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ICRA assigns LAA and A1+ ratings (under rating watch with negative implications) to enhanced bank facilities of North Delhi Power Limited (NDPL)

ICRA assigns LAA (pronounced L double A) rating (under watch with negative implications) for an enhanced amount of Rs. 20.75 billion term loans and Rs. 1.45 billion fund-based limits of North Delhi Power Limited (NDPL)†. ICRA has assigned A1+ (pronounced A one plus) rating (under watch with negative implications) to Rs. 4.00 billion, non-fund based limits and the Rs. 2.3 billion for short term funding/ Commercial Paper Programme of NDPL‡.

The outstanding ratings factor in a significant build-up of regulatory gap recoverables¹ following a substantial increase in power purchase cost over the cost anticipated at the time of the last tariff order and uncertainty in recovery of such costs through appropriate tariff hikes. This has resulted in some pressure on the company's liquidity as evidenced by increase in power purchase creditors and increase in debt levels for funding the aforesaid receivables. The tariff order for FY 2010-11 is yet to come which has added to the uncertainties on determining whether the tariff order will allow sufficient power tariff hikes to enable the company to recover the regulatory gap recoverables in a timely manner. In ICRA's view, an 8-10% tariff hike will be required to enable NDPL to recover the bulk of these recoverables in the next 2-3 years. The hike required could be even higher, if the current tariff is not commensurate in relation to the power procurement costs for FY 2010-11. ICRA will finalise the ratings once the final tariff order for FY 2010-11 is out and the impact on NDPL's cashflows can be ascertained.

While maintaining the rating at the current level, ICRA has taken note of improving efficiency parameters, as reflected in its ability to reduce the aggregate technical and commercial (AT&C) losses to levels well below the target laid down under the current tariff regime and the cost plus nature of the tariff setting process, which will allow eventual recovery of all costs, notwithstanding temporary mismatches.

ICRA has also taken note of NDPL's efforts to control purchase costs through a variety of measures including setting up a captive gas-based power plant and signing power purchase agreements (PPAs) with a number of power projects, which are likely to become operational in the medium term and supply power at more reasonable rates. ICRA also draws comfort from its status as a 51% subsidiary of The Tata Power Company Limited (TPCL), which is rated LAA and A1+ with a positive outlook (on long-term rating) by ICRA.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

¹ Regulatory Gap Recoverables/ tariff adjustments are representative of the income receivables from future tariff.

†For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

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