Energy Development Company Limited

February 04, 2019

Rating

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	10.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Revised from CARE D
Short-term Bank Facilities	30.00	CARE A4 (A Four)	Revised from CARE D
Total Facilities	**40.00 (Rs. Forty crore only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Energy Development Company Limited (EDCL) takes into account the regularisation of delays in debt servicing by the company since September 19, 2018.

The ratings continue to be constrained by the volatility in revenues, weak debt coverage indicators, elongated operating cycle and high exposure in the form of investment and loans & advances in subsidiary companies. The ratings also take note of the discontinuance of trading division, low orders in the contract division and decrease in scale of operations in FY18 (refers to the period April 1 to March 31) and H1FY19.

The ratings, however, derive strength from the experience of the company is power generation and presence of power purchase agreements for its hydro power and wind power capacity.

Ability of the company to garner and execute orders in contracts and services division, timely realization of receivables, operating performance of the power plants and exposure in group companies will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Volatility in revenue streams

EDCL faces variability in hydro and wind power generation as the same is subject to vagaries of nature. The revenue from power hydel power division increased in FY18 due to increase in units generated with higher rainfall.

Also, business in the contract division is tender based and has dependence on release of orders by State Governments of north eastern India. In FY18, the revenue from the contract division decreased significantly with no major orders received during the year and stalled projects.

The company had ventured into trading of solar photovoltaic modules and other power related equipment in FY16. However, it discontinued the trading operations from Q4FY18 considering the volatility in prices and delays in realisation of dues, which led to decline in revenue from the division in FY18.

Decrease in scale of operations in FY18 and H1FY19

The total operating income declined significantly to Rs.40.23 crore in FY18 from Rs.103.21 crore in FY17 due to lower contribution from trading division and contract division. Though PBILDT was low at Rs.2.09 crore in FY18 (Rs.1.28 crore in FY17), the PBILDT margin improved from 1.24% in FY17 to 5.19% in FY18 due to increased contribution in total revenue from higher margin generation division. The net profit decreased from Rs.3.41 crore in FY17 to Rs.1.39 crore in FY18 as the company had recorded extra-ordinary income of Rs.5.39 crore during FY17 on sale of investments in subsidiaries. During H1FY19, the company reported net profit of Rs.1.52 crore on a total income of Rs.12.86 crore vis-à-vis net profit of Rs.3.05 crore on total income of Rs.28.82 crore in H1FY18. The decrease in total income was on account of discontinuance of trading activity and lower revenue from contract division.

On a consolidated basis EDCL incurred loss of Rs.13.11 crore on total income of Rs.61.9 crore in FY18 vis-à-vis net profit of Rs.3.98 crore on total income of Rs.116.28 crore in FY17.

Weak debt coverage indicators

Overall gearing remained stable at 0.15x as on March 31, 2018 as compared to 0.19x as on March 31, 2017 with relatively stable borrowings and networth. Though the capital structure continues to remain comfortable, the debt coverage indicators are weak due to low PBILDT and cash accruals. The interest coverage was below unity at 0.68x in FY18 vis-à-vis 0.52x in FY17. Total debt to GCA deteriorated to 7.54x in FY18 vis-à-vis 5.02x in FY17.

Elongated operating cycle

The operating cycle of the company increased to 137 days in FY18 vis-à-vis 44 days in FY17 on account of increase in average collection period from 136 days in FY17 to 363 days in FY18. The payables period also increased from 96 days in

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

FY17 to 237 days in FY18. The increase in collection period was primarily due to decrease in income and high receivables of Rs.36.78 crore as on March 31, 2018 as against Rs.44.40 crore as on March 31, 2017. Majority of the debtors pertain to the discontinued trading division against which the company also has corresponding payables.

Significant exposure to group companies
EDCL's exposure to its subsidiary/associate companies by way of investments and loans & advances as on March 31, 2018 was Rs.123.13 crore (Rs.133.08 crore as on March 31, 2017), accounting for about 69% of its tangible net worth, as on that date. Majority of the investment, Rs.86.57 crore (out of Rs.123.13 crore), 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.90.39 crore for term loan availed by AHPL for setting up the project.
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 would invest in these 15 Hydro power projects held by EDCL through its various subsidiaries. The transaction has been completed during FY18. The stake sale has reduced the investment commitment of EDCL towards these projects.

Key Rating Strengths
Experience of the company in power generation
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 personnel on its board and has demonstrated a track record in operating hydel power plants.

Presence of power purchase agreements
EDCL has in place long-term power purchase agreements with the state utilities for the hydro and wind power generation capacity which ensures steady revenue from sale of power

Liquidity
The liquidity profile of the company is weak with low cash balance, stuck debtors and variability of cash flows from power division. However, the company does not have any term loan obligations and liquidity is supported through infusion of unsecured loans as required.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria on assigning Outlook to Credit Ratings
Financial ratios – Non-Financial Sector
Rating Methodology- Private Power Producers

About the Company
EDCL, incorporated in 1995, is engaged in power generation from renewable sources (hydro and wind), contract management in the infrastructure sector (construction of bridges, roads, power plants, operation & maintenance of power plants etc.) and providing consultancy services in hydro power (engineering, designing, project management services, etc in setting up hydro power plants). It is currently operating hydro power plant of 15MW and wind power plant of 3MW. In FY16, EDCL had ventured into trading of power equipment (Hydraulic Hoist System and Solar Photovoltaic module), which continued to form a major source of revenue during FY18. However, the company has discontinued the trading activities from Q4FY18.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	103.21	40.23
PBILDT	1.28	2.09
PAT	3.41	1.39
Overall gearing (times)	0.19	0.15
Interest coverage (times)	0.52	0.68

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2

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

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Annexure-1: Details of 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	-	-	-	10.00	CARE B+; Stable
Non-fund-based - ST-BG/LC	-	-	-	30.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE B+; Stable	-	1)CARE D (16-Mar-18) 2)CARE BB+; Stable (09-Oct-17)	1)CARE BBB-; Stable (11-Jan-17)	1)CARE BBB- (06-Oct-15)
2.	Non-fund-based - ST-BG/LC	ST	30.00	CARE A4	-	1)CARE D (16-Mar-18) 2)CARE A4+ (09-Oct-17)	1)CARE A3 (11-Jan-17)	1)CARE A3 (06-Oct-15)

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