Energy Development Company Limited

September 22, 2020

Ratings

Facilities*	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	4.00 (reduced from 10.00)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	7.00 (reduced from 30.00)	CARE A4 (A Four)	Reaffirmed
Total Facilities	11.00 (Rupees 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, dip in financial performance in FY20, weak 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 current reliance on generation division, comfortable capital structure and presence of long term power purchase agreements.

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 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 declined to 28.93 million units in FY20 compared to 34.82 million units in FY19. In FY20, the revenue from the contract division increased by 142.86% to Rs.1.87 crore from Rs.0.77 crore in FY19 on account of execution of bridge construction project in Tripura which is nearing completion. However, going ahead, revenue from contract division is expected to be muted since the company has not bidded for any new projects currently and focused on executing projects in hand.

Dip in financial performance in FY20

The total operating income witnessed a decline from Rs.13.34 crore in FY19 to Rs.10.77 crore in FY20 on account of both decline in units generated from 34.82 mn units in FY19 to 28.93 mn units in FY20 along with decline in average tariff from Rs.3.62/unit in FY19 to Rs.3.11/unit in FY20. The decline in units generated was on account of weak monsoon as compared to previous year. The company incurred operating loss of Rs.1.85 crore in FY20 vis-à-vis operating loss of Rs.9.98 crore in FY19 on account of significant decrease in financial assets written off (Rs.0.12 crore in FY20 vis-à-vis Rs.12.62 crore in FY19). The write-off was 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 net loss of Rs.3.01 crore in FY20 vis-à-vis net loss of Rs.7.90 crore in FY19. The company incurred cash loss of Rs.0.26 crore vis-à-vis Nil debt repayment obligation. The same was funded out of unsecured loans infused by promoters amounting to Rs.0.92 crore in FY20.

Elongated working capital cycle

The operating cycle of the company further deteriorated in FY20 to 896 days vis-à-vis 704 days in FY19 on account of increase in average collection period from 996 days in FY19 to 1218 days in FY20. The receivables beyond 180 days stood at Rs.34.40 crore as on March 31, 2020 which constitutes 98% of the total receivables of Rs.35.10 crore, while the same stood at

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

Rs.34.46 crore as on July 31, 2020, being 96.20% out of the total receivables of Rs.35.82 crore. Majority of receivables o/s 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.

Significant exposure to group entities
EDCL's exposure to its subsidiary companies by way of investments and loans & advances remained at the same level as on March 31, 2020 was Rs.107.84 crore (Rs.107.85 crore as on March 31, 2019), accounting for 67.16% of its tangible net worth and 85.47% of its adjusted net worth (Adjusted Net worth pertaining to Net Worth after adjusting Receivables of more than 180 days which is likely not to be recovered), 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 AHPL for setting up the project; the balance of which stood at Rs.84.69 crore as on March 31, 2020 (Rs.87.22 crore as on March 31, 2019). 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. EIL has subsequently exited the project and will not make any further investments, which has now been taken over by EDCL. The project has been kept on hold and the exact timeline for which is not known.

Key Rating Strengths
Experienced 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 02, 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.

Majority revenue being derived from power generation
The company primarily operates in 2 business segments- Engineering (Construction) and power Generation segment. It is currently operating 15MW of hydro power plant and 3MW of wind power plant. The engineering or the construction sector includes construction of bridges, roads, power plants, operation & maintenance of power plants etc. and providing consultancy services. The breakup of revenues from the various segments was 82.64% in FY20 (94.23% in FY19) from power division and 17.36% in FY20 (5.77% in FY19) from contract division. In spite of increase in share in revenue from construction business, the company continues to rely and focus on the power segment.

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. However, PPA with Chamundeshwari Electricity Supply Corporation Ltd. (CHESCO) got expired during FY20 and the supply towards the same is being continued without any agreement at a rate of Rs.2.85 per unit for 6 MW and the payment is realized within 15 days. The remaining 3MW is being sold through power exchange @Rs.2.50/per unit.

Comfortable capital structure; albeit weak debt coverage indicators
Debt-equity ratio continue to remain stable at 0.11x as on March 31, 2020 (0.10x as on March 31, 2019) due to marginal increase in debt and decrease in net worth due to loss incurred in FY20. The overall gearing ratio remained stable at 0.11x as on March 31, 2020. However, on adjustment in net worth w.r.t. receivables which are outstanding for more than 180 days, the adjusted overall gearing ratio remained stable at 0.14x as on March 31, 2020 against 0.14x as on March 31, 2019. 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 incurred cash loss of Rs.0.26 crore vis-à-vis Nil debt repayment obligation in FY20. The same was funded out of unsecured loans infused by promoters amounting to Rs.0.92 crore in FY20. The lender, Allahabad Bank, had granted moratorium on the interest payment on Cash credit facility by default for the period between March and August, 2020 as per RBI guidelines, the payment towards which of around Rs.6.50 lakhs has been made by the company on August 31, 2020.

Analytical approach: Standalone

Applicable criteria:
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology - Private Power Producers
Rating Methodology: Wind Power Projects
Financial ratios – Non-Financial Sector

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)	FY19 (A)	FY20 (A)
Total operating income	13.34	10.77
PBILDT	-9.98	-1.85
PAT	-7.90	-3.01
Overall gearing (times)	0.11	0.11
Interest coverage (times)	-3.55	-0.84

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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 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 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-Cash Credit	LT	4.00	CARE B+; Stable	-	1)CARE B+; Stable (05-Jul-19)	1)CARE B+; Stable (04-Feb-19)	1)CARE D (16-Mar-18) 2)CARE BB+; Stable (09-Oct-17)
2.	Non-fund-based - ST-BG/LC	ST	7.00	CARE A4	-	1)CARE A4 (05-Jul-19)	1)CARE A4 (04-Feb-19)	1)CARE D (16-Mar-18) 2)CARE A4+ (09-Oct-17)

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 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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