Industrial Energy Limited
April 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities- Term Loan	686.91 (enhanced from 660.42)	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Short term bank facilities- (Working Capital Demand Loan)	-	**-**	**Withdrawn**
Total Facilities	**686.91 (Rupees Six hundred eighty six crore and ninety one Lakhs only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the long term bank facilities of Industrial Energy Limited (IEL) continues to factor in the majority ownership by The Tata Power Company Ltd (TPCL; 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 TSL (converting coal & gas supplied by TSL into power), PPA/tolling agreement in place for its entire operating capacity of about 602.5.MW as on March 15, 2020 (120 MW is under construction) leading to stable operating cash flows.

The ratings also positively factor in the low conversion prices and uninterrupted supply of power from the conversion to TSL, pass-through nature of fuel cost and 'take or pay' nature of arrangement mitigate the off-take risk, healthy operational performance of power plants during FY19 & 9MFY20, strong financial risk profile and comfortable debt coverage indicators.

The rating strengths are partially tempered by presence of single counter party exposing to counter party risk and project execution risk. The credit profile of IEL is closely linked to the credit profiles of its promoters and sole off taker.

Sensitivities:

Negative rating factor:

- Change in the credit rating of the sole off-taker i.e. Tata Steel Limited
- Inability to maintain normative PLF as per PPA/tolling agreements
- Any new significant debt funded capex/acquisition impacting the capital structure and repayment ability resulting in overall gearing and total debt to gross cash accruals (GCA) of more than 1.5x and 6x respectively

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoters and experienced management providing strong operational, managerial and financial support to IEL

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). As on December 31, 2019, TPCL holds 74% equity stake and TSL holds 26%

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

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, 2019 Tata Sons Ltd. held 36.21% 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 and access of capital market.

Power Purchase Agreement (PPA)/Tolling agreement in place for the entire operational capacity
IEL has PPA/tolling agreement for its entire operational capacity of 602.5 MW (incl recently acquired under construction 120 MW capacity and 40 MW operational capacity from TSL). Under this agreement TSL supplies coal and waste gas free of cost to Industrial Energy Limited. Industrial Energy Limited acts as a conversion agent and supplies power to TSL. TSL pays conversion cost plus ROE to IEL.

Pass-through nature of fuel cost and 'take or pay' nature of arrangement mitigate the off-take risk and provide stable and low risk cash flows
IEL has entered into PPA/tolling agreement with TSL for its existing plants that are in the nature of 'take or pay'. The favorable terms of the PPAs/tolling agreement, including pass-through of fuel cost, mitigate the off-take and fuel cost risk for the IEL and ensure generation of stable cash flow from operation to meet debt obligation.¬

Healthy operational performance of power plants during FY19 & 9MFY20
The plants of the company have been operating satisfactorily and meeting all the normative parameters as envisaged in the PPA/tolling agreements. The company has hence been able to recover all its costs from TSL.

Strong financial risk profile and coverage indicators
The overall gearing improved from 0.92x as on March 31, 2018 to 0.88x as on March 31, 2019 on account of repayment of debt as well as increase in networth. Total debt to GCA also improved marginally from 5.99 in FY18 to 5.43 in FY19. The debt levels are expected to increase going ahead due to addition of incremental debt for the recently acquired assets as well as proposed acquisitions.

Key Rating Weaknesses
Credit profile of promoters and counter party risk
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 TSL, exposing it to the credit profile of TSL.

Exposure to CPP#2 (120 MW waste gas based) at- Kalinganagar, Odisha and a growth plan of another 136 MW is in the pipeline
During October, 2019, IEL has acquired of 120 MW Gas-based power plant (CPP#2) and 40 MW Diesel generating station (DGS) at Kalinganagar from TSL. CPP#2 is under construction and is expected to be operational by FY2022, while 40 MW DGS is already operational. IEL has already signed tolling agreements with TSL for supply of power for a period of 30 years from the commencement date of CPP#2 and 15 years from the date of purchase of DGS. Timely completion of CPP#2 power plant by FY22 will remain key monitorable. IEL also has a plan to acquire additional power assets of about 136 MW in the near term.

Liquidity analysis: Strong
As at March 31, 2019 IEL had cash and liquid investments of Rs. 101.59 crore which has reduced to Rs.30.07 crore as on December 31, 2019 on account of funding for acquisition. The available liquidity and expected gross cash accruals of Rs. 137.42 crore for FY21 is expected to remain sufficient to meet debt repayment obligations of Rs. 87.98 crore for one year. Also, the promoters of the company have infused funds as and when required to meet debt repayment obligations/funding for projects. IEL, being part of the Tata Group, enjoys immense financial flexibility and access of capital market.

Analytical approach: CARE has adopted a standalone approach. Parent notching factors are also considered as the parents' i.e TPCL holds 76% and TSL holds 24% shareholding in IEL. Moreover, the operational, managerial and financial linkages with TPCL & TSL, which are integral to the operations of IEL have also been considered.

Applicable Criteria
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]
[Rating Methodology - Infrastructure Sector Ratings]
[Rating Methodology – Private Power Producer]
[Financial ratios – Non-Financial Sector]

About the Company
IEL is a joint venture company formed by Tata Power Company Limited (TPCL) and Tata Steel Limited (TSL). As on December 31, 2019, TPCL holds 74% equity stake and TSL holds 26% equity stake in IEL. IEL is involved in the business of power generation with installed capacity of 240 MW (two units of 120 MW each) at Jamshedpur and 242.5 MW at Kalinganagar. Further, IEL also has 120 MW capacity at Kalinganagar under construction. All the plants are classified as captive power plant of TSL and supplying power to TSL's steel plant. IEL has tolling agreement in place with TSL for its entire operational as well as under-construction capacities.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	384.55	315.54
PBILDT	220.62	226.79
PAT	70.03	111.13
Overall gearing (times)	0.92	0.88
Interest coverage (times)	2.99	3.51

A: Audited
The financials have been reclassified as per CARE standard

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of 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	-	-	June 2031	660.42	CARE AA; Stable
Fund-based - ST-Working Capital Demand loan			-	0.00	Withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	686.91	CARE AA; Stable	1)CARE AA; Stable (05-Apr-19)	1)CARE AA; Stable (04-Apr-18)	1)CARE AA; Stable (02-May-17)	-
2.	Commercial Paper	ST	-	-	-	-	1)Withdrawn	-

							(02-May-17)	
3.	Fund-based - ST-Working Capital Demand loan	ST	-	-	1)CARE A1+ (05-Apr-19)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Debt Service Reserve Account (DSRA)	The company has to maintain DSRA equivalent to cover principal and interest payments for one quarter in the form of cash/bank guarantee.
Ii Debt to Equity Ratio	Debt : Equity <=2.5:1
Iii Fixed Asset Coverage Ratio (FACR)	FACR>1.25x
Iv Debt Service Coverage Ratio (DSCR)	DSCR> 1.25x
V Curative equity	In case the DSCR falls below 1.10x on any testing date, the company would have the option to cure the breach and restore it back to 1.25x within 30 days of becoming aware of the breach by infusing funds in the form of shareholder loan/equity (curative equity).
Vi call option	In one of the term loan availed by the company, post March 31, 2026 and thereafter annually, the lender has call option to seek repayment of entire balance outstanding as on the option date without any prepayment penalty by providing a 60 day notice to the company.
B. Non-financial covenants	
I minimum shareholding	Tata Power Company Limited to retain at least 51% shareholding and management control in IEL till tenor of the project.
Ii management control	Tata group to retain management control directly or indirectly

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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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.

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