

Rating Rationale

Brickwork Ratings assigns “BWR AA- (SO)” Rating for the Proposed Structured Non-Convertible Debenture issue of ₹ 330 Cr of Adani Power Ltd.

Brickwork Ratings (BWR) has assigned the **Rating¹** of BWR AA-(SO) (Pronounced BWR Double A Minus Structured Obligation) (Outlook: Stable) Rating for Adani Power Ltd.’s (APL or the ‘Company’) proposed NCD issue of ₹ 330 Cr with tenor of 48 months. 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 are:

Instruments	Amount	Present Rating	Assigned/ Reaffirmed	Issue Date	Rating History
NCD (Tenor – 38 Months)	₹ 1000 Cr	BWR AA- (SO) (Stable)	Reaffirmed	March, 2015	BWR AA- (SO) (Stable) (April 2016)
NCD (Tenor – 42 Months and 18 Days)	₹ 1200 Cr	BWR AA- (SO) (Stable)	Reaffirmed	Oct, 2015	BWR AA- (SO) (Stable) (April 2016)

BWR has essentially relied upon the draft term sheet, audited financial results up to FY15 and 9MFY16 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 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 underlying securities.

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.

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

The Company intends to use the proceeds of the NCD towards refinancing of existing debt and general corporate purpose.

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 Structure

The Company has proposed to raise this structured NCD of ₹330 Cr with tenor of 48 months. All repayments, including the coupon, are due at maturity. There will be call and put option 4 months prior to maturity. The NCDs are backed s by way of pledge of equity shares of Adani Ports & Special Economic Zone Ltd(1.6 times), Adani Enterprises Ltd(0.2 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 1.7 times. The structure provides for release of share collateral in case cover is greater than 2.3 times. The Company is required to deposit all amounts payable under the facility (including principal and interest) 15 days prior to maturity. 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 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.

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 being 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 FY15, on a consolidated basis AEL reported total operating income of ~₹ 64582 Crs, while PAT before minority interest stood at ~₹ 2298 Crs. For FY15, on a consolidated basis, AEL had total debt of ~ ₹ 83571 Crs, as against a tangible networth of at ~ ₹ 24441 Crs with a gearing of around 3.42 times. AEL's current stock price is trading in the range of ₹ 70-90, with low of ₹ 65.85 and high of ₹ 803.90 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). ATIL is holding three transmission assets, which are Mundra-Dehgam (400kV double circuit – 430km), Mundra-Mohindergarh-Bhiwani (+/-500kV high voltage double circuit – 990km) and Tiroda – Warora (400kV double circuit – 219km). MEGPTCL is holding Tiroda-Aurangabad transmission asset (765kV single circuit – 1,185km and 765/400kV sub-stations). All the transmission assets under ATIL and MEGPTCL are operational. For FY15, on a consolidated basis, ATL reported total revenue of ~₹135.34 Crs. The net loss for FY15 stood at ~₹6.75 Crs. ATL's current stock price is trading in the range of ₹ 30-37, with low of ₹ 25.00 and high of ₹ 42.80 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, 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 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, 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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