Rating Rationale

Adani Transmission Ltd.

18 Jan 2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 300 Crore of Adani Transmission Ltd. and revises the outlook from “Rating Watch with Developing Implications” to “Stable”.

Particulars

Facility	Amt Rated (Rs. Cr)		Previous Rating (August 1, 2018)	Rating Based on Current Review
	Previous	Present		
Bid Bond Bank Guarantees (Tenor upto 1 year)	300	300	BWR A1+	BWR A1+
Cash Credit (Sub-limit)	(100)	(100)	BWR AA+ (Rating Watch with Developing Implications)	BWR AA+ (Stable)
Performance Bank Guarantee (Max tenor upto 3 years)	(200)	(200)		
Letter of Credit / Buyer's Credit (Max tenor upto 3 years)	(100)	(100)		
Total	**300**	**300 (Rupees Three Hundred Crore Only)**		

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

BWR has essentially relied on audited financials of Adani Transmission Ltd. (ATL) upto FY18, 1HFY19 consolidated financials after take-over of Adani Electricity Mumbai Ltd. (AEML), consolidated and standalone projections of ATL, sanction terms and conditions of the facilities, publicly available information and other information and clarifications provided by the company.

The change in outlook follows completion of acquisition of Mumbai Generation, Transmission and Distribution (GTD) business from Reliance Infrastructure Ltd (R-Infra) following the receipt of necessary regulatory and statutory approvals on Augus29, 2018. The acquisition is housed in Adani Electricity Mumbai Ltd (AEML), a newly formed entity & a 100% subsidiary of ATL. Consequently, the financials of the acquired business have been consolidated with the financials of ATL for Q2FY2019.

The revision in outlook factors the satisfactory consolidated financial profile of ATL after consolidation of AEML, wherein though the debt and gearing have increased, increase in operating EBITDA is sufficient to maintain the existing debt protection metrics at adequate level.

The rating continues to factor satisfactory financial parameters (consolidated) of ATL including growth in revenue and net profits, ready access to domestic and international debt market, stable and favorable regulatory environment for transmission projects wherein revenues are based on cost plus tariff, which provides long term cash flow visibility and certainty. The rating also derives strength from the fact that the company has demonstrated a transmission line availability of higher than normative availability requirement.

The rating is however, constrained by the fact that ATL is basically a holding company with operations and revenues happening in the subsidiaries/SPVs, potential increase in debt level due to inorganic expansion plans of the company coupled by Group's aggressive strategy of going ahead with multiple projects simultaneously which would affect group level debt and gearing, and any challenges to the recently effected tariff revision for the power distributed by AEML at Mumbai.

Analytical Approach: BWR has analyzed consolidated financials while assigning the ratings to ATL which is the holding company of the power transmission business. - BWR has also taken note of the fact that rated facilities include Bank Guarantee which are issued for ongoing business requirements of ATL and its subsidiaries.

Key Risk Drivers for rating: With all the regulatory and statutory approvals in place, the final transfer of Integrated Business of Generation, Transmission, Distribution and retail of power for Mumbai City from R-Infra to ATL was completed in August 2018. The total consideration of Rs.12350 has been funded by Debt of Rs.8500 Cr, promoter contribution in the form of perpetual securities of Rs.3054 Cr and remaining via interval accruals

Successful Consolidation of AEML: ATL has successfully completed acquisition of Generation, Transmission and Distribution assets of Reliance Infra in August 2018 and housed it as separate SPV named – Adani Energy Mumbai Ltd. ATL published 1HFY19 financials after consolidation of one month's financials of AEML. For 1HFY19, ATL incurred revenue of Rs. 1723 Cr, EBITDA of Rs. 1204 Cr and Net profit of Rs. 265 Cr in which AEML's contribution was Rs. 650 Cr, Rs.195 Cr and Rs. 21 Cr, respectively. Though with incremental debt of Rs. 9302 Cr (Rs.8500 Cr long term loan with the tenor of 15 years +

Rs.560 Cr of short term loan + working capital limits) of AEML, ATL's consolidated gearing increased to 3.1x as on Sep 30, 2018, debt protection metrics continues to be in satisfactory range with ISCR of 2.1x and DSCR of 1.23x for 1HFY19. Operating cashflows of AEML is considered to be sufficient to bear the incremental debt burden of ATL and is not expected drag the operating cash flows of ATL in the medium term.

Satisfactory Financial Performance: For FY18, at consolidated level, ATL generated total revenue of Rs. 3944 Cr (P.Y Rs.2875 Cr), operating profit of Rs. 2826 Cr (P.Y Rs. 1984 Cr) and Net Profit of Rs. 1143 Cr (P.Y Rs. 416 Cr.). Tariff approval for interstate assets (Mundra-Dehgam and Mundra-Mohindergarh-Bhiwani lines) by Central Electricity Regulatory Commission (CERC) has led to a tariff increase, which led to increase in overall revenue. ATL recovered arrears of around Rs.900 Cr in FY18 as consequence of the CERC order. Even for 1HFY19, at consolidated level, ATL earned revenue of Rs. 1723 Cr (P.Y Rs. 956 Cr), Operating Profit of Rs. 1204 Cr (P.Y Rs. 891 Cr) and Net Profit of Rs.265 Cr (P.Y Rs. 151 Cr). 1HFY19 financial results included results of AEML for a period of around 1 month (from Aug 29, 2018).

Tariff order for cost-plus based projects provides cash-flow visibility: The 'cost-plus' nature of tariff for the four major transmission lines housed under two wholly-owned subsidiaries of ATL viz. Adani Transmission India Ltd (ATIL) and Maharashtra Eastern Power Transmission Company Ltd (MEGPTCL) as well as for the Mumbai GTD business provide regulated returns (15.5% post tax) subject to ensuring the costs and availability within the normative parameters, as per the approved tariff orders - provides cash flow visibility. Further, demand risk is low as transmission lines are part of inter-state and intra-state grid network.

Financial Flexibility: The Company has demonstrated its debt raising abilities through different debt instruments such as INR denominated Masala Bond, offshore USD denominated bond as well as non-convertible NCDs of varying maturities in the past 2-3 years.

Satisfactory operating track record of transmission lines: The line availability of all the operational transmission lines has been higher (~99%) than the normative levels of (95/98%).

No Counterparty Risk: The counterparty credit risk is low due to the pooling benefit associated with Point of Connection (PoC) mechanism where the Power Grid Corporation of India Ltd contributing ~36%

of total tariff revenue for ATL in FY2018, is the central transmission utility (CTU). PGCIL is responsible for collecting the transmission charges from the beneficiary users and disbursing the same to inter-state transmission licensee.

ATL, being a holding company does not have any operating cash-flows: Adani Transmission Ltd., on a standalone basis, is a holding company of various operating subsidiaries, apart from some trading activity. As such, cash flows in ATL are essentially dependent on the cash inflows by the operating subsidiaries. This mainly includes interest on SPVs' borrowings from the holding company, or repayment of loans availed.

Increase in debt level with inorganic growth: Total consolidated debt of ATL is Rs. 19848.31 Cr as on September 30, 2018 with gearing of2.87x. ATL has further announced the acquisition of KEC Bikaner Sikar Transmission Private Limited (KBSTPL) having operational Transmission lines of ~ 344 Ckt Kms. This transaction is preliminary in nature and value and funding pattern is not yet finalized.

Increasing overall debt levels of the Adani Group: Overall debt level of Adani Group is continuously increasing on account of new initiatives, inorganic growth, etc. Some of the debt servicing depends on refinancing options.

Rating Outlook: Stable

BWR has changed the Outlook to "Stable" from "Rating watch with Developing Implications" after completion of transaction relating to acquisition of Mumbai generation, transmission and distribution business of Reliance Infrastructure limited (RInfra) for a total consideration of Rs. 12,101 crore. It could be revised to "Negative" if ATL is not able to generate sufficient cashflows to maintain the existing debt coverage parameters.

About Adani Transmission Ltd.:

Adani Transmission Ltd. ("ATL"), incorporated in 2013, is the flagship company of Adani Group in the power transmission sector. It is held 74.92% by Promoter and promoter group of which ~57.28% is being held by Mr. Gautam Adani. Its shares are listed in BSE/NSE. Mr.Gautam Adani is the Chairman and Mr. Anil Sardana is the Managing Director and Chief Executive Officer.

ATL is one of the largest private sector transmission companies in India and operates in the business of establishing, commissioning, operating and maintaining electric power transmission systems. It has operational projects in the states of Gujarat, Maharashtra, Rajasthan and Haryana with more than 8600 ckm (Circuit Kilometers) of electric transmission lines with a total transformation capacity of 14000 MVA. Currently the company is developing eight new transmission lines. The transmission networks are consistently operating at more than 99.5% availability.
As already mentioned, AEML is the new subsidiary of ATL to house the Mumbai GTD business that has been acquired from RInfra.

Company's Financial Performance:

Consolidated Rs. Cr	FY17	FY18	Consolidated 1HFY19
			Transmission + Distribution
Revenue	2898	4055	1723
EBITDA	2005	2937	1204
Margin	69.2%	72.4%	69.9%
Net Profit	416	1143	265
Margin	14.4%	28.2%	15.4%
Total Debt	8787	10109	19848.31
Networth	2627	5736	6909
Gearing (x)	3.35	1.76	2.9

Networth has increased substantially as on March 31, 2018, as the company has raised Rs.1800 Cr through issue of unsecured perpetual securties. These securities are perpetual in nature with no maturity and are callable only at the option of the company. Amount raised by the way of perpetual securities has increased to Rs.3225 Cr which led to increase in networth as on Sep 30, 2018.

Consolidated revenue and net profit of ATL is mainly contributed by two key subsidiaries, viz., Adani Transmission India Ltd. and Maharashtra Eastern Grid Power Transmission Company Ltd.
Other operating subsidiaries like Maru Transmission Service Company Ltd., Aravalli Transmission Service Company Ltd., Western Transco Power Ltd. and Western Transmission Gujarat Ltd. are also contributing to turnover. Operating revenue on standalone basis majorly includes trading revenue, with minimal EBIDDTA.

More than 80% of the total consolidated and standalone debt is long term debt including term loans from banks and NCDs.

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

Sl. No.	**Instrument/Facility**	**Current Rating (Year 2019)**			**Rating History**		
		Type (Long Term/Short Term)	Amount (Rs Crs)	Rating	August 1, 2018	January 3, 2018	August 9, 2017
1.	**Non Fund Based Working Capital**	**Short Term**	**300**	**BWR A1+**	**BWR A1+**	**BWR A1+**	**BWR A1+**
2.	**Fund Based – Cash Credit - Sublimit**	**Long Term**	**(100)**	**BWR AA+ (Stable)**	**BWR AA+ (Rating Watch with Developing Implications)**	**BWR AA+ (Stable)**	**BWR AA+ (Stable)**
3.	**Non Fund Based – Performance Bank Guarantee**	**Long Term**	**(200)**	**BWR AA+ (Stable)**	**BWR AA+ (Rating Watch with Developing Implications)**		
4.	**Letter of Credit / Buyer's Credit**	**Long term**	**(100)**	**BWR AA+ (Stable)**	**BWR AA+ (Rating Watch with Develop**		

					ing Implica tions)		
	Total		**300.00**				

Status of non-cooperation with previous CRA (if applicable): Reason and comments N/A

Any other information: N/A

Hyperlink/Reference to Applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:
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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.

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