

Grading Rationale for CRISIL IPO Grading

Reliance Power Ltd.

CRISIL IPO Grade 4.0/5.0

Public Issue of 260 million Equity Shares of face value Rs 10.0 to raise around INR 105 billion to INR 115 billion.

Bid/Offer Opens *
 Bid/Offer Closes *
 Net Shares Offered to public 228 mn
 As % of post issue Equity 10.1
 Shares Outstanding (Post issue) 2260 mn

Lead Manager

Kotak Mahindra Capital Company Ltd.
 ICICI Securities Ltd.,
 ABN AMRO Securities (India) Private Ltd.,
 Enam Securities Private Ltd.,
 JM Financial Consultants Private Ltd.,
 UBS Securities India Private Ltd.,
 Deutsche Equities India Private Ltd.,
 J.P. Morgan India Private Ltd.,
 Macquarie India Advisory Services Pvt Ltd.,
 And SBI Capital Markets Ltd.

Registrar to the Issue

Karvy Computershare Private Ltd., Hyderabad
 (Andhra Pradesh)

Shareholding Pattern	Prior to issue		Post issue	
	No. of shares	%	No. of shares	%
Mr. Anil Dhirubhai Ambani	1,000 #	0.0	1,000 #	0.0
Rel. Innoventures Pvt. Ltd.	1,000 #	0.0	1,000 #	0.0
Reliance Energy	1,000,000,000	50.0	1,016,000,000	45.0
AAA Project	999,998,000	50.0	1,015,998,000	45.0
Promoter group-sub total	2,000,000,000	100.0	2,032,000,000	89.9
Public	-	0.0	228,000,000	10.1
Total	2,000,000,000	100.0	2,260,000,000	100.0

Held Jointly with AAA Project.

In order to arrive at the overall grade, CRISIL considers the following broad parameters:

- Business prospects and financial performance
- Management capability
- Corporate governance

Overall Assessment

CRISIL has assigned a CRISIL IPO Grade '4/5' (pronounced 'four on five') to the proposed initial public offer of Reliance Power Ltd (RPower). This grade indicates that the fundamentals of the issue are above average, in relation to other listed equity securities in India.

The grading assigned reflects CRISIL's view that strong demand for power in India will catalyse regulatory facilitation for private participation in the power sector over the medium to long term. In this scenario, early movers like RPower will benefit from attractive business opportunities that are likely to come about as a result, especially if they achieve high levels of financial capability, as is likely for RPower after its proposed IPO. The grading also reflects the Reliance Anil Dhirubhai Ambani Group's commitment that RPower will be the sole repository of the Group's economic interest in the power generation segment. The grading is tempered by the fact that RPower is planning to put up capacity, on a scale and within a time frame, never achieved in India before and therefore it is likely to face significant implementation challenges. The grading also reflects the fact that power generators in India will have to depend on SEBs for off take over the short-to-medium term and that their return will be subject to the regulatory oversight in case of Two-part tariff based Projects such as Rosa I (600 MW)

and Rosa II (300 MW). Also, returns on the projects won through the competitive bidding route may not be substantially higher due to competition.

Power generation to piggyback the growth in Indian economy; EA 2003 provides conducive contours

Growth in the Indian economy over the medium term (GDP growth of 8 per cent) is expected to result in a concomitant growth in demand for power and hence, an opportunity for setting up of generation capacities. The energy deficit in 2006-07 was around 10 percent of the total power requirement of around 693 billion units and peak deficit stood at 14 percent of the total requirement of 100 GW. According to CRISIL Research estimates, where energy deficit is likely to come down to 4.7 percent of the total power requirement of 855 billion units towards the end of the 11th plan period, the peak deficit is expected to remain at the same level (i.e. 14 percent of the expected requirement of 146GW), even after the efficiency improvement across the value chain. This would provide humungous growth opportunities for private sector players in the power sector.

RPower strategically placed to benefit from the power sector reforms and growth potential

RPower is the only private sector player which proposes to implement multi-location generation projects of this magnitude (28,200MW). All the proposed projects would be located in six states across 12 locations, either near the load centre or at the pit head. RPower proposes to set up 12,220-MW in the western region, 9,080-MW in northern India, 4,000-MW in southern India and 2,900-MW in North-Eastern regions.

The Electricity Act 2003 provides for open access, generation delicensing, promotion of the group captive concept and privatization of distribution circles, etc, we believe these policies are likely to result in the emergence of a more open and competitive market structure. Given the direction of reforms and expected transition in the power sector, a company like RPower will have the first mover advantage. Crucial to this conclusion of course is the Reliance Anil Dhirubhai Ambani Group's commitment that all the economic interest in the power generation sector- present and future- will be held only in RPower.

Timely project execution critical for the company's financial performance

RPower proposes to set up 28,200 MW greenfield power generation projects over the next 8 years, a scale of operations never achieved by any player in India, in the past. NTPC the largest central sector power utility in generation has been able to cumulatively add a total capacity of around 27,000MW in over 30-years of its existence, however is proposing to add another 22,000 MW during the 11th Plan (2007-12). In the 10th plan period, on an average only 1,500 MW capacity was added every year by private sector participants.

We believe that besides the magnitude of operations, RPower is likely to face significant implementation challenges RPower plans to mitigate the impact of these uncertainties by employing experienced manpower. However, considering that earnings growth would be driven by commissioning of new projects, any delay in implementation could have a significant impact on the earnings performance of the company.

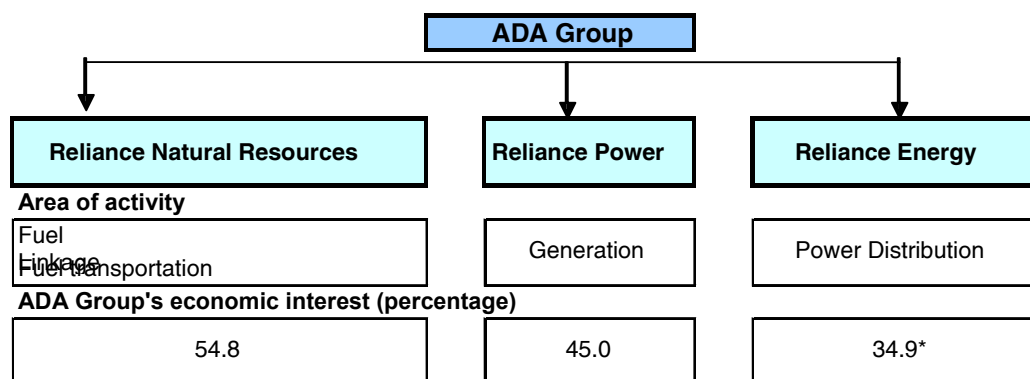
Credit risk arising out of power sales to weak SEBs

A significant part of energy off-take from RPower (almost ~67 percent in case of six identified projects) is likely to be by SEBs, some of which have a weak credit history. Despite an expectation of improvement in their financial position in the coming years, in line with the overall transition of the

power sector, we believe that payment risk arising from sale to SEBs would continue to be an issue to deal with. However, as a risk mitigating factor, RPower has the option under Power Purchase Agreement (“PPA”) entered into with SEBs to sell the electricity to third party in case of default by SEBs. Further, most projects have and are expected to have a payment security mechanism from the power purchaser that would include irrevocable letters of credit and escrow arrangements. Projects such as Sasan are also very competitively placed in the overall merit order dispatch thereby reducing non-payment related risks.

Business profile

Reliance Power Ltd. is a part of the Reliance Anil Dhirubhai Ambani Group and has been established with the objective to develop, construct and operate power projects both domestically and internationally. As part of the Reliance Anil Dhirubhai Ambani Group’s overall strategy in the power sector to capture different opportunities along the value chain through separate entities, RPower has been positioned as the sole vehicle for creating the Reliance Anil Dhirubhai Ambani Group’s generation assets in the power sector. Though there is no non-compete agreement between RPower and other group entities, the REL management has stated that holding of REL in existing 941 MW operating power plants is only due to regulatory technicalities.



Source: Company reports

Note:

In Reliance Energy Transmission and Reliance Trading, REL holds 100% equity

*: REL plans to make a preferential allotment of shares to the promoter group, which will result in the total stake to go up from 34.9% to 44.95%

RPower does not have any power plant in operation as of now. The company proposes to install 28,200 Mega watt (MW) generation capacity over the next 8 years. Of the total proposed capacity, six projects totaling 7060-MW (Butibori, Shahapur coal, Sasan, Rosa-I & II and Urthing Sobla) are in various stages of implementation. Commercial operations of the first unit of proposed project, Rosa-I (2*300 MW), is expected by December 2009. All the six identified projects would be executed through wholly-owned subsidiaries of RPower, except Urthing Sobla and Butibori, where RPower would hold 80 percent stake and 74 percent stake, respectively.

Proposed implementation schedule of the projects under development that are expected to be funded in part by Net Proceeds of the Issue:

Project	Capacity	Scheduled completion	Location	Fuel type	Source of fuel	Off takers
Rosa Phase –I	300X2	U-I Dec09; U-II March10	Uttar Pradesh	Coal	Linkage, Ashoka mine CCL	PPA with UPPCL
Rosa Phase –II	300x2	U-I June10; U-II Sept10	Uttar Pradesh	Coal	Application for coal allocation submitted to Ministry of Coal	PPA with UPPCL proposed for 300 MW, Merchant sales for the balance 300MW
Butibori	150x2	U-I March10; U-II June10	Maharashtra	Coal	Application for coal allocation submitted to Ministry of Coal	Group captive
Sasan	660x6	U-I May13; Complete April 2016	Madhya Pradesh	Coal	Captive mine	PPA with 14 entities in Uttar Pradesh, Delhi, Uttaranchal, Punjab, Rajasthan, Haryana and MP
Shahapur	600x2	U-I Sept 11; U-II Dec11	Maharashtra	Coal	Imported coal	LT/ ST PPA to be arranged
Urthing Sobla	100x4	Mar-14	Uttar Pradesh	Hydro	Run-of-the-river	LT/ST PPA to be arranged

Source: Company

Besides, the aforementioned identified projects which are in advanced stages of implementation, RPower also proposes to set up seven more generation projects, which are in developmental stage. These include the gas-fired Dadri (7,480 MW) and Shahapur gas project (2,800 MW); the coal-fired MP Power project (3,960 MW) and Krishnapatnam (4,000 MW); three run-of-the-river hydroelectric projects, Siyom (1,000 MW), Tato II (700 MW) and Kalai II (1,200 MW).

As envisaged by clause 2.8 of the SEBI DIP guidelines, at least 75 percent of the outside financing requirements for the Identified projects, should have been tied up before the public offer. To conform to this requirement, as of December 28, 2007, RPower had rupee debt facilities of Rs. 179.4 billion and foreign currency denominated debt facilities of US\$ 542 million.

Profile of Management and corporate governance structure

RPower management is headed by Mr. Anil Ambani- Director and Chairman. The Company has also constituted a Board of Advisors to provide guidance and assistance in achieving the vision and mission of the Company. Currently, besides Mr. Anil Ambani, the Board of Advisors of the Company consists of Mr. C.P. Jain, former Chairman and Managing Director of National Thermal Power Corporation

Limited.; Mr. Amitabh Jhunjhunwala; Mr. Satish Seth; and Mr. Gautam Doshi. Mr. Amitabh Jhunjhunwala, Mr. Satish Seth and Mr. Gautam Doshi are Group Managing Directors for the Reliance Anil Dhirubhai Ambani Group.

There are six members on the board; of these four are independent directors. All the board members except Mr. K.H Mankad who was appointed on 7 November 2007, have been appointed as on 30 September, 2007. Since this date only one board meeting has been held. Two independent directors, namely, Mr. S. L. Rao and Mr. J. L. Bajaj are also independent directors on the boards of other Reliance Anil Dhirubhai Ambani Group companies. Mr. S. L. Rao is an independent director on the boards of RNRL and REL.; and Mr. J. L. Bajaj is an independent director on the board of RNRL. Of the pre-IPO equity in RPower, REL holds 50 percent stake. This is in line with the REL's board decision, dated 14th April 2005.

Board of Directors				
Name	Designation	Age (yrs)	Qualification	Key positions held
Mr. Anil Dhirubhai Ambani	Chairman & Non Executive Director	48	MBA-Wharton School, university of Pennsylvania, USA	Vice Chairman and Managing Director in Reliance Industries Ltd. ; Currently - Chairman of Reliance Communications Ltd., Reliance Capital Ltd., reliance Energy Ltd., Reliance Natural Resources Ltd.
Mr. S. L. Rao	Independent Director	71		Director General of the NCAER; Chairman of the Central Electricity Regulatory Commission(CERC)
Mr. J.L. Bajaj	Independent Director	69	IAS	Chairman of Uttar Pradesh Electricity Regulatory Commission (UPERC), Govt. of U.P.; Joint Secretary – Plan. Finance.
Ms. V.K. Chaturvedi	Independent Director	64	Mechanical Engineering	Chairman & Managing Director - Nuclear Power Corporation of India Ltd.; Member of the Atomic Energy Commission, Government of India;
Mr. Yogendra Narain	Independent Director	65	Ph.D IAS	Secretary-General, Rajya Sabha - the Upper House of the Parliament of India
Mr. K.H Mankad	Executive Director and CEO	65	CA, CS, Cost and Work Accountant	Director (Finance), Reliance Energy Limited
Source: Company prospectus				

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