

Orient Green Power Limited

CRISIL IPO Grade 4/5 (Above Average)

July 29, 2010

Grading summary

CRISIL has assigned a CRISIL IPO grade of '4/5' (pronounced "four on five") to the proposed IPO of Orient Green Power Ltd (OGPL). 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 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, its future market price or suitability for a particular investor. To arrive at the overall grade, amongst various other parameters, CRISIL has considered the company's business prospects, its financial performance, management capabilities and corporate governance practices.

The assigned grade reflects OGPL's ability to leverage the opportunity present in the power market, which is expected to remain in deficit over the medium term. The grade factors in the Indian policymakers' commitment to promote the renewable energy industry through fiscal and other incentives like RPO and RECs. The grading takes note of the fact that the management has shown focus and ability to acquire existing plants and improve OGPL's operational efficiency as well as set up new capacities in a timely manner. Further, OGPL has the backing of co-promoter Shriram EPC, which has experience in handling EPC contracts for renewable-based plants. The company has aggressive plans to expand capacity from 193.1 MW to more than 1,000 MW through greenfield projects. Most of OGPL's committed projects are in an advanced stage of implementation.

The grade takes into account the poor financial health of SEBs (State Electricity Boards) and the fact that the cost of generating renewable energy is higher compared to conventional sources, which increases the dependence on regulatory support. The grade also considers the fuel risk inherent in biomass plants, which are dependent on agricultural waste and could potentially face fuel sourcing issues and other related challenges.

For the nine months ended December 31, 2009, the company posted revenues of Rs 246.2 mn and a loss of Rs 71.2 mn as the biomass plants were operationally unstable. The ownership of Bharat Wind Farm Ltd (BWFL), which owns wind assets of the group, was transferred to OGPL in January 2010. For the same period, BWFL posted revenues of Rs 353.4 mn and a profit of Rs 21.5 mn.

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About the company

OGPL is in the business of building and operating renewable energy-based power plants. Incorporated in December 2006, the company started generating power in April 2008 after it acquired and began operating the first biomass plant in Kotputli, Rajasthan. The company is one of the largest independent operators and developers of renewable energy-based plants in India based on installed capacity. OGPL has an installed capacity of 193.1 MW as of FY10; 40.5 MW is in biomass-based plants and the balance is in wind-based plants. The company has mainly grown inorganically by acquiring, operating and developing renewable energy assets from third parties. However, going forward, the company plans to grow through greenfield expansions.

The company is a 94.75% subsidiary of Singapore-based Orient Green Power Pte. Ltd (OGPPL), which is owned by Shriram EPC, Singapore (37.7%), Bessemer India Capital OGPL Limited (37.7%) and AEP Green Power Limited (24.6%). Shriram EPC has more than 10 years of experience in handling EPC for the power sector, especially renewable. Bessemer India and AEP Green are the private equity investors in OGPPL.

Issue details

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Shares offered to public	Not available at the time of grading
As per cent of post issue equity	Not available at the time of grading
Object of the issue	Project financing, repayment of loan and general corporate purposes
Amount proposed to be raised	Rs 9,000 mn
Price band	Not available at the time of grading
Lead manager	JM Financial Consultants Private Ltd, Goldman Sachs (India) Securities Private Ltd, UBS Securities India Private Ltd and Axis Bank Ltd

Detailed Grading Rationale

A. Business Prospects

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

The Indian economy's growth over the medium term (expected average GDP growth of 8.0% over the next five years) is expected to result in a concomitant growth in demand for power. The energy deficit in 2009-10 was around 10.1% of the total power requirement of around 831 bn units. Peak deficit was 12.7% of the total requirement of 119 GW. According to CRISIL Research estimates, while energy deficit is expected to come down to 4.0-4.1% of the total power requirement of 1,300 bn units by the end of 2014-15, peak deficit is also expected to drop to 7.7-8.0% of the expected requirement of 194 GW over the same period. This would provide huge growth opportunities for private players in the power sector.

- *Global support to the renewable sector – untapped potential*

Countries around the world are increasingly becoming aware of the hazards of climate change, the need for emission cuts and alternative clean energy technology. The Kyoto Protocol signed by various countries to reduce carbon emissions also boosts the demand for non-conventional power. Given the global consensus and commitment to reduce carbon emissions, the industry will continue to attract support from Indian policymakers too. The renewable sector's contribution to overall generation is a low ~5.6%. As of October-end 2009 only 17-18% of the country's renewable energy potential has been harnessed, indicating there is significant room for growth.

- *Incentives given by the Indian government and SERCs*

The cost of renewable generation is higher than for conventional sources, resulting in dependence on the government's support for development. Policymakers in India have unveiled various steps to promote the industry. Some of the fiscal incentives are – 80% accelerated depreciation, duty-free imports, tax holiday, preferential tariffs, Renewable Energy Certificates (REC) and Renewable Purchase Obligation (RPO). Under RPO, implemented by some states, the State Electricity Regulatory Commissions (SERCs) have fixed 1% to 10% for purchase of power from renewable energy sources in the area of a distribution licensee. These incentives are likely to provide an impetus for growth to the sector.

- *Moderate project risk for renewable energy-based projects*

Renewable energy-based power plants generally face a lower execution risk compared to the coal-based thermal plants. Most of the biomass plants are small-sized and can be commissioned within 15-18 months. The land requirement is low and regulatory hassles are also less compared to coal-based power plants. A wind farm project can be executed over six-seven months. Also, equipment manufacturers of small plants do not have order backlog issues.

OGPL, which has added capacity mostly through the inorganic route, has aggressive plans to expand capacity from 193.1 MW to more than 1,000 MW through greenfield projects. Most of OGPL's committed projects are in an advanced stage of implementation; land has been acquired, debt financing tied up and equipment purchase orders issued.

- *Management focused towards meeting the execution and operational challenges*

OGPL's current operating capacity is 193.1 MW. OGPL, which has mainly grown through the inorganic route, has shown itself capable in improving the operational efficiency at the acquired plants. The company now plans to ramp it up to more than 1,000 MW by FY13. The company's aggressive plans could pose execution and operational challenges, which we believe the management, would be able to overcome given its focus and ability as well as the support from its promoter group.

- *Poor financial health of SEBs*

In India, power is mostly purchased and supplied by SEBs, which have a weak credit profile due to continuous losses incurred over the past on account of high transmission losses and subsidised power supplied to the agricultural sector. Despite the reforms, through the Electricity Act, SEBs' financial health has not changed much due to intervention by states in matters like tariff increase, free power, etc. The operators of renewable source of power are mainly dependent on SEBs for off-take under the RPO. The poor health of SEBs exposes the company to high credit-related risks.

- *Fuel risk for biomass plants*

Biomass plants do not have long-term fuel contracts and depend on local sourcing. Though the company carefully selects the site, along with policy protection which does not allow a new plant to come up within 70 km radius, it is exposed to fuel risk in case a new biomass plant comes up near the existing plant. Also, the ability to source biomass fuel in a cost efficient manner is a key monitorable.

B. Financial Performance

In FY09, OGPL incurred a loss of Rs 91 mn on revenues of Rs 121.2 mn as it had only biomass plants under its fold, which had not stabilised in operations. The historical number does not contain profits from the wind business as the ownership of Bharat Wind Farm Ltd (BFWL), which owns wind assets, was transferred in January 2010.

For the nine months ended December 31, 2009, the company posted revenues of Rs 246.2 mn and loss of Rs 71.2 mn. However, going forward, the financials are expected to improve on higher profitability of operating plants and also contribution from greenfield plants. For the same period, BFWL posted revenues of Rs 353.4 mn and a profit of Rs 21.5 mn.

Financial performance snapshot

Particulars		FY09	9 months ending 31 st December 2009
		Actual	Actual
Sales	Rs mn	121.2	246.2
Operating margin	%	37.5	23.1
Net profit	Rs mn	-95.9	-71.2
RONW	%	-3.4	-1.5
Basic EPS	Rs	-1.1	-0.3
Net worth	Rs mn	2034.6	2640.2
No. of eq. shares	mn	40.4	276.6
Book value	Rs mn	50.3	9.5
Dividend per share	Rs	0.0	0.0
Debt/Equity	Times	0.27	0.46

**Note: Numbers have been reclassified as per CRISIL standards*

Source: DRHP

C. Management Capabilities and Corporate Governance

OGPL's management team is headed by Mr T. Shivaraman, the vice chairman. He is a chemical engineer from IIT Madras and has more than 23 years of experience in plant operations and project engineering. He is the person responsible for driving the overall strategy of the company. He is also CEO of Shriram EPC. Mr P. Krishnakumar serves as managing director of the company and is in charge of biomass plants. He is a mechanical engineer. The wind business is headed by Mr Ramkumar, who is an electronic and electrical engineer; he has more than 18 years of experience in the renewable sector. He was earlier with Shriram EPC. The second line of management is also fairly experienced.

OGPL's board comprises 11 directors, which includes two executive directors and six independent directors. The board also has two nominee directors from PE investors - one from Bessemer and another from Olympus. The board is highly experienced with members from different fields. The board is chaired by Independent Director Mr N. Rangachary, who has 40 years of experience in insurance and financial services, and has served as chairman of IRDA. All the independent directors have been recently inducted. Based on interactions with them, CRISIL Equities believes the involvement of all independent directors at the board level is at reasonable levels.

Shriram EPC holds 37.7% stake in Orient Green Power Pte. Limited, Singapore (OGPPL), the holding company for OGPL. The co-promoter is expected to benefit from the handling of EPC contracts from and supply of turbines to OGPL. The management has informed us that they'll ensure the same is carried out at an arm's length price.

Annexure I

Business Profile

OGPL is in the business of building and operating renewable energy-based power plants. The company is one of the largest independent operators and developers of renewable energy-based plants in India based on installed capacity. The company has mainly grown by acquiring, operating and developing renewable energy assets from third parties. OGPL has an installed capacity of 193.1 MW as of FY10; 40.5 MW is in biomass-based plants and the balance is in wind-based plants. The operating power plants are mainly concentrated in Tamil Nadu; the state accounts for 22.5 MW of biomass capacity and 126.4 MW of wind farms.

The company has lined up ambitious expansion plans of 178.5 MW and 622 MW for biomass and wind plants, respectively. It also plans to add a small hydel capacity of 15 MW. Stepping outside India, OGPL plans to put up 197.5 MW wind farms in Europe and Sri Lanka.

Power capacity snapshot

Type of plant (MW)	Operating	Committed	Development
Biomass	40.5	73.5	105.0
Wind	152.6	384.0	238.0
Hydel	-	-	15.0
Total	193.1	457.5	358.0

Source: DRHP

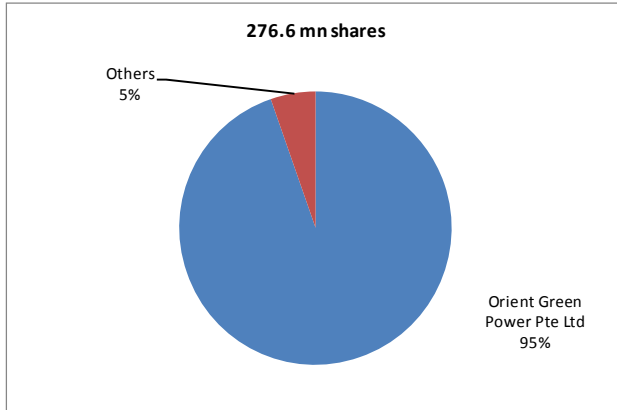
Management and Board Profile

OGPL's management is headed by Mr T. Shivaraman, the vice chairman. He has 23 years of experience in plant operations and project engineering. He is supported by Mr P. Krishnakumar and Mr Ramkumar who head the biomass and wind divisions, respectively.

OGPL's board comprises 11 directors, which includes two executive directors and six independent directors. The board also has two nominee directors - one from Bessemer and another from Olympus. All the independent directors have been recently inducted to comply with the listing norms. Based on interaction with them, we believe the involvement of all independent directors at the board level is at reasonable levels.

Shareholding Pattern

Pre-IPO



Note: Number of shares to be offered through IPO is not available
Source: DRHP

Annexure II: Profile of the Directors

Name of Directors	Designation	Age	Qualification	Experience (years)	Key position held/experience
Mr N. Rangachary	Chairman, Independent Director	72	National Diploma in Commerce (All India Institute of Technical Education, New Delhi), C.A., I.C.W.A.I, C.S		<ul style="list-style-type: none"> Chairman: Central Board of Direct Taxes, 1995 Chairman: Insurance Regulatory and Development Authority (IRDA), 1997 Adviser: Finance Department of the Govt. of Andhra Pradesh, 2003
Mr T. Shivaraman	Vice Chairman, Executive Director	44	Bachelors and Masters in Chemical Engineering, Indian Institute of Technology, Madras		<ul style="list-style-type: none"> 23 years of experience in plant operations and project engineering
Mr P. Krishnakumar	Managing Director, Executive Director	55	Mechanical Engineer, Alagappa Chettar College of Engineering & Technology, Madurai Kamraj University		<ul style="list-style-type: none"> Associated with Murugappa Group for 20 years
Mr R.S. Chandra	Nominee Director	44	Bachelor (Economics), University of California, Berkeley M.B.A, Harvard Business School		<ul style="list-style-type: none"> More than 15 years of experience as private equity investor. Has worked with Mckinsey, IBM etc
Mr Frederick J. Long	Nominee Director	49	B.A, Brown University, US M.B.A, Stanford Graduate School of Business, US		<ul style="list-style-type: none"> Founder Managing director of Olympus Holding Worked as Merger & Acquisition Specialist at The Credit Suisse First Boston
Ms. Vathsala Ranganathan	Non-Executive Director, Non- Independent Director	58	Post Graduate in Economics, University of Madras		<ul style="list-style-type: none"> Two decade of experience in Shriram group companies
Mr R. Sundararajan	Independent Director	62	Bachelor's (M.E.), Jadavpur University, Kolkata M.B.A: IIM-A		<ul style="list-style-type: none"> 30 years of experience in pharma industry
Mr Srinivas Venkat Ram	Independent Director	62	B.Com: University of Madras M.B.A: IIM-A		<ul style="list-style-type: none"> Associated with companies like IBM, Bank of America, First Chicago Bank, Japan, Deutsche Bank, Japan, MasterCard Worldwide, Singapore and New York
Maj. Gen. A. L.Suri (Retired)	Independent Director	76	B.E, College of Military Engineering, Pune		<ul style="list-style-type: none"> Served as chief engineer in defense work
Mr R. Ganpathi	Independent Director	54	B.Tech, IIT- Madras		<ul style="list-style-type: none"> Has more than 26 years of experience in electrical projects and IT sector. Worked with BHEL, Malaysia
Mr P. Abraham	Independent Director	70	B.A: Andhra University M.A: Andhra University Diploma in Systems Management: Balaji Institute, Mumbai		<ul style="list-style-type: none"> 15 years of experience in the power sector. Retired as The Secretary, Ministry of Power

Source: DRHP

Disclaimer

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