Rating Rationale

Brickwork Ratings assigns 'BWR AA- (SO)' Rating for the Proposed Structured Non-Convertible Debenture issue of ₹ 1200 Cr to Adani Power Ltd.

Brickwork Ratings (BWR) has assigned the **Rating**[1] of BWR AA-(SO) [Pronounced BWR Double A Minus (Structured Obligation) **(Outlook: Stable)** for Adani Power Ltd's **(APL or the 'Company')** proposed NCD issue of ₹ 1200 Crs with tenor of 42 months and 18 days. 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.

Other Outstanding Ratings for Adani Power Ltd:

Instruments	Amount (₹ Cr)	Issue Date	Tenor	Rating
NCD	**1000**	Feb, 2015	38 Months	BWR AA-(SO) (Outlook: Stable)
NCD	**1000**	May, 2015	364 Days	BWR A1+ (SO)

BWR has essentially relied upon the draft term sheet outlining the structure of the deal, audited financial results upto FY15 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 listed equity shares of Adani Ports & Special Economic Zone Ltd, structure of the proposed NCD issue, resourcefulness of the promoters of the Company and financial flexibility of the group. However, the rating is constrained by fundamentals of the issuer, reliance on promoter funds, refinance or, alternatively, liquidation of the securities - to meet the payment obligations arising from the proposed NCD issue, market volatility in the price of equity shares of Adani Ports & Special Economic Zone Ltd and the current challenging environment faced by the power sector.

Background

APL was incorporated in August 1996. APL is a power project development company and is operating and maintaining multiple power projects in India. Adani Power alongwith its subsidiaries such as Adani Power Maharashtra Ltd, Adani Power Rajasthan Ltd, etc. currently has an operational capacity of 10440 MW, comprising of 4620 MW at Mundra in Gujarat, 3300 MW at Tiroda in Maharashtra, 1320 MW at Kawai in Rajasthan and 1,200 MW Udupi plant. Additional 600 MW Korba plant acquisition is under process.

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

The Company intends to use the proceeds of the NCD towards acquisition, refinancing and General Corporate Purposes.

Adani Group has completed scheme of demerger to simplify the corporate structure of the group, as also unlock the value of its various businesses.

APL - Board of Directors and Shareholding

Mr. Gautam Adani is the Chairman of APL & also the founder of the Adani Group. The Board has six other Directors. As of June 2015, promoters hold 58.13% equity stake in the Company.

NCD Structure

The Company has proposed to raise this structured NCD of ₹1200 Cr with tenor of 42 months and 18 days. All repayments, including the coupon, are due at maturity. The NCDs 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 NCDs. The Facility will require a top-up if the cover falls below 1.8 times. The structure provides for release of share collateral in case cover is greater than 2.2 times for a consecutive period of 5 days. Also, there is a cash escrow date 15 days prior to the Maturity Date. Other covenants are standard terms that are common for issues of this nature.

Financials of Adani Power Ltd:

For FY15, as per consolidated figures, APL reported total revenue of ~₹ 19065 Crs with a net loss of ~₹816 Crs. In FY15, the Company has recognized revenues of ~₹857.35 Crs based on the CERC order on compensatory tariff. APL's customers have filed an appeal against the CERC order with the Appellate Tribunal for Electricity. For Q1FY16, on a consolidated basis, APL registered net loss of ~₹ 418 Crs on total operating income of ~₹5914 Crs.

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

Incorporated in 1998, APSEZ is 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 of 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 operational ports/terminals under its portfolio. It operates ports at Mundra, Dahej, Hazira, Dhamra, and Terminals at Kandla, Mormugao, Vizag and Ennore. APSEZ has total cargo volume of 144 mn tonnes in FY15 (112.75 mn tonnes in FY14).

For FY15, on a consolidated basis, APSEZ reported total revenue of ~₹6838 Crs. The net profit for FY15 stood at ~₹2314 Crs. For FY15, on a consolidated basis, APSEZ had total debt of ~ ₹ 15155 Crs, as against a tangible networth of at ~ ₹ 8327 Crs while the fixed assets stood at ~ ₹ 19203 Crs. APSEZ's current stock price is trading in the range of ₹ 290-340, with low of ₹ 244.10 and high of ₹ 374.80 during the past one year.

Rating Outlook

The rating captures the current financial flexibility of Adani group, the NCD structure which involves pledge of APSEZ equity shares provided as security, and performance of APSEZ. 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) 15 days prior to 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 APSEZ as well as adherence to the structure is a key sensitivity to the Rating. Further, Adani Power Ltd., which has a large debt to service, is expected to benefit out of elongated repayment schedule being worked out by its lenders under Reserve Bank of India's 5/25 scheme.

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

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