

IL&FS Energy Development Company Limited

August 16, 2018

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|--|--|--|--|
| Non-Convertible Debentures-Tranche-I | 400.00 | CARE AA (SO); [Double A Plus (Structured Obligation)] (Credit Watch with negative implications) | Revised from 'CARE AA+(SO); Stable' and placed on credit watch with negative implications |
| Non-Convertible Debentures-Tranche-II | 100.00 | Provisional CARE AA (SO); [Provisional Double A Plus (Structured Obligation)] (Credit Watch with negative implications) | Revised from 'CARE AA+(SO); Stable' and placed on credit watch with negative implications |
| Total Facilities | 500.00 (Rupees Five Hundred crore only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating of structured non-convertible debentures of IL&FS Energy Development Company Limited (IEDCL) factors in the moderation in the credit profile of the credit enhancement provider i.e. Infrastructure Leasing & Financial Services Limited (IL&FS) wherein the ratings are revised to CARE AA+; CARE A1+ (credit watch with negative implications) from CARE AAA; Stable/CARE A1+.

The revision in the ratings assigned of Infrastructure Leasing & Financial Services Ltd. (IL&FS) is 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, especially to its transport vertical (housed in IL&FS Transportation Networks Limited), whose standalone credit profile has witnessed significant deterioration in recent times. 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 embarked upon several strategic measures for de-leveraging its balance sheet including capital infusion from existing shareholders and monetization of assets.

The ratings continue to factor in IL&FS's strong institutional ownership, experienced management and demonstrated track record and expertise in the infrastructure sector. The ratings also take into account IL&FS's ability to fund its infrastructure subsidiaries / group companies while maintaining capitalisation and gearing levels and asset liability maturity profile. IL&FS's ability to maintain the adequate capitalization and leverage ratio with expected capital infusion and monetization of the assets through stake sale / exit while maintaining the profitability would be the key rating sensitivities.

The ratings have been put on 'credit watch with negative implications' on account of the group's pursuit of a strategic plan to de-leverage the balance sheet by way of equity infusion, reduction of debt by refinancing the exposures in group companies and monetization of certain identified (core as well as non-core) assets by end of FY19 (refers to period from April 01 to March 31). Given the heightened leverage levels and the immediate need to support the group entities, infusion of equity capital in a time bound manner would be critical; any delay would exacerbate the company's financial profile. CARE Ratings would continue to monitor the progress made by the group with respect to these strategic initiatives. Timely progress with respect to these initiatives would be critical for the credit profile of the company and will be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

DSRA support undertaking from IL&FS

IEDCL has received a Debt Service Reserve Account (DSRA) support undertaking from IL&FS to the effect that it shall arrange for necessary funds upon occurrence of **Deposit Shortfall Event**² and **Deposit Shortfall After Rating Event**³ to

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

² "**Deposit Shortfall Event**": means the occurrence of event where company (IEDCL) has failed to deposit the DSRA amount in the DSRA account within a period of 45 days from previous payment date to meet Scheduled **Debt Obligation**₁.

meet IEDCL's obligation to maintain DSRA in respect to the total debt servicing obligation for next servicing date, in the event IEDCL is not able to meet such DSRA obligations throughout the tenure of non-convertible debentures.

DSRA support undertaking from IL&FS in favour of the debenture holders stating that it would arrange for necessary funds upon occurrence of Deposit Shortfall Event and Deposit Shortfall After Rating Event to meet IEDCL's obligation to maintain DSRA in respect to the total debt servicing obligation for next servicing date, in the event IEDCL is not able to meet such DSRA obligations throughout the tenure of proposed Non-Convertible Debentures.

However, since the DSRA support undertaking is neither unconditional nor irrecoverable, recourse to the promoter remains limited in an event of default to only arranging the necessary funds towards scheduled debt obligation due on immediately succeeding payment date.

About the Credit Enhancement Provider (i.e. IL&FS)

IL&FS is one of India's leading infrastructure development and finance companies promoted by Life Insurance Corporation of India (LIC), Housing Development Finance Corporation (HDFC) Central Bank of India (CBI), and State Bank of India. IL&FS was established with twin mandates of providing financial services and to develop infrastructure projects under a commercial format. The shareholding pattern of the company has undergone a considerable change over the years with wider participation of other domestic as well as foreign institutional investors. IL&FS received certificate of registration as Core Investment Company (CIC-ND-SI) from RBI dated September 11, 2012.

IL&FS's income profile constitutes interest income from loans given to subsidiaries/group companies, dividend received from subsidiaries (mainly IFIN, IEDCL, ITNL and IL&FS Investment Managers Ltd.), brand fees received from group companies, rental income from business centre and profit from divestment of its exposure in group entities.

Analytical approach: For arriving at rating of IEDCL's Non-Convertible Debentures, CARE Ratings has considered credit profile of Infrastructure Leasing and Financial Services (IL&FS) Limited, which has provided DSRA Support Undertaking to meet IEDCL's obligation to maintain DSRA in respect to the total debt servicing obligation for next servicing date.

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](#)

About the Company-IEDCL

IEDCL, a subsidiary in which Infrastructure Leasing & Financial Services Limited which owns majority stake (89.35%⁴) 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 2,803MW with additional 100 MW of wind capacity under construction as on March 31, 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. 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 March 31, 2018 is as follows:

| OPERATIONAL CAPACITY | (MW) |
|---|--------------|
| Wind | 876 |
| OTPC (Gas) | 727 |
| ITPCL (Coal) – U-I (600MW) & U-II (600MW) | 1,200 |
| Total Operational capacity (A) | 2,803 |
| Under Construction/Implementation: | |
| Wind | 100 |
| Total (B) | 100 |
| Total (A+B) | 2,903 |

³ **“Deposit Shortfall After Rating Event”**: means the occurrence of an event where the Company has failed to deposit such amounts in the DSRA Account, within a period of 45 (Forty Five) calendar days from the Rating Event Date that would increase the balance in the DSRA Account to **Scheduled Debt Obligation₂**

⁴ On fully diluted basis

| 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.

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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.

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 |
|---------------------------------------|------------------|-------------|---------------|-------------------------------|--|
| Debentures-Non Convertible Debentures | May 18, 2018 | 9.50 | May 28, 2025 | 195.00 | CARE AA (SO); (credit watch with negative implication) |
| Debentures-Non Convertible Debentures | Aug 18, 2018 | 9.50 | Aug 18, 2026 | 205.00 | CARE AA (SO); (credit watch with negative implication) |
| Debentures-Non Convertible Debentures | NA | NA | NA | 100.00 | Provisional CARE AA (SO); (credit watch with negative implication) |

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+; Stable | 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+; Stable | 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) |
| 3. | Term Loan-Long Term | LT | 1037.85 | CARE A+; Stable | 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+; Stable | - | 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+; Stable | - | 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 AAA (SO); Stable | - | 1)Provisional CARE AAA (SO); Stable (22-Dec-17) | - | - |
| 8. | Debentures-Non Convertible Debentures | LT | 205.00 | CARE AA (SO) (Under Credit watch with | 1)CARE AA+ (SO); Stable (08-Jun-18) | 1)Provisional CARE AA+ (SO); Stable | - | - |

| | | | | | | | | |
|-----|---------------------------------------|----|--------|--|--|--|---|---|
| | | | | Negative Implications) | 2)Provisional CARE AA+ (SO); Stable (30-May-18) 3)Provisional CARE AA+ (SO); Stable (25-May-18) 4)Provisional CARE AA+ (SO); Stable (18-May-18) | (27-Mar-18) 2)Provisional CARE AA+ (SO); Stable (05-Feb-18) | | |
| 9. | Debentures-Non Convertible Debentures | LT | 195.00 | CARE AA (SO) (Under Credit watch with Negative Implications) | 1)CARE AA+ (SO); Stable (08-Jun-18) 2)CARE AA+ (SO); Stable (30-May-18) 3)Provisional CARE AA+ (SO); Stable (25-May-18) 4)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); Stable (08-Jun-18) | - | - | - |

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