

IL&FS Energy Development Company Limited

September 06, 2018

Ratings

Facilities	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 BB- (Double B Minus) (credit watch with negative implications)	Revised from CARE A+ (Single A Plus) (credit watch with negative implications)
Non-Convertible Debentures	500.00 (Rupees five hundred crore only)	CARE BB- (Double B Minus) (credit watch with negative implications)	Revised from CARE A+ (Single A Plus) (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 revision in the ratings on the bank facilities/instruments of IL&FS Energy Development Company Limited (IEDCL) takes into account the deterioration in the liquidity profile of the company based on the moderation in the credit profile of the promoters, which had been providing need based support in the past. The rating also factors in limited ability and availability of IEDCL to upstream cash flows from its SPVs and its impaired financial flexibility. In addition, as per the new information shared by the company there has been a delay in the repayment of a term loan, which is not rated by CARE.

The ratings are further tempered by high refinancing risk, given the sizable near term repayment obligation along with 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 ratings weaknesses however, continue to be partly mitigated by ~97% of operational capacity (2803.5 MW) of the total capacity (2903.5 MW) completed and largely stabilized with remaining 100MW capacity 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 Limited (1200MW). The rating continues to reflect its established promoter group, viz. IL&FS, and the significant experience and proven track record of IEDCL in implementation of various large-sized power projects.

CARE notes that IEDCL has several plans to improve liquidity by monetizing the mature assets, re-financing its loans to longer maturity debt, and get support from promoters. The rating of IEDCL continues to remain on 'credit watch with negative implications' given the immediate need of support and liquidity, which has heightened the refinancing risk.

The company's ability to 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 Limited and monetization of key investments in timely manner remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Elevated refinancing risk

IEDCL has Rs. 744 crore of principal repayments (excluding group company loans) due in coming one year. As of June 30, 2018, the company had Rs. 13 crore in the unencumbered cash and bank balances and the maximum average utilisation has peaked to 86% in the past 12 months ending July 2018 against 45% during previous year in the same period. Historically, the company has been meeting its debt repayments either via monetizing its assets, refinancing with new loans or by support from promoters. The delay in the receipt of funds from these alternatives had led to weak liquidity and thus increased the refinancing risk. Timely receipt of funds and material deleveraging of debt will remain a key rating monitorable.

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

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

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. However, the moderation in the credit profile of the promoters has constrained the ability to provide need-based support, which also remains our key rating sensitivity.

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

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 3 years PPA with PTC India Limited at tariff of Rs. 4.25 per unit.

Key Rating Strengths

Part of established promoter group, 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 2,803.5 MW 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.

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.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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 BB- (Under Credit watch with Negative Implications)
Non-fund-based - LT-BG/LC	-	-	-	50.00	CARE BB- (Under Credit watch with Negative Implications)
Term Loan-Long Term	-	-	Nov-2021	1037.85	CARE BB- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	June 7, 2016	Zero coupon	June 28, 2019	200.00	CARE BB- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	March 16, 2018	11%	April 21, 2021	50.00	CARE BB- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	-	-	-	250.00	CARE BB- (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 BB- (Under Credit watch with Negative Implications)	1)CARE A+ (Under Credit watch with Negative Implications) (31-Aug-18) 2)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 BB- (Under Credit watch with Negative Implications)	1)CARE A+ (Under Credit watch with Negative Implications) (31-Aug-18) 2)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 BB- (Under Credit watch with Negative Implications)	1)CARE A+ (Under Credit watch with Negative Implications) (31-Aug-18) 2)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 BB- (Under Credit watch with Negative Implications)	1)CARE A+ (Under Credit watch with Negative Implications) (31-Aug-18)	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 BB- (Under Credit watch with Negative Implications)	1)CARE A+ (Under Credit watch with Negative Implications) (31-Aug-18)	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 AA+ (SO) (Under Credit watch with Negative Implications) (31-Aug-18)	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	1)Provisional CARE AA+ (SO); Stable (27-Mar-18) 2)Provisional CARE AA+ (SO); Stable (05-Feb-18)	-	-

					(30-May-18) 4)Provisional CARE AA+ (SO); 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)	-	-	-

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