

Rating Rationale

Adani Power Maharashtra Ltd.

3 Jan 2018

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 15517 Cr of Adani Power Maharashtra Ltd. (ASL)

Particulars

Facility	Previous Limits	Limits	Tenure	Previous Rating (August 12, 2016)	Rating based on current review
Fund Based					
Rupee-Term-Loans	9014.00	8710.00	Long Term	BWR A Outlook - Stable	BWR A (BWR Single A) Outlook – Stable (Reaffirmation)
ECB	3610.00	2405.00			
ECB from ICBC	101.00	592.00			
Cash Credit	1960.00	2900.00			
Non-Fund Based					
Bank Guarantees	1286.90	910.00	Long Term / Short Term	BWR A/ BWR A2+ Outlook - Stable	BWR A / BWR A2+ (BWR Single A/A Two- plus) Outlook - Stable (Reaffirmed)
Total	15971.90	15517.00 (Rupees Fifteen Thousand Five Hundred and Seventeen Crore only)			

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

BWR has principally relied upon the Company's Audited financial results up to FY 17, 1HFY18 unaudited financials, publicly available information and information/clarification provided by the Company management.

The rating continues to derive strength from APML's parentage, being part of Adani Group which has diversified presence in various sectors including energy related businesses with large power generation and transmission segments, availability of domestic coal for almost entire fuel requirement of APML Power Plants, long terms PPAs in place for off-take of entire power generated and expected positive outcome from regulatory authority for receipt of Compensatory Tariff by APML arising out of domestic change in law.

The rating is however, constrained by significant buildup of receivables in the books of APML, high gearing and moderate debt coverage indicators, exposure to regulatory risks and deterioration in the credit risk profile of its holding company post-verdict of Supreme Court in Compensatory Tariff matter.

Analytical Approach

APML has been evaluated as a stand-alone company. However Group strength and support in terms of management and finance, is taken note of.

Key Risk Drivers:

- 1. Group Support:** APML is wholly owned subsidiary of Adani Power Ltd [rated BWR BB (Stable)], which is one of the key companies of the Adani Group in the energy vertical. APL has extended interest free unsecured loans of Rs.3000 CR mainly to support operations of APML on account of build-up of receivables due to domestic change in law as well as deallocation of the Lohara coal block. However currently APL has undertaken a business restructuring exercise to hive off the Mundra power undertaking into a separate subsidiary, and hence, APL's continued support towards APML, if warranted, needs to be monitored.
- 2. Tie-up of almost entire fuel requirement of APML:** Largely entire fuel requirement of APML is secured in the form of domestic coal under Fuel Supply Agreement (FSA) from Coal India Ltd.(CIL) & Inter Plant Transfer (IPT) of linkage domestic coal from its parent Adani Power Ltd. (APL) against its Fuel Supply Agreement (FSA) entitlement. Further, Union Cabinet has approved the domestic coal linkage policy "SHAKTI" (Scheme for Harnessing and Allocating Koyala (Coal) Transparently in India) for thermal power producers, to ensure timely and adequate supply of coal. This will ensure the rights of coal supplies for FSA holders and signing of FSA with Letter of Assurance (LoA) holders. APML's 2120MW and APRL's 1320MW are eligible under the SHAKTI

e-auction policy for linkage requirement. Domestic coal allocation, if any, to APML under SHAKTI is a monitorable. .

3. **Long Term PPAs for Offtake of Power generated by APML:** APML has entered in to long term Power Purchase Agreements (PPAs) with Maharashtra State Electricity Distribution Company Ltd. (MSEDCL) for 3085 MW capacity (net of auxiliary consumption). However, delay in approval of tariff escalation on various counts has impacted the liquidity of the Company.
4. **Expected Positive Outcome for Compensatory Tariff:** Based on Supreme Court Verdict in case of APL, wherein it has allowed APL to receive the compensatory tariff for short/non supply of committed domestic coal on account of changes in any Indian law , APML has claimed eligibility for receiving Compensatory Tariff (CT) arising out of domestic change in law. As on March 2017, Compensatory Tariff revenue booked by APML was Rs.2583 Cr.
5. **Significant buildup of receivables:** The Company has recognized Rs.2583 Cr of compensatory Tariff revenue till March 31, 2017, and the same has not been paid by Maharashtra State Electricity Distribution Company Ltd (MSEDCL). This amount is quite significant vis-a-vis the Networth of the company. BWR has factored that this amount will be ultimately received by the company once all regulatory clearances are in place, and any potential developments affecting this realisation is a rating sensitivity issue.
6. **High Gearing with moderate debt coverage indicators:** The company had Rs.14361 Cr of outside debt on its books as on March 31, 2017, of which Rs.820 Cr was repayable in the current financial year. Considering the losses incurred by the company in FY17, coverage ratios were lower. However, with profit accrued in 1HFY18 and financial support from the promoters, the company is able to discharge its liabilities.

Rating Outlook: Stable

BWR believes the APL'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. Continued delay in realizing the CT receivables, will be negative for the company.

About Adani Power Maharashtra Ltd. (APML):

Incorporated in April 2007, Adani Power Maharashtra Limited (APML) was floated as a wholly owned subsidiary of Adani Power Limited to implement 3300 MW super-critical, 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 in to 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. The PPAs have a two-part tariff structure i.e. fixed capacity charge upon maintaining PAF above normative levels and energy charges & transportation cost that are largely escalable for variation linked to CERC index.

Company’s Financial Performance

As per FY17 audited financials, the company made a net loss of Rs. 219.6 Crore (P.Y net profit Rs. 132.4 Cr) on the revenues of Rs. 6494.77 Crore (P.Y Rs. 7970.03 Cr). Revenue for FY17 declined by 18% primarily on account of major outage from May 2016 to July 2016 of five of its units due to acute water shortage. Though the company suffered losses in FY17, there was cash profit to the extent of Rs. 593.66 Cr.

Company’s networth was Rs. 5931.12 crores (including unsecured loans from promoters of Rs.3000Cr) with the total outside debt to Equity ratio of 2.42x. Receivables of the company touched Rs. 4584 Cr, including significant portions on account of billing based on Change in Law, Compensatory Tariff and others.

Rs. Crore	FY17	FY16
	Audited	Audited
Revenue	6494.77	7970.03
PBDIT	2434.55	2803.13
PAT	-219.06	132.4
Networth + USL from Promoters	5931.12	3149.36
Debt to Equity (Adjusted)	2.42	5.6
Current Ratio (Times)	1.11	1.19

Rating History

(including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (Year 2018)			Rating History		
		Type (Long Term/Short Term)	Amount	Rating	12 Aug, 2016	22 June 2015	Date in 2014
1.	Rupee Term Loans	Long Term	8710.00	BWR A- (Stable)	BWR A- (Stable)	BWR A- (Stable)	-
2.	ECB	Long Term	2997.00	BWR A- (Stable)	BWR A- (Stable)	BWR A- (Stable)	
3.	Cash Credit	Long Term	2900.00	BWR A- (Stable)	BWR A- (Stable)	BWR A- (Stable)	
4.	Bank Guarantees	Long Term / Short Term	910.00	BWR A-/A2+ (Stable)	BWR A- /A2+ (Stable)	BWR A-/A2+ (Stable)	
	Total		15517	Rupees Fifteen Thousand Five Hundred and Seventeen Crore only			

Status of non-cooperation with previous CRA (if applicable): Reason and comments N/A

Any other information: N/A

Hyperlink/Reference to Applicable Criteria

- [General Criteria](#) [Infrastructure](#) Sector
- [Approach to Financial Ratios](#)

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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