

Rating Rationale

Brickwork Ratings assigns “BWR AA- (SO)” Rating for the Proposed Structured Non-Convertible Debenture issues of ₹ 350 Cr & ₹ 400 Cr of Adani Power Ltd

Brickwork Ratings (BWR) has assigned the **Ratings¹** 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 ₹ 350 Cr (with tenor up to 32 Months and 1 Day) and ₹ 400 Cr (with tenor up to 43 Months and 1 Day). 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, which are reaffirmed, are:

Instruments	Amount (₹ Cr)	Present Rating	Assigned/ Reaffirmed	Issue Date	Rating History
NCD (Tenor – 38 Months)	₹ 751.51 Cr*	BWR AA- (SO) (Stable)	Reaffirmed	March, 2015	BWR AA- (SO) (Stable) (May 2016)
NCD (Tenor – 42 Months and 18 Days)	₹ 1200 Cr	BWR AA- (SO) (Stable)	Reaffirmed	Oct, 2015	BWR AA- (SO) (Stable) (May 2016)
NCD (Tenor – 48 Months)	₹ 330 Cr	BWR AA- (SO) (Stable)	Reaffirmed	May, 2016	BWR AA- (SO) (Stable) (May 2016)

*Amount reduced from 1000 Cr due to part payment

BWR has essentially relied upon the draft term sheet, audited financial results upto FY16 and Q1FY17 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 the issuer, viz., high gearing, substantially increasing receivables mainly on account of compensatory tariff litigations, etc. and reliance on promoter funds or refinance. The ratings also factors in potential liquidation of the underlying securities to meet the payment obligations arising from the proposed NCD issues. High market volatility in the price of underlying equity shares is another aspect that is factored.

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

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. The acquisition of 600 MW Korba plant is under process. The Company intends to use the proceeds of the NCD towards refinancing of existing debt, 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 June 2016, promoters hold 63.12% equity stake in the Company.

NCD Structure - ₹ 350 Cr

The Company has proposed to raise this structured NCD of ₹ 350 Cr with tenor upto 32 Months and 1 Day. Repayments are due at maturity while coupons are payable annually. There is call and put option in Sep 2018. 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(0.2 times) and Adani Transmission Ltd(0.3 times) – overall a cover of 2 times. The Facility will require a top-up if the cover falls below 1.75 times. The structure provides for release of share collateral in case cover is greater than 2.2 times. The Company is required to deposit all amounts payable under the facility (including principal and applicable interest) 15 days prior to maturity. Other covenants are standard terms that are common for issues of this nature.

NCD Structure - ₹ 400 Cr

The Company has proposed to raise this structured NCD of ₹ 400 Cr with tenor upto upto 43 Months and 1 Day. Repayments are due at maturity while coupon are payable annually. There is call and put option in Sep 2019. The NCDs are backed s by way of pledge of equity shares of Adani Ports & Special Economic Zone Ltd(1.5 times), Adani Enterprises Ltd(0.2 times) and Adani Transmission Ltd(0.3 times) – overall a cover of 2 times. The Facility will require a top-up if the cover falls below 1.75 times. The structure provides for release of share collateral in case cover is greater than 2.2 times. The Company is required to deposit all amounts payable under the facility (including principal and applicable 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 FY16, as per consolidated figures, APL reported total revenue of ~₹ 25433 Crs with a net profit of ~₹488 Crs. Till FY16, the Company at the consolidated level has recognized a total compensatory tariff of around ₹ 7000 Crs based on various CERC orders on compensatory tariff/additional compensatory tarrif, 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 Q1FY17, on a consolidated basis, APL registered net loss of ~₹ 34 Crs on total operating income of ~₹5587 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 operates 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 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 while the fixed assets stood at ~ ₹ 20838Crs. APSEZ's current stock price is trading in the range of ₹ 220-270, 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, 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 ₹ 70-85, with low of ₹ 58.20 and high of ₹ 102 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 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 ₹ 35-42, 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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