

## Rating Rationale

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### **Brickwork Ratings assigns 'BWR BBB+' for the proposed NCD Issue of ₹ 350 Cr of Adhunik Power and Natural Resources Ltd.**

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Brickwork Ratings (BWR) has assigned the **Rating<sup>1</sup>** 'BWR BBB+' (BWR Triple B Plus) with '**Stable Outlook**' for the proposed NCD issue of Adhunik Power and Natural Resources Ltd. ("*APNRL*" or "*the Company*") of ₹ 350 Cr for phase I of the project.

BWR has relied on the audited financial performance of the Company up to 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 Power 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 their coal mine is operational.

### **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.

### **NCD Details:**

The tenor of the proposed NCD issue of Rs.50 Cr to be raised from IIFCL IDF is 9 years and 7 months out of the total 350 Cr rated. While currently, there is no credit enhancement for the NCD issue for phase I, the Company is considering approaching financial institutions for provision of a partial credit enhancement for the bond.

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

The current terms of investment of IIFCL IDF in the bonds allow for a downward revision of the coupon rate in case of rating betterment due to credit enhancement being made available.

**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:**

The average PLF levels for FY14 were around 66%, mainly due to technical snags in Phase I during the last quarter of the year.

**Power Purchase Agreements (PPAs):**

As of date, the Company has entered into PPAs with Jharkhand State Electricity Board, Tata Power, TANGEDCO (through PTC) and WBSEDC (through PTC). Around 14% of the power generated is sold through merchant trading.

**Financial Performance**

Gross revenue for APNRL stood at ₹95.63 Cr for FY13. 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. In FY14, the same is expected to be 3.67 times, with total debt levels expected to be at ₹2859 Cr. These ratios are in keeping with gearing of companies in the infrastructure sector. 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 and lesser reliance on merchant sales basis will help improve margins for the Company in the long run.

<b>Analyst Contact</b>	<b>Relationship Contact</b>
<a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone</b>	<b>Media Contact</b>
<b>1-860-425-2742</b>	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

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