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Mumbai

## CRISIL Equities assigns IPO grade 4/5 to Sterlite Energy Limited

CRISIL Equities has assigned a CRISIL IPO grade of "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Sterlite Energy Limited (Sterlite Energy). This grade indicates that the fundamentals of the IPO are above average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The grade assigned to Sterlite Energy reflects CRISIL Equities' view that the current power deficit in India coupled with sustained economic growth will fuel power demand, creating ample opportunities for companies in power generation. The grade is supported by the advanced stage of execution for two projects being developed by Sterlite Energy. Both the projects have received environmental clearance. The company has recently commissioned the first unit (of the four units) of 600 MW of the Jharsuguda project; the full project is expected to be operational by August 2011. The grade factors in the cost competitive advantage of the Jharsuguda project due to its low-capital cost and proximity to fuel source. Further, the Jharsuguda project is expected to benefit from the high merchant tariffs as around 70% of the capacity is expected to be sold through the merchant route. Phase-I of the Talwandi project is expected to be fully commissioned by Q2FY14. The company has got land possession as well as coal linkage for Talwandi Phase-I. The offtake agreement for the same has been signed with the Punjab State Electricity Board (PSEB). The advanced stage of development provides good visibility for these projects.

The grade also factors in Vedanta Group's (to which the company belongs) financial strength and established track record of developing and operating captive power plants in the country.

The grade is moderated by insufficient fuel linkage and incomplete land acquisition for the Jharsuguda project which could impact profitability or delay the project. Also, any adverse movement in merchant tariffs could impact the profitability of the project. Industry-wide concerns about coal shortage in the country, execution risks and state electricity boards' poor financial strength have also influenced the grade.

The Jharsuguda project would entail capital expenditure of Rs 82 bn whereas Talwandi Phase-I would require Rs 93.2 bn. As on 6 October 2009, Rs 41.1 bn and Rs 8.5 bn were spent on Jharsuguda and Talwandi Phase-I, respectively. The consolidated net worth of the company as of September 2009 was Rs 13.5 bn and debt was Rs 24.5 bn.

### About the company and the issue

Incorporated in 1995, Sterlite Energy is a Vedanta Group company and subsidiary of Sterlite Industries Ltd. It was formed to leverage on the experience of Sterlite Industries in building and managing captive power plants. The Vedanta Group is one of the largest private sector power plant operators in India based on installed capacity – owning and operating 2,734 MW of captive power plants and 600 MW of commercial power plants. The group intends to develop all future commercial power generation projects through Sterlite Energy.

Sterlite Energy is currently developing two coal-based power plants – a 2,400 MW plant in Jharsuguda, Orissa and a 1,980 MW in Talwandi Sabo, Punjab (Talwandi Phase-I). The company has recently signed an MOU with the Government of Punjab to set up an additional 660 MW unit at Talwandi Sabo (Talwandi Phase-II).

The company proposes to raise Rs 51,000 mn through the IPO. The proceeds of the IPO would be utilised to part finance the construction and development of Jharsuguda and Talwandi Phase-I power projects, and to fund general corporate purposes.

### About CRISIL IPO Grading

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