

Industrial Energy Limited

April 5, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	660.42 (enhanced from Rs 646.42 crore)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short term bank facilities (Working Capital Demand Loan)	25.00	CARE A1+	Assigned
Total Facilities	685.42 (Rupees Six hundred eighty five crore and Forty Two Lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the various bank facilities of Industrial Energy Limited (IEL) continues to factor in the majority ownership by The Tata Power Company Ltd (Tata Power; rated 'CARE AA; Stable'; holds 74% equity stake in IEL), strategic importance of IEL's power plants to Tata Steel Ltd. (TSL; rated 'CARE AA / Stable '; holds 26% equity in IEL); IEL being conversion agent of Tata Steel (converting coal & gas supplied by Tata Steel into power) , tolling agreement for its entire operating capacity (442.5.MW) leading to stable operating cash flows.

These ratings strengths is cheap conversion price and uninterrupted supply of power from the conversion to Tata Steel however, the unit-3 is not fully utilized due to non availability of gas from Tata Steel but IEL is paid by Tata Steel in full based on the capitalization of the said unit. The credit profile of IEL is closely linked to the credit profiles of its promoters and sole off taker.

Credit ratings of TPCL and TSL and any large debt-funded expansion remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management and Strong promoters

IEL is a joint venture company formed by Tata Power Company Limited (TPCL, rated CARE AA; Stable) and Tata Steel Limited (TSL, rated CARE AA / Stable). TPCL holds 74% equity stake and TSL holds 26% equity stake in IEL. IEL benefits from the technical, managerial and financial support it gets from the promoters with demonstrated track record of efficient operations. Tata Sons Ltd. is the largest shareholder of both TPCL and TSL. As at December 31, 2018 Tata Sons Ltd. held 31.05% in TPCL and 31.64% stake in TSL. By virtue of being part of the Tata Group, the company enjoys significant level of financial flexibility.

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

Tolling agreement in place for the entire operational capacity

IEL has tolling agreement for its entire operational capacity of 442.5MW. Under this agreement Tata Steel supplies coal and waste gas free of cost to Industrial Energy Limited. Industrial Energy Limited acts as a conversion agent and supplies power to Tata Steel. Tata Steel pays conversion cost to Industrial Energy Limited. .

Healthy operational performance of power plant

The plants of the company have been operating satisfactorily and meeting all the normative parameters as envisaged in the tolling agreement. The company has hence been able to recover all its costs from TSL.

Key Rating Weaknesses***Credit profile of promoters and counter party***

IEL is promoted by TPCL and TSL (holding 74% and 26% respectively). IEL's credit profile is closely linked to the credit profile of its promoters and the sole off taker of power. The routine operation and maintenance (O&M) of the plants of the company is undertaken by the personnel of the company who were earlier a part of TPCL. Having an in-house team with extensive experience in managing the plants helps saving of cost without compromising on the quality. Further the company supplies power only to Tata Steel, exposing it to the credit profile of TSL.

Exposure to UNIT-3 at- Kalinganagar, Odisha 67.5MW(1 x 67.5 MW (Waste Gas based) and a growth plan of another 400mw is in the pipeline.

TSL has undertaken expansion of its steel capacity by 8 MTPA(3+5 MTPA) Kalinganagar Greenfield Integrated Steel Plant Project. The plant will be built in two phases, one of 3 mtpa and other 5mtpa.To meet the power requirement of the above up-coming steel plant, IEL has undertaken construction of captive power plant, capacity aggregating another 400 MW,. As part of Phase 1 of the project, IEL has already completed the gas based (202.5 MW – 3 x 67.5 MW) power plant. At present only 2 x 67.5 MW have been commissioned in February 2016 and the completion of third unit is being delayed on account of present availability of flue gas which is sufficient to run only two units.

Liquidity analysis: As on March 31, 2018, IEL had liquid investments of ~ Rs. 32 crore. This provides the company with additional liquidity comfort. The Fund based working capital utilisation is moderate at ~ 30%

Analytical approach: Standalone

Applicable Criteria

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

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

[Rating Methodology - Private Power Producers](#)

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

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

About the Company

Industrial Energy Limited (IEL) is a subsidiary of The Tata Power Company Limited (TPCL); TPCL holds 74% equity stake in the company; balance 26% equity stake is held by Tata Steel Limited (TSL). IEL is involved in the business of power generation with installed capacity of 240 MW (two units of 120 MW each) at Jamshedpur and 135 MW at Kalinganagar. Both the plants are classified as captive power plant of TSL and supplying power to TSL's plant. IEL has 135 MW of

operational capacity of the planned 202.5 MW capacity under phase 1 of Kalinganagar, Odisha, to meet TSL's power requirements. IEL has tolling agreement in place with Tata Steel for its entire operational capacity.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	549.56	384.55
PBILDIT	237.31	220.62
PAT	42.60	70.03
Overall gearing (times)	0.98	0.92
Interest coverage (times)	2.66	2.99

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: Mr Ratnam Raju Nakka

Tel: 022 67543578

Email: ratnam.nakka@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-Term Loan	-	-	October 2030	660.42	CARE AA; Stable
Fund-based - ST-Working Capital Demand loan				25.00	CARE A1+

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	660.42	CARE AA; Stable	1)CARE AA; Stable (04-Apr-18)	1)CARE AA; Stable (02-May-17)	-	1)CARE AA (21-Jan-16)
2.	Commercial Paper	ST	-	-	-	1)Withdrawn (02-May-17)	-	1)CARE A1+ (21-Jan-16)
3.	Fund-based - ST-Working Capital Demand loan	ST	25.00	CARE A1+	-	-	-	-

CONTACT**Head Office Mumbai**

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

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

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

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

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

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

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 851111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@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

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

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

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

CIN - L67190MH1993PLC071691

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