

June 2, 2010

**CARE REAFFIRMS THE RATING ASSIGNED TO BANK FACILITIES OF
ESSAR OIL LTD.(FOR ENHANCED AMOUNT)**

CARE has reaffirmed the '**PR3**' [**PR Three**] rating assigned to the Short-term Bank Facilities of Essar Oil Limited (EOL) aggregating Rs.9,450 crore (size enhanced from Rs.8,250 crore). This rating is applicable for facilities having tenure up to one year. Facilities with this rating would have moderate capacity for timely payment of short-term debt obligations at the time of rating and carry higher credit risk as compared to facilities rated higher.

Instrument	Amount (Rs. crore)	Rating
Short-term Bank Facilities	9,450.00	'PR3'
Total	9,450.00	

Rating Rationale

The ratings take cognisance of the well-established promoter group and consequent implicit group support, successful commissioning and consistent utilisation of the base refinery at about 130% of the licensed capacity and implementation & compliance with the Corporate Debt Restructuring (CDR) package.

The ratings are, however, constrained by the implementation risks associated with de-bottlenecking and up-gradation project being executed by EOL, high volatility in crude prices and fluctuation in exchange rate and its impact on profitability. The ratings have also factored the financial profile of the company characterised by high leverage, low interest coverage, and low current ratio.

Company Profile

EOL, incorporated in 1989, is a part of the Essar group. EOL commissioned its base oil refinery of 10.5 million metric tonnes per annum (mmtpa) having a Nelson's Complexity Index (NCI) of 6.1, at Vadinar, Gujarat in May 2008 with a total cost of about Rs.13,350 crore. In May 2009, the refinery capacity was augmented to 14 mmtpa.

In FY09, on a net sales of Rs.37,556 crore, EOL incurred net loss of Rs.514 crore and its gross cash accruals were Rs.109 crore. For 9MFY10, EOL posted net sales of Rs.26,052 crore, net loss of Rs.150.00 crore and gross cash accruals of Rs.397 crore.

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CARE classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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