

Rating Rationale

Brickwork Ratings assigns ‘BWR AA- (SO)’ Rating for the Proposed Structured Non-Convertible Debenture issue of ₹ 500Cr to Adani Properties Pvt. Ltd

Brickwork Ratings (BWR) has assigned the **Rating¹** of BWR AA-(SO) [Pronounced BWR Double A Minus (Structured Obligation)] (**Outlook: Stable**) for Adani Properties Pvt. Ltd.’s (**APPL or the ‘Company’**) proposed NCD issue of ₹ 500 Cr with tenor of 15 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.

BWR has essentially relied upon the draft term sheet outlining the structure of the deal, audited financial results up to FY15 of the issuer APPL as well as audited financials of Adani Ports & Special Economic Zone Ltd (APSEZ) 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 and Adani Transmission Ltd, structure of the proposed NCD issue, resourcefulness of the promoters of the Company, strategic investments by APPL 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 proposed NCD issue, market volatility in the price of equity shares of Adani Ports & Special Economic Zone Ltd and Adani Transmission Ltd, contingent liability of APPL and the current challenging environment faced by the economy, in general.

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 into Adani Enterprise, Adani Ports and SEZ, Adani Power & Adani Transmission. APPL has also invested in unlisted group companies which are mainly engaged in real estate and green energy business. Adani Group has completed scheme of demerger to simplify the corporate structure of the group, as also unlock the value of its various businesses.

The Company intends to use the proceeds of the NCD towards Refinancing/Capex/Transaction expenses/ Investment in equity (group companies)/onward lending to group companies/ General corporate purposes.

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

APPL - Board of Directors and Shareholding

Mr. Karan Adani & Mr. Pranav Adani are the Directors of APPL. As of Dec 2015, Mr. Karan Adani holds 15.59% equity stake in the Company, while rest is majorly with Adani Commodities and S B Adani Family Trust.

NCD Structure

The Company has proposed to raise this structured NCD of ₹500 Crs with tenor of 15 months. All repayments, including the coupon, are due at maturity. There is call/put option at 12th month and 16 days. The NCDs are backed s by way of pledge of equity shares of Adani Ports & Special Economic Zone Ltd(1.6 times), and Adani Transmission Ltd(0.4 times) – overall a cover of 2 times.

The Facility will require a top-up within two days if the cover falls below 1.8 times for three consecutive business days and top-up within two days if cover falls below 1.75 times any business day. Also, APSEZ cover of 1.6 times will have mutually agreed top up requirements. The structure provides for release of top up share collateral in case cover is greater than 2.2 times for a consecutive period of 5 days. The Company is required to deposit all amounts payable under the facility (including principal and interest) 15 days prior to maturity or call/put option date. Also the company has a voluntary redemption option 15 days prior to maturity and call/put option date. Other covenants are standard terms that are common for issues of this nature.

Financials of Adani Properties Pvt. Ltd:

For FY15, APPL reported net sales of ~₹ 107 Crs with a net profit of ~₹ 12 Crs. For FY15, APPL had total debt of ~ ₹ 775 Crs, as against a tangible networth of at ~ ₹ 3300 Crs. For FY15, the company has significant non-current investments of ~₹ 2876 Crs. For 9MFY16, as per provisional figures, APPL registered net profit of ~₹ 9 Crs on net sales of ~₹ 58 Crs.

Background of Adani Ports & Special Economic Zone Ltd (APSEZ), whose Equity shares are pledged

Incorporated in 1998, 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. It was initially named Mundra Port & Special Economic Zone Ltd and changed to Adani Ports and Special Economic Zone Ltd in 2012. 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. It operates ports at Mundra, Dahej, Hazira, Dhamra, and Terminals at Kandla, Mormugao, Vizag and Ennore. APSEZ has 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. For FY15, on a consolidated basis, APSEZ had total debt of ~ ₹ 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 ₹ 210-230, with low of ₹ 207.15 and high of ₹ 374.80 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. For FY15, on a consolidated basis, ATL had total debt of ~ ₹ 8898 Crs, as against a tangible networth of at ~ ₹ 769 Crs with a gearing of around 11.57 times. ATL's current stock price is trading in the range of ₹ 30-40, with low of ₹ 25.00 and high of ₹ 42.80 during the past one year.

Rating Outlook

The rating captures the APPL's strategic investments in key Adani Group entities, current financial flexibility of Adani group, the NCD structure which involves pledge of APSEZ & ATL equity shares provided as security, and performance of APSEZ and 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 or call/put option date. 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 and 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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