RATING RATIONALE

27 Nov 2020

Adani Rail Infra Pvt. Ltd.

Brickwork Ratings reaffirms the rating to the NCD issue aggregating Rs.2363 Cr of Adani Rail Infra Pvt. Ltd. (ARIPL or the "Company")

Particulars

Facility / Instrument	Amt (Rs. Cr)		Tenure	Rating*	
	Previous	Present		Previous (Nov 2019)	Present (Reaffirmation)
NCD	700	700	Long Term	BWR AA- (CE) (Stable) (1)	BWR AA- (CE) (Stable) (1)
NCD	500	500	Long Term	BWR AA- (CE) (Stable) (1)	BWR AA- (CE) (Stable) (1)
NCD	500	500	Long Term	BWR AA- (CE) (Stable) (1)	BWR AA- (CE) (Stable) (1)
NCD	265	265	Long Term	BWR AA- (CE) (Stable) (1)	BWR AA- (CE) (Stable) (1)
NCD	398	398	Long Term	BWR AA- (CE) (Stable) (1)	BWR AA- (CE) (Stable) (1)
Total	**2363**	**2363**	**Rs. Two Thousand Three Hundred and Sixty-three Crore Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I and Annexure-II

(1) CE rating is based on the pledge of shares of Adani Ports and Special Economic Zone Ltd. (APSEZ), Adani Transmission Ltd. (ATL) and Adani Enterprises Ltd. (AEL) with the security cover of 2.0x.

RATING ACTION AND OUTLOOK:

BWR Reaffirms the rating for the NCD issues aggregating Rs.2363 Cr at BWR AA- (CE) with stable outlook.

Standalone Rating of the Company is upgraded from BWR BB (Stable) to BWR BBB- (Stable).

Upgrade in standalone rating factors the reduction in debt in this Company with no repayments due for next 18 months, strategic importance of Adani Rail Infra Pvt. Ltd. (ARIPL) to the Adani Group for being investment arm of the group used for financing the operating companies of the group, strong parentage being part of the Adani Group which enjoys high financial flexibility in domestic as well as international markets, demonstrated

track record of the Group which is a global integrated infrastructure player with businesses in key industry verticals – transport & logistics, and energy & utility, consistent improvement in performance of key business verticals and the significant role played by ARIPL supporting the planned achievement of the group's vision.
The rating is however constrained by the fact that the ARIPL acts only as an investment arm of the Group wherein the debt raised by ARIPL is extended as loans to Group companies, and repayment for the same is expected from either refinancing or strategic equity raise or cash flows of the operating entities, as ARIPL does not have any operating cash flows of its own for debt servicing. Further, the increasing overall debt levels of the group without commensurate increase in the cash-flows will be a monitorable.

For the NCDs aggregating Rs.2363 Cr, the rating factors strength of the underlying securities which is the listed equity shares of Adani Ports and Special Economic Zone Ltd. (APSEZ), Adani Transmission Ltd. (ATL) and Adani Enterprise Ltd. (AEL) and adequacy of promoter holding in each of these listed entities. The rating is however constrained by increase in pledge level of promoters holding in Adani Ports and Special Economic Zone Ltd. (APSEZ) and Adani Transmission Ltd. (ATL) with increase in share pledge debt to around Rs.13,000 Cr expected in this quarter ending December 2020. As per the management, this increase is an interim event for strategic purposes and the overall share pledge debt levels are expected to revert to around Rs.8000 Cr by March 2021 through funds raised by various strategic equity raises at various levels across the infrastructure and utility portfolio of the Group in line with similar deals concluded in past 12 months for around Rs.12,500 Cr. Hence, the pledge position is expected to be at a comfortable level by March 2021.

The "Stable" outlook indicates low-likelihood of rating change in the medium term considering the past trends and current activity level of the Company.

Adequacy of Credit Enhancement: The CE rating is based on the pledge of shares of Adani Ports and Special Economic Zone Ltd. (APSEZ), Adani Transmission Ltd. (ATL) and Adani Enterprises Ltd. (AEL) with a security cover of 2.0x. With the total share pledge debt levels at around Rs.13,000 Cr, the likely share pledge positions are likely to be significantly close to BWR's concern levels of around 50% for entities like APSEZ and ATL. Also, the Group has confirmed that at a portfolio level there is adequate liquidity of more than Rs.7000 Cr to be utilised in case of adverse market movement leading to any further increase in pledge position. Taking all things into consideration, the security available is considered adequate for the credit enhancement.

KEY RATING DRIVERS

Credit Strengths:

Part of the Reputed Group: ARIPL is a part of the Adani Group. The Adani Group, is one of India's leading business houses with revenues of over USD 13 billion, employing over 10,000 people and exploring diverse interests in Transport & Logistics (including Port Development & Operations, Development of Industrial Clusters & Special Economic Zones & Logistics) and Energy & Utility (including thermal and renewable power generation, transmission & distribution, city gas distribution) and other strategic business interests like Solar Manufacturing, Integrated Resource Management & Mining Services, Roads and Real

Estate. The biggest source of competitive advantage for the Adani Group is experienced and highly qualified professionals including technocrats of repute. The team has demonstrated capabilities in conceptualization and implementation of large projects, excellent records of establishing benchmarks in the industry. The group has a rich and extensive experience of execution, implementation and operating large infrastructure projects.

Financial Flexibility of the Group: The Group has a demonstrated track-record of successfully tapping global as well as domestic market for raising debt as well as equity capital across various businesses. Over last 18 months, the Group has raised around USD 5 billion from global debt capital markets and around USD 1.8 billion from 3 strategic equity partnerships with international players like Total SA of France and Qatar Investment Authority. Furthermore, group has six listed entities with promoters having majority equity stakes, providing significant financial flexibility to raise resources on a need basis. The aggregate market capitalisation of all the six listed entities was Rs.279,106 Cr, of which market value of promoter holdings was Rs.193,480 Cr as on September 30, 2020.

Strategic Importance of ARIPL to the Group: 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 and is the holding Company of "Sarguja Rail Corridor Pvt. Ltd. – Rated BWR A (Positive). ARIPL also acts as an investment arm of Adani Group without any significant cash-flows of its own and raises debt through pledge of promoter's shares and infuses these funds into other group companies. The repayment of these loans is dependent on the cash-flows of the operating entities of the group, dividend or interest payouts, or refinancing. ARIPL redeemed around Rs. 2590 Cr NCDs rated by Brickworks in FY21 through funds infused by Group companies including promoters.

Credit Risks:

Increase in share pledge debt thereby increasing pledge position: With outstanding share pledge debt of the group at around Rs.13,000 Cr, the pledge position is around 45% of promoter's holdings for APSEZ, around 40% for ATL, around 21% for AEL and around 6% for AGEL. Any adverse movement in market conditions will lead to increase in pledge position. Since, the management plans to reduce the share pledge debt to Rs.8000 Cr by March 2021, the current increase in pledge position is expected to be an interim affair.

Insufficient cash flows for debt servicing: ARIPL only acts as a holding Company without any operations of its own. Rated debts raised in ARIPL have been used for refinancing as well to extend loans to Group companies. Repayment of these loans is expected to be done through support from one or more of these Group companies or refinancing or strategic equity raise by the holding companies.

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 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 the overall Group level, the debt is adequately covered through free cash-flows generation across the strong businesses. As on March 31, 2020, the external Debt to EBITDA was around 5.0x which is expected to increase in near future for higher capex requirements in new projects to be undertaken in AEL as well as AGEL. Out of the total debt of the group, around 7-8% is secured by pledge of listed equity shares of the group companies, and the Group plans to repay this in full by December 2021. 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. Over the last few months, the Group has also undertaken some strategic equity raise through dilution of shareholding in various assets like AGL, AGEL, and AEML.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

Unsupported rating of ARIPL is based taking into account Group support. The rating of the NCDs are 'CE' ratings, based on the security cover of the in the form of listed equity shares of the group companies.

For arriving at the ratings, BWR has factored group support for servicing the rated facilities, for reasons mentioned above. Please refer to the applicable rating criteria at the end.

RATING SENSITIVITIES

Positive: Reduction in share pledge debt with improvement in promoter pledge position to 25% for each of the listed entities will be credit positive.

Negative: Increase in promoter pledge in any listed entity by more than 50% and more than Rs.8000 Cr of outstanding share pledge debt as on March 31, 2021 will be credit negative.

LIQUIDITY POSITION (WEAK):

As on September 30, 2020, the Company had cash and cash equivalent of Rs.0.1 Cr. The Company does not have any repayments or interest service obligations due in next 18 months. This being an investment arm of the group, debt servicing is dependent on cash flows from operating companies or strategic refinancing. Further, at a group level, an overall liquidity of at least Rs.7000 Cr is maintained at any point of time.s

STRUCTURE OF THE NCDs aggregating Rs.2363 Cr:

The NCDs raises are Rated, Unlisted, Zero-Coupon, Redeemable, Non-Convertible Debentures ("NCDs" or "Debentures" or "Issue") for the strategic purposes. The NCDs have initial security cover of 2.0x by the pledge of listed equity shares of APSEZ, ATL and AEL. 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.

Company PROFILE

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 A (Positive).

Security Providers:

Adani Transmission Ltd. (ATL):

Adani Transmission Ltd (ATL), incorporated in 2015, is the transmission and distribution (T&D) business arm of the Adani Group. The shareholding is held 74.9% by the Promoters and promoter group and balance 25.1% by the general public. It is the country's largest private-sector transmission Company with a cumulative transmission network of more than 14,739 ckt kms ranging from 220 KV to 765 KV with a power transformation capacity of more than 23000 MVA. ATL also operates a distribution business serving about 3 million+ customers in Mumbai, through its subsidiary Adani Electricity Mumbai Ltd.
CMP of its shares is Rs. 380.25 (52 weeks H/L is Rs. 380.25 and Rs. 160 respectively). As on date, promoters are holding 74.92% of shares of which 39.5% are pledged.

Adani Ports and Special Economic Zone Ltd (APSEZ):

APSEZ is the largest private port developer and operator in the country with operations across 10 ports (nine operational) in India. It handled around 22% of the country's cargo volumes in FY20. The Company has strategically located high-quality assets, with an average remaining concession life of 25 years (except Mundra port).
CMP of its shares is Rs. 392.25 (52 weeks H/L is Rs. 392 and Rs. 200 respectively). As on date, promoters are holding 62.46% of shares of which 45.04% are pledged.

Adani Enterprises Ltd. (AEL):

Incorporated in 1993, AEL is a part of the Adani Group, promoted by Mr. Gautam Adani.

On a standalone basis, the Company is primarily engaged in Integrated Coal Management (ICM) i.e coal trading and logistic services, Coal Mine Developer & Operator (MDO) business and power trading business. AEL has diverse interests through its direct and stepdown subsidiaries. On a consolidated basis AEL has evolved into a diversified Company engaged in other businesses including Solar PV cell and module manufacturing business, agro-processing (including sale of edible oil under the brand name `Fortune') & storage, commodities trading and oil & gas exploration. AEL is also entering new businesses like road projects, water treatment plants, data center and airports.

CMP of its shares is Rs. 407.20 (52 weeks H/L is Rs. 407.2 and Rs. 250 respectively). As on promoters are holding 74.92% of shares of which 21.45% are pledged.

KEY FINANCIAL INDICATORS (in INR Crs) –

Borrower - ARIPL

ARIPL	FY19	FY20
Rs. Cr	**Audited**	**Audited**
Total Income	602	1643
Operating Profit	276	818
Net Profit	-34	-75
Total Debt	7767	7380
CCDs included in Total Debt	2341	2340
Net Debt	**5426**	**5040**
TNW	27	-48

Security Provider – ATL

	Consolidated			
Rs. Cr	**FY19**	**FY20**	**1HFY20**	**1HFY21**
	Audited	**Audited**		
Total Operating income	7561	11681	5446	4602
EBITDA	3017	4751	2120	2071
PAT	559	706	444	570
Tangible Networth	6468	7974		7827
Total Debt	20137	23526		21782
Gearing	3	3		3

Security Provider – APSEZ

	FY19	FY20	1HFY20	1HFY21
Total Operating Income	12288	13734	5616	5195
EBITDA	7954	7801	4561	4186
Net Profit	4045	3785	2088	2151
Total Debt	27188	29462		34367
Loan from Promoters				
Net Debt	27188	29562		34367
Tangible Networth	19408	20577		22840
Gearing	1.4	1.4		1.5

Security Provider – AEL

Adani Enterprises Ltd.	Consolidated			
Rs. Crore	**FY19**	**FY20**	**1HFY20**	**1HFY21**
Total Income	40951	44086	19312	14814
EBITDA	2541	2968	1436	1252
Net Profit	717	1138	560	370
Total Debt	11242	9838		12419
Tangible Net Worth	11891	14212		13594
Gearing	0.9	0.7		0.9
Current Ratio	1	1		1.01

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY

Sl. No.	Instrument/Facility	Current Rating (Year 2020)				Nov-19	Mar-19	Sep-18	Jun-18
		Type (Long Term/Short Term)	Amount (Rs Crs)	Nov-20	Apr-20				
1	NCD	Long Term	398	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)			
2	NCD	Long Term	700	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)			
3	NCD	Long Term	500	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)	BWR AA-(CE) (Stable)	BWR AA-(CE) (Stable)		
4	NCD	Long Term	500	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)	BWR AA-(CE) (Stable)	BWR AA-(CE) (Stable)		
5	NCD	Long Term	265	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)	BWR AA-(CE) (Stable)	BWR AA-(CE) (Stable)		
	Total		2363	Two Thousand Three Hundred Sixty Three Crore Only					

					2019		2018	
Sl. No.	**Instrument/Facility**	**Current Rating (Year 2020)**			**Sep-19**	**Mar-19**	**Sep-18**	**Jun-18**
		Type (Long Term/Short Term)	Amount (Rs Crs)	Rating				
1	NCD	Long Term	54	Withdrawn	BWR AA- (CE) (Stable)			
2	NCD	Long Term	48	Withdrawn	BWR AA- (CE) (Stable)			
3	NCD	Long Term	85	Withdrawn	BWR AA-(CE) (Stable)	BWR AA-(CE) (Stable)		
4	NCD	Long Term	1000	Withdrawn	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)	
5	NCD	Long Term	480	Withdrawn	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)	BWR AA- (CE) (Stable)
6	NCD	Long Term	299	Withdrawn	BWR A+ (CE) (Stable)	BWR A+ (CE) (Stable)	BWR A+ (CE) (Stable)	BWR A+ (CE) (Stable)
7	NCD	Long Term	624	Withdrawn	BWR A+ (CE) (Stable)	BWR A+ (CE) (Stable)	BWR A+ (CE) (Stable)	BWR A+ (CE) (Stable)

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to applicable Criteria

- **Approach to Financial Ratios**
- **General CriteriaCriteria on Credit Enhancement**
- **Ratings Based on Group Support**

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ARIPL

ANNEXURE I

Annexure II
Details of the NCDs rated by BWR

Instrument	ISIN	Amt (Rs. Cr)	Pay-in Date	Maturity	Coupon
NCD	INE00U207127	398	26-Sep-19	29-Apr-22	Zero Coupon with Premium Redemption
NCD	INE00U207133	700	05-Jul-19	05-May-23	Zero Coupon with Premium Redemption
NCD	INE00U207077	265	29-Mar-19	07-Apr-22	Zero Coupon with Premium Redemption
NCD	INE00U207069	500	29-Mar-19	29-Apr-23	Zero Coupon with Premium Redemption
NCD	INE00U207093	500	29-Mar-19	29-Apr-23	Zero Coupon with Premium Redemption
Total		**2363**			

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