

Energy Development Company Limited

June 21, 2022

Ratings

Facilities/Instruments	Amount (₹ 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 Bank Facilities	11.00 (₹ Eleven Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the Bank Facilities of Energy Development Company Limited (EDCL) continues to be constrained by variability in revenue streams, revenue concentration, weak financial performance albeit improvement in FY22, significant exposure to group entities and elongated working capital cycle. The ratings continue to derive comfort from the experience of the company in power generation business, presence of long term power purchase agreements with state utilities and comfortable capital structure.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Stable power generation in the power plants and realising 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 - Factors that could lead to negative rating action/downgrade

- 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 40.19 million units in FY22 compared to 32.82 million units in FY21. However, there were no revenue from the construction division in FY22.

Revenue concentration

Majority of the revenue is being derived from sale of power generated from hydropower plant and wind power plant. During FY22, 100% of the total operating income was derived from power segment (PY: 94%). The company has only one ongoing project in the construction business, which is expected to complete in FY23. The company has not bid for any new construction project during FY22.

Weak financial performance albeit improvement in FY22

The total operating income witnessed y-o-y improvement of 13.81% from Rs.11.37 crore in FY21 to Rs.12.94 crore in FY22 on account of increase in units generated from 32.82 mn units in FY21 to 40.19 mn units in FY22. The company earned operating profit of Rs.4.32 crore in FY22 vis-à-vis operating profit of Rs.1.01 crore in FY21. The net profit of the company stood at Rs.3.00 crore in FY22 vis-à-vis net loss of Rs.0.50 crore in FY21. During FY22, the company earned cash profit (GCA) of Rs.5.59 crore vis-à-vis nil debt repayment obligation.

Significant exposure to group entities

EDCL's exposure to its subsidiary companies by way of investments and loans & advances increased moderately from Rs.114.39 crore as on March 31, 2021 to Rs.116.45 crore as on March 31, 2022 accounting for 71% of its FY22 tangible net worth. Apart from fund based exposure, EDCL has provided corporate guarantee of Rs.95 crore for term loan availed by Ayyappa for setting up the project; the outstanding of which being around Rs.77 crore as on March 31, 2022. The loan repayment restructured in 2018 is now to be repaid in 17 years as against repayment in 10 years initially.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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.

Elongated working capital cycle

The operating cycle of the company improved in FY22 to 475 days vis-à-vis 685 days in FY21 on account of slight improvement in average collection period from 1122 days in FY21 to 1024 days in FY22. The receivables beyond 180 days stood at Rs.34.08 cr as on March 31, 2022 which constitutes around 90% of the total receivables of Rs.37.80 crore. Majority of receivables outstanding for more than 6 months pertains 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. There was increase in receivables due to the non receipt of amount from one of its projects (6 MW Harangi Hydro Electric Project) due to non operational current account of the entity.

Key rating strengths

Experienced promoters in power generation business

EDCL is into generation of power from renewable sources such as Hydro and Wind for more than two decades now. EDCL also has been undertaking 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 chairman of the company, Shri Amar Singh who passed away on August 02, 2020 due to prolonged illness, Mrs. Pankaja Kumari Singh, wife of Mr. Amar Singh has become actively involved in the day to day affairs of the company along with Mr. Satyendra Pal Singh, Executive Director of the company.

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. In case of 9 MW Harangi Hydro Electric Project, the company enters into yearly contracts with Customized Energy Solutions India Pvt Ltd (CESIPL)

Comfortable capital structure

Gearing ratio remained comfortable and stood at 0.13x as on March 31, 2022 (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 and loan amounting to Rs. 3.14 crore given to certain companies, the adjusted overall gearing ratio stood at 0.17x as on March 31, 2022 as against 0.17x as on March 31, 2021.

Liquidity: Stretched

The liquidity profile is weak with moderate cash balance and stuck debtor. However, the company does not have any term loan repayment obligation. The company reported a cash accrual of Rs.5.59 crore in FY22. Fund based facility of the entity remains fully unutilized as on March 31, 2022. The company had free cash and bank balance of Rs.3.48 crore as on March 31, 2022.

Analytical approach: Standalone

Applicable criteria

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

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Power Generation Project](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the company

EDCL was incorporated in 1995 and 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). The company currently operates with 15MW of hydro power plant in Harangi, Karnataka and 3MW of wind power plant in Hassan and Chitradurga, Karnataka.

Further, the company in its subsidiaries Ayyappa Hydro Power Ltd (AHPL) and EDCL Power Projects Ltd (EPPL) has operational hydro power capacity of 15 MW and 7 MW respectively in Kerala.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (Abridged)
Total operating income	10.77	11.37	12.94
PBILDT	-1.85	1.01	4.32
PAT	-3.01	-0.50	3.00
Overall gearing (times)	0.11	0.13	0.13
Interest coverage (times)	-0.84	0.42	1.65

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	4.00	CARE B+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	7.00	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	4.00	CARE B+; Stable	-	1)CARE B+; Stable (04-Aug-21)	1)CARE B+; Stable (22-Sep-20)	1)CARE B+; Stable (04-Jul-19)
2	Non-fund-based - ST-BG/LC	ST	7.00	CARE A4	-	1)CARE A4 (04-Aug-21)	1)CARE A4 (22-Sep-20)	1)CARE A4 (04-Jul-19)

*Long term/Short term.

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

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

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About us:

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