Energy Development Company Limited

July 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	10.00	**CARE B+; Stable (Single B Plus; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	30.00	**CARE A4 (A Four)**	**Reaffirmed**
Total	**40.00 (Rs. Forty 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 (EDCL) continue to be constrained by volatility in revenue streams, decrease in scale of operations and profitability margins in FY19, weak debt coverage indicators, working capital intensive nature of operations and significant exposure to group companies.
The ratings, however, derive strength from experience of the company in power generation, diversified revenue streams albeit current reliance on generation division and presence of power purchase agreements.

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. In FY19, revenue from sale of hydro power declined compared to FY18 on account of decline in sale of hydro units from 32.27 mn units in FY18 to 29.48 mn units in FY19.
In FY19, the revenue from the contract division decreased by 74.50% to Rs 0.77 cr from Rs. 3.02 cr in FY18 with the company deciding to go slow on bidding of new orders and focusing on execution of projects in hand.

Decrease in scale of operations and profitability margins in FY19

The total operating income decreased substantially to Rs.13.34 crore in FY19 from Rs. 40.23 crore in FY18 due to significant decrease in income from contract and closure of trading operations from Q4FY18 on account of high price volatility and working capital intensity of business. Further, revenue from sale of hydro power declined in FY19 compared to FY18 on account of decline in sale of hydro units from 32.27 mn units in FY18 to 29.48 mn units in FY19 despite increase in average tariff from Rs.3.46/unit in FY18 to Rs.3.65/unit in FY19. The company incurred operating loss of Rs.9.98 crore in FY19 vis-à-vis operating profit of Rs.2.09 cr in FY18 on account of significant increase in financial assets written off (Rs.12.62 crore in FY19 vis-à-vis Rs.3.44 crore in FY18). The write-off is on account of impact of IND-AS adjustment on interest calculation due to re-classification of loans and advances to subsidiaries from current asset to non-current asset which is non-cash in nature. The company incurred a net loss of Rs.7.84 crore in FY19 against a net profit of Rs.1.39 crore in FY18. GCA stood at Rs. 5.71 cr in FY19 (Rs.7.08 cr in FY18) vis-à-vis Nil debt repayment.
On a consolidated basis, EDCL incurred loss of Rs.13.35 crore on total income of Rs.38.08 crore in FY19 vis-à-vis loss of Rs.13.11 crore on total income of Rs.61.99 crore in FY18. However, the group earned a cash profit of Rs.11.61 crore vis-à-vis debt repayment obligation of Rs.3.16 crore in FY19.

Weak debt coverage indicators

Debt-equity ratio, though deteriorated slightly, continued to remain comfortable at 0.10x as on March 31, 2019 (0.06x as on March 31, 2018) due to increase in unsecured loans and decrease in net worth due to loss incurred in FY19. Overall gearing ratio improved to 0.11x as on March 31, 2019 (0.15x as on March 31, 2018) primarily due to no LC backed acceptances in FY19 on account of discontinuation of trading business by the company. Though the capital structure continues to remain comfortable, the debt coverage indicators are weak due to low PBILDT and cash accruals. Total debt to GCA deteriorated marginally to 3.71x in FY19 vis-à-vis 3.12x in FY18 despite reduction in debt due to decline in GCA from Rs.7.08 crore in FY18 to Rs. 5.71 cr in FY19.

Elongated operating cycle

The operating cycle of the company increased to 744 days in FY19 vis-à-vis 136 days in FY18 on account of increase in average collection period from 363 days in FY18 to 970 days in FY19. The increase in collection period is attributed to ~67% decline in sales revenue along with high receivables outstanding for more than 6 months amounting to Rs.34.89 crore (out of total debtors of Rs.35.16 cr) as on March 31, 2019. Majority of the debtors pertain to the discontinued trading division. The creditor's period increased marginally from 239 days in FY18 to 248 days in FY19.

Significant exposure to group companies

EDCL's exposure to its subsidiary companies by way of investments and loans & advances as on March 31, 2019 was Rs.86.90 crore (Rs. 123.13 crore as on March 31, 2018), accounting for roughly 52.20% 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 Keralain May, 2017.

Other than the fund based exposure, EDCL had provided corporate guarantee of Rs.95 crore for term loan availed by AHPL for setting up the project; the balance of which stood at Rs.87.22 crore as on March 31, 2019 (Rs.90.39 crore as on March 31, 2018).

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. Going forward, EDCL will have no investment commitment 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. In FY16, EDCL also ventured into trading of power equipment (Hydraulic Hoist System and Solar Photovoltaic module). However, the same has been discontinued from Q4FY18 on account of high price volatility and working capital intensity of business.

Presence of power purchase agreements

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.

The PPA for 9 MW Harangi Hydro Electric Project under CHESCO is due to expire in July 2019. However, negotiation for the renewal of PPA for the said project at the existing rate is already in progress and the same is expected by July 2019.

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.

In FY19, GCA stood at Rs. 5.71 cr vis-à-vis Nil debt repayment.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Financial ratios – Non-Financial Sector

Criteria for Short Term Instruments

Rating Methodology – Infrastructure Sector Ratings

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 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 and 3MW of wind power plant.

In FY16, EDCL had ventured into trading of power equipment (Hydraulic Hoist System and Solar Photovoltaic module), which continued to form the major source of revenue during FY18 (60% of total revenue). However, the company has discontinued with trading activities from Q4FY18.

Further, the company has operational hydro power capacity in Kerala of 15 MW and 7 MW in its subsidiaries AHPL and EDCL Power Projects Ltd (EPPL) respectively. EDCL was promoted by Mr. Amar Singh and its day to day affairs are looked after by Mr. Vinod Kumar Sharma.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	40.23	13.34
PBILDT	2.09	-9.98
PAT	1.39	-7.90
Overall gearing (times)	0.15	0.11
Interest coverage (times)	0.68	NM

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Available

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE B+; Stable	-	1)CARE B+; Stable (04-Feb-19)	1)CARE D (16-Mar-18) 2)CARE BB+; Stable (09-Oct-17)	1)CARE BBB-; Stable (11-Jan-17)
2.	Non-fund-based - ST-BG/LC	ST	30.00	CARE A4	-	1)CARE A4 (04-Feb-19)	1)CARE D (16-Mar-18) 2)CARE A4+ (09-Oct-17)	1)CARE A3 (11-Jan-17)

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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