

October 7, 2010

**CARE REAFFIRMS RATING TO THE BANK FACILITIES OF
BHUSHAN ENERGY LTD (FOR ENHANCED AMOUNT)**

Bank Facilities	Amount (Rs. cr)	Rating	Remarks
Long-term Bank Facilities	1728.3 (Enhanced from Rs.843.35cr)	CARE BBB+* [Triple B Plus]	Reaffirmed,

**The rating is under 'credit watch' with developing implications, following announcement of open offer by BEL to buy stake in Orissa Sponge Iron & Steel Ltd (OSIL). Post the conclusion of the offer, CARE shall evaluate the impact of this development on the credit quality of company.*

Rating Rationale

The rating takes into account completion of 300 MW thermal power project and the pursuant cash accruals from it. The rating also considers the demonstrated support of promoters/Bhushan Steel Ltd (BSL) (*BSL rated CARE A+ and PRI*) in the form of capital infusion and management assistance coupled with assured off take of power generated from the present capacities. The rating is however constrained by relatively high overall gearing, significant new expansion planned in the power generation capacity and associated risks of project implementation.

Going forward, the implementation of the expansion project within the envisaged time and cost estimates shall be the key rating sensitivities.

Company Profile

Bhushan Energy (P) Limited (BEL), incorporated on September 14, 2005 is promoted by Bhushan Steel Ltd (*BSL*), Mr. Brij Bhushan Singhal, Mr. Neeraj Singhal and their relatives/ associate companies. It has been originally promoted to set up and operate a 300 MW coal-based power plant to provide captive power supply to BSL's integrated steel plant located at Meramandali, Orissa. The power produced at plant would be supplied to BSL for its captive consumption according to the terms of the Power Purchase Agreement entered into by both the parties. After the completion of the 300 MW capacity (2x150 MW) based on coal along with coal middling/char as fuel, BEL is planning to enhance the power generation capacity by setting up another 165 MW power generating unit to be commissioned by 2014. It is also installing additional boilers which will enhance the power generation from its existing 300 MW power plant by 20 MW. The site for the proposed expansion project is within BSL's integrated steel plant complex, Orrisa.

The expansion project of 185 MW (165 MW+ 20 MW, called Phase II) has estimated cost of Rs. 916 cr to be funded by debt of Rs 733 cr and equity of Rs. 183 cr. BEL has received sanctions from the banks for the debt of Rs. 733 cr. Further the company has spent Rs.95 cr as on June 15, 2010 on the Phase II of the project. Pending disbursement of the loan, the entire amount has been financed by the promoters' contribution/short term loans. For the additional 185 MW, BSL has given an undertaking to BEL that the earlier PPA for 300 MW would be extended to the Phase II of the project.

FY10 was the first year of operation for BEL. During FY10 (Prov.) BEL has reported a total income of Rs.101cr and earned a PAT of Rs.16cr. PBILDT and PAT margins stood comfortable at 66.28% and 15.94%, respectively, primarily on account of use of low cost raw material like coal middlings/char procured from BSL's steel plant.

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