Reliance Power Limited

May 07, 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]BBB (Stable); reaffirmed
Non Fund Based Limit (B/G and L/C)	3712	3712	[ICRA]BBB (Stable)/ [ICRA]A2; reaffirmed
Long Term Loans	2183^	2183^	[ICRA]BBB (Stable); reaffirmed
Long Term - Fund Based Limits	80	80	[ICRA]BBB (Stable); reaffirmed
Short Term – Non fund based Limits	40	40	[ICRA]A2; reaffirmed
Commercial Paper/ Short-term debt Programme/ NCD (with maturity of less than one year)	1000	1000	[ICRA]A2; reaffirmed
Total	**8015**	**8015**	

^includes ECB of US$ 25 mn

Rating action:

ICRA has reaffirmed the long-term and the short-term ratings outstanding to the bank limits aggregating to Rs. 6015 crore of R-Power at [ICRA]BBB (pronounced ICRA triple B) and [ICRA]A2 (pronounced ICRA A two)[1] respectively. ICRA has also reaffirmed 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 at [ICRA]A2 (pronounced ICRA A two). ICRA has also reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) assigned to the NCD programme aggregating to Rs. 1000-crore[2] of R-Power. The outlook on the long-term rating is Stable.

Rationale:

The rating reaffirmation takes into account R-Power's status as a holding company with limited asset base and revenue streams. The rating also factors company's high leveraging level on standalone basis and the associated refinancing risk. The ratings favourably take into account of the satisfactory operational performance of the company's three major projects- Rosa Power Project (1,200 MW), Vidarbha Industries Power Limited (VIPL, 600 MW) and Sasan Power (3,960 MW)- since commencement of operations and timeliness in cash collections from the respective off-takers. Further, ICRA takes a note of cash-flow benefits available to the Sasan Power project with the sustained improvement in plant load factor (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. The project has also witnessed a reduction in interest rate on the rupee denominated term loans by banks.

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

However, in case of Rosa Power Project, the cash-flow position is likely to be impacted in FY 2019 on account of the latest tariff order issued by Uttar Pradesh Electricity Regulatory Commission (UPERC) resulting in current disallowance of additional capital expenditure/un-discharged liability, marginal tightening of efficiency norms and sharing of gains for the control period of FY2015–FY2019. While Rosa Power Project has filed a review petition with UPERC, the decision of UPERC is awaited. Also for VIPL, Maharashtra Electricity Regulatory Commission (MERC) has disallowed the certain part of fuel cost as per actual, against which Appellate Tribunal For Electricity (APTEL) ruled in favour of the company and MERC subsequently challenged the ruling in the Supreme Court for which the matter is sub-judice.

ICRA further notes that various projects under the company remain exposed to counter-party credit risks associated with the 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 the fact that the fuel cost being 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 equipment of 750-MW capacity to Bangladesh, out of the total planned capacity of 2,250 MW at Samalkot. The expected investment to set up the project in Bangladesh is Rs. 6,500 crore, which also comprises 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. Further, Asian Development Bank (ADB) has approved the debt financing and partial risk guarantees amounting to $583 million to develop the project. The company would, however, remain exposed to project-execution risk with relocation of the Samalkot gas-based project to Bangladesh, which is partly mitigated by the past experience of Reliance Power in execution of Greenfield projects.

The company also has monetisation plans for its non-core assets of R-Power which includes hydro projects, Krishnapattanam Ultra Mega Power Projects (UMPP), Tilaiyaa UMPP among others, and timeliness of the same remains critical from a credit perspective.

Outlook: Stable

The outlook may be revised to Positive in case of successful completion of the monetisation of the non-core assets and satisfactory progress on execution of gas based project (which is being relocated from Samalkot) in Bangladesh. The outlook may be revised to Negative in case of any increase in the external leveraging levels or material deterioration in credit profile of the project subsidiaries.

Key rating drivers:

Credit strengths

PPAs on cost plus-based tariffs with utilities for Rosa and Butibori projects- 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 Limited (UPPCL), has remained satisfactory. This is evident from the actual returns that have remained higher than the 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. However, in case of Rosa Power Project, the cash-flow position is likely to be impacted in FY 2019 on account of the latest tariff order issued by UPERC resulting in current disallowance of additional capital expenditure/un-discharged liability, marginal tightening of efficiency norms and sharing of gains for the control period of FY2015–FY2019. While Rosa Power Project has filed a review petition with UPERC for admitting the earlier disallowance of additional capital expenditure / undischaregd liability, which if received in favour of Rosa Power project would result in reasonable restoration of annual cash flow, the decision of UPERC is awaited. However, the overall collection efficiency since commencement and payments from UPPCL have been timely aided by adequate payment security mechanism as per PPA. Also for VIPL, MERC has disallowed the certain part of fuel cost as per actual, against which APTEL ruled in favour of the company which directed MERC to rework the fuel costs allowed to be recovered by VIPL as a part of its tariff and then and MERC subsequently challenged the ruling in the Supreme Court for which the matter is subjudice since February 2017.

Sustained improvement in the PLF levels for Sasan Power- ICRA also 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 levels at standalone level, associated refinancing risk- The leveraging levels for the company continue to be high. This has resulted in increase in interest expenses and associated refinancing risk. The term loans have been primarily deployed in the Special Purpose Vehicles (SPVs) to meet the cash-flow mismatches. While the proposed NCD will be entirely used to repay the existing external loans, and will not result in any increase in the external leveraging levels of R-Power at the standalone level, elongated repayment schedule helps to reduce the refinancing risk in the near to medium term to a certain extent.

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, out of the total planned capacity of 2,250 MW at Samalkot. R-Power has received LOI and initialled a definite PPA with BPDB for 750-MW Phase I gas-fired plant which is similar to the 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. The expected investment of the same is around Rs. 6,500 crore, including the amount already invested in India by the company for procurement of equipment. With relocation of this project to Bangladesh, R-Power would remain exposed project execution risk.

SPL's key project metrics remain modest due to significant cost overrun following depreciation of rupee vis-a-vis dollar: SPL's key credit metrics remain modest due to significant cost overruns and are dependent on the ability of the company to sustain high level of operating performance and ensure that all costs are within the budgeted parameters.

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, both for coal and gas. 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, Tilaiyaa 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
					May 2018	April 2018	August 2017	Mar 2017	March 2016
1	Non-Fund Based Limit (B/G and L/C)	Long-Term / Short-Term	3712	3712	[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]BBB (stable)	-	[ICRA]BBB (stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
3	Long Term - Fund Based Limits	Long-Term	80	60	[ICRA]BBB (stable)	-	[ICRA]BBB (stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
4	Short Term – Non fund based Limits	Short-Term	40	0	[ICRA]A2	-	[ICRA]A2	[ICRA]A1	[ICRA]A1
5	Commercial Paper/ Short-term debt Programme/Non-Convertible Debentures*	Short-Term	1000	275	[ICRA]A2	-	[ICRA]A2	[ICRA]A1	[ICRA]A1
6	Non-Convertible Debentures	Long-Term	1000	750	[ICRA]BBB (Stable)	[ICRA]BBB (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]BBB (stable)/ [ICRA]A2
-	Long Term Loans	FY2014	10.50%	FY 2030	2183	[ICRA]BBB (stable)
-	Long Term - Fund Based Limits	-	-	-	80	[ICRA]BBB (stable)
-	Short Term – Non fund based Limits	-	-	-	40	[ICRA]A2
INE614G07048	Long Term NCD	28-Mar-2018	12.18%	28-Mar-2025	750	[ICRA]BBB (Stable)
-	Long Term NCD	To be issued	-	-	250	[ICRA]BBB (Stable)
INE614G08079	Commercial Paper (CP)/ Short-term (ST) NCD 1	Jul-16	10.2%	Jun-18	250	[ICRA]A2
-	CP/ ST NCD 2	Jun-17	8.75%	May-18	25	[ICRA]A2
-	CP/ ST NCD 3	To be issued	-	-	725	[ICRA]A2

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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