Energy Development Company Ltd

January 11, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	10.0	**CARE BBB-; Stable (Triple B Minus, Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	30.0	**CARE A3 (A Three)**	**Reaffirmed**
Total	**40.0 (Rs. Forty crore only)**		

Details of instruments/facilities in Annexure-1

The ratings assigned to the bank facilities of Energy Development Company Ltd (EDCL) continue to draw strength from the satisfactory track record of the company, diversified revenue stream and power purchase agreements with State Electricity Boards for its power generation. The ratings also factor in the increase in operating income in FY16 (refer to the period April 1 to March 31), though profitability margins declined. The ratings also take note of the proposed sale of part stake in subsidiaries to a strategic investor.

The ratings continue to be constrained by high exposure in the form of investment and loans & advances in its subsidiary companies, volatility in revenues and project execution risk through subsidiary companies.

Ability of the company to garner and execute orders in contracts and services division in timely manner, 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.

Operating income of EDCL increased to Rs.134.24 crore in FY16 from Rs.27.75 crore in FY15 due to higher revenue from contract management and start of trading division, despite lower generation of power. PBILDT margin, however, dipped significantly to 5.46% in FY16 from 46.69% in FY15, due to higher contribution of lower margin contract management and trading business in sales. Margins from the power division also fell in FY16 due to lower PLF. Accordingly, PAT margin dipped to 1.20%.

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 FY16 from the various segments was 43.1% from trading (4.7% in FY15), 50% (33.3% in FY15) from contract division, 5.58% (52.9%) from hydro power, 1.33% (9.1%) from wind power. It has in place long-term power purchase agreements (PPAs) with the state utilities for the entire hydro and wind power generation capacity which ensures steady revenues from sale of power. However, it 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 FY16, the revenue from the contract division increased significantly due to orders received for execution of civil work from various parties. Further, the company ventured into trading of solar photovoltaic modules in FY16.

EDCL's exposure to its subsidiary companies by way of investments and loans & advances as on March 31, 2016 was Rs.151.87 crore (Rs.72 crore as on March 31, 2015), accounting for about 86% of its tangible net worth, as on that date. Majority of the investment, Rs.80.08 crore (out of Rs.151.87

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

crore), was in Ayyappa Hydro Power Ltd (AHPL) which is setting up a 15 MW Hydropower project in Kerala. Rs.5.65 crore of investment was in EDCL Power Projects Ltd (EPPL) which has a 7MW operational hydro-electric project. The balance investment (Rs.66.14 crore) was in other subsidiary companies where hydel power projects aggregating 660 MW of Arunachal Pradesh and Uttarakhand are under implementation phase. 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. On a consolidated basis for FY16, the company incurred loss of Rs.15.11 crore (Rs.13.94 crore in FY15) on operating income of Rs.150.17 crore (Rs.43.84 crore in FY15).
EDCL has entered into an agreement with Essel Infraprojects Ltd. (EIL), wherein EIL would invest in these 15 Hydro power projects held by EDCL through its various subsidiaries. As per the agreement, EIL would hold 76% of the investments in these 15 projects (either itself or through its affiliates), while the remaining 24% will be held by EDCL and its subsidiaries. The transaction is yet to be completed and is subject to various regulatory and other agreements. EDCL had an investment of Rs.58.65 crore in such subsidiaries as on Sep.30, 2016.

EDCL is engaged in the power generation from renewable sources (hydro and wind) as well as execution of construction contracts since 1996.

Analytical approach followed: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]

Company Background
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 ventured into trading of power equipment (Hydraulic Hoist System and Solar Photovoltaic module), which formed a major source of revenue during FY16.

During FY16 (refers to the period April 1 to March 31), EDCL has reported a PAT of Rs.1.61 crore on a total operating income of Rs.134.24 crore as against a PAT of Rs.1.38 crore on a total operating income of Rs.27.75 crore in FY15. During H1FY17 (refers to the period April 1 to September 30), the company has reported a PAT of Rs.0.19 crore on a total operating income of Rs.70.06 crore.

Status of non-cooperation with previous CRA: Not Applicable

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

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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 BBB-; Stable
Non-Fund Based - ST-BG/LC	-	-	-	30.00	CARE A3

Annexure-2

Rating History (Last three years)

		Current Ratings			Chronology of Rating history for past three years			
Sr. No.	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Cash Credit	LT	10.00	CARE BBB-; Stable	-	1)CARE BBB- (06-10-2015)	1)CARE BBB (17-10-2014)	1)CARE BBB+ (22-11-2013)
2.	Non-Fund Based - ST-BG/LC	ST	30.00	CARE A3	-	1)CARE A3 (06-10-2015)	1)CARE A3 (17-10-2014)	1)CARE A2 (22-11-2013)

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CIN - L67190MH1993PLC071691