

Fitch Rates India's Shriram EPC's Commercial Paper 'F1(ind)'

National Long-term rating	'A-(ind)'
INR1,798m long-term fund based limits and its INR910m long-term loans	'A-(ind)'
INR5,470m short-term non-fund based limits and INR500m short-term loans	'F1(ind)'
INR1,000m Commercial Paper (CP) programme national short term rating	'F1(ind)'

Fitch Ratings-Mumbai/Singapore-23 July 2009: Fitch Ratings has today affirmed India's Shriram EPC Ltd's (SEPC) National Long-term rating at 'A-(ind)'. The Outlook is Stable. At the same time, the agency has affirmed SEPC's INR1,798m long-term fund based limits and its INR910m long-term loans at 'A-(ind)', and its INR5,470m short-term non-fund based limits and INR500m short-term loans at 'F1(ind)'. At the same time, Fitch has assigned a National Short-term rating of 'F1(ind)' to SEPC's Commercial Paper (CP) programme of INR1,000m. The CP programme will be carved out of existing fund based working capital limits.

The ratings reflect the company's strong growth and comfortable credit metrics. Fitch notes that order growth was lower than anticipated in FY09, which could potentially impact future revenue growth. Further, the company experienced working capital and margin pressures during FY09, resulting from its exposure to weak counterparties (a risk already factored at the time of assigning the rating). The impact of this on SEPC's standalone financial leverage for FY09 was worse than anticipated by Fitch, however, a scale-back in capacity expansion at its power generation venture, Orient Green Power Ltd (OGPL), and consequently lower debt levels has resulted in consolidated credit metrics being in line with anticipated levels. OGPL has a comfortable position following its USD55m equity issuance in November 2008, and financial closure for phase I of its setting -up of biomass power plants.

Key rating concerns are project execution risks, given the high concentration of key projects, and risks of higher leverage at the subsidiary/associate level. In FY09, the company's top two customers contributed approximately 50% of the company's revenues, a risk which manifested through higher debtor days from one large customer. However, while concentration risk continues to exist in its order book, it is lower than seen earlier. The top six projects account for around 50% of the order book at end March 2009, compared to the top three projects accounting for more than 50% a year earlier. Fitch also notes that the credit quality of customers for new orders is better than for earlier orders.

Fitch expects the wind turbine companies to stabilise in FY10 and be EBITDA accretive. However, continuing delays in realising its debtors with a consequent impact on liquidity and/or higher than anticipated margin pressures which impact consolidated financial leverage could lead to a negative rating action.

Set-up in 2000, SEPC has grown to be a medium-sized EPC player operating in renewable energy, process and metallurgy, and municipal services segments. The company has partnered with Netherland's Leitwind BV to manufacture (through Leitner Shriram Manufacturing Ltd) and market (through Shriram Leitner Ltd) 1.5MW class wind turbine generators. SEPC also has a 42% equity stake in OGPL. The company also has a majority shareholding in Hamon Shriram Cotrell Ltd, which manufactures cooling towers and air pollution control systems, and a 32% equity stake in Ennore Coke Ltd.

In FY09, SEPC had revenues of INR9.1bn, EBIDTA of INR857m and net profit of INR400m. The company had debt of INR2.7bn, leverage (Debt/EBITDA) of 3.1x, and interest coverage of 4.1x in FY09. Cash flow before working capital changes was INR789m, while cash flow required for working capital was INR1.8bn. The company has liquidity from its cash balance of INR345m and unutilised fund based limits of INR42m. OGPL had generating capacity of 73MW in wind and 8MW of biomass power plants. Leitner Shriram Manufacturing Ltd had a capacity of 120 units of 1.5MW wind turbines at end March 2009.

Note to editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA (ind)' for National ratings in India. Specific letter grades are not therefore internationally comparable.

Contacts:

Tahera Z Kachwalla, Mumbai, Tel/email: +91 22 4000 1705/
tahera.kachwalla@fitchratings.com; K Sivakumar, Chennai, Tel/email: +91 44
43401713/ SivaKumar.k@fitchindia.com.

Media Relations:

Shivani Sundralingam, Singapore, Tel: + 65 6796 7215, Email:
shivani.sundralingam@fitchratings.com.

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