Essel Green Energy Private Limited

July 09, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	100.00	**CARE C (CE); ISSUER NOT COOPERATING [Single C (Credit Enhancement) ISSUER NOT COOPERATING]**	**Revised from CARE BB (SO) [Double B (Structured Obligation)]; under credit watch with negative implications**
Total	**100.00 (Rs. One hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed description of the key rating drivers

CARE has been seeking information from Essel Green Energy Private Limited (EGPL) to monitor the rating(s) vide e-mail communications dated June 27, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, EGPL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on EGPL's bank facilities will now be denoted as **CARE C (CE); ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The revision in ratings is on account of modification of credit profile of guarantor (i.e. Essel Infraprojects Limited, EIL; rated CARE A4; Issuer Not Co-operating) and CARE not able to conduct appropriate due diligence in the absence of any information.

Detailed description of the key rating drivers

The above rating is based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by EIL for the bank facilities of EGPL.

At the time of last rating in February 12, 2019 the following were the rating strengths and weaknesses:

Key Rating Strengths

Established track record in the infrastructure segment

Promoted by Dr. Subhash Chandra, Essel group has strong presence in media & entertainment, distribution and packaging. The group is also present in infrastructure space through EIL which has interest in road projects, solar power projects, urban infrastructure, power transmission projects, MSW projects etc. EIL has completed more than 2000 lane kms of roads and is constructing in various states such as Madhya Pradesh, Delhi, Punjab, and Haryana. Further, in case of solar, Essel group has commissioned 685 MW AC solar power projects. Essel group has successfully revived the operations of power distribution franchisee for Nagpur i.e. SND Limited. The group is also undertaking various projects across various states in India for municipal solid waste and water management segments.

Continued funding support received from promoter

Over the years, EIL has been receiving continuous funding support from the promoters and its promoter group companies, which has facilitated EIL to invest in various infrastructure projects as equity/quasi equity and debt. For investment in existing/new projects and for funding shortfall undertaking, in FY18, the promoters have infused Rs.1,500 crore and Rs.237 crore in 9MFY19. Furthermore, the company has raised nearly Rs.680 crore by loan upsizing/ securitisation of transmission and road SPVs and deployed it in other SPVs.

Business model enabling to mitigate time over-run

It should be noted that EIL is an EPC company and it undertakes EPC work through subcontracts only. EIL sub-contracts on fixed price basis keeping margin of around 10%-15%. The benefits of sub-contracting for EIL are assured minimum margin on EPC work and with fixed time EPC contract with third parties, the risk of cost escalation is minimized.

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

Several projects getting operational in FY19 and exit from weaker projects in FY18 to improve cash-flows
The company successfully achieved COD of all the under construction solar projects in January 2019, and successfully completed the Kundli Manesar road project in 9MFY19, ahead of schedule. Another large road project is scheduled to be completed by FY20, this would improve the cash flows going forward. Also, EIL exited some of the weaker projects in FY18, and is planning to exit from more projects in FY19 and FY20, which would further aid cash-flows.

Deterioration in liquidity; however, the same is expected to improve on the back of stake sale of transmission and solar projects
The overall liquidity of EIL is expected to improve going forward as the equity value derived from the stake sale in transmission projects (of ~Rs.1,300 crore) and from solar projects (of Rs.1,650 crore). The details are as shown below:

Transmission
In October 2018, EIL entered into an agreement with Sekura Energy Ltd to sell its two operating power transmission assets namely Darbhanga-Motihari Transmission Limited (DMTCL) & NRSS XXXI (B) Transmission Limited (NRSS31B), and two under construction projects Warora-Kurnool Transmission Limited (WKTL) and NRSS XXXVI Transmission Limited (NRSS36) (which are expected to be commissioned in FY20). The two under construction assets would be acquired post commissioning. Transaction for the operating projects (DMTCL and NRSS31B) is for an enterprise value of Rs.1,819 crore (equity value of Rs.279 crore) and enterprise value for the under construction projects (WKTL and NRSS36) is Rs.4,115 crore (equity value of Rs.1,019 crore). Total enterprise value would be Rs.5,934 crore (equity value of Rs.1,298 crore).

Solar
Also, in December 2018, Actis LLP agreed to buy Essel Infra's Solar power projects which comprises of holding company i.e. Essel Green Energy Pvt. Ltd and its 23 SPVs for an enterprise value of Rs.5,500-Rs.6,000 crore, of which equity value would be around Rs.1,650 crore. As of December 2018, the operational capacity is 465 MW, and balance capacity is expected to be operational shortly.
Furthermore, during FY18, due to retention money and delayed recoveries from few customers (subsidiaries), the collection period remained flat at 208 days from 205 days in FY17. However, creditor days decreased to 105 days in FY18 compared to 225 days in FY17 due to increased expenses related to procurement of solar modules for various solar projects, which led to working capital cycle of 102 days. Being a holding company, ability of SPVs to achieve timely financial closure and access to external debt as per the plans remains one of the rating monitorables to manage the liquidity position. Going forward, ability to refinance and raise fund through external sources in the backdrop of reduced financial flexibility of the promoters of EIL is crucial from the credit perspective and the ability of EIL to timely execute the stake sale and repay its debt obligation is a key rating sensitivity.

Key Rating Weaknesses
Significant investment commitments and shortfall for the projects leading to dependence on promoters
EIL, being an investment company and undertaking EPC work only from group companies, results in weaker cash flows from operations in the company thereby, resulting in heavy reliance on promoter infusion/debt and external debt to meet its equity commitments and/or support the shortfall in debt servicing of group companies. Furthermore, investments in the infrastructure space are medium to long term in nature involving considerable capital outlay. Additionally, there are loans and advances extended to the group companies to support the shortfall in debt servicing and carry out the execution work in case of delay in tie-up of funds.
The company is also restructuring its business by forming separate holding companies for each sector which includes renewable, infrastructure, transmission amongst others for higher ownership and evaluation; existing projects will be transferred to the sector specific holding company in due course. Ability of EIL to maintain the financial profile at the moderate level remains crucial since the significant funds are required for meeting the sponsor commitment and support SPVs.

Moderate capital structure albeit supported by promoters
Ability of EIL to maintain the overall gearing at the moderate level remains crucial, since significant funds are required for meeting the sponsor commitment and support SPVs in the initial phase. Overall gearing improved to 0.33x as on March 31, 2018 vis-à-vis 0.43x as on March 31, 2018 due to capital infusion from promoters via compulsorily convertible debentures, which led to increase in net worth of EIL, despite increase in debt to support the SPVs. Furthermore, overall gearing (considering corporate guarantee) improved to 1.09x as on March 31, 2018 vis-à-vis 1.78x as on March 31, 2017 due to reasons mentioned above. However, the ability of the promoter to service the debt obligations in a timely manner is a key rating monitorable.

Inherent Risk associated with infrastructure projects
EIL, in capacity of sponsor, continues to remain exposed to both project execution and operational risk. For projects which are under implementation, EIL is exposed to risks associated with any time/cost overrun due factors such as delay in receipt of approval/ clearances from respective authorities. For operational projects, any change in regulatory factors or economic factors would lead to under performance of the project. Under any of these circumstances, EIL would be required to provide financial support to all the SPVs. Thus, cash flows of EIL remain exposed to project execution/operational risk.

Government focus on investment in infrastructure sector
Roads
The Ministry of Road Transport and Highways (MoRTH) has announced the Government's target of Rs.25 trillion investments in infrastructure over a period of three years, which will include Rs.8 trillion for developing 27 industrial clusters and an additional Rs.5 trillion for road, railway and port connectivity projects.

Power
Demand supply gap for power in the country depicted by base power deficit remained flat at 0.7% in FY18 due to combination of capacity addition i.e. 9.51 GW translating into higher growth in supply, slowdown in demand especially from industry segment and reluctance from off-takers (DISCOMs) to purchase power beyond certain cost due to their weak financial position. Though UDAY has reduced revenue gap of few DISCOMs due to transfer of debt, there is no incentive for DISCOMs to enter into long term PPA with power generation companies relying more on short term power purchases. Thus, the key monitorable for the power generation companies is revival in power demand led by GDP growth revival and international coal prices both directly affecting their cash flow generation ability.

Transmission
The outlook on the transmission sector is positive with stable cash flows and under investment in sector in the previous five year plans. The 13th plan capex in transmission sector is expected to be ~ Rs.2.60 trillion.

Analytical approach:
The credit risk assessment encompasses the standalone risk assessment of business and financial risk profile of the guarantor (EIL). Further, corporate guarantee is extended by EIL for the group companies, hence the estimated debt repayment shortfall is considered in the risk assessment.

Applicable Criteria
Policy in respect of Non-cooperation by issuer
CARE's criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Infrastructure Sector Ratings

About the Company
Incorporated in September 2013, Essel Green Energy Private Limited (EGEPL) is promoted (100% subsidiary) by Essel Infraprojects Limited (EIL). EGEPL is the holding company for the solar portfolio of the Essel Group, and also provides O&M services to the projects owned by the Essel Group. EGEPL (through its subsidiaries) owns solar plants with a combined capacity of 665 MW. Of the same, about 90 MW is operational whereas about 575 MW is under various stages of implementation.

About the Guarantor
Essel Infraprojects Ltd (EIL) was incorporated in July 1987 in the name 'Essel's Amusement Parks (India) Limited' which was subsequently changed to 'Essel Infraprojects Limited' in February 2007. Promoted by Mr. Subhash Chandra, EIL is infrastructure arm of Essel Group with interest in road projects, urban infrastructure, power, water management and solid waste management. EIL obtains engineering, procurement and construction (EPC) works for group companies but majority of them is handled by another Essel Group company known as Pan India Infraprojects Private Limited. EIL does not undertake EPC work on its own but sub-contacts entirely to third parties. Additionally, EIL derives income in form of consultancy services provided to group companies and interest income from loans and advances extended to subsidiaries/associates. In 9MFY19, EIL announced the sale of its stake in the transmission projects (for equity value of Rs.1,300 crore) and in 685 MW AC solar projects (for equity value of Rs.1,650 crore).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	433	702
PBILDT	196	238
PAT	16	24
Overall gearing (times)	0.43	0.33
Interest coverage (times)	1.14	1.12

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

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
Non-fund-based - LT-Bank Guarantees	-	-	-	100.00	CARE C (CE); ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB (SO) (Under Credit watch with Negative Implications) on the basis of best available information

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.	Non-fund-based - LT-Bank Guarantees	LT	100.00	CARE C (CE); ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB (SO) (Under Credit watch with Negative Implications) on the basis of best available information	-	1)CARE BB (SO) (Under Credit watch with Negative Implications) (12-Feb-19) 2)CARE BBB- (SO) (Under Credit watch with Developing Implications) (07-Dec-18) 3)CARE BBB- (SO) (Under Credit watch with Developing Implications) (26-Sep-18)	1)CARE BBB+ (SO); Stable (12-Jul-17)	-

						4)CARE BBB+ (SO) (Under Credit watch with Developing Implications) (31-Jul-18)		

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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