

**IL&FS Energy Development Company Limited**

October 09, 2017

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Long Term Bank Facilities – Term Loan	1,037.85	CARE A+; 'Stable' (Single A Plus; Outlook: 'Stable')	Reaffirmed
Long Term Bank Facilities – Cash Credit	50.00	CARE A+; 'Stable' (Single A Plus; Outlook: 'Stable')	
Long Term Non Fund based Bank Facilities – BG	50.00	CARE A+; 'Stable' (Single A Plus; Outlook: 'Stable')	
Non-Convertible Debentures	500.00	CARE A+; 'Stable' (Single A Plus; Outlook: 'Stable')	
<b>Total bank facilities/ instruments</b>	<b>1,637.85 (Rupees One Thousand Six Hundred Thirty seven crore and Eighty Five lakhs only)</b>		

**Detailed Rationale & Key Rating Drivers**

CARE reaffirms the ratings assigned to the various long term bank facilities/instruments of IL&FS Energy Development Company Ltd (IEDCL). The company has largely completed and operationalised all its capacity i.e. ~92% (2,842MW) of its total planned capacity and balance of 228MW is in advanced stages of completion. Further, the rating also favourably factors the diversified asset portfolio of IEDCL, its improved capital structure and operationalization and stabilization of the thermal plant i.e. IL&FS Tamilnadu Power Company Ltd.(1200MW).The rating continues to reflect its strong parentage viz. Infrastructure Leasing & Financial Services Ltd (IL&FS; rated CARE AAA; 'Stable'/CARE A1+), managerial and financial support it receives from IL&FS, significant experience and proven track record of IEDCL in implementation of various large-sized power projects and stable/favourable/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 major rating sensitivities.

**Detailed description of the key rating drivers****Key Rating Strengths****Strong parentage and financial support of IL&FS**

IEDCL is a majority-owned subsidiary of IL&FS (rated CARE AAA; 'Stable'/A1+), which is one of the leading infrastructure development and finance companies in India promoted by the Central Bank of India (CBI), Housing Development Finance Corporation (HDFC) and Unit Trust of India (UTI). In infrastructure, IL&FS has experience in power, road, ports, urban infrastructure and waste management. Over the years, it has been involved in the development of various infrastructure

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

projects in verticals like power, road, urban infrastructure and port thus amply demonstrating its capacity in implementation and so also Operation & Maintenance (O&M) of infrastructure projects. As has been witnessed in the past, IL&FS has demonstrated support by infusing funds in IEDCL (in the form of equity infusion and loans and advances). Majority ownership and need based support from the parent i.e. IL&FS remain key rating strengths.

#### ***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 2,842MW along with 228MW 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.

#### ***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 Tamilnadu 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 IREL/IWEL. 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 crores 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. However, 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 160 bps in FY17 (base deficit from 3.2% in FY16 to 1.6% in FY17 due to significant capacity addition (14 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**

##### ***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 is in the process of securing long term PPAs for U-II (600 MW) and expects to receive Letter of Intent (LoI) from APDISCOM.

**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 AAA; 'Stable'/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 2,842MW with additional 228 MW of solar/wind capacity under construction as on March 31, 2017 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 March 31, 2017 is as follows:

<b>OPERATIONAL CAPACITY</b>	<b>(MW)</b>
Wind	876
Solar	40
<b>Total Renewable capacity</b>	<b>916</b>
OTPC (Gas)	727
ITPCL (Coal) – U-I (600MW) & U-II (600MW)	1200
<b>Total Operational capacity (A)</b>	<b>2,842</b>
<b>Under Construction/Implementation:</b>	
Wind/Solar projects	228
<b>Total (B)</b>	<b>228</b>
<b>Total (A+B)</b>	<b>3,070</b>

Brief Financials- Consolidated (Rs. crore)	FY16 (A)	FY17 (Prov.)
Total operating income	1,664.27	3,413.76
PBILDT	919.07	1,747.52
PAT	(265.78)	(41.83)
Interest coverage (times)	1.00	1.22

A: Audited; Prov- Provisional

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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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 A+; Stable
Non-fund-based - LT-BG/LC	-	-	-	50.00	CARE A+; Stable
Term Loan-Long Term	-	-	Nov, 2019	1037.85	CARE A+; Stable
Debentures-Non Convertible Debentures	-	-	08-May-18	300.00	CARE A+; Stable
Debentures-Non Convertible Debentures	-	-	28-Jun-19	200.00	CARE A+; Stable

**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	-	-	-	-	-	-	1)Withdrawn (19-Aug-14)
2.	Fund-based - LT-Cash Credit	LT	50.00	CARE A+; Stable	-	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)	1)CARE A- (23-Dec-14)
3.	Non-fund-based - LT-BG/LC	LT	50.00	CARE A+; Stable	-	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)	1)CARE A- (23-Dec-14)
4.	Term Loan-Long Term	LT	1037.85	CARE A+; Stable	-	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)	1)CARE A- (23-Dec-14)
5.	Debentures-Non Convertible Debentures	LT	300.00	CARE A+; Stable	-	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)	1)CARE A- (13-Feb-15)
6.	Debentures-Non Convertible Debentures	LT	200.00	CARE A+; Stable	-	1)CARE A+ (03-Nov-16) 2)CARE A+ (17-Jun-16)	1)CARE A (29-Jan-16) 2)CARE A (18-May-15)	-

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