



Rating Rationale

IL&FS Energy Development Company Limited

12th Sep 2018

Brickwork Ratings downgrades the ratings for the Non-Convertible Debentures issue of Rs. 500.00 Crores of IL&FS Energy Development Company Limited (IEDCL) and for the Bank Loan facilities of Rs. 350.00 Crores.

Particulars

Facility Rated	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs)	Tenor	Outstanding amount (Rs. In Cr)	Unutilized Amount (Rs. In Cr)	Previous Rating	Present Rating*
Fund Based (Term Loan)	350.00	350.00	Long Term	-		BWR A+ [pronounced as BWR Single A Plus] (Rating watch with developing implications)	BWR B [Pronounced as BWR Single B] (Rating watch with negative implications) Downgrade
Fund Based (NCD)	500.00	500.00	Long Term	400.00	100.00	BWR AA-(SO) [Pronounced as BWR Double A minus (Structured Obligation)] (Rating watch with developing implications)	BWR BB-(SO) [Pronounced as BWR Double B minus (Structured Obligation)] (Rating watch with negative implications) Downgrade
Total	850.00	850.00		(INR Eight Hundred and Fifty Crores Only)			

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings, Instrument details at Annexure.

** The suffix **SO** is given for the rolling DSRA support undertaking received from IL&FS Limited in the favor 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 the immediate servicing date, in the event IEDCL is not able to meet such DSRA obligations throughout the tenure of Non-Convertible Debentures.



BWR has principally relied upon the audited consolidated & standalone financial results of FY15 – FY17, Provisional standalone financial result of FY18, publicly available information and information/clarification provided by the company's management.

Rationale:

The revision in the rating of the bank loan facilities of IL&FS Energy Development Company Limited (IEDCL) takes into account the deterioration in the liquidity profile of the company based on further significant deterioration in the credit profile of the promoters, which had been providing the need based support in the past as and when required. The rating also factors in the limited ability of the IEDCL and its impaired financial flexibility going forward for refinancing giving the sizable near term repayment obligations.

The revision in the rating of structured NCD follows the significant deterioration in the credit profile of the Parent company i.e. IL&FS limited (Credit Enhancement provider for rated NCD) which is on account of elevated debt, delayed asset monetization and deterioration in the credit profile of its subsidiaries. The rating also factors the liquidity pressure at the group level on account of delay in raising funds from its promoter's entities for near term liquidity needs and deleveraging strategy. The recent rating downgrade of parent company and key group companies is expected to limit the financial flexibility of the overall group.

However, the rating continues to take into account 97% of the operational capacity of the total capacity of 2803 MW, diversified asset portfolio of IEDCL i.e. Thermal, Wind, Solar and GAS, extensive experience of IEDCL and track record in the implementation of various large sized powers projects and part of established promoter group i.e. IL&FS.

The rating of NCD of Rs. 500.00 Crs and bank loan rating of Rs. 350.00 Crs has been put under credit watch with negative implications mainly on account of delay in deleveraging efforts taken by parent IL&FS, high refinancing risks given the sizable near term debt obligations and high counter party risks for the operational power projects under various SPVs due to weak financial health of the state power distribution utilities and BWR is continuously monitoring the developments and further course of rating action will be dependent on outcome of deleveraging efforts including raising capital via right issue by IL&FS Ltd.

Key Rating Drivers:

- Limited ability of the IEDCL and its impaired financial flexibility going forward for refinancing giving the sizable near term repayment obligations
- Significant Deterioration in the credit profile of the Parent company i.e. IL&FS Limited (Credit Enhancement provider for rated NCD) on account of elevated debt, delayed asset monetization and deterioration in the credit profile of its subsidiaries.
- Liquidity pressure at the group level on account of delay in raising funds from its promoter's entities for near term liquidity needs and deleveraging strategy.
- DSRA Support Undertaking from IL&FS: DSRA support undertaking from IL&FS in the favour of the proposed 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.

- For the rated NCD, while the DSRA support undertaking from IL&FS limited would cover all the scheduled debt obligations that may arise, however in case the NCD's were to get accelerated redemption then the undertaking would not fully cover the payouts.
- 97% of the operational capacity of the total capacity of 2803 MW and Diversified asset portfolio of IEDCL i.e. Thermal, Wind, Solar and GAS.
- Extensive experience of IEDCL and track record in the implementation of various large sized powers projects and part of established promoter group i.e. IL&FS.

Going forward, the ability of the company to improve its profitability and liquidity profile, capitalization and improvement in the overall financial position of the company at standalone and group level as well as timely repayment of debt are the key rating sensitivities.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

About the Company

IL&FS Energy Development Company Limited (IEDCL) is a subsidiary of Infrastructure Leasing & Financial Services Ltd (IL&FS Ltd). IL&FS holds 91.42% stake in the company. IEDCL develops, owns and operates power generation and power transmission assets in India and abroad through its subsidiaries, step-down subsidiaries and joint ventures. In a span of about ten years, it has developed a diversified portfolio of conventional as well as renewable power generation projects. Currently, the company has an installed capacity of 2,803MW with additional 100 MW of capacity under advance stage of construction.

Key Financial Indicators (consolidated)

Key Parameters	Units	FY15-16	FY16-17
Result Type		Audited	Audited
Revenue from operations	₹ Cr	1481.66	3092.39
EBITDA (excluding non-operating income)	₹ Cr	736.34	1409.70
PAT	₹ Cr	-262.18	-50.20
Tangible Net worth	₹ Cr	3283.12	3608.09
Total Debt/Tangible Net worth	Times	4.43	4.38

Rating History for the last three years

Sl. No.	Instrument /Facility	Current Rating (2018)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	August- 2018	May- 2018	Jan-2017
1	Fund Based (NCD)	Long Term	300.00	BWR BB-(SO) [Pronounced as BWR Double B minus (Structured Obligation)] (Rating watch with negative implications) Downgraded	BWR AA-(SO) (Rating watch with developing implications)	BWR AA+ (SO) (Stable)	NA
3	Fund Based (NCD)	Long Term	200.00	BWR BB-(SO) [Pronounced as BWR Double B minus (Structured Obligation)] (Rating watch with negative implications) Downgraded	BWR AA-(SO) (Rating watch with developing implications)	BWR AA+ (SO) (Stable)	NA
3	Fund Based (Term Loan)	Long Term	350.00	BWR B [Pronounced as BWR Single B] (Rating watch with negative implications) Downgraded	BWR A+ (Rating watch with developing implications)	BWR A+ Positive	BWR A+ Positive
Total			850.00	₹ Eight hundred and fifty crores only			

Annexure I: Instrument Details:

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Tenor	Amount Rated
Series 1: INE938L08080 Series 2: INE938L08098	NCD	28 th May 2018	Series 1: 9.50% Series 2: 9.53%	Series 1: 7 years Series 2: 8.25 years	Rs. 300.00 Crs
INE938L08072	NCD	14 th May 2018	9.50%	7 years	Rs. 200.00 Cr

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf. Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.



BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.