

IL&FS Energy Development Company Limited

September 10, 2018

Ratings

Instruments	Amount (Rs. crore)	Rating¹	Rating Action
Long-Term - Non-Convertible Debentures- Tranche-I and Tranche II	400.00	CARE BB-(SO) [Double B Minus (Structured Obligation)] (credit watch under negative implications)	Revised from CARE AA(SO) [Double A (Structured Obligation)] (credit watch under negative implications)
Proposed Long-Term-Non-Convertible Debentures-Tranche-III	100.00	Provisional CARE BB-(SO) [Provisional Double B Minus (structured obligation)] (credit watch under negative implications)	Revised from Provisional CARE AA(SO) [Provisional Double A (Structured Obligation)] (credit watch under negative implications)
Long Term-Inter-Corporate Deposit (ICD) Issue	100.00	Provisional CARE BB (SO) [Provisional Double B (Structured Obligation)] (Credit watch with negative implications)	Revised from Provisional CARE AA+(SO) [Provisional Double A Plus (Structured Obligation)] (credit watch with negative implications)
Total Instruments	Rs. 600.00 (Rupees Six Hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating of structured non-convertible debentures and ICD issue of IL&FS Energy Development Company Limited (IEDCL) factors in further moderation in the credit profile of the credit enhancement provider i.e. Infrastructure Leasing & Financial Services Limited (IL&FS) wherein the ratings are revised to CARE BB /CARE A4 (credit watch with negative implications) from CARE AA+ (credit watch with negative implications) /CARE A1+.

The revision in ratings assigned to various debt instruments and bank facilities of IL&FS is on account of build-up of liquidity pressure on the group due to delay in raising funds as envisaged. IL&FS is in the process of raising equity capital of Rs.4,500 crore by H1FY19 (refers to period from April 01 to September 30) by way of Rights Issue and additionally avail lines of credit to the tune of Rs.3,500 crore from its promoter entities for meeting near term liquidity needs and pursuing a deleveraging strategy involving asset sales at various group companies. However, lack of clarity on the fund infusion and impending sizeable repayment obligations in the near term due to elevated debt levels have significantly deteriorated the liquidity profile of the group. Further, the rating revision of IL&FS also takes into consideration the weakening in the credit profile of its energy vertical (housed in IL&FS Energy Development Company Limited; IEDCL) and engineering vertical (housed in IL&FS Engineering and Construction Company Limited; IECCL) which has further weakened the financial risk profile of the group.

Earlier in August, 2018, the ratings of IL&FS were revised 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, especially to its transport vertical (housed in IL&FS Transportation Networks Limited), whose standalone credit profile has witnessed significant deterioration in recent times. 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 than expected over a period resulting into moderation in the financial flexibility and corresponding increase in the debt levels. IL&FS has embarked upon several strategic measures for de-leveraging its balance sheet including capital infusion from existing shareholders and monetization of assets. The ratings continue to factor in IL&FS's strong institutional ownership, experienced

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

management and demonstrated track record and expertise in the infrastructure sector. IL&FS's ability to maintain adequate capitalization and leverage ratio with expected capital infusion and monetization of the assets through stake sale / exit while maintaining the profitability would be the key rating sensitivities.

The ratings continue to remain on 'credit watch with negative implications' on account of the group's pursuit of a strategic plan to de-leverage the balance sheet by way of equity infusion, reduction of debt by refinancing the exposures in group companies and monetization of certain identified (core as well as non-core) assets by end of FY19 (refers to period from April 01 to March 31). Given the heightened leverage levels and the immediate need to support the group entities, infusion of funds by means of equity capital and credit lines in a time bound manner would be critical; any delay would further exacerbate the company's financial profile. CARE Ratings would continue to monitor the progress made by the group with respect to these strategic initiatives. Timely progress with respect to these initiatives would be critical for the credit profile of the company and will be a key rating monitorable.

The rating of Rs. 100 crore will remain provisional till the receipt of final transaction documents such as Information Memorandum, Debenture Trustee Agreement, DSRA Support Undertaking and any other agreement and undertaking executed between the parties with respect to the debentures and the transactions contemplated under this undertaking to the satisfaction of CARE Ratings Limited.

For detailed rating rationale of IL&FS, please refer to our website www.careratings.com

For detailed rating rationale of IEDCL, please refer to our website www.careratings.com

Detailed description of the key rating drivers

Key Rating Strengths

DSRA support undertaking from IL&FS

IEDCL has received a Debt Service Reserve Account (DSRA) support undertaking from IL&FS to the effect that it shall arrange for necessary funds upon occurrence of **Deposit Shortfall Event**² and **Deposit Shortfall After Rating Event**³ 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 non-convertible debentures.

DSRA support undertaking from IL&FS in favour 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 next servicing date, in the event IEDCL is not able to meet such DSRA obligations throughout the tenure of proposed Non-Convertible Debentures.

However, since the DSRA support undertaking is neither unconditional nor irrevocable, recourse to the promoter remains limited in an event of default to only arranging the necessary funds towards scheduled debt obligation due on immediately succeeding payment date.

An unconditional and irrevocable support undertaking from IL&FS

An unconditional and irrevocable support undertaking from IL&FS in the favour of the long-term ICD holders to the effect that IL&FS will provide requisite support that will enable IEDCL to repay ICDs on due dates in the event IEDCL is not able to meet such obligations through its own resources.

About the Credit Enhancement Provider (i.e. IL&FS)

IL&FS is one of India's leading infrastructure development and finance companies promoted by Life Insurance Corporation of India (LIC), Housing Development Finance Corporation (HDFC) Central Bank of India (CBI), and State Bank of India.. IL&FS was established with twin mandates of providing financial services and to develop infrastructure projects under a commercial format. The shareholding pattern of the company has undergone a considerable change over the years with wider participation of other domestic as well as foreign institutional investors. IL&FS received certificate of registration as Core Investment Company (CIC-ND-SI) from RBI dated September 11, 2012.

² "**Deposit Shortfall Event**": means the occurrence of event where company (IEDCL) has failed to deposit the DSRA amount in the DSRA account within a period of 45 days from previous payment date to meet Scheduled **Debt Obligation**₁.

³ "**Deposit Shortfall After Rating Event**": means the occurrence of an event where the Company has failed to deposit such amounts in the DSRA Account, within a period of 45 (Forty Five) calendar days from the Rating Event Date that would increase the balance in the DSRA Account to **Scheduled Debt Obligation**₂

IL&FS's income profile constitutes interest income from loans given to subsidiaries/group companies, dividend received from subsidiaries (mainly IFIN, IEDCL, ITNL and IL&FS Investment Managers Ltd.), brand fees received from group companies, rental income from business centre and profit from divestment of its exposure in group entities.

Analytical approach: For arriving at rating of IEDCL's Non-Convertible Debentures and ICD Issue, CARE Ratings has considered credit profile of Infrastructure Leasing and Financial Services Limited (IL&FS) rated CARE BB/CARE A4(credit watch with negative implications)

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](#)

About the Company-IEDCL

IEDCL, a subsidiary in which Infrastructure Leasing & Financial Services Ltd. [IL&FS; rated CARE BB /CARE A4 (credit watch with negative implications)] 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 is 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.

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****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
Debentures-Non Convertible Debentures	18-05-2018	9.50%	28-05-2025	205.00	CARE BB- (SO) (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	28-05-2018	9.50%	28-05-2025	195.00	CARE BB- (SO) (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	NA	NA	NA	100.00	Provisional CARE BB- (SO) (Under Credit watch with Negative Implications)
Debt	NA	NA	NA	100.00	Provisional CARE BB (SO) (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	1)CARE A+ (Under Credit watch with	1)CARE A+; Stable (09-Oct-17)	1)CARE A+ (03-Nov-16)	1)CARE A (29-Jan-16)

				Negative Implications)	Negative Implications) (31-Aug-18)		2)CARE A+ (17-Jun-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 BB (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 BB- (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 (30-May-18) 4)Provisional CARE AA+ (SO); Stable (25-May-18) 5)Provisional CARE AA+ (SO); Stable (18-May-18)	1)Provisional CARE AA+ (SO); Stable (27-Mar-18) 2)Provisional CARE AA+ (SO); Stable (05-Feb-18)	-	-
9.	Debentures-Non Convertible Debentures	LT	195.00	CARE BB- (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 BB- (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)	-	-	-