Press Release

India Power Corporation Ltd.

May10, 2017

Rating

Instrument	Amount	Rating	Rating Action
Commercial Paper #	Rs.50.00 crores	IVR A1+ (pronounced IVR A one plus)	Assigned

 # Backed by an undertaking that the proposed Commercial Papers (CPs) shall be issued within the drawing power and adequate funds will be maintained in the existing CC A/c for redemption of CPs.

Details of Instrument are in Annexure 1

Infomerics Valuation and Rating Pvt. Ltd. has assigned IVR A1+ (pronounced IVR A one plus) rating to the proposed Rs.50.00 crores Commercial Paper Programme of India Power Corporation Ltd. (IPCL), backed by an undertaking that the proposed CPs shall be issued within the drawing power and adequate funds will be maintained in the existing CC A/c for redemption of CPs. The CPs are likely to have a maximum tenor of 365 days. Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.

Detailed Rationale

The rating derives comfort from the established & long track record of the company, group support, satisfactory T&D loss & high collection efficiency, adequate power purchase agreement (PPA), considerable amount of unutilised working capital bank limit providing modest liquidity buffer, comfortable capital structure (though deteriorated in FY15 and FY16), expected significant scaling up of operation at consolidated level post implementation of ongoing projects through subsidiaries and continuing buoyancy for power demand in India. The backing of an undertaking that the CPs shall be issued within the drawing power and adequate funds will be maintained in the Cash Credit account for redemption of CPs supports the rating. The rating also takes into consideration the relatively low own power generating capacity, risks associated with implementation of large power projects and the likelihood of the consolidated leverage position getting impacted for funding the projects under implementation. Ability of the company to timely implement the ongoing projects through subsidiaries, scale up the consolidated revenue level and contain the leverage position shall be the key rating sensitivities.

List of Key Rating Drivers

- ✓ Established & long track record of the company.
- ✓ Group support.
- ✓ Relatively low own power generating capacity.
- ✓ Adequate Power Purchase Agreement (PPA).
- ✓ Satisfactory Transmission & Distribution (T & D) loss and high collection efficiency.
- ✓ Comfortable capital structure.
- ✓ Considerable amount of unutilised working capital bank limit and the back-up of undertaking, as aforesaid, providing modest liquidity buffer.
- ✓ Risks associated with implementation of large power projects.
- ✓ Significant scaling up of operation, post implementation of ongoing projects of the company and its subsidiaries.
- ✓ Continuing buoyancy for power demand in India.

Detailed Description of Key Rating Drivers

India Power Corporation Ltd. (IPCL) is the renamed entity, came out of the reverse merger of erstwhile DPSC Ltd. (DPSCL) and erstwhile IPCL. DPSCL, incorporated in 1919, was predominantly engaged in distribution of power, besides having some power generating capacity. It was owned by Andrew Yule & Co. Ltd. (AYCL) – a Govt. of India undertaking, LIC and other insurance companies. The erstwhile IPCL, incorporated in 2003 & belonging to the promoters of SREI group, was mainly operating windmills under lease. The promoters of IPCL acquired DPSCL in 2010 through the disinvestment process initiated by AYCL, at the instance of Govt. of India. IPCL is, currently, engaged in the businesses of generation, transmission and distribution of electricity, besides buying power, with an aggregate power generating capacity of 109.20 MW. DPSCL was one of the oldest companies in the domestic power sector catering to the power requirements of Railways & industrial consumers and townships in Asansol-Ranigunj area of West Bengal.

The SREI group, based out of Kolkata with over 25 years' business experience has major interest in leasing & financial services, power and real estate construction. With long-standing experience, the group works cohesively with IPCL.

IPCL's total power generating capacity spans around wind power (95.2 MW), thermal (12 MW) and solar (2 MW). It derives its major revenue through buying of power from two government power utilities and through open access/short term PPAs and selling to HT and LT consumers. The company has commissioned 220/33 kv sub-station at JK Nagar which enables the company to draw power from open access at a competitive price thereby providing comparative advantage to the company. As for its wind power capacity, it has adequate PPAs in place with various state owned power distribution companies.

The T&D loss of the company has generally been satisfactorily low ranging between 2.31-2.7% during the last three years. IPCL also demonstrated satisfactory performance in collection of receivables from power sale constituting about 99% of its demand. Its average receivable collection period ranged in the vicinity of 50 days in the last three years.

The capital structure of the company has generally been comfortable, although the leverage position deteriorated in FY15 (refers to the period from April 01 to March 31) and FY16 mainly due to increase in total long-term debt.

The average utilisation of fund based working capital limit has been in the range of 60% in the last 12 months, indicating a considerable liquidity cushion in times of stress. Further, the proposed undertaking by the company that the CPs would be issued within the drawing power and adequate funds would be maintained in the existing Cash Credit A/c for redemption of CPs is a matter of comfort for future servicing of CPs.

IPCL is setting up large thermal power generating capacity through its subsidiary, India Power Corporation (Haldia) Limited (IPCHL), and its newly acquired subsidiary, Meenakshi Energy Ltd (MEL). IPCHL is implementing 450 MW (3 units of 150 MW each) coal based thermal power plant at Haldia, Purba Medinipur District, West Bengal, at a project cost of Rs.3306.70 crores, being funded at a debt-equity ratio of 70:30. The construction work for one unit is completed and it is in trial run and is likely to commence commercial operation soon. The remaining two units are expected to be operational by December, 2017. The financial closure has been fully achieved. The company has entered into a PPA with West Bengal State Electricity Distribution Co. Ltd. for 300 MW of power with a clause for purchase of surplus power and a short Term PPA of 130 MW with IPCL.

MEL, which was acquired by IPCL in September, 2016, is having operational capacity of 300 MW (operational since October 2012) and is also setting up a coal fired 700 MW (2 x 350 MW) thermal power plant at Nellore, Andhra Pradesh. The total project cost for 700 MW capacity is estimated to be Rs.5548 crores, being funded at a debt-equity ratio of 42:58. The financial closure for the project has been achieved.

Both the aforesaid ongoing projects are exposed to implementation and post-implementation risks and the capital structure of IPCL, on a consolidated basis, is likely to be impacted in view of involvement of substantial amount of debt component. However, the consolidated capacity and the revenue potential of IPCL are expected to improve considerably once the projects become operational.

The domestic power sector appears to have considerable growth potential, given the fact that the country is likely to be power deficient in many pockets particularly during the peak period due to mismatch between robust power demand and creation of supply facilities. However, the overall power situation in India is slightly surplus biased.

Analytical Approach: Consolidated

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation

Consolidation of Companies

<u>About the Company</u>

IPCL, the merged entity of erstwhile IPCL and DPSCL, currently belongs to the Promoters of SREI group. The erstwhile IPCL was incorporated in 2003, while DPSCL was incorporated way back in 1919. DPSCL, previously owned by Andrew Yule & Co. Ltd,- a Govt. of India undertaking, LIC and other insurance companies, was taken over by the current promoters in

2010 through the disinvestment process initiated at the instance of Govt. of India. The current promoters have major interest in leasing & financial services, power and real estate construction.

IPCL is currently, engaged in the businesses of generation, transmission and distribution of electricity. It, currently, has 109.20 MW of power generating capacity (wind power of 95.20 MW, thermal power of 12 MW and solar power of 2 MW). IPCL is about to commission a 450 MW thermal power plant in Haldia, West Bengal, through its subsidiary, Indian Power Corporation (Haldia) Ltd. Meenakshi Energy Ltd., a newly acquired subsidiary of the group, is also having existing operational capacity of 300 MW and is implementing 700 MW at Nellore, Andhra Pradesh.

During FY16, the company earned a PAT of Rs.31.9 crores on a Total Operating Revenue of Rs.585.6 crores, on standalone basis, and a PAT of Rs.32.4 crores on a Total Operating Revenue of Rs.732.1 crores, on consolidated basis.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years: Not applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio.

Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Instrument

Name of Instrument	Date of issuance	Coupon Rate/ IRR	Maturity Date	Size of issuance (Rs Crores)	Rating Assigned/ Outlook
Commercial Paper	Not yet issued	Market driven	Maximum tenure of 365 days	50.0	IVR A1+ (pronounced IVR A one plus) #

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