ICRA

August 11, 2017

Reliance Power Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. Crore)	Rating Action
Non Fund Based Limit (B/G and L/C)	3712	[ICRA]BBB (Stable) and [ICRA]A2; downgraded from [ICRA]A- (Stable) and [ICRA]A1
Long Term Loans	2183^	[ICRA]BBB (Stable); downgraded from [ICRA]A- (Stable)
Long Term - Fund Based Limits	80	[ICRA]BBB (Stable); downgraded from [ICRA]A- (Stable)
Short Term – Non fund based Limits	40	[ICRA]A2; downgraded from [ICRA]A1
Commercial Paper/ Short-term debt Programme/Non-Convertible Debentures (with maturity of less than one year)	1000	[ICRA]A2; downgraded from [ICRA]A1

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

Rating Action

ICRA has downgraded the long-term and the short-term ratings outstanding to the bank limits aggregating to Rs. 6015 crore[1] of Reliance Power Limited (R-Power) from [ICRA]A- (pronounced as ICRA A minus) and [ICRA]A1 (pronounced as ICRA A one) respectively to [ICRA]BBB (pronounced ICRA triple B) and [ICRA]A2 (pronounced ICRA A two)[2] respectively. ICRA has also downgraded the short-term rating outstanding to the Rs. 1000.0 crore commercial paper programme/ short-term debt programme/ Non-Convertible Debentures (with maturity of less than one year) of R-Power from [ICRA]A1 (pronounced as ICRA A one) to [ICRA]A2 (pronounced ICRA A two). The outlook on the long-term rating is 'Stable'.

Rationale

The revision in the ratings consider the increase in the leveraging levels during Q4 FY 2017 at R-Power and increased refinancing risks. Further, the debt servicing for the Samalkot project, which has started from April 2015, is being undertaken by R-Power presently. Furthermore, the financial performance of the 100 MW Concentrated Solar Power (CSP) project executed under one of R-Power's subsidiary continues to operate with modest PLF levels 7.2% in FY2017 resulting in significant cash flow mismatches.

The ratings, however, favourably take into account the satisfactory operational performance of its three major projects. i.e. Rosa Power Project (1200 MW), Vidarbha Industries Power Limited (VIPL, 600 MW) and Sasan Power (3960 MW) since commencement of their operations and timeliness in cash collections from their respective off-takers. Further, cash flow relief is available in medium term for Sasan Power project under 5/25 refinancing of INR denominated term loan as well as receipt of favourable order by CERC for tariff adjustment on account of 'Change in law during operations 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.

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 also take into account R-Power's status as a holding company with limited asset base and revenue streams (except for 45 MW Wind Project). ICRA also notes that various projects under the company 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 and gas. ICRA, however, notes that the counter-party credit risks are mitigated partially through adequate payment security mechanisms, availability of coal under FSA 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).
With concerns related to domestic gas availability in India, the company plans to deploy equipments of 750 MW capacity to Bangladesh, out of the total planned capacity of 2250 MW at Samalkot. Expected investment in setting up the project in Bangladesh is Rs. 6500 crore, which also comprises of capex for floating LNG terminal as well as the amount already invested in India by the company for procurement of equipment. R-Power has received the Letter of Intent (LOI) as well as initialled a definite PPA (cost plus based) with Bangladesh Power Development Board (BPDB) for 750 MW Phase I gas-fired plant and expects financial closure to be achieved in the near term. The company would, however, remain exposed to project execution risk with relocation of Samalkot gas based project to Bangladesh.
While the company has monetisation plans of the non-core assets of R-Power which includes hydro projects, Krishnapattanam Ultra Mega Power Projects (UMPP), Tilaiyaa UMPP among others, timeliness of the same remains critical from credit perspective.

Key rating drivers

Credit Strengths

- **Operational Rosa Power Project (1200 MW) and Butibori Power project (600 MW) have Power Purchase Agreements (PPAs) based on cost-plus based tariffs with the utilities-** The financial performance of Rosa Power Project with entire capacity tied-up in a cost-plus based long term Power Purchase Agreement (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 and 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 from April 01, 2014 onwards for its entire capacity of 600 MW, has also reported satisfactory operating performance during FY2017.

- **Sasan Ultra Mega Power Project (3960 MW) declared CoD in March 2015 and has long term PPAs with cost-competitive tariff in place with all the procurers-** ICRA also takes note of the operating performance of Sasan Power Limited (SPL) with PLF of 85% during FY2017. Also, cash flow relief available to the project under 5/25 scheme by the lenders which elongates the debt repayment period of its INR denominated term loans. 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.

Credit weaknesses

- **Significant increase in the leveraging levels at standalone level and associated refinancing risk-** There has been a increase in the leveraging levels during Q4 FY 2017 at R-Power (standalone level) which has resulted in high interest expenses and a decline in net margins during Q1 FY 2018. The additional term loans have been primarily deployed in the Special Purpose Vehicles (SPVs) to meet the cash flow mismatches. With significant debt repayment obligations in the near to medium term, the company also remains exposed to refinancing risk to certain extent.

- **Status as mainly a holding company with limited asset base and revenue streams (except for Wind 45 MW project)-** The ratings assigned to R-Power remains constrained owing to the fact that it is mainly a holding company with limited asset base and revenue streams (except for Wind 45 MW project). As a result, debt servicing by the company remains dependent on the timely ploughing back of funds from the project SPVs.

- **Significant uncertainty with regards to the Samalkot project; given that debt raised by Samalkot Power Ltd is backed by the corporate guarantee from R-Power; ability of the company to successfully deploy part of the equipment to Bangladesh and successfully execute the project remains critical–** As the Samalkot project is currently non-operational, debt servicing for the project, which commenced in April 2015, has been met through infusion of funds from R-Power. With concerns related to gas availability in India, the company is currently planning to deploy the unused equipment of 750 MW capacity to Bangladesh, out of the total planned capacity of 2250 MW at Samalkot. R-Power has received LOI and initialled a definite PPA with Bangladesh Power Development Board (BPDB) for 750MW Phase I gas-fired plant which is similar to cost-plus ROE model and includes: 1) dollar-denominated tariff with an assured ROE, 2) Gas cost pass through at pre-determined station heat rate, and 3) recovery of capacity charges at fixed availability. The company would also be setting up a 500 mmscfd Floating Storage Regasification Unit (FSRU) Liquefied Natural Gas terminal. Expected investment of the same is around Rs. 6500 crore, including the amount already invested in India by the company for procurement of equipments. With relocation of this project to Bangladesh, it would remain exposed project execution risk.

- **Modest key project metrics for Sasan Power Limited due to significant cost overrun following depreciation of INR vis-a-vis US dollar:** Sasan Power Limited's key credit metrics remains modest due to significant cost-overruns and is dependent on the ability of the company to sustain high level of operating performance and ensure all costs to be within the budgeted parameters.

- **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:** The 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, availability of fuel under FSA and fuel cost is a pass-through in a cost plus based PPA, which in turn mitigates price risk for its thermal power projects (Rosa and Butibori).

Sensitivities

- Successful relocation of Samalkot's equipment and timely execution of the gas based power project in Bangladesh
- Successful monetization of assets viz. balance hydro projects, Krishnapattanam UMPP, Tilaiyaa UMPP in a timely manner
- Leveraging levels to raise funds to meet equity commitments and/or cash flow mismatches in its project SPVs
- Any large debt funded capex undertaken by the company, either directly or through SPV

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria

[Rating Methodology for Thermal Power Producers]

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 March 2017, 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), 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).
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years
Table

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 FY2017	Month-year & Rating in FY2016	Month- year & Rating in FY2015	
				August 2017	Mar 2017	Feb 2016	Jan 2015	July 2014
1	Non Fund Based Limit (B/G and L/C)	Long-Term / Short-Term	3712	[ICRA]BBB (stable)/ [ICRA]A2	[ICRA] A-(Stable)/ [ICRA]A1	[ICRA] A-(Negative) / [ICRA]A1	[ICRA] A-(Negative) / [ICRA]A1	[ICRA]A-(Negative) & [ICRA]A1 (Rating on watch)
2	Long Term Loans	Long-Term	2183	[ICRA]BBB (stable)	[ICRA] A-(Stable)	[ICRA] A-(Negative)	[ICRA] A-(Negative)	-
3	Long Term - Fund Based Limits	Long-Term	80	[ICRA]BBB (stable)	[ICRA] A-(Stable)	[ICRA] A-(Negative)	[ICRA] A-(Negative)	-
4	Short Term – Non fund based Limits	Short-Term	40	[ICRA]A2	[ICRA]A1	[ICRA]A1	[ICRA]A1	-
5	Commercial Paper/ Short-term	Short-Term	1000	[ICRA]A2	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1 (Rating on watch)

	debt Programme/ Non-Convertible Debentures *							

*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)	-	-	-	3712	[ICRA]BBB (stable)/ [ICRA]A2
Long Term Loans	-	-	FY 2030	2183	[ICRA]BBB (stable)
Long Term - Fund Based Limits	-	-	-	80	[ICRA]BBB (stable)
Short Term – Non fund based Limits	-	-	-	40	[ICRA]A2
Commercial Paper (CP)/ Short-term (ST) Non-Convertible Debentures (NCD) 1	Mar-17	10.6%	Mar-18	250	[ICRA]A2
CP/ ST NCD 2	Jan-17	10.6%	Jan-18	60	[ICRA]A2
CP/ ST NCD 3	Jul-16	10.2%	Jun-18	250	[ICRA]A2
CP/ ST NCD 4	Apr-17	8.75%	Apr-18	50	[ICRA]A2
CP/ ST NCD 5	May-17	8.50%	Mar-18	32.5	[ICRA]A2
CP/ ST NCD 6	Mar-17	9.50%	Sep-17	10	[ICRA]A2
CP/ ST NCD 7	Jun-17	8.20%	Sep-17	25	[ICRA]A2
CP/ ST NCD 8	Jun-17	8.75%	Apr-18	25	[ICRA]A2
CP/ ST NCD 9	Jun-17	8.75%	May-18	25	[ICRA]A2
CP/ ST NCD	To be issued	-	-	272.5	[ICRA]A2

^ includes ECB of US$ 25 mn
*with maturity of less than one year o/s as of Rs 727.50 as of August 11,2017
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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