

Indiabulls Power Ltd.

CRISIL IPO Grade 3/5 (average)

September 30, 2009

Grade

CRISIL IPO Grade '3/5': The grade indicates that the fundamentals of the issue are 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

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Issue Details

Shares offered to public	390,700,000 (including The Green Shoe Option)
As per cent of post issue equity	19.06 per cent
Object of the Issue	Equity funding for Amravati Phase I and Nashik Power Project
Amount proposed to be raised	Rs 20,000 Mn
Price Band	Not available
Lead managers	Morgan Stanley India Company Private Ltd

Company Background

Indiabulls Power Ltd. (IBPL) is a part of the Indiabulls Group. In order to capture opportunities in the power sector, IBPL has been established as a vehicle for the group to develop, construct and operate power generation projects. The company was incorporated on October 8, 2007. Indiabulls Real Estate is the company's promoter and holds a 71.43 per cent stake while the balance stake is held by LNM Group and FIM.

Grading Highlights

Business Prospects

- The power sector in India holds strong industry prospects. A high base load deficit of 11 per cent coupled with the economic growth of the country is expected to lead to higher demand for power. Demand is expected to grow at a CAGR of 7.8 per cent and the base load deficit is expected to come down to 5.0-5.2 per cent by 2013-14
- IBPL is currently executing five power projects: 1,320 MW Amravati Power Project – Phase I, 1,335 MW Nashik Power Project, 1,320 MW Bhaiyathan Power Project, 1320 MW Amravati Power Project – Phase II and 1320 MW Chhattisgarh Power Project. The first three projects are relatively at advanced stage of implementation
- IBPL has obtained most of the regulatory approvals for three of its projects under execution i.e. 1,320 MW Amravati Power Project – Phase I, 1,335 MW Nashik Power Project and 1,320 MW Bhaiyathan Power Project. It already has coal linkages / captive mines for these three projects and the Boiler, turbine and generator (BTG) equipment supply contract has been awarded to Chinese manufacturers for two projects. CRISIL Research believes that the projects face moderate risk
- However, the company is yet to sign the offtake agreement for its Amravati Phase I and Nashik projects. In respect of Amravati Phase I project, IBPL has signed a 1000 MW PPA with Tata Power Trading Company Limited to arrange for back to back agreement

Financial Performance

- The power business is expected to supply stable cash flows to the company once the projects commence generation in 2011-12 as per the Company schedule.
- The company expects to sell 75 per cent of the power generation via a long-term power purchase agreement (PPA) and balance through merchant sales route
- The projects are expected to be funded through a debt to equity (D/E) mix of 75:25. The company has achieved the financial closure for the Amravati Phase I project, and attained commitment for significant portion of the debt requirement for the Nashik project. However, IBPL is yet to tie-up funds for the Bhaiyathan power project
- IBPL plans to fund the equity portion of Amravati – Phase I and Nasik projects through the IPO proceeds while Bhaiyathan project would be funded through current available funds with the company. Amravati – Phase II and Chattisgarh are currently in the initial phase of development and their equity portion will be to be funded through internal cash accruals of the company. However, if required the company may raise fresh equity to fund these projects
- Poor health of the SEB's (State Electricity Board) may impact financial of the company as the company would be mainly selling power to them

Management Capabilities

- Indiabulls Group is new in the power sector.
- However, IBPL has put together an execution team which has a rich experience in the power sector

Corporate Governance

- The Board conforms to the minimum requirements of composition w.r.t independent directors.
- The independent directors of IBPL present a varied mix of experience. However, the independent directors do not have experience in the power sector. As per CRISIL Research's assessment, the level of engagement of the independent directors with company's proposed business could be stronger.
- While the group has several business interests, there appears to be no business conflict for IBPL with other group companies.

Detailed Grading Rationale

Overall Grading Summary (CRISIL IPO Grade 3/5)

To arrive at the overall grade, CRISIL has considered the following parameters:

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

CRISIL has assigned a CRISIL IPO Grade ‘3/5’ (pronounced ‘three on five’) to the proposed Initial Public Offer of Indiabulls Power Ltd. The grade indicates that the fundamentals of the issue are 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 offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy / sell or hold the graded instrument, the graded instrument’s future market price or its suitability for a particular investor.

The grading assigned reflects CRISIL’s view that the current power deficit scenario coupled with India’s sustained economic growth will fuel power demand, creating ample business opportunities for companies like IBPL. The grading also reflects the strong track record of the Indiabulls Group along with its ability to efficiently raise funds. However, the grading is tempered by the fact that IBPL has no prior experience in the power sector. Further, the grading demonstrates that power generators in India will have to depend on state electricity boards (SEB) for offtake over the long-term and constrained capacity of the transmission facility for power evacuation. Also, returns on projects won through competitive bidding may not be substantially high due to tough competition from other players under the bid route.

➤ ***Power generation to piggyback on the growing Indian economy***

Growth in the Indian economy over the medium term (GDP growth of 6.5-7.0 per cent) is expected to result in a concomitant growth in demand for power and hence an opportunity for generating companies. The energy deficit in 2008-09 was around 11 per cent of the total power requirement of around 774 billion units, and peak deficit stood at 12 per cent of the total requirement of 109 GW. According to CRISIL Research estimates, while energy deficit is expected to come down to 5.0-5.4 per cent of the total power requirement of 1,188 billion units by the end of 2013-14, the peak deficit is also expected to drop (i.e. 7.0-7.3 per cent of the expected requirement of 163 GW). This would provide huge growth opportunities for private players in the power sector.

➤ ***Strategy to tap western India demand centers***

IBPL is focused mainly on the Western India demand centres through the setting up of power plants in Maharashtra and Chhattisgarh. Western India has the highest base deficit of 16 per cent with a peak deficit of 19 per cent. CRISIL Research expects the base load deficit in the region to come down to 7.5 per cent on the back of power capacity additions.

➤ ***The group has demonstrated strong execution capability, but lacks experience in power***

Indiabulls Group has demonstrated strong execution capabilities. The group also has exceptional ability to raise funds. However, the group has no track record in the power sector, which may present some new challenges in the context of executing an ambitious plan.

➤ **Moderate project risk**

IBPL is currently executing five coal based power projects out of which three projects are at advanced stage of implementation. The company has secured most of the regulatory approval and has tied-up coal linkages for the three projects under advanced stage of execution. Equipment orders for two of the projects have been placed, whereas for the Nashik project it is in the final stage of being awarded. Power offtake agreement for the Bhaiyathan power project has been signed and the company is currently scouting for buyers for the Amravati Phase I and Nashik projects. In CRISIL Research's opinion, while the large scale of projects under implementation inherently involve an element of implementation, commissioning and stabilization risks, with a good extent of approvals and project linkages tied up at this stage, the project related risks appear moderated.

➤ **Timely project execution critical for company's financial performance**

IBPL proposes to set up 6,615 MW of greenfield power generation projects over the next 5-6 years. While the equity funding for two of the projects (Amravati Phase I and Nashik) is expected to come from the IPO proceeds, the third project (Bhaiyathan) is likely to be financed with the currently available funds. The funding for the other two projects would be done through internal cash accruals from the projects once they come on stream. However, if required the company may raise fresh equity to fund these projects

Moreover, bearing in mind Indiabulls lack of prior experience in the power sector, we believe that the company faces execution risk. However, IBPL has roped in people with rich experience in the power sector in order to mitigate this execution risk. That said, considering that earnings growth would be driven by the commissioning of new projects, any delay in implementation could significantly impact the earnings performance of the company.

➤ **Credit risk arising out of power sales to weak SEBs**

A significant part of the energy offtake from IBPL (almost 75 per cent for all the projects) is likely to be by SEBs, some of which have a weak credit history. Despite an expectation of improvement in their financial position over the coming years, following the overall transition in the power sector, we believe that payment risk arising out of sale to SEBs would continue to be a crucial issue in the medium term. However, as a risk mitigating factor, supplier has the option, under the PPA entered into with SEBs, to sell the electricity to a third party in case of default by the procurers. 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.

Financials

- Three of the projects under advanced stage of implementation involve a total capital expenditure of Rs 197 billion. The projects are expected to be funded through a D/E ratio of 75:25. The company has achieved financial closure for the Amravati Phase I project and attained commitment for significant portion of the debt requirement for the Nashik project. However, the company is yet to tie-up funds for the Bhaiyathan power project.
- IBPL plans to fund the equity portion of Amravati – Phase I and Nasik projects through the IPO proceeds while Bhaiyathan project would be funded through current available funds with the company. Amravati – Phase II and Chattisgarh are currently in the initial phase of development and their equity portion will be to be funded through internal cash accruals of the company. However, if required the company may raise fresh equity to fund these projects
- The company expects to sell 75 per cent of power generation under long-term PPA and balance through the merchant sales route. The company is yet to tie up long term PPA for Amravati Phase I and Nashik. However, for Bhaiyathan project PPA has been signed at a levelised tariff of Rs. 0.81 per unit with CSEB for 65% capacity. The same is below the cost of generation which the company seeks to cover up through merchant sales
- The management has indicated that the first power plant would come up at Nashik only in 2011-12

Project details

Project Name	State	Capacity	Cost (Rs million)	Commissioning Year	Funding(Debt Equity mix)
Amravati Phase I	Maharashtra	1,320 MW	68,880	2012-13	75:25
Nashik	Maharashtra	1,335 MW	60,480	2011-12	75:25
Bhaiyathan	Chhattisgarh	1,320 MW	67,960	2012-13	75:25
Chattisgarh	Chhattisgarh	1,320 MW	57,338	2013-14	75:25
Amravati Phase II	Maharashtra	1,320 MW	55,866	2013-14	75:25
Total		6,615 MW	310,524		

Source: DRHP

Business Profile

IBPL is a part of Indiabulls Group and has been established with the objective to develop, construct and operate power projects. The company has been established to capture the growth opportunities in the power sector in the country. It is a subsidiary of Indiabulls Real Estate Ltd, which holds a 71.43 per cent stake. LNM group and FIM hold 10.71% and 17.86% respectively in the company.

IBPL is looking to develop, construct and operate power projects in the country. It proposes to set up power plants in Maharashtra and Chhattisgarh to meet the power demand load of western India. However, IBPL does not possess any prior experience in the power sector. It proposes to install 6,615 MW generation capacities over the next 5-6 years and currently has several projects at the MoU stage. Of the total proposed capacity, three projects totaling 3,975 MW (Amravati Phase I, Nashik and Bhaiyathan) are in relatively advanced stage of implementation. The company expects to start commercial production at its first power plant in Nashik in 2011-12. Amravati power project would be executed by the Company, whereas the other projects would be executed through a special purpose vehicle (SPV) where the company is expected to hold 100 per cent stake [except the Bhaiyathan Project where Chhattisgarh SEB (CSEB) would own 26 per cent stake].

Project Details under development stage

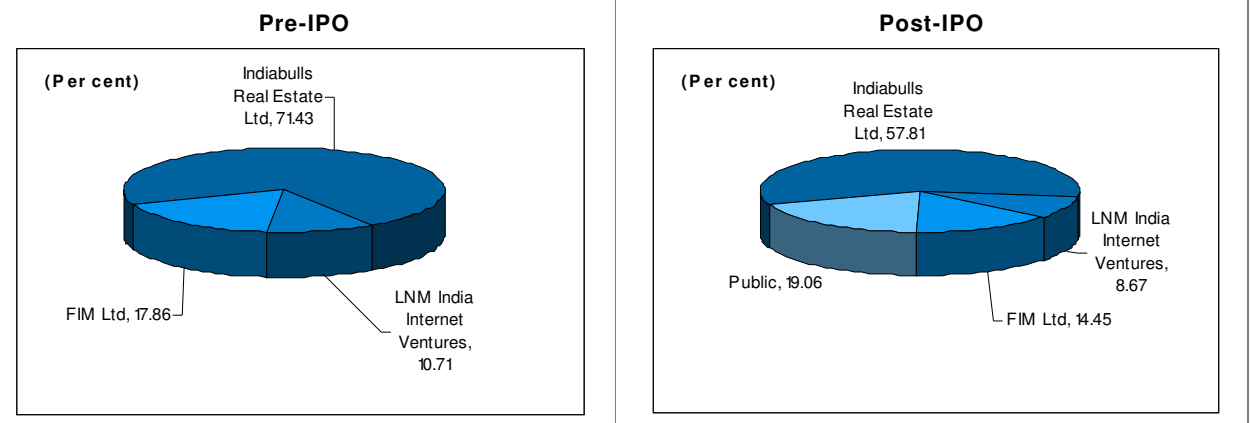
Project name	State	Capacity	Procurement status	Fuel supply status	Offtake status	Commissioning
Amravati Phase I#	Maharashtra	1,320 MW	Issued to SEPCO, China	LOA from Mahanadi Coalfields and South Eastern Coalfields	Looking for PPA through Case I bids and industrial customers*	2012-13
Nashik#	Maharashtra	1,335 MW	To be finalised	LOA from Mahanadi Coalfields, Western Coalfields and South Eastern Coalfields	Looking for PPA through Case I bids and industrial customers	2011-12
Bhaiyathan	Chhattisgarh	1,320 MW	Issued to CNTICZJ Energy Consortium, China	Captive mines allocated	Won through Case II competitive bid - 65 per cent offtake to CSEB	2012-13
Chhattisgarh	Chhattisgarh	1,320 MW	To be finalised	To be sourced	Not Yet	2013-14
Amravati Phase II	Maharashtra	1,320 MW	To be finalised	To be sourced	Not Yet	2013-14

Equity portion to be funded through IPO proceeds

* Agreement with Tata Power Trading to arrange for back to back agreement

Source: DRHP

Indiabulls Power: Shareholding Pattern



Source: DRHP

Profile of Management and Board

Mr Ranjit Gupta (CEO) who has been with the company since its inception in November 2007 heads IBPL. Mr Ranjit has over 17 years of experience in the energy sector. Mr. Rajiv Rattan who is a promoter of the group is an executive director in the company. The operation team is headed by Mr Murali Subramanian, who also possess more than 14 years of experience in energy sector and has, in the past, set up a power plant based on renewable energy. A highly experienced team of people who form the second level of management supports Mr Subramanian. Mr Sameer Gehlaut – co-founder of the Indiabulls Group, heads the board. The company’s board has 6 directors, 3 of whom are independent directors. The company also has two large institutional shareholders, namely, FIM and LNM Group. These two investors have a long history of association with the Indiabulls Group.

Annexure: Profile of the Directors

Board of Directors				
Name of directors	Designation	Age (years)	Qualification	Key positions held
Mr Sameer Gehlaut	Chairman and non-executive director	35	Engineering, IIT Delhi	Promoter
Mr Rajiv Rattan	Executive director	36	Engineering, IIT Delhi	Promoter
Mr Saurabh K. Mittal	Non-executive director	35	Engineering, IIT Delhi & MBA, Harvard Business School	Promoter
Mr Shamsher Singh Ahlawat	Independent director	60	Post graduate in History	Ex-banker and academician
Mr Prem Prakash Mirdha	Independent director	53	Graduate, Mercantile Marine Department	11 years with Merchant Navy
Brigadier Labh Singh Sitara	Independent director	70	Graduate, Punjab University	Three decades of experience at the Indian army

Source: DRHP, Company

Disclaimer

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