

Rating Rationale

Adani Enterprise Ltd.

2 July 2018

Brickwork Ratings reviews the ratings of the Commercial Paper Programme of Rs. 2000 Cr and withdraws the rating of short term bank loan of Rs. 250 Cr of Adani Enterprise Ltd. (AEL).

Particulars

| Instrument | Previous Amount (Rs. Crs) | Current Amount | Previous Rating (June 2017) | Rating Reaffirmed |
|--------------|---------------------------|---|-----------------------------|-----------------------------|
| CP Programme | 2000 | 2000 | BWR A1+ | BWR A1+ (Short-term Rating) |
| | 2000 | Rs. 2000 Crores (Rupees Two Thousand Crores Only) | | |

^ Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Details of Bank Loan Rating

| Facility* | Previous Limits | Limits (Cr Crs) | Tenure | Previous Rating (June 2017) | Current Rating |
|------------|-----------------|-----------------|------------|----------------------------------|--------------------------------------|
| Term Loans | 250 | 250 | Short term | BWR A1 (Pronounced as BWR A One) | Withdrawal (on account of repayment) |

Rationale / Description of Key rating drivers / Rating Sensitivities:

BWR has essentially relied on audited financials of Adani Enterprises Ltd. (AEL) till FY18, publicly available information and other information, projections and clarifications provided by the company.

The rating factors, *inter alia*, importance of the company to the Adani Group in terms of business and investment linkages, and its financial flexibility, AEL's strong position in imported coal trading business coupled with other diversified sources of revenue and its demonstrated ability to nurture new businesses and subsequently getting them independently listed.



The rating is, however, constrained by working capital intensive nature of AEL's core trading business leading to relatively high Short Term debt and the exposure to related parties mainly in the power group, and significant delay with respect to AEL's Australian mining project. AEL's ability to manage the required liquidity or refinancing in a timely manner is a key rating sensitivity.

Analytical Approach: BWR has considered consolidated financials of AEL to arrive at the short rating of Commercial Paper Programme of Rs. 2000 Cr with the maturity ranging from 7 to 365 days. AEL, on a standalone basis, has mainly coal trading, power trading and coal Mine Developer & Operator (MDO) businesses, whereas on a consolidated basis AEL has solar PV cell and module manufacturing, agro-processing (including sale of branded edible oil) & storage and commodities trading, oil and gas exploration and city gas distribution businesses. BWR has taken note of Adani Group's financial flexibility and AEL's ability to mobilise liquidity for meeting the CP commitments.

Key Rating Sensitivities:

Flagship Company of Adani Group – Adani Enterprise Ltd. (AEL), listed on BSE and NSE, is the flagship company of the Adani Group along with other group companies which are listed – viz., Adani Ports and Special Economic Zone, Adani Transmission Ltd., Adani Green Energy Ltd, and Adani Power Ltd. Being an important company of the group, it has demonstrated a track record of nurturing new businesses of the group. All these listed companies / businesses were initially incubated under AEL and are now functioning independently.

Diversified sources of revenue: Along with coal trading, AEL is also engaged in power trading and coal mine development and operations. Its subsidiaries/SPVs are involved in oil & gas



exploration, city gas distribution, solar cell & module manufacturing, agro-processing, storage and commodities trading which contributes to the overall revenue of the company.

Moderate leverage: AEL on consolidated basis had a gearing of 1.1x with the total debt of Rs.17915 Cr as on March 31, 2018. On standalone basis, AEL had a gearing of 1.7x with total debt of Rs. 6683 Cr.

Successful renewable energy business and gas business and their demerger:

On October 07, 2017, the Board of Directors of AEL had considered and approved the scheme of arrangement between AEL and Adani Green Energy Limited (AGEL) for demerger of the Renewable Power Undertaking of AEL and transfer of the same to AGEL and its subsequent listing. The effective date for demerger was April 1, 2018. AGEL got listed on NSE and BSE on June 18, 2018.

On January 18, 2018, the scheme of arrangement between Adani Gas Holding Limited (AGHL), Adani Gas Limited (AGL) and AEL was approved by the Board of Directors. AGHL will merge into AGL and AEL will de-merge its Gas sourcing and distribution business into AGL. The transaction is expected to be concluded by September-October 2018 after complying with all the required guidelines, and AGL is expected to be listed after that. Such divestments will continue to unlock value of investments made by AEL.

Delay in Australian Mining Project: AEL acquired a mine at Carmichael Basin in Australia in 2010 and decided to develop the mine and lay down a railway line from the mine to Abbot Point Port terminal (held directly by the promoters of the Adani Group). While all environmental clearances and government approvals have now been secured, AEL is still in the process of achieving financial closure as a result of which the project has been significantly delayed.

Out of the total project cost of Rs.14,500 crore in Phase 1 of the Australian mine project, AEL has already invested around Rs.6,000 crore as on March 31, 2018 funded from internal accruals



whereas the balance ~Rs.8,500 crore is expected to be a combination of debt and equity - and the actual mix will be determined subject to successful financial closure. Fresh investments towards this project have been minimal during the last 3 years. Any additional equity infusion or loans & advances from AEL towards the Australian project will be a key rating sensitivity factor.

Substantially high Short Term Debt: AEL's operations are working capital intensive leading to high reliance on short term debt. The company essentially uses non-fund based bank lines for imports of coal (Letters of Credit facilities) and hence the requirement of large fund-based facilities is only moderate. Consequently, the amount of short term debt raised by the company (including the Brickwork rated CP programme) is quite large. The company is exposed to the risk of managing short term liquidity, either by refinancing or by recovery of funds provided to related parties. The company has started reducing to exposure to its Power business. Historically, the exposure to power business has remained high (around 50 per cent of its networth). During FY2018, there has been significant reduction in the amount of loans and advances extended to APL to Rs.744 crore in FY 2018 from Rs. 5,196 crore in FY2016.

However, as the instruments are issued in multiple tranches, the company's ability to manage liquidity to meet the commitments is considered good.

Increasing debt level of the Adani Group: The overall debt levels of the Adani Group has been increasing on account of new businesses as well as inorganic growth that the group is undertaking. While the servicing of the debt at the listed companies (except power) is managed by the respective companies independently, power group has seen continuous support from the Group. The servicing of the debt raised by the Group towards supporting power group through loan against shares transactions depends on refinancing.

About the Company

Adani Enterprises Ltd. (AEL), incorporated in 1993 belongs to the Adani group with promoter group holding 74.92% stake in the company as on March 31, 2018. AEL is the flagship company of Adani Group being chaired by Mr. Gautam Adani, and listed on BSE and NSE.

AEL, on a standalone basis, has mainly coal trading, power trading and coal Mine Developer & Operator (MDO) businesses, whereas, AEL on a consolidated basis has oil and gas exploration, city gas distribution, solar cell and module manufacturing, agro-processing (including sale of branded edible oil) & storage and commodities trading.

Company Financial Performance

| Rs. Cr. | Consolidated | | Standalone | |
|------------------|--------------|--------|------------|--------|
| | FY17 | FY18 | FY17 | FY18 |
| Total Income | 37,343 | 37,984 | 8,466 | 10,166 |
| Operating Profit | 2,663 | 3,002 | 1,258 | 1,243 |
| Net Profit | 988 | 757 | 222 | 197 |
| Total Debt | 20,846 | 17,915 | 7,213 | 6,683 |
| TNW | 14,136 | 15,089 | 3,767 | 3,908 |
| Gearing | 1.5 | 1.2 | 1.9 | 1.7 |
| Current Ratio | 1.0 | 1.0 | 1.0 | 1.0 |

Profitability was mainly affected on account of writing off of Rs. 90 Cr as impairment of its mining project in Australia and reversal of arbitration award of Rs.181 Cr which was recognized in FY17 relating to its MDO business.

Rating History for the last three years (including withdrawn/suspended ratings)

| Sl. No. | Instrument/Facility | Current Rating (Year 2018) | | | Rating History | | |
|---------|---------------------|----------------------------|-----------------|-----------|----------------|------------|------------|
| | | Type | Amount (Rs Crs) | Rating | June 2017 | April 2017 | April 2016 |
| 1. | Commercial paper | Short Term | 2000 | A1+ | A1+ | A1+ | A1+ |
| 2. | Term Loan | Short Term | 250 | Withdrawn | A1+ | - | - |
| | Total | | 2000 | | | | |

Hyperlink/Reference to Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Commercial Paper](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:

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About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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