

Rating Rationale

Brickwork Ratings assigns ‘BWR BBB (SO)’ Rating for the Bank Loan Facilities amounting to ₹ 6480 Cr of Adani Power Ltd. (specifically for Phase IV Power Project in Mundra, Gujarat).

Brickwork Ratings (BWR) has assigned the **Rating¹** of BWR BBB (SO) (Pronounced BWR Triple B [Structured Obligation]) (Outlook: Stable) for Adani Power Ltd.’s (APL or the ‘Company’) Bank Loan Facility of ₹ 6480 Cr, specifically for 1980 MW (660*3) Phase IV Thermal Power Project in Mundra, Gujarat as follows:

Facility	Amount (₹ Cr)	Tenure	Rating [^]
Fund Based: Term Loan	6480	Long Term	BWR BBB(SO) [Pronounced BWR Triple B (Structured Obligation)] (Outlook- Stable)
Total	6480	INR Six Thousand Four Hundred Eighty Crores only	

Other Outstanding Ratings for Adani Power Ltd, which are reaffirmed, are:

Instruments	Amount ₹ Cr	Present Rating [^]	Assigned/ Reaffirmed	Issue Date	Rating History
NCD (Tenor – 38 Months)	751.51	BWR AA- (SO) (Stable)	Reaffirmed	March,2015	BWR AA- (SO) (Stable) (Aug 2016)
NCD (Tenor – 42 Months and 18 Days)	1200	BWR AA- (SO) (Stable)	Reaffirmed	Oct,2015	BWR AA- (SO) (Stable) (Aug 2016)
NCD (Tenor – 48 Months)	330	BWR AA- (SO) (Stable)	Reaffirmed	May,2016	BWR AA- (SO) (Stable) (Aug 2016)
NCD (Tenor – 32 Months and 1 Day)	350	BWR AA- (SO) (Stable)	Reaffirmed	Aug,2016	BWR AA- (SO) (Stable) (Aug 2016)
NCD (Tenor – 43 Months and 1 Day)	400	BWR AA- (SO) (Stable)	Reaffirmed	Aug,2016	BWR AA- (SO) (Stable) (Aug 2016)

BWR has essentially relied upon audited financial results upto FY16 & financial projections of APL & APL (Phase IV), Trust and Retention Account (TRA) agreement for APL (associated with Phase IV only) and information and clarifications provided by the issuer.

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

The rating factors, *inter alia*, ring fenced cashflows as per Trust and Retention Account (TRA) agreement for APL (for phase IV project loans only), operational nature of project with long term Power Purchase Agreement (PPA) with Haryana Discoms for ~72% Capacity, and Fuel Supply Agreement (FSA) for 6.405 MTPA with subsidiaries of Coal India Limited, completion of 5/25 restructuring, overall substantially large power generation capacity in operation for APL, and resourcefulness of the promoters of the Company & financial flexibility of Adani group. BWR also notes the delay in creation of debt service reserve account (DSRA) for phase IV project loans, largely on account of continued delay in resolution of compensatory tariff issues. Creation of DSRA in a timely manner is important. However, the rating continues to factor risks associated with the current challenging environment faced by the power sector, issues relating to the financial position of the issuer, viz., high gearing, substantially increasing receivables mainly on account of ongoing compensatory tariff litigations mainly due to 'change in law', delay in refinancing external commercial borrowings, reliance on continued support from the promoter funds for all the Phases of APL and dependence on imported coal/merchant sales for part of the power generation.

The Structured Obligation (SO) rating is based on the Credit Enhancement in the form of a ring-fenced cash flow structure as per Trust and Retention Account (TRA) agreement for priority in debt servicing of rupee term loans availed for funding the Phase-IV thermal power generation project assets of 1980 MW (660*3) of APL at Mundra in Gujarat.

Background

APL, an Adani Group company was incorporated in August 1996 & presently listed in BSE/NSE. It is a power project development company & is operating & maintaining multiple power projects in India. Adani Power along with its subsidiaries currently has an operational capacity of 10480 MW, comprising of 4620 MW at Mundra in Gujarat, 3300 MW at Tiroda in Maharashtra, 1320 MW at Kawai in Rajasthan, 1,200 MW at Udipi in Karnataka & 40 MW solar plant at Bitta in Gujarat. Acquisition of 600 MW Korba plant from Avantha Group is under process.

APL - Board of Directors and Shareholding

Mr. Gautam Adani is the Chairman of APL, and also founder of Adani Group. The Board has six other Directors. As of June 2016, promoters hold 63.12% equity stake in the Company.

APL (Phase IV Project)

The rated loan is specific to bank facilities of Phase IV power project in Mundra (Dist. Kutch, Gujarat), thermal power project of 1980 MW – (3 units * 660 MW each) sanctioned by consortium banking with SBI as a lead Bank. The thermal project is based on Super Critical Technology and is fully operational since May 2012. The Domestic Coal requirement is met by FSA with Subsidiaries of Coal India Limited for 6.405 MTPA while balance requirement is met by Imported Thermal Coal. Out of 1980 MW, 1424 MW has a 25 year PPA with Dakshin Haryana Bijli Vitran Nigam Ltd (DHBVN) & Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) while the remaining power generated are presently sold through merchant sales.

Power evacuation is done by +/- 500 kV, 2500 MW high voltage direct current transmission line from Mundra to Mohindergarh. For FY16, plant availability factor was 92.72% while plant load factor was 82.32%. For FY16, Total revenue stood at ₹ 6898.21 Cr with ₹ 316.14 Cr PAT. Long term borrowings stood at ₹ 6430.62 Cr (excluding current portion of long term debt) and short term borrowings at ₹ 3022.37 Cr during FY16. Receivables are at ₹ 2256.58 Cr mainly due to compensatory tariff.

Financials of Adani Power Ltd:

For FY16, as per consolidated figures, APL reported total revenue of ~₹ 25433 Crs with a net profit of ~₹488 Crs. Till FY16, the Company and its subsidiaries have recognized revenues of ~₹ 7014 Crs based on the various CERC orders on compensatory tariff/additional compensatory tariff, etc. APL's customers have filed an appeal against the orders with the Appellate Tribunal for Electricity. For FY16, APL's consolidated Tangible Networth and Total Debt were ₹ 6633 Crs and ₹ 53200 Crs respectively. For Q1FY17, on a consolidated basis, APL registered net loss of ~₹ 34 Crs on total operating income of ~₹5587 Crs.

Rating Outlook

The outlook is expected to be stable over the near term. The rating takes in to account the ring-fenced cash flow structure as per Trust and Retention Account (TRA) agreement for phase IV power project as well as the continued support of Promoters in terms of equity funding as and when required and financial flexibility of the promoter Group. Overall, operational and financial performance of the parent i.e. APL and APL Phase IV thermal power project as envisaged, adherence to TRA agreement, creation of DSRA which is required as per sanction terms of the lenders, completion of refinancing of external commercial borrowings, and successful resolution of ongoing compensatory tariff litigations are key sensitivities to the Rating.

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