

RATING RATIONALE

17 Dec 2019

Adani Power (Mundra) Ltd

Brickwork Ratings assigns rating for the Bank Loan Facilities aggregating ₹ 15252 Crores of Adani Power (Mundra) Ltd

Particulars

Facility**	Amount (₹ Crs)	Tenure	Rating*
Fund based - TL	10447	Long Term	BWR BBB-/Stable
Fund/Non-Fund Based - WC Limits@	4700	Long/Short Term	BWR BBB-/Stable/A3
Non-Fund Based - LER	105	Short Term	BWR A3
Total	15252	INR Fifteen Thousand Two Hundred and Fifty Two Crores Only	

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

** Details of Bank facilities are provided in Annexure-I

@ The Working Capital limits have full interchangeability between fund and non-fund based

Rating Action / Outlook

BWR has assigned ratings of BWR BBB- (Stable)/A3 to the bank loan facilities of the company based on various positive regulatory events with respect to fuel cost pass through being allowed for the company's bid-1 PPA with GUVNL through a supplementary PPA leading to receipt of compensation for the previous years and cancellation of the company's bid-2 PPA leading to significant compensation that is expected to improve the liquidity position of the company.

The rating further draws strength from the strong parentage of its parent Adani Power Ltd as well as from being a part of the larger Adani Group – both of which have been consistently supporting the company by way of infusion of quasi equity as well as unsecured loans, demonstrated track record of the group in the power segment, established operational track record of the Mundra power plant since the last unit's COD in May 2012 and considerably better operating performance in H1 of FY20 as compared to H1 of FY19.

The rating, however, is constrained on account of significant untied capacity which the company is currently selling at IEX exposing it to volatility in prices, huge accumulated losses leading to a weak capital structure with high external debt levels.

The outlook has been kept as Stable as the company is expected to significantly benefit from the cash inflows on account of compensation pertaining to cancellation of bid-2 PPA under Section 62 of the Electricity Act and no adverse event is likely over the medium term.

Key Rating Drivers

Credit Strengths:

Strong Promoters and their Demonstrated Support: The company is a wholly owned subsidiary of Adani Power Ltd, Adani Group's flagship company in the thermal power generation segment. The promoters have a long track-record of having supported the company by way of equity infusion, unsecured perpetual securities amounting to Rs.5050 Crs and unsecured loans of Rs.6715 Crs as on March 31, 2019. With the receipt of one-time compensation for Bid-2 PPA and compensatory tariff pertaining to domestic coal shortfall under Haryana PPA, the company's reliance on promoter funding is expected to come down. However, the availability of timely need based support from the Group is taken into account while arriving at the rating and is a key sensitivity.

Allowance of Compensatory Tariff for Shortage in Domestic Coal from Haryana Discoms: Post the Supreme Court of India's judgement in the Energy Watchdog matter, the company became eligible to receive compensatory tariff for shortage of domestic coal with respect to APMuL's PPA with Haryana Discoms. Till June 30, 2019, the company has recognized revenue towards compensatory tariff and its carrying cost from Haryana Discoms amounting to Rs. 1430.43 Crs. Against this, the company has already received Rs. 640 Crs and the remaining amount is also expected to be realized soon.

Pass-through for Imported Coal Cost with GUVNL: In its Energy Watchdog judgement, the Supreme Court made it clear that any movement in the prices of imported coal is neither Indian change in law nor force majeure. However, to improve the viability of such power plants, Gujarat Government formed a High Powered Committee which amongst others recommended allowance of imported fuel cost pass through with lower capacity charges to be borne by the generators. These recommendations of the committee were accepted by the Government of Gujarat and accordingly, the PPAs were amended in October 2018. The company received approval for the amendments from CERC in April 2019 under which the tied-up capacity was increased from 1000 MW to 1200 MW for the Bid-1 PPA (and from 1000 MW to 1234 MW under the Bid-2 PPA), by tying up previously untied capacities, and full imported fuel cost pass through was allowed effective October 2018. Accordingly, the revenue and profitability of the company has improved in H1 FY20 with the EBITDA margin improving from 18.15% in FY19 to 20.48% in H1 FY20.

Cancellation of Bid-2 PPA with GUVNL and Allowance of One Time Compensation: The company has been involved in a long standing dispute with GUVNL with respect to its Bid-2 PPA for 1000 MW of capacity from Phase III of the project. The said PPA was entered on a condition that GMDC (Gujarat Mineral Development Corporation) will provide 4 MTPA of domestic coal to the plant. When GMDC could not provide the coal, the company served termination notice for the PPA in 2010 as the tariff under the PPA was not viable in the absence of domestic coal. The notice was challenged by GUVNL and the matter has been under litigation since then. The company however, was supplying power to GUVNL as per the agreed terms in PPA. In June 2019, the Supreme Court ruled in favour of the company and said that termination of the PPA is valid with effect from 4th January 2010. The Supreme Court also allowed one time compensation to APMuL for all the additional costs borne under the PPA since inception with the amount to be determined by CERC under Section 62 of the Electricity Act, 2003. APMuL has already filed its petition for compensation with CERC and the



same is under their review. While, the exact amount will be decided by CERC, the company expects this compensation to be around Rs. 6000 Crs.

Credit Risks:

Significant Untied Capacities: Post cancellation of Bid-2 PPA, presently, the company has a long term power offtake arrangement to the extent of 58% of the total capacity. The company is using the remaining capacity to sell power at IEX or through short term bilateral agreements. While, APMuL has been able to earn an average tariff of Rs. 4/kWh in the merchant market, the company is also exposed to considerable risk of volatile returns as the untied-up capacity (1943 MW) is substantial and going only for merchant sales may not be sustainable over the long run.

Weak Capital Structure on account of Accumulated Losses: On account of sustained losses in the past due to various tariff related issues, APMuL has huge accumulated losses of Rs.7621.46 Crs as on March 31, 2019. This has wiped out the networth of the company. However, after adjusting for unsecured loans from promoters as quasi equity, TNW improves from Rs. (2465.83) Crs to Rs. 2570.53 Crs as on March 31, 2019. Despite this adjustment, the gearing continues to remain high at 5.70x as on March 31, 2019. The company is expected to reduce part of its debt with the one time compensation and accordingly, the gearing is likely to improve.

Analytical Approach and Applicable Rating Criteria

For arriving at the rating, BWR has considered the terms of PPAs, project parameters, audited financials till FY19 and financial projections of the company. Expectation of a timely and need based support from the promoters is also factored in while arriving at the rating.

The methodology applied by BWR is highlighted in the mentioned in the end.

Rating Sensitivities

Positive: Improvement in capital structure with the receipt of one-time compensation, signing of long term PPAs for the untied-up capacities, sustained improvement in PLF and timely receipt of the pending compensatory tariff dues from Haryana Discoms.

Negative: Negative impact of the volatility in the merchant market on the company's financial performance as well as PLF and further delays in receipt of cash flows of the compensatory tariff dues by the Haryana Discoms affecting the liquidity position

Liquidity Position

As on March 31, 2019, the company reported cumulative funding by the promoters by way of unsecured perpetual securities at Rs. 5050 Crs and unsecured loans at Rs. 6715 Crs. APMuL has also received considerable amounts towards CT receivables till FY19 (Rs. 1563 Crs) and post FY19 (Rs. 906.17 Crs). Further, the company expects to receive around Rs. 6000 Crs with respect to termination of Bid-2 PPA. The company expects to generate cash accruals of Rs. 1120 Crs in FY20 (excluding the



compensation for bid-2 PPA) as against debt obligation of Rs. 1032 Crs. Post revision of tariff and allowance of compensatory tariff in various matters, the company's revenue and profitability has improved. Also, the company reported cash balance of Rs. 392 Crs as on March 31, 2019 which is equivalent to 3 months of principal payment.

Company Profile

Adani Power (Mundra) Limited (APMuL), incorporated on 16 Feb 2015, is a 100% subsidiary of Adani Power Limited, flagship company of Adani Group in the power generation segment. The Mundra project which was initially developed by Adani Power Ltd was hived off into APMuL in 2017. The project constitutes a coal based 4620 MW Supercritical Thermal Power Project at Mundra Taluka, Kutch District in Gujarat in four phases viz Phase I (2X330 MW, sub-critical), Phase II (2X330 MW, sub-critical), Phase III (2X660 MW, super-critical) and Phase IV (3X660 MW, super-critical). All 4 phases are operational with last unit achieving COD in May 2012.

The company has a long term PPA with GUVNL for 1200 MW from Phase I, for 1424 MW with Haryana Discoms from Phase IV and for 50 MW with MUPL. The remaining capacity is used to sell power through IEX or short term bilateral agreements.

Key Financial Indicators

Particulars	Units	FY18 (A)	FY19 (A)
Revenue from Operations	Rs. Crs	9516.09	11618.41
EBITDA	Rs. Crs	1522.66	2107.37
PAT	Rs. Crs	-1678.12	-1044.10
Operating Margin	%	16.00	18.14
Net Profit Margin	%	-17.63	-8.99
Total Debt (Adjusted)	Rs. Crs	177.33	167.21
Tangible Net Worth (Adjusted)	Rs. Crs	-5261.36	2570.53
Total Debt/TNW (Adjusted)	Times	2.97	2.40

Note: Adjusted ratios have been calculated after taking unsecured loans from promoters as quasi equity. All financials have been reclassified as per BWR standards.

The company's financial performance has improved considerably in H1 FY20 with a revenue of Rs. 7367 Crs and EBITDA of Rs. 1509 Crs (20.48%).

Non-cooperation With Previous Rating Agency If Any: NA

Rating History

Facility	Current Rating			Rating History		
	Tenure	Amount (₹ Crs)	Rating	2018	2017	2016
Term Loans	Long Term	9041	BWR BBB-/Stable	NA	NA	NA
ECB		1406				
WC Limits	Long/Short Term	4700	BWR BBB-/Stable/A3			
LER	Short Term	105	BWR A3			
Total		15252	INR Fifteen Thousand Two Hundred and Fifty Two Crores Only			

Complexity Levels Of The Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference To Applicable Criteria

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

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Adani Power (Mundra) Ltd

Annexure I - Details of Bank Facilities Rated

Name of Bank	Sanctioned Amount (Rs. Crs)	Amount O/S (Rs. Crs)
Phase – IV - Term Loans		
State Bank of India	2018	1460.36
Canara Bank	750	510.75
Uco Bank	700	476.5
LIC	500	329.86
Punjab National Bank	450	306.45
IDBI Bank	40.28	34.29
Bank of India	410	295.23
ICICI Bank	300	246.5
Allahabad Bank	300	197.91
Union Bank of India	275	197.97
Bank of Maharashtra	200	136.2
United Bank of India	200	133.54
Punjab & Sind Bank	200	136.18
Jammu & Kashmir Bank	200	136.2
Corporation Bank	100	68.1
IIFCL	1050	893.81
Total	7693.28	5559.85

Name of Bank	Sanctioned Amount (Rs. Crs)	Amount O/S (Rs. Crs)
Phase- I to III – Corporate Loans		
State Bank of India	1000	790
Bank of Maharashtra	200	158
State Bank of India	1000	800
Axis Bank	743.44	607.92
Union Bank of India	500	430
Canara Bank	500	430
IDBI Bank	306.56	265.17
Total	4250	3481.09

Name of Bank	CC / LC / BG / SLC (Rs. Crs)
IDBI Bank Limited	850
State Bank of India	1150
IDBI Bank Limited	300
State Bank of India	798
Allahabad Bank	115
Bank of Maharashtra	300
UCO Bank	145
Canara Bank	133
Bank of India	95
Union Bank of India	110
United Bank of India	100

Proposed	604
Total	4700

Name of Bank	Sanctioned Amount (USD Million)	O/S Amount (USD Mn)	Amount in Rs. Crores
Phase- I & II - ECBs			
Axis Bank	150	5.94	42.07
ICICI Bank	115	48.05	340.57
Bank of Baroda	75	24.03	170.28
Union Bank of India	25	8.01	56.76
Total	365	86.02	609.68
Phase- III - ECBs			
ICICI Bank	99	19.8	140.33
Deutsche Bank consortium	500	92.56	655.98
Total	599	112.36	796.31

Name of Bank	LER (Rs. Crs)
ICICI Bank Ltd	105.00

For print and digital media

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