

RATING RATIONALE

19 Sep 2019

Adani Properties Pvt. Ltd.

Brickwork Ratings assigns ratings for the Non-Convertible Debentures aggregating ₹ 450 Crores and reaffirms the existing ratings of Adani Properties Pvt. Ltd. [APPL or the 'Company']

Particulars

Instrument**	Amount (₹ Cr)	Tenure	Rating*
Proposed Non-Convertible Debentures	450	Long Term	BWR Provisional AA- (CE) ** Outlook - Stable

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

**CE refers to Credit Enhancement derived from the security cover of 2.2x by the pledge of listed equity shares of Adani Transmission Ltd. (ATL) (15%), Adani Enterprises Ltd (AEL) (15%) and Adani Ports & SEZ Ltd (APSEZ) (70%), with a T-15 structure. Provisional Rating will affirmed on receipt of executed documentation. As per assessment by BWR, the standalone rating of APPL is A-/A1.

Particulars of the bank loan rating

Instruments	Amount	Present Rating	Rating Action	Rating History (January 2019)
Fund Based – Long Term Loan	₹ 900 Cr	BWR AA-(SO)	BWR AA-(CE) (Reaffirmation)	BWR AA-(SO)
Fund Based – Short Term Loan	₹ 1050 Cr	BWR A1	BWR A1 (Reaffirmation)	BWR A1

**Other outstanding ratings of Adani Properties Pvt. Ltd. which are reaffirmed are:
NCD**

Instruments	Amount	Issue Date	Coupon	Maturity	ISIN	Existing Rating (Jan 2019)	Current Rating (Reaffirmation)
NCD	Rs.400 Cr	16-Jul-2018	Zero Coupon with redemption premium	16-Jul-2021	INE382G07042	BWR AA-(CE) (Stable)	BWR AA-(CE) (Stable)
NCD	Rs.750 Cr	28-Sep-2018	Zero Coupon with redemption premium	27-Apr-2021	INE382G07059	BWR AA-(CE) (Stable)	BWR AA-(CE) (Stable)
NCD	Rs.250 Cr	31-Dec-2018	Zero Coupon with redemption premium	31-Dec-2021	INE382G07067	BWR AA-(CE) (Stable)	BWR AA-(CE) (Stable)

BWR has essentially relied upon the audited financial results upto FY18 and provisional financials for FY19 of the issuer Adani Properties Pvt. Ltd., draft term sheet of the transaction, as well as audited financials of the listed companies - Adani Transmission Ltd (ATL), Adani Ports and Special Economic Zone Ltd. (APSEZ) and Adani Enterprise Ltd. (AEL) whose equity shares are provided as collateral security, and information and clarifications provided by the issuer.

RATING Rationale for the NCD Issue:

The rating factors, *inter alia*, the strength of underlying security in the form of pledge of listed equity shares of APSEZ, AEL and ATL with the current promoter pledge in the range of 29% to 52% across these companies, structure of the NCD, resourcefulness of the promoters of the Company, and financial flexibility of the group.

However, the rating is constrained by moderate fundamentals of the issuer, reliance on promoter funds, refinance or, alternatively, liquidation of the securities - to meet the payment obligations arising from the NCD, market volatility in the price of equity shares of APSEZ, AEL and ATL and the overall high debt levels of the Adani Group.

Structure of the NCD:

The Company has proposed to raise the Rated, Unlisted, Zero-Coupon, Redeemable, Non-Convertible Debentures (“NCDs” or “Debentures” or “Issue”) of Rs.450 Cr. The NCD is expected to have the tenor of 38 months. The NCDs have initial security cover of 2.2x by the



pledge of listed equity shares of APSEZ, AEL and ATL. As per the draft term sheet of the transaction, NCD will require a top-up if the cover falls below 2.0x. The Company is required to deposit all amounts payable under the facility (including principal and accrued premium) 15 days prior to maturity date. This addresses the liquidity aspects to an extent, should there be a need to invoke the sale of collateral. Other covenants are standard terms that are common for issues of this nature.

The company is expected to utilize the proceeds of the NCDs towards refinancing of existing debt.

Security Providers:

APSEZ, ATL and AEL are three of the important listed companies of the Group.

APSEZ is India's largest private port developer and operator, currently operating 10 ports across India. CMP of its shares is Rs. 370 (52 weeks H/L is Rs. 430 and Rs. 294 respectively). As on June 30, 2019, promoters are holding 62.30% of shares of which 32.10% are pledged.

ATL (rated BWR AA+ (Stable)) is India's largest private transmission and distribution company and is involved in setting up and operating power transmission lines through its subsidiary companies and also operates the Mumbai integrated generation, transmission and distribution utility. CMP of its shares is Rs. 233 (52 weeks H/L is Rs. 256 and Rs. 141 respectively). As on June 30, 2019, promoters are holding 74.92% of shares of which 50.37% are pledged.

AEL (rated BWR A1+) is India's largest private coal mine developer and operator with interests in integrated coal management, commodities and power trading, solar cell & module manufacturing and agro-processing (including sale of branded edible oil under the 'Fortune' brand) businesses. CMP of its shares is Rs. 145 (52 weeks H/L is Rs. 181 and Rs. 113 respectively). As on June 30, 2019, promoters are holding 74.92% of shares of which 25.93% are pledged.

Rating Rationale for the Standalone Rating:

The rating has factored, *inter alia*, strong parentage of Adani Group, strategic importance of the Company for being an ultimate holder of sizable investments in listed companies of the group, and significant differential between market value and book value of the investments.

The rating, is however constrained by the fact that APPL is a key promoter holding company which holds investments in a variety of businesses, absence of any meaningful cash flows of its own, need for refinance or promoter support for servicing the debt obligations, and increasing overall debt levels of the Adani Group.



Analytical Approach: BWR has reviewed APPL on a standalone basis, considering the direct as well as indirect interest it has in listed as well as unlisted companies of the Adani Group.

For rating of the NCDs which are secured by the pledge of the securities of the listed entities of the Adani Group, BWR has analyzed the terms of the NCDs, rating of the entities whose shares are pledged as securities and security cover of the transaction. Further, group support is also factored for servicing the rated facilities, for reasons mentioned above.

Key Risk Drivers:

- 1. Key Investment Company of the Group:** APPL is basically a strategic investment company of the reputed Adani group. In FY17 it has transferred its holding in listed entities of the group to a Limited Liability Partnership, where it is a 98% partner and balance is held directly by promoters. Apart from this, APPL also has direct or indirect investments/control over group companies dealing with diversified businesses.
- 2. High Market value of investments in listed companies:** The differential between the Market value and Book value of the underlying investments in listed companies of Adani Group, is substantial and adds to the real networth of the Company.
- 3. Increasing overall debt levels of the Adani Group:** Overall debt level of the Adani Group has been increasing on account of new initiatives as well as inorganic growth undertaken across businesses by the Group, given the significantly capital intensive infrastructure nature and long gestation period of most of these businesses. However, at an overall Group level, the debt is adequately covered through committed cash-flows across the strong businesses. For the equity requirements of new businesses and support requirements for existing businesses, the promoters largely rely on dividends from strong businesses and raising additional funds through pledge of their equity shares in the listed companies. Servicing of some of this debt largely depends on refinancing options, given the growth that the group is undertaking. Servicing of some of this overall debt depends on refinancing.

Rating Outlook: Stable

BWR believes the Adani Properties Pvt. Ltd's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Negative' if the stand-alone financial risk profile of the company deteriorates, or the 'structure' based on which the credit enhancement is derived



weakens. This includes, and not limited to revenues and profitability of AT and market value of shares pledged.

Background:

APPL, belonging to the Adani Group of companies, was incorporated in May 1995. APPL is mainly engaged in the business of let-out and/or lease of immovable properties and wholesale trading of commodities. APPL is a part of promoter and promoter group of all the listed entities of Adani Group and holds strategic investments in Adani Enterprise Ltd., Adani Ports and SEZ Ltd., Adani Power Ltd., & Adani Transmission Ltd through LLPs. APPL has also invested in unlisted group companies which are mainly engaged in real estate, renewable energy and financial services business.

Mr. Karan Adani (Son of Mr. Gautam Adani) and Mr. Pranav Adani (nephew of Mr. Gautam Adani) are members of the Board of Directors of APPL. They are supported by highly qualified and professional management team.

Financial Performance of the Issuer - APPL

Rs. Cr	FY16	FY17	FY18
	(Audited)	(Audited)	(Audited)
Total Operating Income	207.2	367.26	346.25
OPBDIT	-4.6	200.01	172.22
PAT	42.3	4.7	-10.56
Total Debt	1382.1	2179.3	3145
Networth	6330.3	3419.2	3405
Total Debt to Equity (Excluding Contingent Liabilities)	0.2	0.6	0.9
Contingent Liabilities (Corporate Guarantees)	5498.0	4950.0	3029
Total Debt to Equity (Including Contingent Liabilities)	1.1	2.1	2.0

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY : NA

RATING HISTORY

Sl. No.	Instrument/Facility	Current Rating (Year 2019)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs Crs)	Rating	December 2018	2017	2016
1.	NCD	Long Term	450	BWR Provisional AA-(CE) (Stable)			
2.	Bank Loan	Long Term	900	BWR AA- (CE) (Stable)			
3.	NCD	Long Term	250	BWR AA- (CE) (Stable)	BWR AA-(SO) (Stable)	-	
4.	NCD	Long Term	750	BWR AA- (CE) (Stable)	BWR AA-(SO) (Stable)	-	
5.	NCD	Long Term	400	BWR AA- (CE) (Stable)	BWR AA-(Stable)	-	
6.	Bank Loan	Short Term	1050	BWR A1	BWR A1	-	-
Total			3800				

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](#)
- [Structured Obligation](#)
- [Short term Debt](#)



Analytical Contacts	Investor and Media Relations
[Name of the Lead Analyst] Primary Analyst [Board: Ext:] [Email Address] [Name] [Assoc. Director / Director/ Sr. Director – Ratings] Board: [Email Address]	M : +91 7738875550 B : +91 22 6745 6666 investordesk@brickworkratings.com

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