Rating Rationale

Adani Rail Infra Pvt. Ltd.

25 Sep 2018

Brickwork Ratings reviews and assigns Rating to the NCD Issue of Rs.1000 Cr of Adani Rail Infra Pvt. Ltd. and reaffirms the existing ratings.

Particulars

Instrument	Amount (Rs. Crs)	Tenor	Rating Assigned*
NCD	**1000 (Rs. One Thousand Crore Only)**	**Long Term**	**BWR AA- (SO) [Pronounced as BWR Double A Minus (Structured Obligation)] Outlook – Stable**

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

SO refers to Structured Obligation which indicates credit enhancement derived from the security cover of 2x by the pledge of listed equity shares of Adani Ports and Special Economic Zone Ltd. (APSEZ) and Adani Transmission Ltd. (ATL).

Other outstanding NCD ratings of Adani Rail Infra Pvt. Ltd reaffirmed are:

Instruments	Amount	Issue Date	Coupon	Maturity	ISIN	Existing Rating (August 13 2018)	Current Rating
NCD (1)	₹ 480 Cr	18-Jul-2018	Zero Coupon with redemption premium	16-Apr-2020	INE00U207010	BWR AA-(SO) (Stable)	Reaffirmation of existing rating BWR AA- (SO) (Outlook: Stable)
NCD (1)	₹ 390 Cr	1-Aug-2018	Zero Coupon with redemption premium	7-Apr-2019	INE00U207028	BWR A1+ (SO)	Reaffirmation of existing rating BWR A1+ (SO)
NCD (2)	₹ 300 Cr	6-Aug-2018	Zero Coupon with	27-Apr-2020	INE00U207036	BWR A+(SO) (Stable)	Reaffirmation of existing rating BWR A+ (SO) (Outlook: Stable)

			redemption premium				
NCD [2]	₹ 625 Cr	23-Aug-2018	Zero Coupon with redemption premium	27-Apr-2020	INE00U207044	BWR A+(SO) (Stable)	Reaffirmation of existing rating BWR A+ (SO) (Outlook: Stable)
NCD [3]	₹ 1200 Cr	under novation	Zero Coupon with redemption premium			Provisional BWR AA-(SO) (Stable)	Reaffirmation of existing rating Provisional BWR AA-(SO) (Outlook: Stable)

(1) SO refers to Structured Obligation which indicates credit enhancement derived from the security cover of 2.0x by the pledge of listed equity shares of APSEZ, ATL and AEL
(2) SO refers to Structured Obligation which indicates credit enhancement derived from the security cover of 3.0x by the prospective pledge of listed equity shares of Adani Gas Ltd. (AGL) within 30 days of its listing. During the interim period (from the date of issue till 30 days after the listing of AGL shares), the NCDs are secured 2.0x by the pledge of listed equity shares of APSEZ and ATL.
(3) SO refers to Structured Obligation which indicates credit enhancement derived from the security cover of 2x by the pledge of listed equity shares of APSEZ. Provisional rating assigned will be confirmed once the issuer shares with BWR executed legal documents including, but not limited to, the Deed of Novation.

Outstanding Bank Loan Rating which is reaffirmed, is as follows:

Facility*	**Previous Limits**	**Limits (` Crs)**	**Tenure**	***Previous Rating (August 13, 2018)***	***Rating based on current review (Reaffirmation)***
Bank Term Loan	500.00	435.00	**Long Term**	**BWR AA- (SO)** (Pronounced as Double A Minus) **Outlook - Stable**	**BWR AA- (SO)** (Pronounced as Double A Minus) **Outlook - Stable**

SO refers to Structured Obligation which indicates credit enhancement derived from the security cover of 1.5x by the pledge of listed equity shares of APSEZ.

Rationale / Description of Key rating drivers / Rating Sensitivities:

BWR has essentially relied upon the draft term sheet outlining the structure of the NCD, audited financial results upto FY17 and provisional financials of FY18 of the issuer - Adani Rail Infra Pvt. Ltd. (ARIPL), audited financial results of FY17 and FY18, 1QFY19 financials of APSEZ and ATL whose equity shares are provided as security, and information and clarifications provided by the issuer.

The rating factors, *inter alia*, the strength of underlying security in the form of pledge of listed equity shares of APSEZ and ATL, 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 and ATL, and the overall high debt levels of the Adani Group.

Structure of the NCD – Rs.1000 Cr:

The Company has proposed to raise NCDs of Rs.1000 Cr maturing in April 2023. This are zero coupon NCDs and are secured 2.0x by the pledge of equity shares of APSEZ and ATL.

It will require a top-up if the cover falls below 1.70 times on any business day. 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. Other covenants are standard terms that are common for issues of this nature.

As per the draft term sheet, the company is expected to utilize the proceeds of the NCDs towards refinancing of debt, towards capex / opex of the issuer, investment in equity of group companies, onward lending to group companies and for general corporate purpose.

Background - ARIPL

Adani Rail Infra Pvt. Ltd. (ARIPL), incorporated in July 2005, is 100% owned by S B Adani Family Trust through its nominees. It is into the business of commodity trading. It is the holding company of "Sarguja Rail Corridor Pvt. Ltd. – Rated BWR BBB+ (Stable). It also raises funds and lends to/invests in group companies.

Sarguja Rail Corridor Private Limited (SRCPL), a wholly-owned subsidiary of Adani Rail Infra Private Limited (ARIPL), is implementing a project envisaging construction of ~ 70 Km Private Siding from boundary of Parsa East & Kanta Basan coal blocks ("PE & KB mines"), located in Hasdeo Arand Coalfield in Surguja district of Chhattisgarh, to the nearest Indian Railway ("IR") line at Surajpur station in Chattisgarh at a cost of Rs. 1982 Cr. The project has been commissioned in March 2018.

Financial Performance of the Issuer - ARIPL

As per FY 18 financials, the company had achieved a turnover of Rs. 138.17 Cr with net loss of Rs. 5.97 Cr. Total debt of FY18 includes a long term bank loan of Rs.435 Cr. Post 31 Mar 2018, ARIPL has contracted additional debt backed by pledge of shares and has extended the same towards and advances to Group companies.

Brief financial details are given below:

Rs. Crore	FY18 (Provisional)	FY17 (Audited)	FY16 (Audited)
Revenue	138.17	142.48	23.98
Operating profit	55.28	49.37	9.07
PAT	-5.97	0.13	-0.01
Total Debt	648.00	629.88	253.62
TNW	52.52	58.49	58.36
Gearing	12.3	10.8	4.3

Rating History for the last three years (including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (Year 2018)			Rating History		
		Type (Long Term/Short Term)	Amount (Rs Crs)	Rating	Date in 2017	Date in 2016	Date in 2015
1.	NCD	Long Term	1000	BWR AA- (SO) (Stable)			
1.	NCD	Long Term	1200	Provisional BWR AA- (SO) (Stable)			
2.	NCD	Short Term	390	BWR A1+ (SO)			
3.	NCD	Long Term	480	BWR AA- (SO) (Stable)			
4.	NCD	Long Term	300	BWR A+ (SO) (Stable)			

5.	NCD	Long Term	625	BWR A+ (SO) (Stable)			
6.	Term Loan	Long Term	435	BWR AA-(SO) (Stable)			
	Total		4430 (Four Thousand Four Hundred and Thirty Crore Only)				

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Structured Obligation
- Short term Debt

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities