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ICRA reaffirms the LBBB rating assigned to the enhanced bank facilities of GMR Vemagiri Power Generation Limited; assigns stable outlook

ICRA has reaffirmed the LBBB (pronounced as L Triple B) rating assigned to the Rs. 607 crore¹ term loan programme and the Rs. 40 crore fund based limits of GMR Vemagiri Power Generation Limited² (Vemagiri Power)[†]. The outlook on the rating is stable. ICRA has also assigned an LBBB rating to the Rs. 100 crore fund based limits of Vemagiri Power.

The rating reaffirmation factors in the strengths arising from the presence of a long-term PPA (expiring in 2029) with Andhra Pradesh (AP) based power distribution companies (DISCOMs), the continued supply of gas to the plant pursuant to a firm fuel supply agreement (FSA) with Reliance Industries Limited (RIL) and Niko Limited (NECO) expiring in March 2014 and the successful continuous operation of the plant since April 2009. The PPA with APDISCOMs which provides for the complete pass-through of fuel costs and the recovery of fixed costs on the basis of availability also supports Vemagiri Power's credit profile. The rating is however constrained by Vemagiri Power's weak financial profile as reflected in the past accumulated losses³ and the high level of leveraging (7.14 times as on March 31, 2010) given the substantial erosion in net worth in the past. ICRA also notes that the FSA with RIL/NECO is for a limited period of five years; thus the ability to obtain fuel supply from RIL/NECO or any other supplier after 2014 would be critical.

Company Profile:

Vemagiri Power, 100% owned by GMR Energy, owns a combined cycle gas based project of a capacity of 388.5 MW near KG Basin in the state of Andhra Pradesh. The project cost as on end of December 2007 stood at Rs. 1140 crore. The construction of the plant was completed in June 2006 and declared to be commissioned in September 2006, however, thereafter the plant had remained non-operational due to non-availability of gas till January 2008. From February 2008, the plant had been operating intermittently on gas diverted from other power plants as per the directive of the Andhra Pradesh Government. Vemagiri Power has been receiving gas pursuant to an FSA with RIL since April 2009. The company has a Power Purchase Agreement (PPA) which has been now allocated towards four state distribution companies subsequent to unbundling of erstwhile AP State Electricity Board on functional lines. Further, due to non-availability of gas, the PPA has been amended on certain important terms such as deletion of alternate fuel clause, extension of PPA term by eight years (now with extension, PPA period stands at 23 years) and permission for third party sale to the extent of 18.5 MW.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

¹100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² Formerly Vemagiri Power Generation Limited

³ While Vemagiri Power's plant was commissioned in September 2006, the unavailability of gas supply together with the amendment of the alternate fuel clause in the PPA (pursuant to which the plant could not declare availability with alternate fuels other than gas) had resulted in the intermittent running of the plant till April 2009.

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