



September 21, 2010

ICRA Assigns IPO Grade 4 to proposed IPO of Avantha Power & Infrastructure Limited

ICRA has assigned an IPO Grade 4 to the proposed IPO of Avantha Power & Infrastructure Limited (APIL), indicating above average fundamentals. ICRA assigns IPO gradings on a scale of IPO Grade 5 to IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

APIL proposes to come out with an Initial Public Offer (IPO) of Rs. 1250 crore through the book building route. The IPO proceeds are proposed to be used to partially finance the construction and development of Chhattisgarh Power Project (Phase I), to partially finance the construction and development of Madhya Pradesh Power Project (Phase I), to fund general corporate expenditure.

The IPO Grade assigned by ICRA factors in the buoyant prospects for the power generation business given the large power deficits in most part of the country, its proximity to domestic coal sources which is likely to result in a competitive cost of generation and satisfactory progress made towards the implementation of the under construction projects aggregating to 1200 MW. The company has received the key approvals required for setting up of the projects, acquisition of a substantial portion of the land required for the projects has been completed and financial closure has been achieved. The grading also takes into account strengths derived from being a part of the Avantha group, which is a conglomerate with interests in diverse industries and the group's demonstrated support to APIL in terms of equity infusion over the past few years for funding of these projects. The grading is however constrained by the implementation risks, which although typical for greenfield projects, is amplified by the early stage of implementation. The implementation risks are mitigated to an extent by the company's strong in-house team of experienced technical personnel and the reputed equipment suppliers and contractors engaged for the projects. Also, while the company has a Letter of Assurance (LoA) for supply of coal, however, the ability of the company to get assured availability of coal through domestic linkages will be crucial for cost competitiveness and returns. Of the 1200 MW of under construction capacity, the company has long term off-take arrangements for 630 MW with the Chhattisgarh and Madhya Pradesh State Governments and Reliance Energy Trading Limited. The balance 570 MW is yet to be tied up, however, offtake risk for the same is likely to be low given the demand supply mismatch in the country. Moreover, the company's strategy to supply 30% power through short term offtake arrangements / merchant power would result in superior returns.

Company Profile:

Avantha Power & Infrastructure Limited (APIL) is part of the Avantha Group which is a conglomerate with interests in diverse industries such as power transmission and distribution equipment (through Crompton Greaves Limited), paper and pulp industry (through Ballarpur Industries Limited) and other businesses such as food processing, farm and forestry and chemicals. APIL was formed pursuant to the de-merger of the power business of Ballarpur Industries Limited (BILT) in April 2006. As per the scheme of de-merger, the assets, rights and obligations of the power related business of BILT were transferred to APIL. Currently, the company has 191 MW of operational capacities and 2400 MW of capacities are under various stages of implementation. APIL is developing a 1200 MW (2X600 MW) power plant in Raigarh, Chhattisgarh which is being developed by APIL's almost 100% subsidiary – Korba West Power Company Limited (KWPC). APIL is also developing a 1200 MW (2X600 MW) power plant in Seoni, Madhya Pradesh which is being developed by APIL's almost 100% subsidiary – Jhabua Power Limited (JPL). Both these projects are being implemented in two phases of 600 MW each. The company is also planning to develop a 1320 MW (2X660 MW) power plant in Gujarat, however, this project is in initial stages of planning. For FY 2009, the company reported operating income of Rs. 327.64 crore and profit after tax of Rs. 9.92 crore on a consolidated basis. For H1 FY

PRESS RELEASE

Disclaimer: ICRA Ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA Ratings are subject to a process of surveillance, which may lead to revision in ratings. Please visit our website (www.icra.in) or contact any ICRA office for the latest information on ICRA Ratings outstanding.



ICRA Limited

An Associate of Moody's Investors Service

2010, the company reported operating income of Rs. 191.55 crore and profit after tax of Rs. 3.31 crore.

(September 2010)

For further details please contact:

Analyst Contacts:

Mr. Sabyasachi Majumdar (Tel. No. +91-124-4545304)
sabyasachi@icraindia.com

Relationship Contacts:

Mr. Vivek Mathur (Tel. No. +91-124-4545310)
vivek@icraindia.com

Disclaimer: Notwithstanding anything to the contrary: An ICRA IPO grade is a statement of current opinion of ICRA and is not a statement of appropriateness of the graded security for any of the investors. Such grade is assigned with due care and caution on the basis of analysis of information and clarifications obtained from the issuer concerned and also other sources considered reliable by ICRA. However, ICRA makes no representation or warranty, express or implied as to the accuracy, authenticity, timeliness, or completeness of such information. An ICRA IPO grade is not (a) a comment on the present or future price of the security concerned (b) a certificate of statutory compliance and/or (c) a credit rating. Further, the ICRA IPO grade is not a recommendation of any kind including but not limited to recommendation to buy, sell, or deal in the securities of such issuer nor can it be considered as an authentication of any of the financial statements of the company, and ICRA shall not be liable for any losses incurred by users from any use of the grade in any manner. It is advisable that the professional assistance be taken by any prospective investor in the securities of the company including in the fields of investment banking, tax or law while making such investment. All services and information provided by ICRA are provided on an "as is" basis, without representations and warranties of any nature.

PRESS RELEASE

Disclaimer: ICRA Ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA Ratings are subject to a process of surveillance, which may lead to revision in ratings. Please visit our website (www.icra.in) or contact any ICRA office for the latest information on ICRA Ratings outstanding.