

IL&FS Energy Development Company Limited

September 25, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating⁹	Rating Action
Long-Term - Non-Convertible Debentures- Tranche-I and Tranche II	400.00	CARE BB- [Double B Minus] (credit watch under negative implications)	Revised from CARE BB-(SO) [Double B Minus (Structured Obligation)] (credit watch under negative implications)
Proposed Long-Term-Non-Convertible Debentures-Tranche-III	100.00	Provisional CARE BB- [Provisional Double B Minus] (credit watch under negative implications)	Revised from Provisional CARE BB-(SO) [Provisional Double B Minus (structured obligation)] (credit watch under negative implications)
Long Term-Inter-Corporate Deposit (ICD) Issue	100.00	Provisional CARE BB- [Provisional Double B Minus] (credit watch under negative implications)	Revised from Provisional CARE BB (SO) [Provisional Double B (Structured Obligation)] (Credit watch with negative implications)
Total Facilities	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 (NCDs) and inter-corporate deposits (ICDs) of IL&FS Energy Development Company Limited (IEDCL) takes into account significant weakening of the credit profile of the credit enhancement provider i.e. Infrastructure Leasing & Financial Services Limited (IL&FS), wherein the ratings are revised from CARE BB /CARE A4 (credit watch with negative implications) to CARE D. Earlier, the ratings had factored in the credit enhancement provided by IL&FS on these structured instruments. However, with revision in ratings of IL&FS the DSRA or support undertakings in CARE ratings opinion do not provide any credit enhancement. Thus, CARE now analyses these instruments on standalone basis.

The ratings of IEDCL takes into account the deterioration in the liquidity profile of the company based on the weakening in the credit profile of the promoters, which had been providing need based support in the past. The rating also factors in limited ability and availability of IEDCL to upstream cash flows from its SPVs and its impaired financial flexibility along with the delay in one of the term loan not rated by CARE, which is yet to be repaid. The ratings are further tempered by high refinancing risk, given the sizable near term repayment obligation along with 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 ratings weaknesses however, continue to be partly mitigated by ~97% of operational capacity (2803.5 MW) of the total capacity (2903.5 MW) completed and largely stabilized with remaining 100MW capacity in advanced stages of completion. Further, the rating also factors in the diversified asset portfolio of IEDCL (Thermal, Wind, Solar, Gas), its moderate capital structure, along with the operationalization and stabilization of the thermal plant i.e. IL&FS Tamilnadu Power Company Limited (1200MW). The rating continues to reflect its established promoter group, viz. IL&FS, and the significant experience and proven track record of IEDCL in implementation of various large-sized power projects.

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

CARE notes that IEDCL has several plans to improve liquidity by monetizing the mature assets, re-financing its loans to longer maturity debt, and get support from promoters. The rating of IEDCL continues to remain on 'credit watch with negative implications' given the immediate need of support and liquidity, which has heightened the refinancing risk. The company's ability to receive need based support from the parent and its SPVs, 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 Limited and monetization of key investments in timely manner remain key rating sensitivities. The rating of Rs. 100 crore of NCD and ICD each would remain provisional till the receipt of final transaction documents such as Information Memorandum, Debenture Trustee Agreement and any other agreement to the satisfaction of CARE Ratings Limited.

Detailed description of the key rating drivers

Key Rating Weaknesses

Elevated refinancing risk

IEDCL has Rs. 744 crore of principal repayments (excluding group company loans) due in coming one year. As of June 30, 2018, the company had Rs. 13 crore in the unencumbered cash and bank balances and the maximum average utilisation has peaked to 86% in the past 12 months ending July 2018 against 45% during previous year in the same period. Historically, the company has been meeting its debt repayments either via monetizing its assets, refinancing with new loans or by support from promoters. The delay in the receipt of funds from these alternatives had led to weak liquidity and thus increased the refinancing risk. Timely receipt of funds and material deleveraging of debt will remain a key rating monitorable.

Weakened credit profile of the promoter and financial support provider, i.e. IL&FS

The revision of the rating on IL&FS from CARE BB/CARE A4+ (credit watch under negative implications) to CARE D was on account of recent instances of irregularities in servicing of debt. The liquidity profile of the group continues to be under stress on account of delay in raising funds from the promoters' and impending debt payments. Further, the company's plans to raise funds from promoters are yet to be finalized.

High counter-party risks, lack of long term revenue visibility for ITPCL U-II (600MW).

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 Unit-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 expects to sign a 3 years PPA with PTC India Limited at tariff of Rs. 4.25 per unit.

Key Rating Strengths

Part of established promoter group, IL&FS

IEDCL is a majority-owned subsidiary of IL&FS, which is one of the leading infrastructure development and finance companies in India promoted by the Central Bank of India (CBI), Life Insurance Corporation of India (LIC), Housing Development Finance Corporation (HDFC) and Unit Trust of India (UTI). Over the years, it has been involved in the development of various infrastructure projects in verticals like power, road, urban infrastructure and port. Thus, this signifies the ability of IL&FS in implementing large infrastructure projects and also carrying out Operation & Maintenance (O&M) of such projects.

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 2,803.5 MW along with 100MW 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.

Analytical approach: Originally CARE had considered credit profile of Infrastructure Leasing and Financial Services Limited (IL&FS, rated CARE D) for deriving the rating on these instruments. However, with revision in ratings of IL&FS the DSRA or support undertakings in CARE ratings opinion do not provide any credit enhancement. Thus, CARE now analyses these instruments on the credit quality of IEDCL, which is based on its consolidated financials.

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 D) 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 are 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
Debt	NA	NA	NA	100.00	Provisional CARE BB- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	May 18, 2018	9.50%	28-05-2025	205.00	CARE BB- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	May 28, 2018	9.50%	28-05-2025	195.00	CARE BB- (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	NA	NA	NA	100.00	Provisional CARE BB- (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 BB- (Under Credit watch with Negative Implications) (10-Sep-18) 2)CARE A+ (Under Credit watch with Negative Implications) (31-Aug-18) 3)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 BB- (Under Credit watch with Negative Implications) (10-Sep-18) 2)CARE A+ (Under Credit watch with Negative Implications) (31-Aug-18) 3)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 BB- (Under Credit watch with Negative Implications) (10-Sep-18) 2)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+ (22-Sep-16) 3)CARE A+ (17-Jun-16)	1)CARE A (29-Jan-16) 2)CARE A (09-Apr-15)

					3)CARE A+; Stable (18-May-18)			
4.	Debentures-Non Convertible Debentures	LT	300.00	CARE BB- (Under Credit watch with Negative Implications)	1)CARE BB- (Under Credit watch with Negative Implications) (10-Sep-18) 2)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 Negative Implications)	1)CARE BB- (Under Credit watch with Negative Implications) (10-Sep-18) 2)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)
6.	Fund-based - ST-Term loan	-	-	-	-	1)CARE A1 (09-Oct-17)	-	-
7.	Debt	LT	100.00	Provisional CARE BB- (Under Credit watch with Negative Implications)	1)Provisional CARE BB (SO) (Under Credit watch with Negative Implications) (10-Sep-18) 2)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- (Under Credit watch with Negative	1)CARE BB- (SO) (Under Credit watch with Negative	1)Provisional CARE AA+ (SO); Stable (27-Mar-18)	-	-

				Implications)	Implications) (10-Sep-18) 2)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 3)CARE AA+ (SO); Stable (08-Jun-18) 4)Provisional CARE AA+ (SO); Stable (30-May-18) 5)Provisional CARE AA+ (SO); Stable (25-May-18) 6)Provisional CARE AA+ (SO); Stable (18-May-18)	2)Provisional CARE AA+ (SO); Stable (05-Feb-18)		
9.	Debentures-Non Convertible Debentures	LT	195.00	CARE BB- (Under Credit watch with Developing Implications)	1)CARE BB- (SO) (Under Credit watch with Negative Implications) (10-Sep-18) 2)CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 3)CARE AA+ (SO); Stable (08-Jun-18) 4)CARE AA+ (SO); Stable (30-May-18) 5)Provisional CARE AA+ (SO); Stable (25-May-18) 6)Provisional CARE AA+ (SO); Stable (18-May-18)	-	-	-
10.	Debentures-Non	LT	100.00	Provisional	1)Provisional	-	-	-

	<p>Convertible Debentures</p>			<p>CARE BB- (Under Credit watch with Negative Implications)</p>	<p>CARE BB- (SO) (Under Credit watch with Negative Implications) (10-Sep-18) 2)Provisional CARE AA (SO) (Under Credit watch with Negative Implications) (16-Aug-18) 3)Provisional CARE AA+ (SO); Stable (08-Jun-18)</p>			
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