

September 28, 2010

**CARE ASSIGNS 'CARE BBB' RATING TO THE BANK FACILITIES OF
BHAVNAGAR ENERGY CO LTD.**

Ratings Assigned

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	2,880.00	'CARE BBB' (Triple B)	Assigned
Total Facilities	2,880.00		

Rating Rationale

The rating factors in strength arising from BECL's ownership structure, sound financial position of the promoters and experience in the power and mining sector. The rating also factors in pithead nature of project with captive lignite mines, MOU with Gujarat Urja Vikas Nigam Ltd. for purchase of 100% power for 25 years, sound project implementation track record of the technical consultant for the project and award of major project packages to reputed agencies. The rating is constrained by the early stage of project implementation having long gestation period and elevated project implementation risk. The rating is also constrained by risk associated with largely debt-funded project and relatively higher project cost, which is inherent in nature for all lignite-based power plants mainly due to larger equipment size.

The ability of BECL to implement the project within envisaged cost and time parameters is the key rating sensitivity.

Company Profile

Bhavnagar Energy Company Ltd. (BECL) was incorporated on July 26, 2007 to set up lignite-based pithead power plant of 500 mega watt (MW; 2 x 250 MW) capacity at Padva village, Bhavnagar District, Gujarat. The total cost of the project is estimated at Rs.3,597 crore which is expected to be financed with a debt-equity ratio of 4:1. BECL is a joint venture company promoted by seven state PSUs of Gujarat, that is, Gujarat Power Corporation Ltd. (GPCL; 36% equity stake), Gujarat State Investments Ltd. (GSIL; 28%), Gujarat Mineral Development Corporation Ltd. (GMDC; 16%), Gujarat Industries Power Company Ltd. (GIPCL; 8%), Gujarat Alkalies and Chemicals Ltd. (GACL; 4%), Gujarat Narmada Valley Fertilizers Company Ltd. (GNFC; 4%) and Gujarat State Fertilizers & Chemicals Ltd. (GSFC; 4%).

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

BECL has already acquired the required land (171 hectares) for the plant and the site development work is in progress. Further, while two of the captive mines are adjacent to project site, one captive mine is located at a distance of around 5 km from plant site and the operations and maintenance of the mines is expected to be carried out by GMDC.

BECL has entered into an MOU with Gujarat Urja Vikas Nigam Ltd. (GUVNL) on July 3, 2010 for purchase of 100% power generation for 25 years. Further, Gujarat Energy Transmission Co. Ltd. (GETCO) is expected to arrange to evacuate power from the plant switchyard through suitable transmission network to be developed by GETCO.

As on June 30, 2010, BECL incurred Rs.167.50 crore on the project, funded with equity of Rs.162.75 crore and unsecured loan of Rs.4.75 crore. Further, till July 22, 2010, BECL had tied-up most of the term debt for the project and is expected to tie up the balance debt and finalise the lenders shortly.

The first and second units of the project are expected to be commissioned in February and May 2013, respectively.

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