Rating Rationale

Adani Power (Jharkhand) Ltd. 15 May 2018

Brickwork Ratings assigns the ratings for the Bank Credit Facilities of ₹ 356.40 Crores of Adani Power (Jharkhand) Ltd.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Performance Bank Guarantee	356.40	Long Term	BWR BBB (SO) (Pronounced as BWR Triple B (Structured Obligation)) Outlook: Stable

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

SO refers to 'Structured Obligation' which indicates credit enhancement derived from the security cover of 1.25x by the pledge of shares of Adani Ports and Special Economic Zone Ltd. (APSEZ) and Adani Transmission Ltd. (ATL) in the ratio of 3:2.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon information as provided in Information Memorandum, sanction terms of performance bank guarantee issued by Axis Bank, audited financials of Adani Power Jharkhand Ltd. for FY17, publicly available information and information/clarifications provided by the Company's management.

The rating factors, *inter alia*, group's experience in the power generation and transmission sectors, project execution capabilities, Implementation Agreement with Bangaldesh Power Development Board, favourable terms of Power Purchase Agreement and revenue visibility, and adequate security in the form of pledge of listed shares as detailed above. However, the rating is constrained by very nascent stage of the project, financial closure is yet to be achieved, deteriorating credit profile of the parent – Adani Power Ltd., and increasing overall debt levels of the group.

Analytical Approach: The rating is assigned for the **Performance Bank Guarantee** of Rs.356.40 Cr issued in favour of Bangladesh Power Development Board (BPDB), Bangladesh for the development of a

Coal Fired Power Generation Facility of 1600 MW (1496 MW Net capacity) on a Build Own Operate (BOO) basis at Jharkhand, India and supply of net generation to BPDB.

It is further clarified that this is not a rating for the project loan to be availed by the company from its project lenders. BWR has assigned a Structured Obligation rating, deriving credit enhancement from the security cover of 1.25x by the pledge of shares of APSEZ and ATL in the ratio of 3:2. Please refer to the criteria applicable to SO ratings at the end.

Description of Key Rating Drivers

Credit Strengths:

Group's experience in Power business: Adani Group owns India's largest private sector thermal power generator through Adani Power Ltd and other group companies [APL is rated BWR BB(Stable)] and also India's largest private sector power transmission company, ATL [rated BWR AA+ (Rating Watch)., Adani Enterprises Ltd [AEL, rated BWR A1+] is India's largest coal importer – thereby deriving significant competitive advantage as well as experience in running thermal power plants as well as fuel procurement.

Revenue visibility with long term PPAs: APJL has signed implementation agreement (IA) with Govt. of Bangladesh and Power Grid Company of Bangladesh. It has also signed 25 years PPA with Bangladesh Power Development Board (BPDB) for supply of Power. The PPA is for 1496 MW net capacity (net of auxiliary consumption) with a two part tariff structure wherein coal cost recovery for the company is linked appropriately with global coal indices / benchmarks, and covers all costs involved in sourcing and transporting coal to the plant, and a well-defined fixed revenue stream; both parts in USD terms. On overall terms, the agreement adequately covers execution and operating risks for the project implementer.

Security: Performance Bank Guarantee is secured 1.25x by the pledge of shares of APSEZ and ATL in the ratio of 3:2. As and when there is a claim under the guarantee, the Bank is required to pay the same immediately. The Bank can adjust the claim amount by liquidating the security it has in the form of share-pledge, if required.

Credit Risks:

Nascent Stage of the Project: In terms of the Implementation Agreement signed with Govt. of Bangladesh and PPA with Bangladesh Power Development Board, both in November 2017, APJL is setting up a coal based thermal power plant of 1600 MW (2*800) in Godda District of Jharkhand, India on Build, Own and Operate basis. The first Unit of 2x800 MW project is proposed for commercial operation in 50 months from date of PPA and IA, which is Nov 5, 2017 and second unit with a gap of 4 months thereon. Accordingly, the first unit is expected achieve COD in January 2022. As on date, land acquisition is under progress.

Financial Closure to be achieved: Total cost of the project is USD 1975 Mn (Rs.13,430 Cr) with the mix of debt and equity of 80:20. At the preliminary stage, Promoters have infused nominal equity of Rs. 5

Lakhs., as well as unsecured loans for land acquisition related needs. As per the IA terms, financial closure is required to be achieved by November 2018, which is one year from the date of signing of Implementation Agreement.

Increasing debt level of the 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. Servicing of some of this overall debt depends on refinancing.

Parent Company Adani Power Ltd., undergoing changes: Adani Power (Jharkhand) Ltd. is a 100% subsidiary of APL. However APL has faced significant erosion of net worth on account of adverse Supreme Court Verdict in its dispute related to compensatory tariff claim from its power off-takers arising out of its higher cost of imported coal. APL has recently transferred its Mundra thermal power generation undertaking to its subsidiary Adani Power (Mundra) Limited (APMUL) and is evaluating multiple options to overcome its financial constraints.

Rating Outlook: *Stable*

BWR believes the **Adani Power Jharkhand Ltd.'s** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Negative' if the company is not likely to meet the performance criteria as per sanction terms of Bank Guarantee. This being an SO rating, anything that affects the liquid security structure, including share price movement of APSEZ and ATL., is a key rating sensitive factor.

About the Company and the Project

APJL, incorporated in 2015 is 100% subsidiary of Adani Power Ltd. (APL), with its Registered Office at Ahmedabad. Mr. Jayadeb Nanda, Mr. K. S. Nagendra and Mr. Rajivkumar Rustagi are the directors of the company.

APJL is setting up coal based thermal power plant of 1600 MW (2*800) in Godda District of Jharkhand, India on Build, Own and Operate basis, for which the company has signed implementation agreement (IA) with Govt. of Bangladesh and Power Grid Company of Bangladesh and also signed 25 years PPA with Bangladesh Power Development Board (BPDB) for supply of Power, both in November 2017. The Project envisages using pulverized coal to meet its fuel requirements. The pulverized coal is proposed to be sourced from Indonesia, South Africa and Australia.

Under the PPA, the coal cost (variable tariff) is linked to international coal indices / benchmark prices. FSA will be finalised before COD (May 2022).

The first Unit of 2x800 MW project is proposed for commercial operation in 50 months from date of PPA and IA, which is Nov 5, 2017 and second unit with a gap of 4 months thereon. Accordingly, the first unit is expected achieve COD in January 2022

Total cost of the project is USD 1975 Mn (Rs.13,430 Cr) with the mix of debt and equity of 80:20. Promoters have infused nominal equity. Financial closure is yet to be achieved.

Brief details of their financials:
As per audited financials as of 31.3.2017, the company has raised Rs. 5 Lakhs share capital. The promoters also have provided Rs. 9.46 Crs as Unsecured Loan. The entire money is used for land acquisition related purposes.

Since it is the green field project, there are no meaningful revenues.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2018)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	Date, Month, Year	Date, Month, Year	Date, Month, Year
1.	**Performance Bank Guarantee**	Long Term	356.40	**BWR BBB (SO) (Stable)**	-	-	-
	Total		**356.40**	**₹ Three Hundred Fifty Six Crore and Forty Lakhs Only**			

Status of non-cooperation with previous CRA (if applicable)-Reason and comments

Any other information

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- Infrastructure Sector
- Structured Obligations

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

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 ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

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