

IL&FS Energy Development Company Limited

August 31, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Facilities	1,137.85 (Rupees One Thousand One Hundred Thirty seven crore and Eighty Five lakhs only)	CARE A+ (Single A Plus) (credit watch with negative implications)	Placed on credit watch with negative implications
Non-Convertible Debentures	500.00 (Rupees five hundred crore only)	CARE A+ (Single A Plus) (credit watch with negative implications)	Placed on credit watch with negative implications
Total bank facilities/ instruments	1,637.85 (Rupees one thousand six hundred thirty seven crore and eighty five lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of IL&FS Energy Development Company Limited (IEDCL) have been put on 'credit watch with negative implications' on account of promoter's i.e. Infrastructure Leasing & Financial Services Ltd (IL&FS) rating being revised from CARE AAA; Stable/CARE A1+ to CARE AA+(credit watch with negative implications)/CARE A1+ due to moderation in its credit profile.

The ratings continue to factor in ~97% operational capacity of the total capacity of 2903.5MW largely completed and largely stabilized also the balance of 100MW is in advanced stages of completion. Further, the rating also factors in the diversified asset portfolio of IEDCL (Thermal, Wind, Solar, Gas), its moderate capital structure, along with the operationalization and stabilization of the thermal plant i.e. IL&FS Tamilnadu Power Company Ltd.(1200MW).The rating continues to reflect its established promoter group, viz. IL&FS and the managerial and financial support it receives from promoters, the significant experience and proven track record of IEDCL in implementation of various large-sized power projects and improving outlook for the power sector in India.

The rating strengths, however, continue to be partially tempered by high counter-party risks for the operational power projects under the various Special Purpose Vehicles (SPVs) due to weak financial health of the state power distribution utilities.

The company's ability to maintain majority ownership, receive need based support from the parent, timely mitigating revenue risks by entering into remunerative long term PPA for U-II (600MW) of its SPV i.e. IL&FS Tamilnadu Power Company Ltd. and monetization of key investments in timely manner remain key rating sensitivities.

CARE shall engage with the company for necessary information and clarification for resolving the watch.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and linkages with IL&FS

IEDCL is a majority-owned subsidiary of IL&FS, which is one of the leading infrastructure development and finance companies in India promoted by the Central Bank of India (CBI), Life Insurance Corporation of India (LIC), Housing Development Finance Corporation (HDFC) and Unit Trust of India (UTI). Over the years, it has been involved in the development of various infrastructure projects in verticals like power, road, urban infrastructure and port. Thus, this signifies the ability of IL&FS in implementing large infrastructure projects and also carrying out Operation & Maintenance (O&M) of such projects.

IEDCL's experience and proven track record in the implementation of various large-size power projects

IEDCL has successfully implemented numerous power projects and it has strong capabilities in appraising projects and mobilizing resources for the same. The company has a qualified and experienced management team. IEDCL is spearheading IL&FS's initiatives in the power segment and associated in various capacities with different power generation projects. The company has installed and operational capacity of 2,805.5MW along with 100MW of capacity under implementation with mix of conventional and non-conventional energy sources. IEDCL's range of services includes project development, project appraisal, training & capacity building and project/programme management consultancy.

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

IEDCL continues to provide support to subsidiaries/associates through equity investments and promoter loans

IEDCL's investments its subsidiaries and associates stood at Rs. 6,773 crore as on March 31, 2017. These investments are made primarily in 1,200MW IL&FS Tamil Nadu Power Company (ITPCL, rated CARE BBB+; 'Stable'), 726MW ONGC Tripura Power Company Limited (OTPCL, rated CARE AA-; 'Stable') and Wind SPVs directly or through a step-down subsidiary IL&FS Wind Energy Limited. Further, the company also provided loans and advances to subsidiaries and affiliates in the form of long term support for project expenses and as working capital support. The loans and advances increased to Rs. 1,687 crore as on March 31, 2017 from Rs. 758 crore as on March 31, 2016. This is primarily to provide capital expenditure and operational support to ITPCL and working capital support for wind SPVs in off-season.

The investments and loans and advances (as a proportion of standalone networth) have increased to 1.56x as on March 31, 2017 against 1.42x as on March 31, 2016. Furthermore, the consolidated gearing and Debt/GCA ratio remains at elevated levels at 3.35x and 57.56x at the end of FY17 on account of long term support given to SPVs.

Power sector outlook is expected to improve over the medium to long term

Demand supply gap for power in the country depicted by base deficit has narrowed down by 100 bps in FY18 (base deficit from 1.60% in FY17 to 0.60% in FY18 due to significant capacity addition (17.2 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. The liquidity position of certain DISCOMs has improved on account of debt takeover from the states while a lot of work needs to be undertaken to reduce AT&C losses.

Key Rating Weaknesses
Moderation in the credit profile of the promoter and financial support provider, i.e. IL&FS

The revision of the rating on IL&FS from CARE AAA; Stable/CARE A1+ to CARE AA+ (credit watch under negative implications)/CARE A1+ was on account of build-up of company's debt levels over a period of time on the back of increase in funding support to key subsidiaries and group companies. Although, IL&FS has been maintaining its profitability through stake sale / divestments in its group entities, the actual realization through sale of core assets has been slower than expected over a period resulting into moderation in the financial flexibility and corresponding increase in the debt levels.

IL&FS has demonstrated track record to support IEDCL by infusing funds as and when required which are either in form of equity infusion or loans and advances. As on March 31, 2017, the loans and advances from related parties has increased to Rs. 1,983 crore from Rs. 615 crore as on March 31, 2015.

Majority ownership and timely support from the parent i.e. IL&FS remain key rating sensitivities.

High counter-party risks, lack of long term revenue visibility for ITPCL U-II (600MW) remain key risks

IEDCL, through its subsidiaries has exposure to DISCOMs such as Tamilnadu and Rajasthan, which have weak credit profiles. The DISCOMs in both states have already participated in the Central Financial Restructuring Scheme for state DISCOMs, namely Ujwal DISCOIM Assurance Yojana (UDAY). As a result, debt in both the DISCOMs has been taken over by the respective states reducing total interest expenses for the DISCOMs. This has resulted into improved cash flow position for DISCOMs. However, the sustainable improvement in their credit profiles can only be seen with consistent lowering of AT&C losses, which is likely to happen in the long term. Further, as IEDCL has a diversified portfolio of assets with PPA signed with various State DISCOMs, it minimizes risk associated with recovery of payments from these DISCOMs.

Moreover, IEDCL's main subsidiary i.e. ITPCL's U-II is operating on merchant basis and lack of long term revenue visibility remains a key concern leading to volatility cash flow generation for the group. However, ITPCL expects to sign a short term PPA with PTC India Limited.

Analytical approach: For arriving at ratings, Consolidated Approach has been adopted as IEDCL is a flagship company of IL&FS Group, has along with its SPVs have housed all the power generation and transmission assets.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Private Power Producers](#)

About the Company

IEDCL, a subsidiary in which Infrastructure Leasing & Financial Services Ltd. (IL&FS; rated CARE AA+ (credit watch with negative implications)/CARE A1+) owns majority stake (91.42%) is spearheading IL&FS's initiatives in the power segment and associated in various capacities with different power generation projects. The company has installed capacity of 2803.5MW with additional 100MW of wind capacity under construction as on June 30, 2018 with mix of conventional and

non-conventional energy sources. IEDCL's range of services includes project development, project appraisal, training & capacity building and project/programme management consultancy. IEDCL also provides advisory services to state governments, large public sector companies as well as private sector clients on all facets of power project development and implementation. IL&FS is one of India's leading infrastructure development and finance companies. IL&FS has a proven track record and has successfully implemented and also undertakes operation and maintenance of various infrastructure projects in roads and urban infrastructure segment. IEDCL has strong capabilities in appraising of infrastructure projects and mobilizing resources for the same. The company' and its group's installed/operational capacity as on June 30, 2018 are as follows:

OPERATIONAL CAPACITY	(MW)
Wind	875.9
Solar	1.0
Total Renewable capacity	876.9
OTPC (Gas)	726.6
ITPCL (Coal) – U-I (600MW) & U-II (600MW)	1200.0
Total Operational capacity (A)	2803.5
Under Implementation:	
Wind Project	100
Total (B)	100
Total (A+B)	2903.5

Brief Financials- Consolidated (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1,664.27	3,413.76
PBILDT	919.07	1,784.36
PAT	(265.78)	(41.82)
Interest coverage (times)	1.00	1.23
Overall Gearing (times)	4.43	4.38

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.

Analyst Contact:

Name : Viren Shah
 Tel : 022 6754 3656
 Board : 022 6753 3456
 Email : viren.shah@careratings.com

****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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	50.00	CARE A+ (Under Credit watch with Negative Implications)
Non-fund-based - LT-BG/LC	-	-	-	50.00	CARE A+ (Under Credit watch with Negative Implications)
Term Loan-Long Term	-	-	Nov-2021	1037.85	CARE A+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	June 07, 2016	11%	April 21, 2021	300.00	CARE A+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	June 28, 2016	Zero coupon with 11.50% YTM	June 28, 2019	200.00	CARE A+ (Under Credit watch with Negative 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-Cash Credit	LT	50.00	CARE A+ (Under Credit watch with Negative Implications)	1)CARE A+; Stable (18-May-18)	1)CARE A+; Stable (09-Oct-17)	1)CARE A+ (03-Nov-16) 2)CARE A+ (22-Sep-16) 3)CARE A+ (17-Jun-16)	1)CARE A (29-Jan-16) 2)CARE A (09-Apr-15)
2.	Non-fund-based - LT-BG/LC	LT	50.00	CARE A+ (Under Credit watch with	1)CARE A+; Stable (18-May-18)	1)CARE A+; Stable (09-Oct-17)	1)CARE A+ (03-Nov-16)	1)CARE A (29-Jan-16)

				Negative Implications)			2)CARE A+ (22-Sep-16) 3)CARE A+ (17-Jun-16)	2)CARE A (09-Apr-15)
3.	Term Loan-Long Term	LT	1037.85	CARE A+ (Under Credit watch with Negative Implications)	1)CARE A+; Stable (18-May-18)	1)CARE A+; Stable (09-Oct-17)	1)CARE A+ (03-Nov-16) 2)CARE A+ (22-Sep-16) 3)CARE A+ (17-Jun-16)	1)CARE A (29-Jan-16) 2)CARE A (09-Apr-15)
4.	Debentures-Non Convertible Debentures	LT	300.00	CARE A+ (Under Credit watch with Negative Implications)	-	1)CARE A+; Stable (09-Oct-17)	1)CARE A+ (03-Nov-16) 2)CARE A+ (17-Jun-16)	1)CARE A (29-Jan-16) 2)CARE A (18-May-15) 3)CARE A (09-Apr-15)
5.	Debentures-Non Convertible Debentures	LT	200.00	CARE A+ (Under Credit watch with Negative Implications)	-	1)CARE A+; Stable (09-Oct-17)	1)CARE A+ (03-Nov-16) 2)CARE A+ (17-Jun-16)	1)CARE A (29-Jan-16) 2)CARE A (18-May-15)
6.	Fund-based - ST-Term loan	-	-	-	-	1)CARE A1 (09-Oct-17)	-	-
7.	Debt	LT	100.00	Provisional CARE AA+ (SO) (Under Credit watch with Negative Implications)	-	1)Provisional CARE AAA (SO); Stable (22-Dec-17)	-	-
8.	Debentures-Non Convertible Debentures	LT	205.00	CARE AA (SO) (Under Credit watch with Negative Implications)	1)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 2)CARE AA+ (SO); Stable (08-Jun-18) 3)Provisional CARE AA+ (SO); Stable (30-May-18) 4)Provisional CARE AA+ (SO);	1)Provisional CARE AA+ (SO); Stable (27-Mar-18) 2)Provisional CARE AA+ (SO); Stable (05-Feb-18)	-	-

					Stable (25-May-18) 5)Provisional CARE AA+ (SO); Stable (18-May-18)			
9.	Debentures-Non Convertible Debentures	LT	195.00	CARE AA (SO) (Under Credit watch with Negative Implications)	1)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 2)CARE AA+ (SO); Stable (08-Jun-18) 3)CARE AA+ (SO); Stable (30-May-18) 4)Provisional CARE AA+ (SO); Stable (25-May-18) 5)Provisional CARE AA+ (SO); Stable (18-May-18)	-	-	-
10.	Debentures-Non Convertible Debentures	LT	100.00	Provisional CARE AA (SO) (Under Credit watch with Negative Implications)	1)Provisional CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 2)Provisional CARE AA+ (SO); Stable (08-Jun-18)	-	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691