Rating Rationale

Adani Power Maharashtra Ltd

30 March 2019

Brickwork Ratings reaffirms rating for the Bank Loan Facilities aggregating Rs. 15517 Crores of Adani Power Maharashtra Ltd (APML or the 'Company')

Particulars:

Facility	Previous Amount (Rs. Crs)	Present Amount (Rs. Crs)	Tenure	Previous Rating (Jan 2018)	Present Rating
Fund Based	14607	14320	Long Term	BWR A [Pronounced BWR A] Outlook: Stable	BWR A [Pronounced BWR A] Outlook: Stable *Reaffirmation*
Non-Fund Based	910	1197	Long Term/Short Term	BWR A [Pronounced BWR A] Outlook: Stable/ BWR A2+ [Pronounced BWR A Two Plus]	BWR A [Pronounced BWR A] Outlook: Stable/ BWR A2+ [Pronounced BWR A Two Plus] *Reaffirmation*
Total	**15517**	**15517**	**INR Fifteen Thousand Five Hundred and Seventeen Crores Only**		

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

Rationale/Rating Sensitivities:

BWR has relied upon the audited financial statements till FY18, unaudited financials for 9M FY19, information/clarifications provided by the company and information available in the public domain.

The rating derives comfort from the strong parentage of APML and demonstrated support of the promoters by way of infusion of unsecured loans, availability of domestic coal for nearly the entire fuel requirement through FSA/linkages and IPT (inter-party transfer) from Adani Power (Mundra) Ltd (APMuL), off-take agreements for almost the entire power generation capacity with moderate counterparty risk, favourable order from MERC with respect to compensatory tariff (CT) on account of short supply of coal for 2500 MW capacity and commencement of cash flows against the accumulated CT receivables. The rating however, is constrained on account of lack of clarity as to when and in how many tranches the accumulated CT receivables will be cleared by MSEDCL (Maharashtra State

Electricity Distribution Company Ltd), high gearing with considerable repayment obligations over the medium term and strained working capital position.

Going forward the ability of the company to realize accumulated CT receivables in a timely manner, ensure the availability of sufficient coal to operate the plant at normative levels, improve profitability by further bringing down the usage of e-auctioned/imported coal and improve the capital structure and manage working capital efficiently by availing sanction for proposed limits shall remain shall remain key rating sensitivities.

Key Rating Drivers:

Parentage & Group Support to the Company: APML is the wholly owned subsidiary of Adani Power Ltd, which is one of the key companies of Adani Group in the energy vertical. The promoters have been consistently supporting the company by way of infusion of unsecured loans as and when required. As on March 31, 2018, promoters have infused unsecured loans amounting to Rs. 3727.32 Crs as against Rs. 2999 Crs as on March 31, 2017. These loans which are subordinate to bank debt were given by the promoters mainly to support operations of APML on account of build-up of receivables due to domestic change in law. Going forward as the company realizes the balance amount of accumulated receivables, its reliance on promoter funding is expected to come down.

Fuel Supply Arrangements in Place: The company requires minimum fuel supply of 13.50 MTPA to operate the plant at normative level (PAF of 85%). The company received FSA from SECL for 4.91 MTPA which was insufficient to meet the requirement, thus, the company entered into an agreement with Adani Power (Mundra) Ltd (APMuL) for inter-party transfer of 6.40 MTPA coal from the linkages received by APMuL from mines located near the plant of APML. The same was also approved by Coal India Ltd. While, the pricing of this coal was done at the next best available source of coal to APML which was e-auctioned/imported coal, both the parties agreed that APML would pay only the price charged by CIL till the compensatory tariff dues of APML are not cleared by MSEDCL. The balance requirement however, continued to be met from e-auction/imported coal. Subsequently, the company received linkages for 5.85 MTPA under SHAKTI during August 2017 and the supply commenced from April 2018 resulting in lower reliance on IPT/e-auctioned/imported coal. It also helped in bringing down the average cost per tonne of coal by 1.50% during 9M FY19.

Off-take Agreements for Almost Entire Capacity: APML has entered into a Power Purchase Agreements for 3085 MW (net of auxiliary consumption) with MSEDCL at two part tariff structure - fixed charge + variable charge. The company will be able to recover fixed charge if the plant is operated at normative availability factor. MSEDCL has also opened a monthly revolving letter of credit with APML as a payment security mechanism. Further with respect to PPAs entered for 60% of the company's capacity, it is eligible to receive escalation in tariff on account of changes in energy charges and inland transportation cost linked to CERC index. During 9M FY19, the company has recognized Rs. 582 Crs as escalation charge against which it received Rs. 102 Crs from MSEDCL till Dec 31, 2018. Timely realization of the said receivables is important to improve the company's liquidity position.

Significant Build-up of CT Receivables: APML has been involved in a long standing dispute with MSEDCL with respect to compensatory tariff (CT) on account of Change in Law related to short supply of coal. MERC vide order issued in March 2018 found APML eligible for CT on account of short supply of coal pertaining to 2500 MW capacity and directed MSEDCL to clear the built-up dues immediately. The order has also been accepted in-principle by MSEDCL. APML received Rs.700 Crs against the against the accumulated receivables during 9M FY19. Built-up receivables as on Dec 31, 2018 amounted to Rs. 3108 Crs against which MSEDCL has released another Rs. 500 Crs post Dec 31, 2018. While, MSEDCL has started releasing the payment towards the accumulated receivables, it is not clear as to when and in how many tranches the balance amount will be cleared by them.

Strained Working Capital Position: As of February 2019, the company has received sanctions for working capital limits amounting to Rs. 2434 Crs. Average utilization of these limits has remained around 87% during the last 12 months indicating a stressed working capital situation. While, the company has requested the lenders for enhancement in the working capital limits, timely receipt of these sanctions is a key rating monitorable.

Debt Servicing Ability of the Company: APML reported cash & cash equivalents of ~ Rs. 60 Crs as on Dec 31, 2018. The company's principal repayment obligation will remain in the range of Rs. 800-900 Crs till FY21 against which it has been generating cash accruals of Rs. 900-950 Crs in the past. While, the cash accruals (calculated as PAT+Depreciation+Deferred Tax) have increased significantly to Rs. 2182 Crs during 9M FY19, they include revenue of Rs 1136 Crs towards compensatory tariff. After adjusting for the same, the annualized cash accrual for FY19 will still be around Rs. 1000 Crs sufficient to take care of the principal repayment obligations. The company has also started receiving reimbursement of CT receivables from MSEDCL which will help in easing out the liquidity position and improving the debt servicing ability of the company.

Rating Outlook: Stable

BWR believes that Adani Power Maharashtra 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 'Positive' in case the company is able to recover the accumulated CT receivables from MSEDCL leading to improved liquidity position and profitability improves as per expectations. The outlook can be revised to 'Negative' in case there is an unreasonable delay in receiving the accumulated receivables and profits of the company are lower than BWR's expectations.

Analytical Approach: BWR has analyzed the company on a standalone basis. However, continuous financial support from the group and management linkages have also been incorporated while arriving at the rating.

About the Company:

Incorporated in April 2007, Adani Power Maharashtra Limited (APML) was floated as a wholly owned subsidiary of Adani Power Limited to implement 3300 MW supercritical, domestic coal based thermal power generation plant at Tiroda in Maharashtra. The project was implemented in three phases – Phase I (2 x 660 MW), Phase II (1 x 660 MW) and Phase III (2 x 660 MW). These units became operational between September 2012 and October 2014. APML has entered into long term Power Purchase Agreements (PPAs) with MSEDCL for 3085 MW capacity (net of auxiliary consumption) out of which the PPA for 440 MW became operational from mid-February 2017 onwards.

Company's Financial Performance:

Revenue of the company increased by 5% during FY18, however, the same has gone up significantly during 9M FY19 due to recognition of Rs.1136 Crs as revenue on account of Change in Law pertaining to short supply of coal.

Unsecured loans infused by related parties increased from Rs.2999 Crs as on March 31, 2017 to Rs.3727.32 Crs as on March 31, 2018. Key financial indicators of the company are given in the table below:

Key Financial Indicators				
Particulars	**Unit**	**FY17 (A)**	**FY18 (A)**	**9M FY19 (UnA)**
Operating Income	Rs. Crores	6481.56	6820.01	7421.36
OPBITDA	Rs. Crores	2434.55	2546.03	3647.06
PAT	Rs. Crores	-219.12	58.98	1279.93
Total Debt	Rs. Crores	17258.20	17564.01	14848.76
Tangible Networth	Rs. Crores	2931.74	2991.89	5023.42
Debt to Equity	Times	5.89	5.87	2.96
ISCR	Times	1.39	1.44	2.95

Note: The financials are adjusted as per BWR's standards.

Rating History for the last three years:

Sl. No.	Facility	Current Rating (March 2019)			Rating History		
Fund Based		**Type**	**Amount (Rs. Crs)**	**Rating**	**2018**	**2017**	**2016**
1.	Rupee Term Loan	Long Term	8175	BWR A (Pronounced BWR A) (Stable)	BWR A (Pronounced BWR A) (Stable)	No Rating Change	BWR A (Pronounced BWR A) (Stable)
2.	ECB		2574				
3.	Cash Credit		3571				
Non-Fund Based							
1.	BG	Long Term/ Short Term	1197	BWR A (Pronounced BWR A) (Stable)/A2+ (Pronounced BWR A Two Plus)	BWR A (Pronounced BWR A) (Stable)/A2+ (Pronounced BWR A Two Plus)	No Rating Change	BWR A (Pronounced BWR A) (Stable)/A2+ (Pronounced BWR A Two Plus)
Total			**15517**	**INR Fifteen Thousand Five Hundred and Seventeen Crores Only**			

Status of Non-Cooperation with other CRAs: NA
Any Other Information: NA

Hyperlink/Reference to applicable Criteria:

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector
- Short Term Debt

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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 ₹ 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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