India Ratings & Research
A Fitch Group Company

Ind-Ra-Mumbai-16 January 2015: India Ratings & Research (Ind-Ra) has revised Reliance Infrastructure Ltd's (R-Infra) Outlook to Negative from Stable while affirming the Long-Term Issuer Rating at 'IND AA-'. A full list of rating actions is at the end of this commentary

KEY RATING DRIVERS

Credit Metrics on the Cusp: The revision in Outlook reflects Ind-Ra's views that the financial leverage (net debt/adjusted EBITDA) of the company is likely to remain higher than the last articulated negative rating guideline (net leverage above 4.0x). However, the positive developments in operational aspects and management's intention to deleverage by raising equity/asset monetisation are likely to improve the credit metrics. Nevertheless, the amount and pace of deleveraging would be critical drivers of the rating going forward. The company made an investment of INR42.5bn in FY14.Gross debt increased to INR148.4bn as at FYE14 from INR114.5bn in FY13. This resulted in significant deterioration in the net leverage to 8.1x at FYE14 from 5.6x in FY13 and gross interest coverage (adjusted EBITDA/gross interest) ratio to 1.9x from 2.5x. However, the net interest coverage was strong at 10.2x (FY13: net interest income).

Equity/Fund Raising Plans: After discussions with management, Ind-Ra understands that R-Infra is expected to receive funds through equity raising, asset monetisation and reduction of loans and advances given to group companies. These are likely to be used to reduce debt. Lower-than-expected amounts or significant delays in receiving these funds could negatively impact the ratings.

Operational Infrastructure Projects: The company has not announced any new projects since the last rating review. Except two toll roads, namely Delhi Agra and Pune Satara and the proposed cement plant in Maharashtra, all its infra projects are either complete or are likely to get completed by FYE15. About 80% of its infrastructure projects by value were revenue operational as at end-December 2014.

Stable Mumbai Electricity Distribution: The ratings continue to reflect the strong business profile of R-Infra's Mumbai electricity segment as an integrated regulated power utility that earns stable cash flow linked to an assured return on equity.

Favourable Regulatory Announcements: Post the Maharashtra Electricity Regulatory Commission's (MERC) order in August 2013 R-infra is expected to recover regulatory assets of over INR55.5bn over six years starting from September 2013. This order also revised the tariff plan for the period FY14-FY16 which will lower the cross subsidy burden of the high-end consumers and will make R-Infra's revised tariffs more competitive. The benefits of this were reflected in 6,266 consumers with an annual consumption of 1,280mu having migrated back to R-Infra in FY14 which is likely to further strengthen the electricity segment of company.

Based on the discussion with the management, the agency expects the company to also recover additional past years' revenue gap under its Mumbai revenue distribution business in FY16 (subject to approval by regulator) which may have a positive impact on the credit metrics of the company in the near-term and would also boost its cash flows.

Reduced Changeover Risk: In its order dated November 2014, Appellate Tribunal for Electricity (ATE) held that R-Infra's peer in the same distribution area should restrict themselves from laying down a parallel network to R-infra's already available network subject to requisite conditions. This has reduced the risk of consumers drawing

power from R-Infra's network getting converted into category III consumers (drawing power from the peer on its network). Currently wheeling charges, cross-subsidy charges and regulatory asset charges are recoverable only from category I & category II consumers.

Low EPC Revenue Visibility: The EPC revenue visibility is low as the order book declined to INR66.0bn (1.5x of FY14 EPC revenue) as at FYE14 from INR102bn at FYE13 (FYE12: INR172.8bn). The reduced order book also impacted the company's top-line with revenue declining to INR109.8bn in FY14 (FY13: 143.1bn) as EPC revenue fell to INR43.9bn (INR80.4bn). However, the absolute EBITDA was less impacted as the loss in EPC profit was partly offset by the electricity division through the recovery of regulatory assets, and as such EBITDA declined to INR18.0bn from INR19.9bn during the same period. And thus, the business profile would improve due to higher weightage of the stronger business segment in the revenue mix which should also boost the future EBITDA margin of the company.

Equity Commitment: R-Infra has equity commitments towards its under-construction infra project SPVs and the cement plant over FY15-FY17. Apart from, equity infusion, Ind-Ra also expects the company to provide support to these SPVs given that majority of its infra assets are in the initial phase of operations.

RATING SENSITIVITIES

Positive: Outlook may be revised back to Stable if the company demonstrates an accelerated deleveraging of the balance sheet.

Negative: Lower-than-expected quantum and speed of deleveraging due to delays in recovering reduction of loans and advances given to group companies or delays in raising significant equity may result in a negative rating action.

COMPANY PROFILE

R-Infra is the flagship company of India-based Reliance Group led by Anil Dhirubhai Ambani in energy and infrastructure business. R-Infra's standalone operations constitute a vertically integrated power generation, transmission and distribution business catering to parts of Mumbai city. R-Infra also has an in-house engineering, procurement and construction division active in power and road segments.

In FY14, the company registered a top-line of INR109.8bn (FY13: INR143.1bn) with EBITDA margin of 16.43% (13.92%). In 1HFY15, the company reported revenue of INR50.0bn (1HFY14: INR61.1bn), EBITDA margins of 18.2% (15.0%).

R-Infra's Ratings:
- Long-Term Issuer Rating: 'IND AA-'; Outlook Negative
- INR15bn NCD programme: affirmed at Long-Term 'IND AA-'
- INR20bn fund-based bank limits: affirmed at Long-Term 'IND AA-' and Short-Term 'IND A1+'
- INR135bn non-fund-based bank limits: affirmed at Long-Term 'IND AA-' and Short-Term 'IND A1+'
- *INR18bn short-term debt programme: affirmed at Short-Term 'IND A1+'
- INR9.0bn NCD programme: affirmed at Long-Term 'IND AA(SO)'
- INR0.5bn short term NCDs: affirmed at Short-Term 'IND A1+(SO)'
- INR6.5bn term loans: affirmed at Long-Term 'IND AA(SO)'
- INR11.25bn term loans: affirmed at Long-Term 'IND AA(SO)'
- Proposed INR5bn fund-based limits: Long-Term 'IND AA-(exp)' and Short-Term 'IND A1+(exp)' withdrawn as the issue did not proceed as previously envisaged.
- Proposed INR20bn non-fund-based limits: Long-Term 'IND AA-(exp)' and Short-Term 'IND A1+(exp)' withdrawn as the issue did not proceed as previously envisaged.

- Proposed INR5bn fund-based limits: assigned Long-Term 'IND AA-(exp)' and Short-Term 'IND A1+(exp)'
- Proposed INR20bn non-fund-based limits: assigned Long-Term 'IND AA-(exp)' and Short-Term 'IND A1+(exp)'

*INR6bn is backed by the fund-based facility.

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