RATING RATIONALE

21 March 2020

Adani Power Rajasthan Ltd

Brickwork Ratings assigns rating for the Bank Loan Facilities aggregating ₹ 335 Crores of Adani Power Rajasthan Ltd

Particulars

Facility**	Amount (₹ Crs)	Tenure	Rating*
Non-Fund Based	205	Long Term	BWR A-/Stable
	130	Short Term	BWR A2+
Total	**335**	**INR Three Hundred and Thirty Five Crores Only**	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities are provided in Annexure-I

Note: While, the company has other debt facilities, our rating is valid only to the extent of above mentioned non-fund based facilities

Rating Action / Outlook

BWR has assigned ratings of BWR A- (Stable)/A2+ to the bank loan facilities of the company based on positive regulatory events with respect to allowance of compensatory tariff as well as carrying cost pertaining to shortfall in availability of domestic coal and improved operational performance of the company. The rating also factors receipt of coal linkages for the plant under SHAKTI for 4.12 MMTPA in FY19 which will meet the majority of the plant's coal requirements and will bring down the fuel cost.

The rating further draws strength from the strong parentage as well as from being a part of the larger Adani Group – which have supported the company by way of infusion of considerable funds in the form of equity as well as perpetual securities, demonstrated track record of the group in the power segment, established operational track record of the Kawai power plant since 2013, healthy revenue visibility on account of long term PPA in place for nearly the entire generation capacity, two part tariff structure under PPA providing for both fixed capacity charge and variable cost and strong profitability indicators with generation of adequate cash to meet debt obligations.

The ratings, however, are constrained on account of significant pending dues towards compensatory tariff (including carrying cost), timely realization of which is important to strengthen the overall liquidity profile and counterparty risk associated with Rajasthan Discoms for both the receipt of regular dues as well as the large amounts due on account of the compensatory tariffs and carrying cost

The outlook has been kept as Stable as the company's operational performance is expected to remain stable over the medium with availability of adequate accruals to ensure timely debt servicing.

Key Rating Drivers

Credit Strengths:

Strong Promoters and their Demonstrated Support: The company is a wholly owned subsidiary of Adani Power Ltd, Adani Group's flagship company in the thermal power generation segment. The promoters have a long track-record in the power sector and have been supporting the company by way of infusing necessary funds. The promoters have also converted their unsecured loans in the company along with some additional amount into unsecured perpetual securities amounting to Rs. 2200 Crs in FY19. Although the plant is self-sustainable, need based support from the Group has been factored in while arriving at the ratings.

Allowance of Compensatory Tariff for Shortage in Domestic Coal: Post the Supreme Court of India's judgement in the Energy Watchdog matter, the company became eligible to receive compensatory tariff for shortage of domestic coal along with its carrying cost. Till Dec 31, 2019, APRL has raised claims amounting to Rs. 8727 Crs (Compensatory Tariff - Rs. 5174 Crs and Carrying Cost - Rs. 3553 Crs). Against this, the company has already received Rs. 2427 Crs from the Rajasthan Discoms and the balance amount is also expected to be recovered over the period of next two years.

Fuel Linkages Received under SHAKTI: APRL also received fuel linkages under SHAKTI for 4.12 MMTPA in Feb 2018. This meets the majority of the company's coal requirements. For the balance requirement, APRL has an option to purchase e-auctioned coal or procure coal through inter-party transfer mechanism with Adani Power Mundra Ltd. Therefore, the company will now have 100% domestic coal available to run its operations. With this, the company's fuel cost has also come down from Rs. 2.76/kWh in 9M FY19 to Rs. 2.39/kWh in 9M FY20 leading to better operating profitability.

Healthy Revenue Visibility over Long Term: The company has a long term PPA with Rajasthan Discoms for nearly 100% of the company's net generation at 1200 MW for a long term of 25 years lending healthy visibility in terms of revenue. Also, the tariff structure provides for both fixed capacity charge as well as the variable cost, thus, even if the power is not taken up by the offtaker, they will still have to pay for the fixed cost. The company's average revenue per unit has gone up from Rs. 4.15/kWh in 9M FY19 to Rs. 4.43/kWh in 9M FY20 leading to better revenue generation.

Improve Operational Performance: Post receiving coal linkages under SHAKTI, the company's operational performance has also improved. Plant Availability Factor has increased from 70% in 9M FY19 to 86% in 9M FY20 and Plant Load Factor has increased from 62% in 9M FY19 to 69% in 9M FY20. The PLF is further expected to increase considering the increased power demand from Rajasthan Discoms which would translate into higher revenues and cash generation.

Credit Risks:

Significant Dues Outstanding towards Compensatory Tariff and overall Counterparty Risk: The company has power purchase agreement with Rajasthan Discoms which have a relatively weak credit profile. However, the Discoms have been able to manage their dues by way of support from Rajasthan Government and raising debt. While, considering the critical nature of payments to power suppliers, the Discoms are expected to pay the dues however, there can be issues with respect to timeliness of these payments. Also, APRL has considerable pending dues to be recovered from Discoms with respect to compensatory tariff and its carrying cost whose timely realization is important for the overall liquidity of the company.

Analytical Approach and Applicable Rating Criteria

For arriving at the rating, BWR has considered the terms of PPAs, project parameters, audited financials till FY19 and financial projections of the company. Expectation of a timely and need based support from the promoters is also factored in while arriving at the rating. While, the rated facilities are backed by a pledge of shares of ATL and/or APSEZ with a cover of 1.50x, BWR has not derived any credit enhancement from the same, as the pledged shares can only be liquidated after the invocation of BG/devolvement of LC

The methodology applied by BWR is highlighted and mentioned in the end.

Rating Sensitivities

Positive: Improvement in PLF leading to better revenue as well as cash generation and prompt payments from Rajasthan Discoms towards the power dues.

Negative: Delays in receipt of outstanding power supply dues as well as dues with respect to compensatory tariff and carrying cost which can negatively impact the company's liquidity position.

Liquidity Position: Adequate

The company's annual cash accruals are expected to be in the range of Rs. 600-900 Crs (Rs. 563 Crs achieved in FY19) going forward in comparison with the company's annual debt obligation in the range of Rs. 250-400 Crs over the next few years indicating availability of adequate cash flows to meet the debt obligations. APRL expects to pay a significant amount of debt (more than Rs. 1000 Crs) in FY23 on account of realization of past dues of CT which will bring down the overall debt and financial cost of the company.

Company Profile

Adani Power Rajasthan Limited (APRL) incorporated on 25 Jan 2008 is a 100% subsidiary of Adani Power Limited, a publicly listed company in India. The Company is operating a coal based 1320 MW (2*660 MW) Supercritical Thermal Power Project at Kawai Village, Baran District in Rajasthan. Both the units have been operational since May 31, 2013 and Dec 31, 2013 respectively. The entire project was developed at a total cost of Rs. 8773 Crs (Rs. 6.65 Crs/MW) funded by debt and equity in the ratio of 70:30. The company has received coal linkage under SHAKTI from SECL and NCL with a combined capacity of 4.12 MMTPA. Balance requirement is met through inter-party transfer from APMuL or e-auctioned coal. APRL has a long term PPA with RRVUNL. The PPA is for a net capacity (net of auxiliary consumption) of 1200 MW. Therefore, in effect 100% capacity is tied-up

Key Financial Indicators

Particulars	Units	FY18 (A)	FY19 (A)	9M FY20 (UnA)
Revenue from Operations	Rs. Crs	2596.39	3862.85	3650
EBITDA	Rs. Crs	750.27	1148.34	1996
PAT	Rs. Crs	-468.81	80.25	950
Operating Margin	%	28.90	29.73	54.68
Net Profit Margin	%	-18.06	2.08	26.03
Total Debt	Rs. Crs	8742.85	6720.55	6019
Tangible Net Worth	Rs. Crs	181.16	2460.47	3409
Total Debt/TNW	Times	48.26	2.73	1.76

Note: Adjusted ratios have been calculated after taking unsecured loans from promoters as quasi equity. All financials have been reclassified as per BWR standards.

Non-cooperation With Previous Rating Agency If Any: NA

Rating History

Facility	Current Rating			Rating History		
	Tenure	Amount (₹ Crs)	Rating	2018	2017	2016
DSRA BG	Long Term	205	BWR A-/Stable	NA	NA	NA
LC	Short Term	130	BWR A2+			
Total		**335**	**INR Three Hundred and Thirty Five Crores Only**			

Complexity Levels Of The Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference To Applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector

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Adani Power Rajasthan Ltd

Annexure I - Details of Bank Facilities Rated

Lender: Yes Bank		
Facility	**Tenure**	**Amount (Rs. Crs)**
DSRA BG	Long Term	205.00
LC	Short Term	130.00
Total		**335.00**

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