 6837 4472
Group Head Email ID- ratnam.nakka@careratings.com
-

Relationship Contact
Mr. Saikat Roy
Contact no. : +91-22- 68754 3404
Email ID: saikat.roy@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**