# Essel Gulbarga Solar Power Private Limited

December 7, 2018

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities – Term Loan | 19.81 | **CARE BBB- (SO); under credit watch with developing implications [Triple B Minus (Structured Obligation); under credit watch with developing implications]** | **Continues on credit watch with developing implications** |
| **Total** | **19.81 (Rs. Nineteen Crore and Eighty One Lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale**

*The above ratings are based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Essel Infraprojects Limited (EIL rated CARE BBB- / CARE A3; under credit watch with developing implications) for the bank facilities of Essel Gulbarga Solar Power Private Limited (EGSPPL).*

CARE continues to keep the ratings assigned to the bank facilities of EBSEPL **“under credit watch with developing implications”** as the guarantor i.e. EIL continues to be **“under credit watch with developing implications”**

Furthermore, CARE has placed/continued the rating **“under credit watch with developing implications”** following the announcement that Actis LLP plans to buy EIL’s solar power projects for Rs.5,500-6,000 crore. EIL has a total solar portfolio of 23 projects with capacity of 685 MW, under various stages of development, with nearly 460 MW of operational assets, and balance 225 MW capacity under construction assets as on December 06, 2018. Post the acquisition, existing structural arrangements such as liquidity buffers (such as DSRA, etc.), etc. and various agreements including corporate guarantee deed by EIL, promoter support undertaking, operation & maintenance agreement (O&M) are likely to undergo a change.

CARE is in the process of seeking additional information and clarifications from EIL, on the basis which, CARE will take a view on the ratings once the exact implications of the above development on the business and overall credit risk profile of the company are clear.

**Detailed Rationale & Key Rating Drivers of the Guarantor i.e. EIL**

The ratings assigned to the bank facilities of Essel Infraprojects Limited (EIL) takes into account cash-flow mismatches at the group level (group means EIL and its subsidiaries/ SPVs). The company is in process to raise funds by selling stake in solar and transmission assets, timely and adequate amount of receipt is important to improve the group’s overall liquidity profile. Further clarity is awaited on the timing and the amount of these inflows and given the considerable commitments towards equity infusion/ shortfall undertaking/ contractual obligations, etc., this remains a key rating monitorable. However, to address these issues the promoter has articulated his strong commitment and support to service the obligations of EIL on timely basis.

CARE continues to keep the ratings assigned to the bank facilities of Essel Infraprojects Limited (EIL) **“under credit watch with developing implications”**. EIL expects stake sale of solar and transmission assets which would aid cash-flows and improve liquidity profile of the company/group. However, during the first half of the current year [H1FY19 (refers to period from April 01 to September 30)]; cash-flow mismatches were observed in some of its subsidiaries (mainly in the road segment). CARE Ratings will continue to monitor the credit risk profile of EIL and the above subsidiaries to factor in any developments (as above).

The ratings derive strengths from regular infusion of funds by the promoters to support the required growth capital and operations of some of the group companies. The ratings also factor in substantial infusion of funds by the promoters in FY18. Furthermore the company raised sizable amount of funds through upsizing/ securitization of transmission and road SPVs. The ratings also continue to factor in experience of Essel group in the diversified segments in the infrastructure space and the strong parentage (Essel group) which has a presence in media & entertainment, distribution and packaging with Zee Entertainment Enterprises Limited (ZEEL, rated ‘CARE AA+’ & ‘CARE A1+’) as its flagship company. The ratings

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

also takes into account expected commissioning of solar projects (~500 MW) and operationalization of two large road projects in FY19.

The aforementioned rating strengths, however, are partially offset by elevated debt levels in SPVs owing to significant investments made towards various infrastructure projects which are yet to generate any returns and slow progress on asset monetization. The company is also heavily reliant on promoter support and debt to fund significant commitments towards equity infusion/shortfall undertaking in new and ongoing projects. The ratings continue to be constrained by moderate financial profile including off balance sheet support in the form of corporate guarantees and/or shortfall undertaking for the projects in implementation phase and commissioned projects and moderate liquidity position of the company. Ability of EIL to receive timely receipt of funds either through promoters support, stake sale, etc. and meet commitments along with deleveraging efforts constitute the key rating sensitivity.

**Detailed description of the key rating drivers**

**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 with Zee Entertainment Enterprises Limited (ZEEL, rated ‘CARE AA+’ & ‘CARE A1+’) being the flagship company of the group. Promoters hold majority equity stake in ZEEL which has substantial market value. 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, Gujarat, Punjab, Haryana, Uttar Pradesh and Maharashtra. Further, in case of solar, Essel group has executed more than 225 MW projects and other solar projects are under implementation stage. 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. Furthermore, the company has raised nearly Rs.680 crore by loan upsizing/securitisation of transmission and road SPV’s and deployed it in other SPV’s. The financial flexibility exhibited by promoters of EIL is seen as a significant rating strength from credit perspective.

**Business model enabling to mitigate time over-run:** It should be noted that the 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.

**Several projects getting operational in FY19 and exiting weaker projects in FY18 to improve cash-flows:** Company is currently focusing on completing the existing projects with all the solar projects with capacity of nearly 500 MW and two large road projects are expected to be operational by end of H1FY19 which would reflect in improved cash-flows going forward. Also EIL exited some of the weaker projects in FY18 which should aid cash-flows. By end of CY 2018, project mix will comprise of 70% completed and 30% under execution as compared to a mix of 35:65 at the beginning of CY 2018.

**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 thus, 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 and liquidity position albeit supported by promoters:**

Ability of EIL to maintain the overall gearing at the moderate level remains crucial since the significant funds are required for meeting the sponsor commitment and support SPVs in the initial phase. Overall gearing marginally worsened to 0.43x as on March 31, 2017 vis-à-vis 0.33x as on March 31, 2016 due to increase in debt to support the SPV’s. Furthermore, overall gearing (considering corporate guarantee as debt) worsened to 2.58x as on March 31, 2017 vis-à-vis 1.81x as on March 31, 2016 due to more ongoing projects moving in towards completion stage. Ability of SPVs to achieve timely financial closure and access to external debt as per the plans remains one of the ratings monitorable to manage the liquidity position. Going forward, ability to raise fund through external sources in the backdrop of available financial flexibility with the promoters of EIL is crucial from the credit perspective.

**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 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 narrowed to 0.7% in FY17 (as against 2.1% in FY16) due to combination of faster capacity addition i.e. 17.5GW 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 debt. Thus there in 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 2tn.

**Analytical approach:** Standalone

The credit risk assessment encompasses the standalone risk assessment of business and financial risk profile of 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**

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Short-term Instruments]
[Rating Methodology: Factoring Linkages in Ratings]
[Rating Methodology - Infrastructure Sector Ratings]
[Financial ratios – Non-Financial Sector]

**About the Company: EIL**

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. As on March 31, 2017, EIL had 80 subsidiaries, one Joint Venture and 9 associates.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|---|---|---|
| Total operating income | 435 | 433 |
| PBILDT | 87 | 196 |
| PAT | 21 | 16 |
| Overall gearing (times) | 0.33 | 0.43 |
| Interest coverage (times) | 0.56 | 1.14 |

A: Audited

**About the Company**

Essel Gulbarga Solar Power Pvt. Ltd (EGSPPL) is Special Purpose Vehicle of Essel Infraprojects Ltd (rated CARE BBB- / CARE A3; under credit watch with developing implications) which has developed a 5MW grid interactive Solar photovoltaic (PV) power plant at Nimbal (BK) Village, Taluka- Indi in Bijapur District under Karnataka Renewable Energy Development Agency (KREDL) solar policy 2011. The company won bids invited by Karnataka Renewable Energy Development Agency (KREDL) to set up two solar power projects ((viz Essel Bagalkot Solar Energy Pvt Ltd and Essel Gulbarga Solar Power Pvt Ltd) in the state. EGSPPL is a 100% subsidiary of Essel Infraprojects Limited, rated (rated CARE BBB+/CARE A3+; under credit watch with developing implications). The project cost of the power plant of 5 MW capacity, is Rs.48.83 crore and is funded in the Debt Equity ratio of 2.33x. The COD of the project was achieved on July 30, 2014 without any cost overrun. The debt repayment is for a tenor of 13 years, starting in Q4FY2015 and ending in Q3FY2028, which gives the project a tail period of 12 years. EGSPPL has entered into Power Purchase Agreement with Hubli Electricity Supply Company Limited (HESCOM) at KERC applicable tariff of Rs. 8.37 /KWH for 25 years. Solar Panels for the power project are imported from Nexpower Technology Corporation, Taiwan. The project is based on the latest Photo Voltaic Thin Technology.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|---|---|---|
| Total operating income | 6.65 | 6.25 |
| PBILDT | 4.70 | 5.43 |
| PAT | -2.00 | -1.08 |
| Overall gearing (times) | 2.13 | 2.33 |
| Interest coverage (times) | 1.70 | 2.19 |

**Status of non-cooperation with previous CRA:** NA
**Any other information:** NA
**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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

**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.

**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-Term Loan | - | - | September 2028 | 19.81 | CARE BBB- (SO) (Under Credit watch with Developing Implications) |

**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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT-Term Loan | LT | 19.81 | CARE BBB- (SO) (Under Credit watch with Developing Implications) | 1)CARE BBB- (SO) (Under Credit watch with Developing Implications) (26-Sep-18)<br>2)CARE BBB+ (SO) (Under Credit watch with Developing Implications) (31-Jul-18)<br>3)CARE BBB+ (SO); Positive (07-Apr-18) | 1)CARE BBB; Stable (11-Apr-17) | 1)CARE BBB (02-May-16) | - |

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