Rating Rationale

January 23, 2015
Mumbai

Reliance Infrastructure Limited

Rating downgraded to 'CRISIL A/Negative'

Total Bank Loan Facilities Rated	**Rs.10000 Million**
Long Term Rating	**CRISIL A/Negative (Downgraded from 'CRISIL A+/Negative')**

(Refer to Annexure 1 for Facility-wise details)

Rs.3 Billion Non Convertible Debentures	**CRISIL A/Negative (Downgraded from CRISIL A+/Negative; Withdrawn)**
Rs.10 Billion Non Convertible Debentures	**CRISIL A/Negative (Downgraded from CRISIL A+/Negative)**
Rs.1.25 Billion Bond	**CRISIL A/Negative (Downgraded from CRISIL A+/Negative)**

CRISIL has downgraded its rating on the debt programmes and long-term bank facility of Reliance Infrastructure Ltd (RInfra) to **'CRISIL A/Negative'** from 'CRISIL A+/Negative'. Furthermore, CRISIL has withdrawn its rating on RInfra's Rs.3.0-billion non-convertible debentures as there is no amount outstanding against the instruments.

The rating revision reflects RInfra's higher-than-expected debt, increasing group company exposure and reduced revenue visibility in the engineering, procurement, and construction (EPC) business.

RInfra's debt increased significantly to Rs.156 billion as on September 30, 2014, from Rs.115 billion as on March 31, 2013. Consequently, the company's debt protection metrics are weaker than earlier expected. For the first six months of 2014-15 (refers to financial year, April 1 to March 31), RInfra adjusted interest coverage ratio reduced to 2.5 times from 3.2 times for 2012-13. In addition, RInfra's group company exposure increased to Rs.145 billion as on March 31, 2014, from Rs.126 billion as on March 31, 2013. CRISIL believes that the company's large debt and group company exposure will continue to constrain its financial risk profile over the medium term.

Furthermore, RInfra's EPC business has low revenue visibility considering its EPC order book of Rs.61 billion as on September 30, 2014, which is 2.1 times its EPC revenue of around Rs.29 billion in last 12 months ended September 30, 2014. The company's EPC order book has the potential to increase because of captive and external opportunities. However, CRISIL believes the current uncertainties in the infrastructure and power sectors will limit any significant increase in RInfra's EPC order book over the short term.

The rating reflects RInfra's stable cash flows supported by its leading position in the regulated electricity distribution market in Mumbai. In addition, with Maharashtra Electricity Regulatory Commission's tariff order of August 2013, the company has been allowed to recover regulatory assets of Rs.55.5 billion, including carrying cost. This is expected to provide incremental annual cash flows of around Rs.9.25 billion to RInfra for the next six years till September 2019. The incremental cash flows partially offset the low revenue visibility from the EPC business. The rating also factors in RInfra's healthy financial flexibility arising from its 42.2 per cent stake in Reliance Power Ltd (RPower; market capitalisation of about Rs.170 billion) and its investments in infrastructure projects. A major proportion of RInfra's infrastructure projects are operational (10 of 11 road projects, 2 of 3 transmission projects, and the metro project in Mumbai). CRISIL believes that RInfra's investment in its various infrastructure and cement projects will remain moderate, at Rs.15 billion to Rs.18 billion, over the medium term.

For arriving at the rating, CRISIL has adopted a moderate integration approach with respect to RInfra's special purpose vehicles (SPVs), as the SPVs are majority-owned by RInfra and are in the same line of business. In line with this approach, CRISIL has factored in the equity and limited cost-overrun support from RInfra to the SPVs. CRISIL has also factored in the additional support that RInfra has committed to a few SPVs for meeting any shortfalls in servicing their debt.

CRISIL has not combined the business and financial risk profiles of RPower because CRISIL believes that RInfra will not provide any support beyond the equity capital that it has already invested in this company. However, RInfra has strong business linkages with some of RPower's projects as the EPC contractor. In the process, RInfra has provided temporary financial support to some of these projects. CRISIL has, therefore, factored the risk profile of these investments into its ratings. If this support does not reduce significantly over the near term,

CRISIL will re-evaluate its consolidation approach with respect to RPower.

Outlook: Negative

CRISIL believes that RInfra's financial risk profile may weaken over the medium term if the company's group exposures and debt do not reduce. The rating may be downgraded if the group company exposure and debt do not reduce as envisaged. Conversely, the outlook may be revised to 'Stable' if RInfra's financial risk profile improves, driven by significant reduction in group company exposure and debt.

About the Company

RInfra is one of the main companies of the Reliance group. Promoters held 48.5 per cent stake in RInfra as on September 30, 2014. Other companies in the group include Reliance Communications Ltd, Reliance Capital Ltd, and RPower.

RInfra's principal business is distribution of electricity in its licence area of suburban Mumbai. The company has an EPC division that undertakes EPC contracts, primarily for its infrastructure projects and for RPower. Besides, it has power generating assets of 941 megawatts (MW) which include Dahanu power station (500 MW; supplies to Mumbai), Samalkot power station (220 MW), and Goa power station (48 MW). RInfra also serves as the holding company for RInfra's portfolio of infrastructure projects and owns 42.2 per cent in RPower.

Annexure 1 - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Million)**	**Rating**	**Facility**	**Amount (Rs.Million)**	**Rating**
Proposed Long Term Bank Loan Facility	**10000**	**CRISIL A/Negative**	**Proposed Long Term Bank Loan Facility**	**10000**	**CRISIL A+/Negative**
Total	**10000**	**--**	**Total**	**10000**	**--**

Media Contacts	Analytical Contacts	Customer Service Helpdesk
Tanuja Abhinandan Communications and Brand Management CRISIL Limited Phone: +91 22 3342 1818 Email:tanuja.abhinandan@crisil.com **Jyoti Parmar** Communications and Brand Management CRISIL Limited Phone: +91 22 3342 1835 E-mail: jyoti.parmar@crisil.com	**Pawan Agrawal** Senior Director - CRISIL Ratings Phone:+91 22 3342 3301 Email: pawan.agrawal@crisil.com **Manish Kumar Gupta** Director - CRISIL Ratings Phone:+91 124 672 2000 Email: manish.gupta@crisil.com	Timings: 10.00 am TO 7.00 pm Toll free Number:1800 267 1301 Email: CRISILratingdesk@crisil.com

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CRISIL has revised its rating symbols and definitions with effect from July 11, 2011, to comply with the SEBI circular, 'Standardisation of Rating Symbols and Definitions'. The revised rating symbols carry the prefix, 'CRISIL'. The rating symbols for short-term instruments have been revised to 'CRISIL A1', 'CRISIL A2', 'CRISIL A3', 'CRISIL A4', and 'CRISIL D' from the earlier 'P1', 'P2', 'P3', 'P4', and 'P5', respectively. The revision in the rating symbols and definitions is not to be construed as a change in the ratings. For details on revised rating symbols and definitions, please refer to the document, 'Revision of Rating Symbols and Definitions', at the link, **http://www.crisil.com/ratings/credit-rating-scale.html**