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

March 4, 2016

| Instrument | Amount (in LKR Mn) | Rating Action |
|---|---|---|
| Proposed - Commercial Paper | 100.00 | [SL]A2+; Assigned |
| Issuer Rating | - | SL[A]- (Stable);Outstanding |
| Proposed – Senior Unsecured Redeemable Debentures | 100.00 | SL[A]- (Stable);Outstanding |

ICRA Lanka Limited, subsidiary of ICRA Limited, A Moody's Investors Service Company has assigned a short term rating of [SL]A2+ (pronounced S L A two plus[1]) for Vidullanka PLC's ("VLL"/ "the Company") proposed LKR 100.00 Million commercial paper programme. ICRA Lanka also has long term ratings of [SL]A- (pronounced S L A minus) outstanding on the issuer and the Company's proposed LKR 100.00 Million Senior Unsecured Redeemable Debenture programme. The outlooks on the long term ratings are 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 (MHPP) 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 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). All of VLL's plants also have firm power purchase agreements (PPAs) in place for the next 15-20 years with the Ceylon Electricity Board (CEB), which provides strong revenue visibility over the long term. Given the government backing of CEB, receivables pose limited counterparty credit risk providing further comfort. The rating also draws comfort from VLL's healthy financial profile which is characterized by robust profitability (RoCE in excess of 20%), comfortable capital structure (gearing of 0.7x as at Dec 31, 2015) and more than adequate coverage metrics. VLL's liquidity profile is also 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. 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.

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 FY2012 when weak rainfall impacted profitability. One of VLL's major plants – Bambarabatuoya's (BBO, contributing over 30% of revenues) PPA is set to expire in 2016. In the event of discontinuation of the PPA or lower than expected tariff- under a new PPA- VLL's financial profile could be adversely impacted. Ability of the Company to negotiate a favorable PPA for the plant or achieve further revenue diversification would be a key rating sensitivity.

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

The ratings also factor in VLL's plans to setup two plants (a MHPP in Uganda and a Dendro/biomass plant in 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 298 Million in Uganda YTD. While these plants are expected to help diversify VLL's revenue streams and contribute to overall profit growth over the long term, ability of the Company to manage the capex and achieve commercialization of the plants within targeted timelines will be crucial to generate sufficient cash flows to service the debt taken to fund these projects. During the construction phase (till mid-2017), ICRA Lanka expects some moderation in VLL's debt metrics (i.e. TD/OPBDITA, NCA/Debt), although overall net cash accruals (NCA) are expected to remain sufficient to cover immediate annual debt repayment obligation of ~LKR 100 Mn.

In arriving at the ratings, ICRA Lanka also takes note of the weak PLFs across two of the Company's plants (Ganthuna and Rideepana). Ability of the Company to address these issues and extract greater revenue contribution from these plants would be critical, given that the contribution from the BBO plant is expected to come down significantly over the medium term.

***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 3 other plants through joint ventures. During the year, 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. Two of VLL's subsidiaries are 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 construction 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 in 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. In FY 2015, VLL's total power generation at stood at 63 GWh, a 61% increase from 39GWh in the year before. With proposed two 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 the year ended March 31, 2015, VLL reported a net profit (concern share) of LKR 353.14 Million on an operating income of LKR 563.3 Million, as against a net profit (concern share) of LKR 162.43 Million on an operating income of LKR 465.3 Million during the previous year.

For the nine months ended December 31, 2015, VLL reported a net profit (concern share) of LKR 417.3 Million on an operating income of LKR 623.9 Million.

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