Rating Rationale

Brickwork Ratings revises Long Term Rating at 'BWR BB-' (Outlook: Negative) and Short Term Rating at 'BWR A4' of Bank Loan Facilities of Adhunik Power and Natural Resources Ltd. (APNRL).

Brickwork Ratings (BWR) has revised following **Ratings**[1] for Bank Loan Facilities of Adhunik Power and Natural Resources Ltd., ('APNRL' or 'the Company').

<table>
<tr><th>Facility</th><th>Tenure</th><th>Existing Facility (₹Cr)</th><th>Initial Rating^ (Mar'13)</th><th>Last Rating (Feb'15)</th><th>Present Rating</th></tr>
<tr><td>Term Loan</td><td rowspan="3">Long Term</td><td>2365.16</td><td rowspan="3">BWR BBB+ (BWR Triple B Plus) (Outlook: Stable)</td><td rowspan="3">BWR BB+ (BWR Double B Plus) (Outlook: Stable)</td><td rowspan="3">BWR BB- (BWR Double B Minus) (Outlook: Negative)</td></tr>
<tr><td>Corporate Loan</td><td>339.85</td></tr>
<tr><td>Working Capital (Fund Based)</td><td>386.55</td></tr>
<tr><td>LC & BG (Non-fund based)*</td><td>Short Term</td><td>246.75</td><td>BWR A3+ (BWR A Three Plus)</td><td>BWR A4+ (BWR A Four Plus)</td><td>BWR A4 (BWR A Four)</td></tr>
<tr><td>Total</td><td></td><td>3338.31</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">(₹Three Thousand Three Hundred and Thirty Eight Crores and Thirty One Lacs only)</td></tr>
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* *Non fund based limits of LC/FLC/BG are interchangeable between Short term and long term*

The rating downgrade has, *inter alia*, factored APNRL's deteriorated operating and financial performance during FY15. The company has registered substantial reduction in sales vis-à-vis projections, suffered increased losses resulting in reduced Net-worth, - increasing gearing and low coverage ratios. This is mainly due to delays in commencement of power supply to TANGEDCO, de-allocation of Ganeshpur coal block, dependence up on coal supply from Central Coalfield Ltd. (CCL), grid connectivity issues related to power evacuation, low PLF, etc.

BWR has essentially relied upon the audited financial results of APNRL up to FY14 (12M), provisional financial of FY15 (12M, ending March 2015), and clarifications/information provided by the Company.

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

Background:

Adhunik Power and Natural Resources Ltd. (formerly known as Adhunik Thermal Energy Limited or “ATEL”) (APNRL) was incorporated in 2005 with the objective of generating, distributing and transmitting power. The company belongs to Adhunk group which currently holds more than 50% stake as of FY15 and the rest is with IDFC (33%) and SBI Macquarie (13%).

The company executed an MOU with Government of Jharkhand on 31-October-2005 for setting up 1,080 MW coal based thermal power plant. The Project is located at villages Padampur and Srirampur, District Saraikela near Jamshedpur, Jharkhand, adjacent to Adityapur Industrial Development Authority Area. Phase I (1x270 MW) of the project achieved COD in January 2013 at a project cost of ₹1,737.00 crore while Phase II (1x270 MW) of the Project achieved commissioning in June 2013 at a project cost of ₹1,639.68 crore. The project has seen two cost and time overruns during implementation due to changes in the design, delays in awarding contracts and increase in prices from the budgeted amount.

The fuel linkage for the power station was proposed to be sourced from captive Ganeshpur Coal Block (GCB), which had been allotted to APNRL and Tata Steel on a 50:50 sharing basis. However, due to Coal block de-allocation later, the company had to participate in the coal block auction of Ganeshpur Coal block and Jitpur coal block mine but could not succeed due to aggressive bidding by competitors. Currently coal is source from CCL and balance coal requirement from open market purchases involving e-auction route, coal rejects from Washery middlings or coal imports.

APNRL has two PPAs with PTC for sale of power of 100 MW (net) each (with West Bengal and TANGEDCO) and 250 MW with JSEB. Long term PPA for 450 MW out of total Capacity of 540 MW is with PTC (WB & TN) and JSEB. It ranges from 23 yrs to 25 yrs. PPA with JSEB is having base price of Rs 3.90. Balance units generated by the plant after sale under PPAs is sold via interchange / short term agreements to prospective buyers.

Financial Performance:

On a standalone basis, as per provisional FY15 (March ending), the Company’s operating revenue reduced from ₹1052.78 Crs in FY14 to ₹839.96 Crs in FY15. The Company had shown a loss of ₹312.38 Crs in FY15 from a loss of ₹151.08 Crs during FY14. As a consequence, their Tangible Net-worth has fallen from ₹689.62 Crs to ₹422.81 Crs in FY15. Long term borrowings have increased from ₹2204.20 Crs in FY14 to ₹2714.96 Crs in FY15, and the gearing has gone beyond 7x. Coverage Ratios like DSCR and ISCR remain low at less than 1.

Outlook:

APNRL, a subsidiary of OMML (50%) has implemented coal based thermal power project of 540 MW and achieved COD Jun'13. It also has long term PPA worth of 450 MW out of total 540 MW. However, delays in commencement of power to TANGEDCO, grid related issues with power evacuation, getting quality coal from CCL and dependency on merchant sale which is quite low have impacted the Company's performance. Negative outlook represents the impact on the Company's performance due to coal block de-allocation and other operational issues, which shows that the short to medium term remain challenging for the Company. The Group financial position has been affected mainly due to debt driven capacity expansion plans. Maintaining desired revenues, operating performance with cost effectiveness, profitability and coming out of huge losses, reduction in debt and running plants with desired PLF would be key rating sensitivities.

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