

## Rating Rationale

### Brickwork Ratings reaffirms 'BWR BBB+' & 'BWR A3+' for the Bank Credit Facilities of Adhunik Power and Natural Resources Ltd., and enhances the rated amount to ₹ 3115.53 Cr

Brickwork Ratings (BWR) has **reaffirmed** the following **Ratings**<sup>1</sup> for Bank Loan facilities of Adhunik Power and Natural Resources Ltd. ("APNRL" or "the Company") and **enhanced** the amount rated under working capital facilities as shown below:

Facility	Previous (₹ Cr)	Present (₹ Cr)	Tenure	Rating
Term Loan (Consortium)	2544.66	<b>2473.53</b>	<b>Long Term</b>	<b>BWR BBB+</b> (BWR Triple B Plus)  <b>Outlook:Stable</b>
Fund Based Working Capital(Consortium)	257	<b>385<sup>@</sup></b>		
Non-Fund Based Facilities (Consortium)	222	<b>257<sup>#</sup></b>	<b>Short Term</b>	<b>BWR A3+</b> (BWR A Three Plus)
<b>Total</b>	3023.66	<b>3115.53</b>	<b>INR Three Thousand One Hundred &amp; Fifteen Crores &amp; Fifty Three Lakhs only</b>	

@ - Fund Based Working Capital Limit of Rs.86 Cr not yet tied up with any lender

# - Non Fund Based Working Capital Limit of Rs.27.5 Cr not yet tied up with any lender

BWR has relied on the audited financial performance of the Company up to March 2013 and audited figures as of 9MFY14 (December 2013), financial projections, the clarifications provided by the company and discussions held with the Management of the Company.

The ratings factor, inter-alia, experience of the promoters in this business, ownership of the Company by Adhunik Group, presence of PE investors in the Company and on the Board, commissioning of Phase 2 of the Project in June 2013, prepayment of principal up to June 2014, Power Purchase Agreements signed with Tata Power Trading Company Ltd. (TPTCL) and the expectation of start of operations of the Coal Mine allocated to APNRL along with TATA Steel Ltd. during 2015-16.

The ratings are constrained by the exposure of the Company to volatility in margins due to reliance on merchant sale of power, high fuel costs, and reliance on market sources for a part of the Coal in order to meet the Coal quality required until the coal mine is operational.

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

## **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 company of the group is Adhunik Metaliks Limited (AML), the steel company. Odisha Manganese and Mining Limited, a 100% subsidiary of AML is involved in the business of mining Iron Ore, Coal and Manganese.

## **Project Details:**

The company has 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 has been allocated a captive Ganeshpur coal block on a 50:50 basis with Tata Steel Ltd. The total reserves of the block stand at 138 Mn Tons, of which the share of APNRL comes to around 69 Mn Tons.

Until supply from the captive coal mine stabilises, APNRL has signed Fuel Supply Agreements (FSA) with Central Coalfields Ltd for the first two phases (9.99LTPA) on a tapering linkage basis.

### **Plant Efficiency:**

While Phase I was commissioned in January 2013, Phase II was commissioned in June 2013.

Until March 2013, Phase I operated at PLF levels of 40%-60%.

From April 2013 to December 2013, PLF level for Phase I was around 70%; from June 2013 to December 2013, the PLF level for Phase II was around 60%.

PLF levels are expected to be in the 70-75% range for FY14.

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### **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

### **Financial Performance**

Gross revenue for APNRL stood at ₹95.63 Cr for FY13; of this ₹95.54 Cr was revenue from operations. In 9MFY14, with the commissioning of Phase 2, total sales revenue was ₹868.84 Cr; of this, ₹ 867.19 Cr was revenue from operations.

The gross margins of APNRL stood at 37% for FY13 and 35% for 9MFY14. Coal costs were the biggest contributor to the expenses and averaged around 77% of the total expenses. The Company has reported a loss of ₹ 19 Cr in FY13, mainly on account of depreciation costs (around ₹19 Cr) and a loss of ₹112.01 Cr for 9MFY14 (depreciation costs were around ₹112.46 Cr).

Considering the commissioning of the Project, it can be considered that FY14 is the first operative year of the plant. While the Company has reported a net loss, there has been no cash loss for 9MFY14.

The Interest Service Coverage Ratio stood at 1.02 for FY13 and is expected to improve to 1.16 for FY14. As of 9MFY14, the interest service coverage stood at 1.01 times. As the Company has prepaid installments until June 2014, the interest charges are expected to reduce in the last quarter for FY13.

The Net-worth of the Company stood at ₹768.57 Cr for FY13, due to infusion of equity by the promoters and the PE investors (through CCPS). As of 9MFY14, the Net Worth of the Company was ₹698.77 Cr (including share application money pending allotment of ₹ 16.35 Cr infused by the Promoters).

Total Debt of the Company stood at around ₹2506 Cr in FY13, with Debt to Equity being 3.26 indicating the nature of operations of the Company (infrastructure). In FY14, the same is expected to be 3.67 times; with total debt levels expected to be at ₹2859 Cr. Return on Capital Employed was at 0.48% for FY13 and is expected to improve to 5% for FY14.

### **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. The progress in operationalizing the captive mine allocated to it will help improve margins for the Company in the long run.

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