March 01, 2017

Reliance Power Limited

Instrument*	Rated Amount	Rating Action
Non Fund Based Limit (B/G and L/C)	Rs. 4770 crores	[ICRA]A- (Stable) and [ICRA]A1 Reaffirmed; outlook revised to 'Stable' from 'Negative'
Long Term Loans	Rs. 1125 crores^	[ICRA]A- (Stable) Reaffirmed; outlook revised to 'Stable' from 'Negative'
Long Term - Fund Based Limits	Rs. 80 crores	[ICRA]A- (Stable) Reaffirmed; outlook revised to 'Stable' from 'Negative'
Short Term – Non fund based Limits	Rs. 40 crores	[ICRA]A1 Reaffirmed
Commercial Paper/ Short-term debt Programme/Non-Convertible Debentures (with maturity of less than one year)	Rs. 1000 crores	[ICRA]A1 Reaffirmed

*Instrument Details are provided in Annexure-1
^*includes ECB of US$ 25 mn

Rating Action

ICRA has reaffirmed the long-term rating assigned to the non fund based facility, aggregating to Rs. 4770 crore[1] (reduced from Rs. 5200 crore) of Reliance Power Limited (R-Power) at [ICRA]A- (pronounced as ICRA A minus) while the short term rating is reaffirmed at [ICRA]A1 (pronounced as ICRA A one)[2]. ICRA has also reaffirmed the long-term rating of [ICRA]A- (pronounced as ICRA A minus) to Rs. 1125 crore term loan facility (enhanced from Rs. 695 crore) and Rs. 80 crore fund based facility of R-Power. ICRA has also reaffirmed short-term rating of [ICRA]A1 (pronounced as ICRA A one) to Rs. 40 crore short-term non-fund based facility and Rs. 1000.0 crore commercial paper programme/ short-term debt programme/ Non-Convertible Debentures (with maturity of less than one year) of R-Power. The outlook on the long term rating has been revised to 'Stable' from 'Negative'.

Rationale

The revision in the outlook is on account of satisfactory operational performance of its three major projects. i.e. Rosa Power Project (1200 MW), Vidarbha Industries Power Limited (600 MW) and Sasan Power (3960 MW) since commencement of their operations and timeliness in cash collections from their respective off-takers. Further, ICRA also takes note of a cash flow relief available in medium term for Sasan Power project under 5/25 refinancing of its Rupee Term Loan as well as receipt of favourable order by CERC for tariff adjustment on account of 'Change in law during operations period', 'Change in law related to Electricity Duty' and 'Change in law during construction period'. In ICRA's view, the SPL's key credit metrics remain dependent on its ability to sustain high level of operating performance and ensure all costs to be within budgeted parameters. The ratings continue to draw strengths from the company's strong capitalization and satisfactory financial flexibility as demonstrated in its ability to tie-up loans at favorable terms with domestic & overseas lenders for its ongoing projects.

1 100 lakh = 1 crore = 10 million
[2] For complete rating definition please refer to ICRA Website www.icra.in or any of the ICRA Rating Publications

The ratings however remains constrained on account of high risk profile of the company's subsidiaries, especially Samalkot project and larger support from the company to meet the debt servicing obligations of some of its subsidiaries. The debt servicing for Samalkot project has started from April 2015 and is being undertaken with the support of R-Power presently, given that the debt undertaken by its subsidiary Samalkot Power Limited is backed by the corporate guarantee from R-Power. Also, dues to Reliance Infrastructure Ltd of (~ Rs. 2400 Crore) against the EPC work by Samalkot Power Ltd is also a credit concern.

The ratings also take into account its status as mainly a holding company with limited asset base and revenue streams (except for Wind 45 MW project). ICRA also notes that projects remain exposed to counter-party credit risks associated with sale of power to state-owned distribution utilities as well as fuel supply risks, both for coal & gas. ICRA however notes that the counter-party credit risks are mitigated partially through adequate payment security mechanisms and fuel cost is a pass-through in a cost plus based PPA, which in turn mitigates fuel price risk for its thermal power projects (Rosa and Butibori). In case of Sasan Power project, resolution for tariff compensation for forex variation remains uncertain.

While the company maintains modest borrowing levels on standalone basis, the consolidated capital structure is moderate with gearing of 1.30 times as on Sept 30, 2016. Any higher incidence of leveraging to fund equity commitments in project SPVs remains a key rating sensitivity.

Key rating drivers

Credit Strengths

- Strong capitalization as reflected in net worth position of Rs. 21429 Crore as on September 30, 2016
- Operational Rosa Power Project (1200 MW) & Butibori Power project (600 MW) have long term Power Purchase Agreements (PPAs) based on cost-plus based tariffs with the utilities
    - Satisfactory operational performance of both these projects since its commencement of commercial operations; also timeliness in cash collections from their respective off-takers.
- Sasan Ultra Mega Power Project (3960 MW) declared CoD in March 2015 (3960 MW) and has long term PPAs with cost-competitive tariff in place with all the procurers.
    - Reported strong operating performance with a PLF of 90% and 80% during FY2016 and H1 FY2017 respectively
    - Cash flow relief for the project under 5/25 refinancing of debt as well as receipt of favourable order by CERC for tariff adjustment on account of 'Change in law during operations period' and 'Change in law related to electricity duty'.
- Satisfactory financial flexibility as demonstrated in its ability to tie-up loans at favorable terms with domestic & overseas lenders for its ongoing project
- Current operational capacity of 5945 MW presently

Credit Concerns

- Status as mainly a holding company with limited asset base and revenue streams (except for Wind 45 MW project)
- Uncertainty with regards to the Samalkot project; given that debt raised by Samalkot Power Ltd is backed by the corporate guarantee from R-Power, which will be required till such time that gas allocation and long term PPA is in place
  - Debt servicing for Samalkot project has started from April 2015 and is being done by R-Power
  - Dues to Reliance Infrastructure Ltd of (~ Rs. 2400 Crore) against the EPC work by Samalkot Power Ltd
  - Due to lack of gas supply in India, the company plans to shift equipments of 1500 MW capacity to Bangladesh out of the total planned capacity of 2250 MW at Samalkot; expected investment is around Rs. 7000 Crore including amount already invested in India by the company for procurement of equipments; however, the project is at development stage
- With regards to Sasan project, regulatory uncertainty prevails on tariff compensation requests to APTEL by the company on account of losses due to rupee depreciation
  - Sustenance of high level of operating performance remains extremely crucial from the credit perspective
- Exposure to counter-party credit risks associated with sale of power to state-owned distribution utilities; however adequate payment security mechanisms mitigates the same partially
- Moderate capital structure (gearing of 1.30 times as on Sept 30, 2016**)**

Sensitivities

- Extent of leveraging the balance sheet to raise funds to meet equity commitments and/or cash flow mismatches in its project SPVs remain a key rating sensitivity
- Any large debt funded capex undertaken by the company, either directly or through SPV

Description of key rating drivers highlighted above: The company's generation capacity stands at 5945 MW which includes 5760 MW of thermal capacity and 185 MW of renewable energy based capacity. Its operational projects include Rosa Project at Shahajahnapur, Uttar Pradesh (1200 MW); Butibori Project at Nagpur, Maharashtra (600 MW), Ultra Mega Power Project (UMPP) at Sasan (3960 MW); Solar PV Project at Dhursar, Rajasthan (40 MW), Concentrated Solar Power Project at Pokhran, Rajasthan (100 MW) and Wind Project at Vashpet, Maharashtra (45 MW). The financial performance of Rosa Power Project with entire capacity tied-up in a cost-plus based long term PPA with Uttar Pradesh Power Corporation Ltd (UPPCL), has remained satisfactory, as evident from actual returns remaining higher as compared to allowed returns as a result of efficiency gains & savings in operating cost. Further, the cash collections from UPPCL have remained satisfactory as on date. Also, Vidarbha Industries Power Limited (VIPL), which has a long-term PPA with R-Infra on a "cost-plus" basis for 25 years April 01, 2014 onwards for its entire capacity of 600 MW, has also reported satisfactory operating performance during FY2016 and YTD FY2017.

ICRA also takes note of the strong operating performance of Sasan Power Limited (SPL) with PLF of 90% and 80% during FY2016 and H1 FY2017 respectively and receipt of favourable tariff order on account of 'Change in law during operations period' and 'change in law related to electricity duty'. However, regulatory uncertainty prevails on tariff compensation requests on account of losses due to rupee depreciation. Also, cash flow relief available to the project post implementation of 5/25 scheme by the Rupee Term Loan lenders which elongates the debt repayment period. In ICRA's view, the SPL's key credit metrics remain dependent on its ability to sustain high level of operating performance and ensure all costs to be within budgeted parameters.

The ratings continue to draw strengths from the company's strong capitalization and satisfactory financial flexibility as demonstrated in its ability to tie-up loans at favorable terms with domestic & overseas lenders for its ongoing projects. The ratings however remains constrained on account of high risk profile of the company's subsidiaries, especially Samalkot project and larger support from the company to meet the debt servicing obligations of some of its subsidiaries. The debt servicing for Samalkot project has started from April 2015 and is being undertaken with the support of R-Power presently, given that the debt undertaken by its subsidiary Samalkot Power Limited is backed by the corporate guarantee from R-Power. Additionally, payment of EPC dues to Reliance Infrastructure (~ Rs. 2400 Crore) is a credit concern. With concerns related to gas availability in India, the company plans to shift equipments of 1500 MW capacity in a phased manner to Bangladesh out of the total planned capacity of 2250 MW at Samalkot. The project would be undertaken in phases of 750 MW each. R-Power received an in-principle approval in April 2016 for development of Phase I which consist of 750 MW Gas based combined cycle power plant along with 500 mmscfd FSRU LNG terminal. Expected investment of the same is around Rs. 7000 Crore, excluding the amount already invested in India by the company for procurement of equipments. The project is at development stage presently.

The ratings also take into account its status as mainly a holding company with limited asset base and revenue streams (except for Wind 45 MW project). ICRA also notes that projects remain exposed to counter-party credit risks associated with sale of power to state-owned distribution utilities as well as fuel supply risks, both for coal & gas. ICRA however notes that the counter-party credit risks are mitigated partially through adequate payment security mechanisms and fuel cost is a pass-through in a cost plus based PPA, which in turn mitigates fuel price risk for its thermal power projects (Rosa and Butibori).

The overall net-worth position remains strong at Rs. 21429 crore as on September 30, 2016 on consolidated basis. The gearing levels however remains moderate at 1.30 times as on September 30, 2016 as the debt level (on consolidated basis) remains high on account of debt taken by various project SPVs. On a standalone basis, the company's external debt stood at Rs. 1520 Crore While the company maintains limited borrowing levels on standalone basis, any higher incidence of leveraging to fund equity commitments in project SPVs, also remains key rating sensitivity.

Analytical approach: While reaffirming the ratings, ICRA has taken a consolidated view of RPL and its subsidiaries and associate companies since they operate in the same line of business, have operational linkages and share a common management.

Links to applicable Criteria
IPPs and Power Generation Projects

About the Company:
Reliance Power Limited, a part of Reliance Group, promoted by Mr. Anil D Ambani, is the primary vehicle for investments in the power generation sector. The company came out with an IPO in February 2008 and raised Rs. 11560 crores for funding of equity contribution for some of the identified projects. As on December 2016, the company's generation capacity stands at 5945 MW which includes 5760 MW of thermal capacity and 185 MW of renewable energy based capacity. Its operational projects include Rosa Project at Shahajahnapur, Uttar Pradesh (1200 MW); Butibori Project at Nagpur, Maharashtra (600 MW), Ultra Mega Power Project (UMPP) at Sasan (3960 MW); Solar PV Project at Dhursar, Rajasthan (40 MW), Concentrated Solar Power Project at Pokhran, Rajasthan (100 MW) and Wind Project at Vashpet, Maharashtra (45 MW). The company is currently focused on implementation of Samalkot project presently, though the same is in development stage

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	**Name of Instrument**	**Current Rating**			**Chronology of Rating History for the past 3 years**			
		Type	**Rated amount (Rs. Crores)**	**Month-year & Rating**	**Month-year & Rating in FY2016**	**Month- year & Rating in FY2015**		**Month-year & Rating in FY2014**
				March 2017	**Feb 2016**	**Jan 2015**	**July 2014**	**Jan 2014**
1	Non Fund Based Limit (B/G and L/C)	Long-Term / Short-Term	4770	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A-(Negative)/ [ICRA]A1	[ICRA]A-(Negative)/ [ICRA]A1	[ICRA]A-(Negative) & [ICRA]A1 (Rating on watch)	[ICRA]A-(Negative)/ [ICRA]A1
2	Long Term Loans	Long-Term	1125	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	-	-
3	Long Term - Fund Based Limits	Long-Term	80	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	-	-
4	Short Term – Non fund based Limits	Short-Term	40	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-
5	Commercial Paper/ Short-term debt Programme/Non-Convertible Debentures*	Short-Term	1000	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1 (Rating on watch)	[ICRA]A1

*with maturity of less than one year

Complexity level of the rated instrument:

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

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Non Fund Based Limit (B/G and L/C)	-	-	-	4700	[ICRA]A- (Stable)/ [ICRA] A1
Long Term Loan 1	FY2015	-	FY2018	320	[ICRA]A- (Stable)
Long Term Loan 2	FY2015	-	FY2030	25	[ICRA]A- (Stable)
Long Term Loan 3	FY2017	-	FY2023	105	[ICRA]A- (Stable)
Long Term Loan 4	FY2016	-	FY2021	200	[ICRA]A- (Stable)
Long Term Loan 5	FY2017	-	FY2021	200	[ICRA]A- (Stable)
Long Term Loan 6	FY2017	-	FY2030	125	[ICRA]A- (Stable)
Long Term Loan 7^	FY2013	-	FY2024	150	[ICRA]A- (Stable)
Long Term - Fund Based Limits	-	-	-	80	[ICRA]A- (Stable)
Short Term – Non fund based Limits	-	-	-	40	[ICRA] A1
Commercial Paper/ Short-term Non-Convertible Debentures (NCD) 1	Jan 2017	9.75%	July 2017	20	[ICRA] A1
Commercial Paper/ Short-term Non-Convertible Debentures (NCD) 2	Jan 2017	10.60%	Jan 2018	60	[ICRA] A1
Commercial Paper/ Short-term Non-Convertible Debentures (NCD) 3	March 2016	11.50%	March 2017	250	[ICRA] A1
Commercial Paper/ Short-term Non-Convertible Debentures (NCD) 4	July 2016	10.20%	July 2017	250	[ICRA] A1
Commercial Paper/ Short-term Non-Convertible Debentures (NCD) 5	To be issued	NA	NA	420	[ICRA] A1

^ ECB of US$ 25 mn
*with maturity of less than one year; O/s of Rs. 580 Crore as on January 31, 2017
Source: Reliance Power Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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