ICRA Lanka Assigns Short term rating of [SL] A2+ to Vidullanka PLC's additional Commercial Paper Programme

August 18, 2016

Instrument	Amount (in LKR Mn)	Rating Action
Proposed – New Commercial Paper Programme(CP/2016/12/02)	100.00	[SL]A2+; Assigned
Issuer Rating	-	SL[A]- (Stable); Outstanding
Existing - Commercial Paper Programme(CP/2016/06/01)	100.00	[SL]A2+; Outstanding
Proposed – Senior Unsecured Redeemable Debentures	100.00	SL[A]- (Stable);Outstanding

ICRA Lanka Limited, subsidiary of ICRA Limited, a Group Company of Moody's Investors Service has assigned a short term rating of [SL]A2+ (pronounced SL A two plus[1]) for Vidullanka PLC's ("VLL"/ "the Company") proposed additional LKR 100.00 Million commercial paper programme. ICRA Lanka also has long term ratings of [SL]A- (pronounced SL A minus) outstanding on the issuer and the Company's proposed LKR 100.00 Million Senior Unsecured Redeemable Debenture programme. The company's existing LKR 100 Mn Commercial Programme also has an outstanding short term rating of A2+. The outlook on the long term ratings is stable.

The rating takes into account the experience of the management team and VLL's strong operational track record which has enabled the Company to record healthy growth in revenues and profits over the past several years. VLL currently operates eight mini-hydro power plants (MHPPs) across Sri Lanka with a total generation capacity of 17.35 MW. Despite its small scale of operations (VLL's capacity represents less than 6% of total domestic installed MHPP capacity), the Company has been efficiently managing its operations through prudent selection of locations and strong control over operations & maintenance. As a consequence, a majority of VLL's plants have been running at peak achievable plant load factors (PLF). During FYE March 2016, the company's total power generation stood at 68 GWh, an 8% increase from the previous year's total power generation. Given the robust economic outlook and Government of Sri Lanka's (GoSL) focus on Non-Conventional Renewable Energy Sources (NCRE), demand prospects also augur well for the Company.

All of VLL's plants also have firm power purchase agreements (PPAs) with the Ceylon Electricity Board (CEB) for 15-20 years and these are extendable upon mutual agreement after expiry. These PPAs have provided strong revenue visibility over the long term; given the government backing of CEB and receivables pose limited counterparty credit risk. The company's revenues have increased substantially in FYE March 2016 as it had acquired a further 49.9% stake in Lower Kothmale plant (stake already held as a Joint Venture) and therefore, the revenues from plant (~LKR 240Mn annualized) are now being consolidated on the group's financial profile. ICRA Lanka further draws comfort from VLL's healthy financial profile which is characterized by robust profitability (RoCE in excess of 18%), comfortable capital structure (gearing of 0.8x as at FYE March 2016) and more than adequate coverage metrics. VLL's liquidity profile has also traditionally been strong with adequate cash balances and liquid investments, besides access to bank funding, given their strong relationship with financial institutions. The Company, in the past, has also been able to successfully raise equity funds from the capital markets, which provides adequate comfort on the Company's fund raising ability.

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[1] For complete rating scale and definitions please refer to ICRA Lanka's Website www.icralanka.com or other ICRA Rating Publications

These positives are offset to an extent by the Company's sole reliance on run-of-the-river MHPPs which are exposed to vagaries of the monsoon. The risk is accentuated by VLL's current modest scale of operations which exposes cash flows to volatility, as seen in FYE March 2012 when weak rainfall impacted profitability. One of VLL's major plants – Bambarabatuoya's (BBO, contributing over 17% of revenues) PPA has expired in June 2016. Currently, the plant is fully operational although the new PPA is being negotiated with the CEB; the tariff rates are expected to be set considerably lower as compared to the average tariff that was enjoyed by the company till now. Ability of the Company to negotiate favorable PPA terms for the plant or achieve further revenue diversification would be key rating sensitivities.

The assigned rating also factors in VLL's plans to setup three plants (a SHPP in Uganda, Udawela MHPP in Badulla and a Dendro/biomass plant in Dehiattakandiya,Sri Lanka) at a cost over LKR 2.0 billion over the next two years, requiring significant debt funding (~70%). The Company has already invested LKR 420 Million in Uganda YTD and this project is expected to commence its operation in late FY2016. The company's first fuelwood –based power project with the installed capacity of 3.0 MW is expected to be constructed at a project cost of US$ 6.3 Mn in Dehiattakandiya, Sri Lanka. ICRA Lanka views the timely completion and successful management of fuel supply risk will be critical and we will continue to monitor the same. While these plants are expected to help diversify VLL's revenue streams and contribute to overall profit growth over the near to medium term, ability of the Company to minimize cost overruns and achieve commercialization of the plants within targeted timelines will be a key sensitivity to the rating.

ICRA Lanka expects some moderation in VLL's debt metrics (i.e. TD/OPBDITA, NCA/Debt), due to high capital expenditures in its overseas project (i.e. LKR 400 Mn recorded in FYE March 2016). Notwithstanding the proposed debenture program, the company's debt metric has skewed towards short term borrowings and as a consequence, debt repayment obligation has increased to to ~LKR 450 Mn in FYE March 2016 from LKR 100 Mn in FYE March 2015. Nevertheless, ICRA Lanka takes comfort from the financial flexibility of the Group which is expected to aid in timely refinancing of the short term borrowings.

Company Profile

Incorporated in 1997 as a Board of Investment (BOI) venture, Vidullanka PLC (VLL) constructs, operates and maintains MHPPs. At present it operates eight mini hydro power projects. VLL operated 4 plants on its own and through subsidiaries, and 4 other plants through joint ventures. During FYE March 2016, VLL increased its stake in one of its JV, Lower Kothmale Oya Hydro Power (Pvt) Ltd following approval from CSE and shareholders. With this, the Company has 5 subsidiaries and 3 JVs. Vidul Engineering Ltd, a subsidiary of VLL is into designing of its plants and rendering of energy consultancy services to in-house operations and to third parties. At present, VLL operates only in Sri Lanka. However, VLL is about to commence the power generation of its first foreign power project, Muvumbe SHPP in Uganda. The plant capacity is designed at 6.5 MW and would generate and transmit electricity to the Ugandan national grid. VLL also intends to diversify into other NCRE energy sources and in line with this intends to commission a Dendro power based 3.0 MW plant in Sri Lanka over the next two years. During FYE March 2016, VLL's total power generation stood at 68 GWh, an 8% increase from the total power generation in the previous year. With the proposed two new plants, VLL's total power generation capacity would increase significantly to 26.85 MW from the present level of 17.35 MW.

On a consolidated basis, for FYE March 2016, VLL reported a net profit (concern share) of LKR 371.6 Mn on an operating income of LKR 723.2 Mn, as against a net profit (concern share) of LKR 355.0 Mn on an operating income of LKR 563.3 Mn in FYE March 2015.

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For further details please contact:

Analyst Contacts:

Mr. Raghunath T, (Tel. No. +91-4445964440)
Raghunath.t@icraindia.com

Mr. Danushka Perera, (Tel. No. +94-77-4781591)
danushka@icralanka.com

Relationship Contacts:
Mr. W Don Barnabas, (Tel. No. +94-11-4339907)
wdbarnabas@icralanka.com

Subsidiary of

ICRA Limited

A Group Company of Moody's Investors Service

CORPORATE OFFICE
Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka
Tel: +94 11 4339907; Fax: +94 11 2333307
Email: info@icralanka.com; Website: www.icralanka.com