Energy Development Company Limited

October 9, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	10.0	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**
Short-term Bank Facilities	30.0	**CARE A4+ (A Four Plus)**	**Revised from CARE A3 (A Three)**
Total Facilities	**40.0 (Rs. Forty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to Energy Development Company Limited (EDCL) takes into account the deterioration in operational performance in FY17 (refers to the period April 1 to March 31) marked by decrease in total operating income, decline in operating profitability and deterioration in debt coverage indicators. The ratings continue to be constrained by the volatility in revenues and high exposure in the form of investment and loans & advances in subsidiary companies. The ratings also take note of the sale of stake in subsidiaries which are setting up hydropower projects in Uttarakhand and Arunachal Pradesh to Smart Hydro Power Limited (SHPL), a subsidiary of Essel Infraprojects Limited (EIL). The ratings, however, derive strength from the satisfactory track record of the company, diversified revenue stream and presence of power purchase agreements for its power generation.

Ability of the company to garner and execute orders in contracts and services division, timely realization of payments, profitable operations in trading division, 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

Decline in operating income with dip in operating profitability margins during FY17

The total operating income declined by about 23% to Rs.103.69 crore in FY17 from Rs. 134.24 crore in FY16 due to significant decline in income from contract division. PBILDT margin also dipped to 4.66% in FY17 from 5.46% in FY16, mainly due to higher contribution in total revenue from lower margin trading business. However, PAT increased from Rs.1.61 crore in FY16 to Rs.3.15 crore in FY17 on account of extra-ordinary income of Rs.5.39 crore during FY17 on sale of investments.

During Q1FY18, the company reported net loss of Rs.1.16 crore on a total operating income of Rs.14.77 crore as against net loss of Rs.2.57 crore on a total operating income of Rs.18.09 crore in Q1FY17. The losses were mainly on account of losses in generating division due to unfavorable climatic conditions for hydro & wind power segment.

On a consolidated basis for FY17, EDCL incurred loss of Rs.6.86 crore on operating income of Rs.116.04 crore as against loss of Rs.15.11 crore on a total operating income of Rs.150.17 crore in FY16.

Deterioration in debt coverage indicators

The debt coverage indicators deteriorated in FY17 due to lower PBILDT and increase in interest expense. Consequently, the PBILDT interest coverage deteriorated to 1.96x in FY17 vis-à-vis 4.24x in FY16 and PBIT interest coverage was below unity. The total debt to GCA deteriorated to 5.87x in FY17 vis-à-vis 3.85x in FY16.

Volatility in revenue streams

EDCL faces variability in hydro and wind power generation as the same is subject to vagaries of nature. Also, it has dependence for flow of orders for its contract division on State Governments of North Eastern India. In FY17, the revenue from the contract division decreased significantly due to stalled contracts and no major contracts received during the year. The company had ventured into trading of solar photovoltaic modules and other power related equipment in FY16 which contributed about 80% of the revenue in FY17 (43% in FY16).

Significant exposure to group companies

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

EDCL's exposure to its subsidiary/associate companies by way of investments and loans & advances as on March 31, 2017 was Rs.133.08 crore (Rs.151.87 crore as on March 31, 2016), accounting for about 74% of its tangible net worth, as on that date. Majority of the investment, Rs.82.14 crore (out of Rs.133.08 crore), was in Ayyappa Hydro Power Ltd (AHPL) which has completed a 15 MW Hydropower project in Kerala in May, 2017. EDCL also has investment of Rs.6.28 crore in EDCL Power Projects Ltd (EPPL) which has a 7MW operational hydro-electric project. The balance investment (Rs.44.66 crore) was in associates for projects in Uttarakhand and Arunachal Pradesh. Other than the fund-based exposure, EDCL has provided corporate guarantee of Rs.90.24 crore for term loan availed by AHPL for setting up the project.
EDCL had entered into an agreement with 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 and as on March 31, 2017, EIL through its subsidiary SHPL holds 76% in the equity share capital of Arunachal Hydro Power Limited, 49% in the equity share capital of Eastern Ramganga Valley Hydel Projects Co. Private Limited (Eastern), 49% in the equity share capital of Sarju Valley Hydel Projects Co. Private Limited (Sarju). Further, EDCL has pledged 27% equity shares of Eastern and Sarju in favour of SHPL. The stake sale has reduced the investment commitment of EDCL towards these projects.

Key Rating Strengths

Satisfactory track record of the company

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.

Diversified revenue stream

EDCL has a diversified revenue stream emanating from power generation, contract management in the infrastructure sector and providing consultancy services. It also ventured into trading in FY16. The breakup of revenues in FY17 from the various segments was 80.46% from trading (43.10% in FY16), 9.06% (50% in FY16) from contract division, 8.38% (5.58% in FY16) from hydro power and 2.11% (1.33% in FY16) from wind power.

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.

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 FY17.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	134.24	103.69
PBILDT	7.33	4.83
PAT	1.61	3.15
Overall gearing (times)	0.11	0.19
Interest coverage (times)	4.24	1.96

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

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 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-Cash Credit	-	-	-	10.00	CARE BB+; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB+; Stable	-	1)CARE BBB-; Stable (11-Jan-17)	1)CARE BBB- (06-Oct-15)	1)CARE BBB (17-Oct-14)
2.	Non-fund-based - ST-BG/LC	ST	30.00	CARE A4+	-	1)CARE A3 (11-Jan-17)	1)CARE A3 (06-Oct-15)	1)CARE A3 (17-Oct-14)

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