

## Rating Rationale

### Brickwork Ratings assigns “BWR A1+(SO)” Rating for the Proposed Structured Non-Convertible Debenture issues of ₹ 270 Cr of Adani Power Ltd.

Brickwork Ratings (BWR) has assigned the **Rating<sup>1</sup>** of BWR A1+(SO) (Pronounced BWR A One Plus [Structured Obligation]) Rating for Adani Power Ltd’s (APL or the ‘Company’) proposed NCD issue of ₹ 270 Crs (with tenor upto 5 Months).

**Other Outstanding Ratings for Adani Power Ltd, which are reaffirmed, are:**

Instruments	Amount	Present Rating <sup>^</sup>	Assigned/ Reaffirmed	Issue Date	Rating History
NCD (Tenor – 42 Months and 18 Days)	₹ 1200 Cr	<b>BWR AA- (SO) (Stable)</b>	<b>Reaffirmed</b>	Oct,2015	BWR AA- (SO) (Stable) (Oct 2016)
NCD (Tenor – 48 Months)	₹ 330 Cr	<b>BWR AA- (SO) (Stable)</b>	<b>Reaffirmed</b>	May, 2016	BWR AA- (SO) (Stable) (Oct 2016)
NCD (Tenor – 32 Months and 1 Day)	₹ 350 Cr	<b>BWR AA- (SO) (Stable)</b>	<b>Reaffirmed</b>	Aug, 2016	BWR AA- (SO) (Stable) (Oct 2016)
NCD (Tenor – 43 Months and 1 Day)	₹ 400 Cr	<b>BWR AA- (SO) (Stable)</b>	<b>Reaffirmed</b>	Aug, 2016	BWR AA- (SO) (Stable) (Oct 2016)
Fund Based: Term Loan	₹ 6480 Cr	<b>BWR BBB(SO) (Stable)</b>	<b>Reaffirmed</b>	Oct,2016	BWR BBB(SO) (Outlook-Stable) (Oct 2016)

BWR has essentially relied upon the draft term sheet submitted by the issuer, audited financial results upto FY16 and H1FY17 financial results of the issuer APL as well as audited financials of Adani Ports & Special Economic Zone Ltd (APSEZ), Adani Enterprises Ltd(AEL) and Adani Transmission Ltd(ATL) 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, Adani Enterprises Ltd and Adani Transmission 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 the current challenging environment faced by the power sector, issues relating to the financial position of

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

the issuer, viz., high gearing, substantially increasing receivables mainly on account of ongoing compensatory tariff litigations, and reliance on promoter funds, refinance, or alternatively, liquidation of the securities - to meet the payment obligations arising from the proposed NCD issue. High market volatility in the price of underlying equity shares is another aspect that is factored.

## **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 10480 MW, comprising of 4620 MW at Mundra in Gujarat, 3300 MW at Tiroda in Maharashtra, 1320 MW at Kawai in Rajasthan, 1,200 MW at Udupi in Karnataka and 40 MW solar plant at Bitta in Gujarat. Acquisition of 600 MW Korba plant from Avantha Group is under process. The Company intends to use the proceeds of the NCD towards refinancing of existing debt, Capex/Opex, Investment in equity (group companies), onward lending to group companies and general corporate purpose.

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

Mr. Gautam Adani is the Chairman of APL, and also founder of Adani Group. The Board has six other Directors. As of Sep 2016, promoters hold 64.03% equity stake in the Company.

## **NCD Structure**

The Company has proposed to raise this structured NCD of ₹ 270 Cr (Series A - ₹ 50 Crs & Series B - ₹ 220 Crs) with tenor upto 5 Months. Repayments are due at maturity alongwith redemption premium. The NCDs are backed by way of pledge of equity shares of Group's listed companies, viz., Adani Ports & Special Economic Zone Ltd (1.5 times), Adani Enterprises Ltd(0.3 times) and Adani Transmission Ltd(0.2 times) – overall a cover of 2 times. The Facility will require a top-up if the cover falls below 1.75x for a period of three consecutive trading days or less than 1.70x on any business day . The structure provides for release of top up share collateral in case cover is greater than 2.25 times. The Company is required to deposit all amounts payable under the facility (including principal and redemption premium) 7 days prior to maturity. Other covenants are standard terms that are common for issues of this nature.

## **Financials of Adani Power Ltd:**

For FY16, as per consolidated figures, APL reported total revenue of ~₹ 25433 Crs with a net profit of ~₹488 Crs. Till FY16, the Company and its subsidiaries have recognized revenues of ~₹ 7014 Crs based on the various CERC orders on compensatory tariff/additional compensatory tariff, etc. APL's customers have filed an appeal against the orders with the Appellate Tribunal for Electricity. For FY16, APL's consolidated Tangible Networth and Total Debt were ₹ 6633 Crs and ₹ 53200 Crs respectively. For H1FY17, on a consolidated basis, APL reported net loss of ~₹ 148 Crs on total operating income of ~₹11364 Crs.

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### **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. 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. 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. APSEZ handled total cargo volume of 152 mn tonnes in FY16 (144 mn tonnes in FY15). For FY16, on a consolidated basis, APSEZ reported total revenue of ~₹7941 Crs. The net profit for FY16 stood at ~₹2867 Crs. APSEZ's consolidated total debt stood at ~ ₹ 22873 Crs, as against a tangible networth of at ~ ₹ 10915 Crs. APSEZ's current stock price is trading in the range of ₹ 250-280, with low of ₹ 169.15 and high of ₹ 317 during the past one year.

### **Background of Adani Enterprises Ltd (AEL), whose Equity shares are pledged**

Incorporated in 1993, Adani Enterprises Ltd. (AEL) is the flagship company of Adani Group, and chaired by Mr. Gautam Adani. AEL, on a standalone basis, has mainly coal and power trading businesses. The Company undertakes coal trading business directly and through its subsidiaries. In FY16, on a consolidated basis, AEL reported total operating income of ~₹ 44023 Crs, while PAT before minority interest stood at ~₹ 1083 Crs. For FY16, on a consolidated basis, AEL had total debt of ~ ₹ 20563 Crs, as against a tangible networth of at ~ ₹ 10040 Crs with a gearing of around 2.05 times. AEL's current stock price is trading in the range of ₹ 60-75, with low of ₹ 58.20 and high of ₹ 92.05 during the past one year.

### **Background of Adani Transmission Ltd (ATL), whose Equity shares are pledged**

ATL is a holding company, created to house the transmission assets of Adani group. ATL holds two step-down subsidiaries, viz., Adani Transmission India Limited (ATIL) and Maharashtra Eastern Grid Power Transmission Company Limited (MEGPTCL). All the transmission assets under ATIL and MEGPTCL are operational. For FY16, on a consolidated basis, ATL reported total revenue from operations of ~₹2197 Crs. The net profit for FY16 stood at ~₹357.73 Crs. ATL's current stock price is trading in the range of ₹ 40-65, with low of ₹ 26.30 and high of ₹ 66.25 during the past one year.

The rating captures the current financial flexibility of Adani group, the NCD structure which involves pledge of APSEZ, AEL & ATL equity shares provided as security, and performance of APSEZ, AEL & ATL. Overall 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 redemption premium) 7 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, AEL & ATL as well as adherence to the structure is a key sensitivity to the Rating.

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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