

RATING RATIONALE

24 Dec 2019

Adani Transmission Ltd

Brickwork Ratings reaffirms rating for the Enhanced Bank Loan Facilities aggregating ₹ 400 Crores of Adani Transmission Ltd

Particulars

Facility**	Previous Amount (₹ Crs)	Present Amount (₹ Crs)	Tenure	Previous Rating (Jan 2019)	Present Rating*
Fund based	(100)	100	Long Term	BWR AA+/Stable	BWR AA+/Stable <i>Reaffirmation</i>
Non-Fund Based	300	400	Long/Short Term	BWR AA+/Stable/A1+	BWR AA+/Stable/A1+ <i>Reaffirmation</i>
	(100)	(100)	Short Term	BWR A1+	BWR A1+ <i>Reaffirmation</i>
Total	300	400[#]	INR Four Hundred Crores Only		

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

** Details of Bank facilities are provided in Annexure-I

While, the Bank has sanctioned the fund based limit as a standalone limit, the overall exposure has been capped at Rs. 400 Crs. Accordingly, the rating amount is restricted to Rs. 400 Crs only.

Rating Action / Outlook

The ratings assigned to the enhanced bank loan facilities of Adani Transmission Ltd have been reaffirmed on account of consistent improvement in operational and financial performance of the company at a consolidated level.

The ratings continue to draw strength from the strategic importance of the company to the Adani Group being the flagship company of the group in the power transmission business, successful commissioning of multiple transmission assets during the year, adequate cash flows in the distribution business to meet its own debt obligations, favourable tariff structure in all transmission projects lending healthy revenue visibility along with an availability based tariff mechanism, limited counterparty risk with PGCIL being the counterparty (via central pooling mechanism) in a majority of the projects and high financial flexibility of the company evident from its ability to raise low cost debt as well as successfully refinance all of the debt maturing in the near to medium term.

BWR has also taken note of monetization of 25.1% stake in Adani Electricity Mumbai Ltd by the company which is likely to be completed in Q4 FY20. This is expected to result in cash inflows of Rs. 3200 Crs which is likely to be used for debt reduction from an ATL consolidated perspective.



The ratings, however, continue to remain constrained on account of sizable under-construction portfolio exposing the company to execution related risks regulatory and political risks and continuous expansion by the company leading to increased debt and gearing.

The outlook has been maintained as Stable as the company is expected to continue generating sufficient cash flows to meet its liabilities on time along with reporting a steady growth in its financial performance.

Key Rating Drivers

Credit Strengths:

Strategic Importance of the Company to the Group: Adani Transmission Ltd is the flagship company of Adani Group in the power transmission business. Power transmission is a critical business segment for the group seeing considerable growth and expansion over the last two years. The company's transmission network has grown from 8600 Ckm in FY18 to 14738 Ckm in Q2 FY20. Thus, the company continues to remain strategically important to the group as a whole.

Successful Commissioning of Multiple Assets: The company during the past year has successfully commissioned seven transmission assets. ATL now has a portfolio of 14 operational assets which are likely to increase the revenue of the company by more than 30% in the current financial year. During H1 FY20, the revenue from the transmission business increased to Rs. 1342 Crs (including Incentive) as compared to Rs. 1008 Crs in H1 FY19.

Favourable Tariff Structure: The tariff structure in all the transmission assets is either TBCB (tariff based competitive bidding) or cost plus basis. While, in TBCB structure, the tariff is based on the bid amount and is fixed in nature for the period of concession, cost plus structure provides a fixed return on equity to the company in addition to recovery of the cost incurred. As the transmission agreements are long term in nature, it provides long term revenue visibility. Also, these projects come with a built-in 'take or pay' mechanism protecting the company from risk of usage based volatile returns.

Limited Counterparty Risk: Most of the transmission assets of ATL come under the central pool mechanism for collection and payment of transmission charges with PGCIL (Power Grid Corporation of India Ltd) as the pooling agency. Under the mechanism, PGCIL collects the transmission charges from all the Discoms in the pool and distributes the funds proportionately to all transmission licensees. The risk of non-payment or short payment is shared amongst all the transmission licensees leading to diversification of risk. For all the other projects also, the company has been able to collect the receivables on a timely basis due to the operationally important nature of these transmission assets. Further, some of these agreements include an LC backed payment security mechanism to ensure timely payments to the SPVs.

High Financial Flexibility: The company has high financial flexibility as is evident from its ability to raise debt by way of multiple instruments such as Rupee Term Loans, USD Bonds, INR Masala Bonds, INR NCDs and Commercial Papers etc. Also, the company has recently raised USD Bonds amounting USD 500 mio (approx. Rs. 3500 Crs) to refinance some of its debt (amounting to Rs. 3340

Crs) maturing over the next 2-3 years. While some instruments have already been refinanced, the others are in process.

Credit Risks:

Sizable Under Construction Portfolio: ATL at present has nine under construction projects involving 3335 Ckms. All these projects are at various stages of execution. While, in some of these projects financial closure has happened and required approvals are in place, others are yet to achieve the same exposing the company to execution related risks. However, ATL has demonstrated track record in implementing transmission projects in a time bound manner mitigating the risk to some extent. Also, the company has committed equity in all these projects and they will require ATL's support till the operations are commissioned.

High Debt: The debt in the company has steadily increased with the continuous expansion. Debt at the consolidated level increased from Rs. 10428.34 Crs as on March 31, 2018 to Rs. 20136.99 Crs as on March 31, 2019 leading to higher gearing of 3.11x as on March 31, 2019 as compared to 1.82x as on March 31, 2018. ATL acquired Mumbai GTD business in August 2018 which added a debt of more than Rs. 8000 Crs in the books of the company. While, the operations in the said SPVs are self-sustaining, the overall capital structure witnessed some deterioration on account of the same. Although, the company is expected to repay some part of its debt with the receipts from monetization of 25.1% stake in AEML, the overall debt is not expected to come down due to funding requirements in various other ongoing projects.

Analytical Approach And Applicable Rating Criteria

For arriving at the rating, BWR has considered the considered the consolidated financials of the company till FY19 and consolidated financial projections. List of entities consolidated for the purpose of analysis is given in the annexure-II.

The methodology applied by BWR while arriving at the rating is given in the criteria mentioned below.

Rating Sensitivities

Positive: Completion of ongoing projects in a timely manner and within the stipulated costs, improvement in revenues and profitability at the consolidated level and improvement in capital structure.

Negative: Delay in completion of the ongoing projects leading to cost overruns impacting the overall gearing and capital structure.

Company Profile

Adani Transmission Ltd (ATL), incorporated in 2015, is the flagship company of Adani Group in the power transmission sector. The shareholding is held 74.92% by the Promoters and promoter group

and 25% by the general public. It is one of the largest private-sector participants in India's power transmission chain. ATL is a holding company created to house the power transmission and distribution business of Adani group. Through its SPVs and subsidiaries, ATL owns, operates and maintains 14738 Ckt Kms of transmission lines ranging from 220 KV to 765 KV with a power transformation capacity of more than 23000 MVA. During 2018, the company also ventured into power distribution business by acquiring Mumbai's generation, transmission and distribution business which is housed under a 100% subsidiary of ATL - Adani Electricity Mumbai Ltd.

Key Financial Indicators: Consolidated

Key Parameters	Unit	FY18 (A)	FY19 (A)	H1 FY20 (UnA)
TNW	Rs. Crs	5735.71	6467.52	7687.95
Total Borrowings	Rs. Crs	10428.34	20136.99	17791.43
D:E	Times	1.82	3.11	2.31
Operating Income	Rs. Crs	3944.59	7305.64	5528.06
EBITDA	Rs. Crs	2826.12	2779.60	2348.39
PAT	Rs. Crs	1142.94	559.20	444

Note: All figures and ratios have been adjusted as per BWR standards.

Non-cooperation With Previous Rating Agency If Any: NA

Rating History

Facility	Current Rating			Rating History			
	Tenure	Amount (₹ Crs)	Rating	Jan 2019	Aug 2018	Jan 2018	Aug 2017
Fund Based							
Cash Credit	Long Term	100	BWR AA+/Stable	BWR AA+/Stable	BWR AA+/Rating Watch	BWR AA+/Stable	BWR AA+/Stable
Non-Fund Based							
LC (Sublimit of CC)	Short Term	(100)	BWR A1+	BWR A1+	BWR A1+	BWR A1+	BWR A1+
BG	Long/Short Term	400	BWR AA+/Stable/A1+	BWR AA+/Stable/A1+	BWR AA+/Rating Watch/A1+	BWR AA+/Stable/A1+	BWR AA+/Stable/A1+
Total		400[#]	INR Four Hundred Crores Only				

The overall exposure is capped at Rs. 400 Crs by the Bank and accordingly, the rating amount is restricted to Rs. 400 Crs Only.

Complexity Levels Of The Instruments

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

Hyperlink/Reference To Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)

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Adani Transmission Ltd

Annexure I - Details of Bank Facilities Rated

IndusInd Bank - Rs. Crs	
Facility	Amount
Cash Credit/WCDL	100
LC (sublimit of CC/WCDL)	(100)
Bank Guarantee	400
Total	400 [#]

Due to capping of the total exposure at Rs. 400 Crs by the Bank, the rating amount is restricted to Rs. 400 Crs Only

Annexure II - List of Entities Consolidated

Name of Company	Relationship	Shareholding as on March 31, 2019
Adani Transmission (India) Ltd	Subsidiary	100%
Maharashtra Eastern Grid Power Transmission Co. Ltd	Subsidiary	100%
Sipat Transmission Ltd	Subsidiary	100%
Raipur-Rajnandgaon-Warora Transmission Ltd	Subsidiary	100%
Chhattisgarh-WR Transmission Ltd	Subsidiary	100%
Adani Transmission (Rajasthan) Ltd	Subsidiary	100%

North Karanpura Transco Ltd	Subsidiary	100%
Maru Transmission Service Company Ltd	Subsidiary	100%
Aravali Transmission Service Company Ltd	Subsidiary	100%
Hadoti Power Transmission Service Ltd	Subsidiary	100%
Barmer Power Transmission Service Ltd	Subsidiary	100%
Thar Power Transmission Service Ltd	Subsidiary	100%
Western Transco Power Ltd	Subsidiary	100%
Western Transmission (Gujarat) Ltd	Subsidiary	100%
Fatehgarh-Bhadla Transmission Ltd	Subsidiary	100%
Ghatampur Transmission Ltd	Subsidiary	100%
Adani Electricity Mumbai Ltd	Subsidiary	100%
AEML Infrastructure Ltd	Subsidiary	100%
Obra-C Badaun Transmission Ltd	Subsidiary	100%
KEC Bikaner Sikar Transmission Pvt Ltd	Subsidiary	100%

For print and digital media

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