

Rating Rationale

Brickwork Ratings assigns ‘BWR AA-(SO)’ Rating for the Proposed Structured Non-Convertible Debenture issue of Upto ₹1000 Crs of Adani Power Ltd.

Brickwork Ratings (BWR) has assigned the **Ratings**¹ of BWR AA- (SO) (Pronounced BWR Double A Minus Structured Obligation) (Outlook: Stable) Rating for Adani Power Ltd’s (APL or the ‘Company’) proposed NCD issue of upto ₹ 1000 Crs with tenor upto 38 months. Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

BWR has essentially relied upon the draft term sheet outlining the structure of the deal, audited financial results upto FY14 of the issuer APL as well as audited financials of Adani Ports & Special Economic Zone Ltd (APSEZ) whose equity shares are provided as security, and information and clarification provided by the issuer.

The rating factors, inter alia, the strength of underlying security in the form of pledge of equity shares Adani Ports & Special Economic Zone Ltd which are listed, structure of the proposed NCD issue and financial flexibility of the group. However, the rating is constrained by the fundamentals of issuer, reliance on promoter funds, refinance or, alternatively, liquidation of the securities - to meet the obligations arising from the proposed NCD issue, market volatility in the price of equity shares of Adani Ports & Special Economic Zone Ltd and regulatory issues faced by the power industry.

Background

APL is a 68.99% subsidiary of Adani Enterprises Ltd (AEL). AEL is the flagship company of the group. It was incorporated in August 1996. APL is a power project development company and is operating and maintaining power projects in India. Adani Power currently has an operational capacity of 9240 MW, comprising of 4620 MW at Mundra in Gujarat, 3300 MW at Tiroda in Maharashtra and 1320 MW at Kawai in Rajasthan. The installed capacity of APL will increase to 11,040 MW with the acquisition of the soon-to-be-completed 1,200 MW Udipi plant and Korba plant (600 MW). The Company intends to use the proceeds of the NCD towards acquisition and General Corporate Purposes.

NCD Structure

The Company has proposed to raise this structured NCD of upto ₹ 1000 Cr with tenor upto 38 months. There will be voluntary redemption option at any date falling between 18 months and 18 months and 10 days post allotment. The coupon is pre decided for first 18 months and 10 Days and will be reset between the Issuer and the Investors for the remaining period. The

¹ Please refer to www.brickworkratings.com for definition of the Ratings

repayments are due at maturity or voluntary redemption date alongwith applicable interest payments. The NCD's are backed by way of pledge of equity shares of Adani Ports & Special Economic Zone Ltd.

Security cover of the pledge shall not be less than 2 times the outstanding amount at inception and also during the currency of the NCD's. The Facility will require a top-up if the cover falls below 1.8 times. The structure provides for release of share collateral incase cover is greater than 2.2 times for a consecutive period of 7 days. Also, there is a cash escrow date 10 days prior to the Maturity Date or first coupon payment date as applicable. Other key covenants of the issue ensure a balance between issuer and investors.

Background of Adani Ports & Special Economic Zone Ltd (APSEZ), whose Equity shares are pledged

Incorporated in 1998, APSEZ is an engaged in the development and operations of Ports and related logistics. APSEZ is also in the business of developing a Special Economic Zone (SEZ) at Mundra. The company provides logistics services including railway networks at various ports. It was initially named Mundra Port & Special Economic Zone Ltd and changed to Adani Ports and Special Economic Zone Ltd in 2012. Adani Port has developed and operated 12 terminals comprising 31 berths which handle bulk, liquid and container cargoes. Together with the acquired Dhamra port (an operational port) in the east of India in May'14, it has a total of eight ports under its portfolio. It operates ports at Mundra, Dahej, Hazira, Kandla and Mormugao on the western coast of India and Visakhapatnam and Dhamra on the eastern coast of India, APSEZ is currently developing a container terminal at Ennore in southern India. APSEZ has total cargo volume of 112.75mn tonnes in FY14 (69mn tonnes in H1FY15).

For FY14, on a consolidated basis APSEZ reported total revenue of ~₹ 5507 Crs. The net profit before minority interest for FY14 stood at ~₹ 1741 Crs. In 9MFY15, on a consolidated basis the company reported total operating income of ~₹ 4463 Crs, while PAT before minority interest stood at ~₹ 1665 Crs.

Financials of APL

For FY14, as per consolidated figures, APL reported total revenue of ~₹ 15954 Crs with a net loss of ~₹ 290 Crs. The Company has recognized revenues of ~₹ 1843 Crs (~₹ 829.75 Crs towards the compensatory tariff till 31st March 2013 and ~₹ 1013.37 Crs for the period April 2013 to March 2014) with regards to the CERC order on compensatory tariff. APL's customers have filed an appeal against the CERC order with the Appellate Tribunal for Electricity. For 9MFY15, on a consolidated basis APL registered net loss of ~₹ 1530 Crs on total operating income of ~₹ 14877 Crs.

Rating Outlook

The rating captures the performance of APL & APSEZ and the NCD structure which involves pledge of APSEZ equity shares provided as security. Security cover of 2 times provides cushion to investors. The Company is required to deposit all amounts payable under the facility (including principal and interest) 10 days prior to voluntary redemption date, if exercised, or at maturity. This addresses the liquidity aspects to an extent, should there be a need to invoke the sale of collateral. Overall & Stock Market performance of APL & APSEZ as well as adherence to the structure is a key sensitivity to the Rating.

The rating is also subject to the terms of issue being inline as per draft provided to us and their compliance with the requisite terms of the issue, regulatory and legal requirements.

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