Reliance Power Limited

August 03, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Non-Convertible debentures (NCD)	1000	1000	[ICRA]BB(Negative) ISSUER NOT COOPERATING*; revised from [ICRA]BBB(Negative); Rating continues to remain under 'Issuer Not Cooperating' category
Non Fund Based Limit (B/G and L/C)	3712	3712	[ICRA]BB(Negative)/[ICRA]A4 ISSUER NOT COOPERATING*; revised from [ICRA]BBB (Negative)/[ICRA]A2; Rating continues to remain under 'Issuer Not Cooperating' category
Long Term Loans	2183^	2183^	[ICRA]BB(Negative) ISSUER NOT COOPERATING*; revised from [ICRA]BBB (Negative) ISSUER NOT COOPERATING
Long Term - Fund Based Limits	80	80	[ICRA]BB (Negative) ISSUER NOT COOPERATING*; revised from [ICRA]BBB(Negative); Rating continues to remain under 'Issuer Not Cooperating' category
Short Term – Non fund based Limits	40	40	[ICRA]A4 ISSUER NOT COOPERATING*; revised from [ICRA]A2; Rating continues to remain under 'Issuer Not Cooperating' category
Commercial Paper/ Short-term debt Programme/ NCD (with maturity of less than one year)	1000	1000	[ICRA]A4 ISSUER NOT COOPERATING*; revised from [ICRA]A2; Rating continues to remain under 'Issuer Not Cooperating' category
Total	**8015**	**8015**	

^includes ECB of US$ 25 mn; *issuer not cooperating for submission of monthly no default statement

Rating action:

ICRA has revised the long-term and the short-term ratings outstanding to the bank limits aggregating to Rs. 6015 crore[1] of R-Power from [ICRA]BBB (pronounced ICRA triple B) / [ICRA]A2 (pronounced ICRA A two)[2] ISSUER NOT COOPERATING to [ICRA]BB (pronounced ICRA double B) / [ICRA]A4 (pronounced ICRA A four) ISSUER NOT COOPERATING respectively. ICRA has also revised the short-term rating outstanding to the Rs. 1000.0 crore commercial paper programme/ short-term debt programme/ NCD (with maturity of less than one year) of R-Power from [ICRA]A2 (pronounced ICRA A two) ISSUER NOT COOPERATING to [ICRA]A4 (pronounced ICRA A four) ISSUER NOT COOPERATING. ICRA has also revised the long-term rating outstanding to the Rs. 1000-crore NCD programme of R-Power from [ICRA]BBB (pronounced ICRA triple B) ISSUER NOT COOPERATING to [ICRA]BB (pronounced ICRA double B) ISSUER NOT COOPERATING. The outlook on the long-term rating is Negative.

Rationale:

The revision in the ratings takes into the account the stretched liquidity profile of its key operating subsidiaries namely Rosa Power Supply Company Ltd (RPSCL) and Vidarbha Industries Power Limited (VIPL) in current fiscal which in turn has adversely impacted the surplus cash flow availability to the company. ICRA has downgraded the rating on the bank facilities of both RSPSCL and VIPL to [ICRA]BB+ (Negative) /[ICRA]A4+. The ratings also factor the high leveraging levels of the company at a standalone level along with the significantly high refinancing risk.

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 continue to be on ISSUER NON COOPERATION because of lack of receipt of the No Default Statement from the company for May 2018 and June 2018. ICRA is unable to validate whether Reliance Power Limited had been able to meet its debt servicing obligations in a timely manner. Accordingly, the lenders, investors and other market participants are advised to exercise appropriate caution while using this rating.

Outlook: Negative

The outlook may be revised to Stable in case of successful completion of the monetisation of the non-core assets, the reduction in debt levels and satisfactory progress on execution of gas based project (which is being relocated from Samalkot) in Bangladesh.

Key rating drivers:

Credit strengths

Sustained improvement in the PLF levels for Sasan Power UMPP (4000 MW) - ICRA takes note of the operating performance of Sasan Power Limited (SPL) with PLF of 85% in FY2017 and 91.6% in FY2018. Also, cash flow relief available to the project under RBI's Flexible Structuring Scheme (5/25 scheme) by the lenders which elongates the debt repayment period of its rupee denominated term loans, is a positive. Further, ICRA takes note of the cash-flow benefits available to the Sasan Power project with sustained improvement in PLF post non-applicability of coal green cess and excise duty resulting into reduction in cost of generation and consequently an improved merit order position since July 2017, as well as the reduction in interest rate on the rupee denominated term loans by banks. In ICRA's view, 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 challenges

High leveraging level at standalone level, associated refinancing risk- The leveraging levels for the company continue to remain high. This has resulted in increase in interest expenses and associated refinancing risk. Total external debt outstanding on the books of R-Power as on March 2018 stood at ~Rs. 2400 crore. The term loans have been primarily deployed in the Special Purpose Vehicles (SPVs) to meet the cash-flow mismatches.

Deterioration in the financial performance of Rosa Power and Vidarbha Industries: In case of Rosa Power Project, the cash flow position has been impacted on account of the tariff order issued by the Uttar Pradesh Electricity Regulatory Commission (UPERC) and the subsequent order issued by UPERC recently following the review petition filed by RPSCL. As per the tariff order, the tariffs allowed are lower than what the company had asked for because of the disallowance of additional capital expenditure/un-discharged liability, marginal tightening of efficiency norms and sharing of gains during the control period of FY2015–FY2019. Subsequently, RPSCL filed a review petition with the UPERC against the tariff order, in respect to which, UPERC issued an order wherein they have rejected the claims made by RPSCL regarding undischarged liability, secondary oil consumption and truing up of interest on working capital. Also, the allowance of additional capital expenditure of the tune of ~ Rs. 470 crore remains pending, which is expected to limit the cash accruals for the company to significant extent. For VIPL, cash flow position of the company has been impacted owing to significant increase in receivables due to the disallowance of certain part of the fuel cost as per the tariff order approved by the Maharashtra Electricity Regulatory Commission (MERC). While the company appealed against the MERC's order to the Appellate Tribunal for Electricity (APTEL), which in turn issued an order in favour of the company in November 2016, the MERC subsequently filed an appeal against the APTEL order in the Supreme Court in January 2017 and the matter currently remains sub-judice. ICRA has further noted that VIPL has filed an amendment petition in MERC, which seeks change in law relief enabling pass-through of actual coal cost which it had to incur due to its inability to convert Letter of Assuarance (LoA) into Fuel Supply Agreement (FSA) for Unit 1.

Status as mainly a holding company with limited asset base and revenue streams- The ratings assigned to R-Power remains constrained by the fact that it is mainly a holding company with limited asset base and revenue streams (except the 45-MW wind 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 non-operational Samalkot project- As the Samalkot project is at present non-operational, debt servicing for the project (which commenced in April 2015) has been met through support from R-Power. Given the concerns related to gas availability in India, the company is now planning to deploy the unused equipment of 750-MW capacity to Bangladesh (in Phase I) , out of the total planned capacity of 2,250 MW at Samalkot. Reliance Bangladesh LNG Terminal Limited (RBLTL) and Reliance Bangladesh LNG & Power Limited (RBLPL), the wholly owned subsidiaries of R-Power are developing the Bangladesh LNG terminal and the power project. They have initiated the terminal use agreement with Petro Bangla for setting up of 500 mmscfd floating storage regasification unit (FSRU) based LNG terminal at Kutubdia island. Other project agreements viz. Power Purchase Agreement, Implementation Agreements for Power Project and LNG terminal have been finalized. RBLTL and RBLPL have also finalised the EPC contractor for the power project and LNG terminal; finalized Time Charter Party for FSRU and tugs and have received approval for debt financing support from Asian Development Bank (ADB) for ~USD 550 Million. The financing tie-up arrangements with commercial banks and other institutions are in advanced stage with completion of technical due diligence by lenders. The expected investment in Phase I including LNG terminal, is around Rs. 6,500 crore, including the amount already invested in India by the company for procurement of equipment. However, with relocation of this project to Bangladesh, R-Power would remain exposed project execution risk.

Exposure to counterparty credit risks associated with sale of power to state-owned distribution utilities; however, adequate payment security mechanisms partially mitigate the risk: The projects remain exposed to counterparty credit risks associated with sale of power to state-owned distribution utilities as well as fuel-supply risks, for coal supply to linkage coal based projects. ICRA, however, notes that the counterparty credit risks are mitigated partially through adequate payment security mechanisms, availability of fuel under FSA and the fact that 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).

Key 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 in a timely manner
- Leveraging levels to raise funds to meet equity commitments and/or cash flow mismatches in its operating SPVs
- Any significant deterioration in cash flow position/ credit profile of operating subsidiaries

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

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Thermal Power Producers

About the company:

R-Power, a part of the 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. 11,560 crore for funding the equity contribution for some of the identified projects. As on March 2017, the company's generation capacity stood at 5945 MW, including 5,760 MW of thermal capacity and 185 MW of renewable energy-based capacity. Its operational projects include Rosa Project at Shahajahnapur, Uttar Pradesh (1,200 MW); Butibori Project at Nagpur, Maharashtra (600 MW), UMPP at Sasan (3,960 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).

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	48	44
PAT (Rs. crore)	64	2
OPBDIT/OI (%)	NM	NM
RoCE (%)	2%	2%
Total Debt/TNW (times)	0.4	0.4
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	NM	NM
NWC/OI (%)	-	-

NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No	Name of Instrument	Current Rating (FY2019)							Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Amount Outstanding (Rs. crore)	Date & Rating				Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					August 2018	June 2018	May 2018	April 2018	August 2017	Mar 2017	Mar 2016
1	Non-Fund Based Limit (B/G and L/C)	Long-Term / Short-Term	3712	3712	[ICRA]BB (Negative)/ [ICRA]A4 ISSUER NOT COOPERATING	[ICRA]BBB (Negative) / [ICRA]A2	[ICRA]BBB (stable)/ [ICRA]A2	-	[ICRA]BBB (stable)/ [ICRA]A2	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]A- (Negative)/ [ICRA]A1
2	Long Term Loans	Long-Term	2183	2010&	[ICRA]BB (Negative) ISSUER NOT COOPERATING	[ICRA]BBB (Negative)	[ICRA]BBB (stable)	-	[ICRA]BBB (stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
3	Long Term - Fund Based Limits	Long-Term	80	60	[ICRA]BB (Negative) ISSUER NOT COOPERATING	[ICRA]BBB (Negative)	[ICRA]BBB (stable)	-	[ICRA]BBB (stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
4	Short Term – Non fund based Limits	Short-Term	40	0	[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2	-	[ICRA]A2	[ICRA]A1	[ICRA]A1
5	Commercial Paper/ Short-term debt Programme/ Non-Convertible Debentures*	Short-Term	1000	275	[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2	-	[ICRA]A2	[ICRA]A1	[ICRA]A1
6	Non-Convertible Debentures	Long-Term	1000	750	[ICRA]BB (Negative) ISSUER NOT COOPERATING	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRABBB (Stable)			

*with maturity less than one year; & as on end December 2017

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Non Fund Based Limit (B/G and L/C)	-	-	-	3712	[ICRA]BB (negative)/ [ICRA]A4 ISSUER NOT COOPERATING
-	Long Term Loans	FY2014	10.50%	FY 2030	2183	[ICRA]BB (negative) ISSUER NOT COOPERATING
-	Long Term - Fund Based Limits	-	-	-	80	[ICRA]BB (negative) ISSUER NOT COOPERATING
-	Short Term – Non fund based Limits	-	-	-	40	[ICRA]A4 ISSUER NOT COOPERATING
INE614G07048	Long Term NCD	28-Mar-2018	12.18%	28-Mar-2025	750	[ICRA]BB (negative) ISSUER NOT COOPERATING
INE614G07055	Long Term NCD	04-Apr-2018	12.18%	04-Apr-2025	250	[ICRA]BB (negative) ISSUER NOT COOPERATING
INE614G08087	Commercial Paper (CP)/ Short-term (ST) NCD 1	Jul-18	10.75%	Apr-19	250	[ICRA]A4 ISSUER NOT COOPERATING
-	CP/ ST NCD 3	To be issued	-	-	750	[ICRA]A4 ISSUER NOT COOPERATING

Source: Reliance Power Limited

ANALYST CONTACTS

Anjan Ghosh
+91 22 6114 3407
aghosh@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Aditya Jhaver
+91 22 6169 3379
aditya.jhaver@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999