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October 26, 2012

The General Manager
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NSE Scrip Symbol: RELINFRA

Dear Sirs,

Sub: **Rating of short term and long-term debts**

Pursuant to the requirements of the Listing Agreement, we would inform that CARE has assigned ratings on the Company's Commercial Paper/Short-Term Debt Programmes and revised the rating for long term Non Convertible Debentures (NCD) issue.

A copy of the detailed rating rationale is enclosed.

We would request you to inform the members suitably on the above.

Yours faithfully
For Reliance Infrastructure Limited

Ramesh Shenoy
Company Secretary & Manager

Registered Office: H Block, 1st Floor, Dhirubhai Ambani Knowledge City, Navi Mumbai 400 710

CARE Ratings

Press Release

October 22, 2012

CARE A1+ FOR COMMERCIAL PAPER/SHORT-TERM DEBT OF RELIANCE INFRASTRUCTURE LIMITED; LONG-TERM RATING REVISED

Ratings

Facility/Instrument	Amount (Rs. crore)	Ratings[1]	Remarks
Commercial Paper/Short Term Debt programme	200	"CARE A1+" [A One Plus]	Assigned
Long-term Non-Convertible Debentures (NCDs) issue	365	CARE AA [Double A]	Revised from "CARE AA+" [Double A Plus]
Total	565		

Rating Rationale

CARE has assigned a CARE A1+ rating to the Commercial Paper programme of Reliance Infrastructure Limited (RInfra) and has revised its long term rating to CARE AA from CARE AA+. The revision in the long-term rating is primarily on account of change in financial risk profile. The borrowings of RInfra have increased mainly due to cash flow mismatch arising out of Engineering, Procurement & Construction (EPC) work being executed for internal projects – power projects being implemented by Reliance Power Limited and roads & transmission projects of RInfra. Such cash flow mismatch has led to the increase in the group exposure to support the fund requirements of various power projects implemented by associated company Reliance Power Limited (RPower; RInfra holds 38.41 % in RPower as on June 30, 2012). Consequently, overall gearing ratio, on consolidated basis increased to 0.75 times at end-FY12 (refers to the period April 1 to March 31) from 0.52 times at end-FY11. Debt coverage indicators of the company changed with total debt/gross cash accruals increasing to 8.56 times for FY12 from 6.14 times for FY11. Furthermore, the liquidity position, on consolidated basis reduced to Rs.1,467 crore at end-FY12 from Rs.4,985 crore at end-FY11.

The rating of RInfra continues to factor in strong and stable cash flows from the power distribution business in the Mumbai distribution area. The Mumbai distribution business has exhibited strong operational efficiencies; with a peak demand of 1,664 MW, the reliability has been consistently at 99.9% and aggregate technical and commercial loss at approximately 9%, which is one of the lowest in the country. RInfra's Mumbai distribution business has generated stable cash flows due to the regulated nature of business ensuring fixed Return on Equity. Distribution business is supported by generation plant at Dahanu (500 MW), which is one of the most efficient plants in the country and has been operating at a consistently high (>100%) Plant Load Factor (PLF). RInfra owns transmission business which also generates stable cash flows due to the regulated nature of business ensuring fixed Return on Equity. The regulated nature of distribution, generation and transmission businesses coupled with strong operating efficiency is one of the key credit strengths for RInfra.

Over the past few years, RInfra has built its strong presence in EPC business. The EPC order book stood around Rs.15,600 crore as on June 30, 2012, which is around 1.5 times of EPC's revenue in FY12. In CARE's opinion, EPC business entails higher risk owing to higher level of competition and execution-related issues in comparison with core power distribution business. However, with its own large infrastructure portfolio and strong power generation portfolio of its associate RPower, RInfra has good visibility in terms of EPC order book and earnings over short to medium term.

The rating also continues to factor in the continued support from the promoters of RInfra. The promoters have infused significant equity over the last few years to maintain the favourable capital

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

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structure of the company. Resourcefulness of RInfra's promoters is one of the key strengths from credit perspective.

The credit positives are partly tempered by increasing investment in infrastructure projects taken up by RInfra through various project-financed and ring-fenced Special Purpose Vehicles (SPVs). Over the last few years, RInfra has diversified from its core-regulated business of power distribution towards making large investments in various infrastructure projects such as road projects, power transmission, urban transport and cement. These projects are at various stages of implementation. However, the company's commitment towards infrastructure projects is expected to reduce on account of withdrawal from few large projects due to delay in meeting conditions precedent under the concession agreement by concession authorities or delay in providing requisite clearances. Consequently, the equity requirement to be provided by RInfra towards various infrastructure projects shall reduce from about Rs.7,500 crore to Rs.3,300 crore over FY2013-16. While arriving at the rating on RInfra, CARE has considered equity contribution that RInfra has committed to make in various projects being undertaken in project Special Purpose Vehicles (SPVs). Apart from this, the cost overrun support to the extent agreed by the company with the lenders to the SPVs while availing debt financing has been factored in. RPower, which is the group's vehicle for power generation business with a project slate of 35,000 megawatt (MW), has not been consolidated while assessing RInfra's rating. This is because of the articulated position of management of RInfra of not committing further financial resources beyond the equity capital already invested. However, in recent past, there has been an increase in the support extended by RInfra to group companies/ associates which is contrary to the CARE's expectations.

As per the discussion with the management, RInfra is likely to reduce the group support in medium term. In case this support does not reduce, CARE may reconsider its analytical approach regarding consolidation of RPower.

The key rating sensitivities for credit rating of RInfra include reduction in support to group/associate companies, successful implementation of major projects within budgeted costs and timely execution of EPC orders.

Background

RInfra is the flagship company of the Reliance group, being controlled by Mr Anil D. Ambani. RInfra's principal business consists of: (a) Distribution of electricity in Mumbai, New Delhi and Orissa. (b) Total power generation capacity of 942 MW with plants located at Maharashtra, Goa, Kerala, Karnataka and Andhra Pradesh. (c) EPC division that currently undertakes contracts in power and roads including RInfra's own infrastructure projects and for its associate RPower. The company through its various subsidiaries structured as SPVs is executing projects in various infrastructure segments such as roads, metros, sea-link, power transmission and cement.

RInfra , on consolidated basis reported a Profit after Tax (PAT) of Rs.1,587 crore on total operating income of Rs.24,366 crore in FY12 as compared with a PAT of Rs.1,552 crore on total operating income of Rs.15,680 crore in FY11. Furthermore, the company reported a PAT of Rs.412 crore on total operating income of Rs.5,341 crore in Q1FY13 as compared with PAT of Rs.405 crore on total operating income of Rs.4,880 crore in Q1FY12.

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CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

CARE Ratings

Press Release

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