

## Rating Rationale

**Brickwork Ratings downgrades the Rating of the Long term Bank credit facilities from ‘BWR BBB+’ to ‘BWR BB+’ and Rating of short term bank credit facilities from ‘BWR A3+’ to ‘BWR A4+’ for Adhunik Power and Natural Resources Ltd. (APPL); rated amount enhanced to ₹3310.76Cr**

Brickwork Ratings (BWR) has downgraded following **Ratings<sup>1</sup>** for Bank Loan Facilities of Adhunik Power and Natural Resources Ltd. (‘APNRL or ‘the Company’):

Facility	Previous ( ₹ Cr)	Present ( ₹ Cr)	Tenure	Previous Rating <sup>2</sup>	Present Rating
Term Loan (Consortium)	2473.53	2669.01	Long Term	<b>BWR BBB+</b> ( <i>BWR Triple B Plus</i> ) <b>(Outlook- Stable)</b>	<b>BWR BB+</b> ( <i>BWR Double B Plus</i> ) <b>(Outlook – Stable)</b>
Fund Based Working Capital (Consortium)	385	390.25			
Non-Fund Based Facilities (Consortium)	257	251.5	Short Term	<b>BWR A3+</b> ( <i>BWR A Three Plus</i> )	<b>BWR A4+</b> ( <i>BWR A Four Plus</i> )
<b>Total</b>	<b>3115.53</b>	<b>3310.76</b>			

BWR has relied upon the audited financial results of APNRL up to FY14 and unaudited figures as of 9MFY15 (December 2014), financial projections, the clarifications provided by the company and discussions held with the Management of the Company.

The rating downgrade, inter-alia, factors the impact of the cancellation of the Ganeshpur Coal block allocated to APNRL (as a JV with Tata Steel), deterioration in the financial performance of the company, deterioration in performance of the promoter run group companies, low operational levels of the power plant, increased gearing levels and deterioration in estimated debt servicing capacity.

The ratings are supported by the presence of the PE investors amongst the shareholders (around 46% of shareholding post conversion of the CCPS), commissioning of both Phases of the Power Plant, prepayment of installment dues of high cost loans for the next two years, PPAs signed for

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

offtake of 66% of power produced for FY16 and provision of tapering linkage by Coal India Limited up to March 2015.

### **Background**

Adhunik Power and Natural Resources Limited (erstwhile Adhunik Thermal Energy Ltd) was incorporated in 2005 with the objective of generating, distributing and transmitting power. The Registered Office and Corporate Office are located in Kolkata.

The company is promoted by the Adhunik group that has interests in the sectors of Steel, Mining and Power. The flagship companies of the group are Adhunik Metaliks Limited (AML), the steel company and Odisha Manganese and Mining Limited.

With conversion of Compulsorily Convertible Preference Shares (CCPS) in December 2015, PE investors have 46% stake in the Company while the promoters have around 54% stake.

### **Project Details:**

The company had entered into a MoU with the Government of Jharkhand to set up a 1080 MW coal based thermal power plant in 2008. The company has built two units of 270 MW (Phase I and Phase II) under this MoU, taking the total installed capacity at this stage to 540 MW.

The units are located at the Padampur and Srirampur villages in the Sarikela-Kharsawan district in Jharkhand. Phase I of the project achieved COD in January 2013 and Phase II in June 2013.

### **Operational Performance**

#### **Coal Linkage:**

The company had been allocated a captive Ganeshpur coal block on a 50:50 basis with Tata Steel. However, the same has been cancelled post the Supreme Court order on cancellation of all coal blocks allocated in September 2014.

The Company has indicated that it will be submitting its bid again for the same block in the process currently underway for coal block allocation.

The Company has been provided with tapering linkage from Coal India Limited up to 65% of its requirements up to March 2015.

The Company has also signed a Fuel Supply Agreement to buy coal to the extent of 1.5 Mn Ton sourced from Indonesian mines (or other sources of supply in case of inability of the supplier to provide the same from these mines).

BWR estimates that coal costs as result will be higher than projected for the Company and profitability margins will be impacted.

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### **Plant Efficiency:**

Plant efficiencies have been on the lower side with the PLF for Phase I expected to be around 65% for FY15 and that of Phase II is expected to be lower. Technical issues resulted in a forced shut down of Phase II for two months resulting in lower operational efficiencies. BWR is of the view that with low PLF, the company will not be able to reach break-even levels, impacting debt servicing capability.

### **Power Purchase Agreements (PPAs):**

As of date, the Company has entered into PPAs with

- a) Jharkhand State Electricity Board (as a part of the MoU signed, 12% of total power produced will be sold at variable cost and 13% will be sold at CERC tariff) – 124 MW
- b) Tata Power – 100 MW of power produced to be sold at a base rate of Rs. 2.75/KwH with an upside of 85% based on sale of power by Tata Power
- c) TANGEDCO (through PTC) – 100 MW of power produced to be sold to Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO) via PTC (finalized with TANGEDCO in November 2013)
- d) WBSEDC (through PTC) – 100 MW of power produced to be sold to West Bengal State Electricity Distribution Company (WBSEDC) via PTC

The Company also has an option to supply power to JSEB to the extent of 250 MW at the CERC tariff from FY17 onwards.

### **Financial Performance**

Gross revenue for APNRL stood at ₹ 1074.14Cr for FY14 as Phase II was commissioned in June 2013 (as compared to ₹95.63 Cr for FY13). In 9MFY14, with operational efficiencies reducing, total revenue was at ₹ 598.71 Cr.

The gross margins of APNRL stood at 33% for FY14 and 24% for 9MFY15. The Company has reported a loss of ₹ 151.08 Cr in FY14, with depreciation costs being ₹152.24 Cr and a loss of ₹ 332.06 Cr for 9MFY15 (cash loss was around ₹149.14 Cr).

Net margins were at -14% for FY14 and further deteriorated to -55% for 9MFY15.

The Interest Service Coverage Ratio stood at 1.00 for FY14 (at 1.02 for FY13) and is expected to decrease to less than 1 for FY15. The Deb to Service ratio was at 0.6 times for FY14 and is projected to be around 0.5 times for FY15. The Company has prepaid installments for the next two years for high interest bearing debt by availing of the take out finance scheme of IIFCL. Negative cash flow has been managed by the Company by further increasing their term loans to manage the same.

The Net Worth of the Company stood at 689.73 Cr for FY14 (as compared to ₹ 768.57 Cr for FY13). As of 9MFY14, the Net Worth of the Company was ₹ 403.13 Cr.

The gearing of the Company has deteriorated with the Debt to Tangible Net Worth levels at 4.13 times for FY14 and is projected to be around 7 times for FY15.

### **Outlook**

The ability of APNRL to improve its margins by managing raw material costs, in particular fuel costs, improvement of overall plant efficiency levels and maintenance of financial discipline will be key rating sensitivities. Continuing deterioration in operating performance of the company or the Group, or any move towards restructuring of the loans will result in a rating review.

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