Rating Rationale

Adani Rail Infra Pvt. Ltd.

20 Jun 2018

Brickwork Ratings assigns Rating to the NCD Issue of Rs. 700 Crore of Adani Rail Infra Pvt. Ltd. and reaffirms the rating of the bank loan of Rs.500 Cr.

Particulars

Instrument	Amount (Rs. Crs)	Tenor	Rating Assigned*
NCD	700 (Rs. Seven Hundred Crore Only)	**Long Term**	**BWR A+ (SO) (Pronounced as A Plus (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 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 the shares of AGL are listed), the NCDs are secured 2.0x by the pledge of listed equity shares of Adani Ports and Special Economic Zone Ltd. (APSEZ – 1.5x) and Adani Transmission Ltd. (ATL – 0.5x).

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

Facility*	Previous Limits	Limits (` Crs)	Tenure	*Previous Rating (March 2018)*	*Rating based on current review (Reaffirmation)*
Bank Term Loan	500.00	500.00	**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 deal, 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 provisional financials for FY18 of AGL whose shares will be pledged after its listing, along with audited financials of ATL / APSEZ, whose equity shares are provided as security during the interim period, 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 ATL / APSEZ during the interim period till the listing of AGL, pledge of listed equity shares of AGL after listing, 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 ATL / APSEZ, timely listing of AGL and the overall high debt levels of the Adani group.

Analytical Approach:
The Company is raising an NCD of Rs.700 Cr maturing in April 2020. This NCD is expected to be secured by 3.0x cover of listed shares of AGL, which is expected to be listed in Q3FY19. During the interim period, this NCD will be secured by 2.0x cover of listed equity shares of APSEZ (1.5x) and ATL (0.5x). APSEZ and ATL shares will be replaced with AGL shares post 30 days of its listing. Presently AGL is rated A+ by a Credit Rating Agency, and BWR expects this rating to hold post AGL's listing. The rating on Rs.700cr NCDs is sensitive to the credit rating of all the companies, whose shares are pledged.
The rated facility will require a top-up if the cover falls below 1.75 times on any business day, in case of pre-substitution. After substitution of APSEZ and ATL shares with AGL shares (post listing), top-up will be required if the cover falls below 3.0x 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 issuances of this nature.

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).

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.

Adani Gas Ltd. (AGL):

Adani Gas Limited (AGL), incorporated in 2005, is 100% subsidiary of Adani Gas Holdings Ltd. (AGHL), which in turn is 100% subsidiary of Adani Enterprise Ltd. (AEL). AGL is into city gas distribution (CGD) business which involves marketing and distribution of natural gas (piped and compressed). AGL currently supplies piped natural gas (PNG) to industrial, commercial, domestic customers and compressed natural gas (CNG) to transport sector in the areas of Ahmedabad, Vadodara, Faridabad and Khurja. In addition, the firm has won the contracts for gas distribution in Allahabad, Chandigarh, Ernakulam, Panipat, Daman, Dharwad, Udhamsingh Nagar, South Goa and Buland Shahr in a joint venture with state-owned Indian Oil Corp. Ltd. The company currently has a pipeline network of over 5,000km.

In January 2018, AEL's Board has decided to demerge its gas sourcing and distribution business. Under the composite scheme of arrangement, AEL has announced a merger of Adani Gas Holdings Ltd. with Adani Gas Ltd. and subsequent demerger of Adani Gas Ltd. from AEL. AGL is expected to be listed on stock exchanges post completion of the merger / demerger transaction by Q3FY19.

Financial Performance of the Issuer - ARIPL

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

Financial Performance of AGL:

Rs. Crore	FY18 (Provisional)	FY17 (Audited)	FY16 (Audited)
Revenue	1394	1203	1233
Operating profit	374	318	288
PAT	173	101	81
Total Debt	348	563	475
TNW	888	715	585
Gearing	0.4	0.8	0.8

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	700	BWR A+ (SO) (Stable)			
2.	**Term Loan**	**Long Term**	**500**	**BWR AA-(SO) (Stable)**			
	Total		**1200 (Rupees Twelve Hundred Crore Only)**				

Hyperlink/Reference to applicable Criteria

- [General Criteria]
- [Approach to Financial Ratios]
- [Structured Obligation]

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 ₹ 11,99,663 Cr. In addition, BWR has rated over 6819 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹48,803 Cr have been rated