

## Rating Rationale

### Brickwork Ratings reaffirms “BWR AA- (SO)” Rating for the Structured Non-Convertible Debenture issue of ₹ 1000 Cr and ₹ 1200 Cr of Adani Power Ltd.

Brickwork Ratings (BWR) has reaffirmed the **Rating<sup>1</sup>** of BWR AA-(SO) (Pronounced BWR Double A Minus Structured Obligation) (Outlook: Stable) Rating for Adani Power Ltd’s (APL or the ‘Company’) NCD issue of ₹ 1000 Crs and ₹ 1200 Crs as per details below. 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.

Instruments	Amount ₹ Cr	Present Rating	Assigned/ Reaffirmed	Issue Date	Rating History
NCD (Tenor – 38 Months)	<b>1000</b>	<b>BWR AA- (SO) (Stable)</b>	<b>Reaffirmed</b>	March, 2015	BWR AA- (SO) (Stable) (March 2015)
NCD (Tenor – 42 Months and 18 Days)	<b>1200</b>	<b>BWR AA- (SO) (Stable)</b>	<b>Reaffirmed</b>	Oct, 2015	BWR AA- (SO) (Stable) (Oct 2015)

BWR has essentially relied upon the term sheet, audited financial results upto FY15 and 9MFY16 financial results 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 continues to factor, *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 NCD issues, resourcefulness of the promoters and financial flexibility of the group. However, the rating is constrained by fundamentals of the issuer, the current challenging environment faced by the power sector, reliance on promoter funds, refinance, or alternatively, liquidation of the securities - to meet the payment obligations arising from the proposed NCD issue, and high market volatility in the price of equity shares of Adani Ports & Special Economic Zone Ltd.

## Background

APL, an Adani Group company was incorporated in August 1996. It is a power project development company and is operating and maintaining multiple power projects in India. Adani Power alongwith its subsidiaries 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.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

---

### **APL - Board of Directors and Shareholding**

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

### **NCD Issue ₹ 1000 Crs - Structure:**

The Company has raised this structured NCD of upto ₹1000 Cr with tenor upto 38 months. 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 NCD's. The Facility will require a top-up if the cover falls below 1.8 times.

### **NCD Issue - ₹ 1200 Crs Structure:**

The Company has raised this structured NCD of ₹1200 Cr with tenor of 42 months and 18 days. 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.

### **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 9MFY16, on a consolidated basis, APL registered net loss of ~₹ 685 Crs on total operating income of ~₹17887 Crs.

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

Incorporated in 1998, APSEZ is a key company of the Adani Group. It was initially named Mundra Port & Special Economic Zone Ltd and changed to Adani Ports and Special Economic Zone Ltd in 2012. 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. 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. These are: Mundra, Dahej, Hazira, Dhamra, and Terminals at Kandla, Mormugao, Vizag and Ennore. APSEZ handled 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. APSEZ's consolidated total debt stood at ~ ₹ 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 ₹ 210-250, with low of ₹ 169.15 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 adequate cushion to investors. The Company is required to deposit all amounts payable under the facility (including principal and interest) 10 days (for ₹ 1000 Crs NCD) and 15 days (for ₹ 1200 Crs NCD) 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.

<b>Analyst Contact</b>	<b>Relationship Contact</b>
<a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone</b>	<b>Media Contact</b>
<b>1-860-425-2742</b>	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

**Disclaimer:** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.