RATING RATIONALE

27 January 2021

Adani Power (Mundra) Ltd

Brickwork Ratings reaffirms ratings for the Bank Loan Facilities aggregating ₹ 15252 Crores of Adani Power (Mundra) Ltd

Particulars

Facility**	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Dec 2019)	Present
Fund based - TL	10447	**10265.21**	Long Term	BWR BBB-/Stable	**BWR BBB-/Stable Reaffirmation**
Fund/Non-Fund Based - WC Limits@	4700	**4881.79**	Long/Short Term	BWR BBB-/Stable/A3	**BWR BBB-/Stable/A3 Reaffirmation**
Non-Fund Based - LER	105	**105.00**	Short Term	BWR A3	**BWR A3 Reaffirmation**
Total	**15252**	**15252**	**INR Fifteen Thousand Two Hundred and Fifty Two Crores Only**		

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

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

@ The working capital limits have full interchangeability between fund and non-fund based

Rating Action / Outlook

Brickwork Ratings (BWR) has reaffirmed the ratings assigned to the bank loan facilities of Adani Power (Mundra) Ltd (APMuL or the company) at BWR BBB- (Stable)/A3.

The ratings continues to draw strength from the company's strong parentage, with Adani Power Ltd being the holding company, as well as APMuL being a part of the larger Adani Group, both of which have been consistently supporting the company by way of infusion of quasi equity, as well as unsecured loans, along with the group's demonstrated track record in the power segment, established operational track record of the Mundra power plant since the last unit's COD in May 2012 and reduction in the interest rate by almost all the lenders based on the recommendations of High Powered Committee. BWR has also taken note that the company has built the Debt Service Reserve Account (DSRA) equivalent to one quarter of the principal and interest for the term loans.

The rating, however, continues to remain constrained on account of significant untied capacity, which the company is currently selling at the merchant market, exposing it to volatility in demand and prices; a deterioration in the company's operational and financial performance during H1 FY21 on account of the covid-19 pandemic impact; lower-than-expected realisation of compensatory dues from Haryana discoms and continuing net losses in the company. The company's realisation of the compensation pertaining to the cancellation of the Bid-2 PPA has also got delayed due to disruptions in the operations of the Central Electricity Regulatory Committee (CERC), caused by the pandemic, the realisation of which is critical for the company to reduce debt and build liquidity.

The outlook has been maintained as Stable as the company's current financial risk profile is likely to be maintained over the medium term, and support from the sponsor is also expected to continue in future as well.

Key Rating Drivers

Credit Strengths:

Strong Promoters and Demonstrated Support: The company is a wholly owned subsidiary of Adani Power Ltd (APL), Adani Group's flagship company in the thermal power generation segment. APL has a consolidated asset base of more than 14 GW and has thermal power plants located in various states, catering to different discoms. The promoters also have a long track record of having supported the company by way of equity infusion, unsecured perpetual securities amounting to Rs. 8650 Crs and unsecured loans of ~ Rs. 7000 Crs to date. The availability of timely and need-based support from the group has been taken into account while arriving at the rating, and the same is also a key sensitivity.

Pass-through for Imported Coal Cost with GUVNL: In its Energy Watchdog judgement, the Supreme Court made it clear that any movement in imported coal prices is neither an Indian change in the law nor a force majeure event. However, to improve the viability of such power plants, the Gujarat government formed a High Powered Committee, which among others, recommended allowance of imported fuel cost pass-through, with lower capacity charges to be borne by the generators. These recommendations of the committee were accepted by the Government of Gujarat, and accordingly, the PPAs were amended in October 2018. The company received approval for the amendments from the CERC in April 2019, under which the tied-up capacity was increased from 1000 MW to 1200 MW for the Bid-1 PPA (and from 1000 MW to 1234 MW under the Bid-2 PPA) by tying up previously untied capacities, and the full imported fuel cost pass-through was allowed, effective October 2018.

Creation of DSRA and Reduction of Interest Cost: The company has created the required DSRA equivalent to two quarter of the principal and interest payments pertaining to phase-IV term loans as an additional security to the lenders. The DSRA for the external commercial borrowings is also expected to be built-up in the near future. In addition, the company has got an interest rate reduction from all the banks (from an average of 10.50% earlier to 9% currently), leading to substantially reduced financial cost. This will also improve the company's debt servicing ability, going forward.

Cancellation of Bid-2 PPA with GUVNL, leading to Substantial One-Time Compensation; Delayed Realisation: The company has been involved in a long-standing dispute with the GUVNL with respect to its Bid-2 PPA for 1000 MW of capacity from Phase III of the project. The said PPA was entered on the condition that the GMDC (Gujarat Mineral Development Corporation) will provide 4 MTPA of domestic coal to the plant. When the GMDC could not provide the coal, the company got involved in a long-standing litigation with the GUVNL to obtain the said PPA cancelled; the tariff under the same was not viable. In July 2019, the Supreme Court ruled in the company's favour and said that termination of the PPA is valid with effect from 4 January 2010. The Supreme Court also allowed a one-time compensation to APMuL for all the additional costs borne under the PPA since inception, with the amount to be determined by the CERC under Section 62 of the Electricity Act, 2003. APMuL filed its application with the CERC during Q4 FY20; however, no order has come in the matter as of now as the CERC's operations were impacted with the onset of the covid-19-led lockdown March 2020 onwards. Subsequently, the operations remained impacted, and an outcome in the matter is now expected to come over the next few months. APMuL expects a substantial amount as compensation which will improve its liquidity position and ability to service debt. As the realisation of the said amount is critical for improving the company's overall risk profile, any further delay in the matter may have a negative impact on the rating.

Credit Risks:

Significant Untied Capacities: Post the cancellation of the Bid-2 PPA, presently, the company has a long-term power offtake arrangement to the extent of 58% of the total capacity. The company is using the remaining capacity to sell power at the merchant and short term markets. APMuL's performance thus, got severely impacted during H1 FY21, wherein the PLF fell to 55% (from 73% in FY20) on account of the fall in power demand. The company's realisations also declined with the reduction in the merchant tariffs. The promoters had to bring in additional funds amounting to Rs. 1000 Crs during the current financial year to support the company. The performance has since improved, with the PLF reaching an average of 85% during Q3 FY21 and merchant tariffs also showing some recovery from the earlier lows. Nonetheless, with a significant capacity not having a long-term offtake arrangement, the company will remain exposed to price- and demand-related fluctuations associated with the merchant market, which is a key risk factor for the rating.

Continued Net Losses causing Deterioration in Networth: APMuL continues to report net losses in its financial statements due to high depreciation and financial costs. While the company's operating profitability has also remained volatile on account of fluctuations associated with the merchant market tariffs, it largely remained above the financial cost associated with the company's external debt. However, at the net level, the company continues to report substantial losses, leading to the erosion of the networth. APMuL reported accumulated losses amounting to Rs. 9047.57 Crs as on 31 March 2020.

Delayed Realisation of Compensatory Dues: Post the Energy Watchdog judgement of the Supreme Court, the company became eligible to receive a Compensatory Tariff (CT) from Haryana discoms for the shortfall in domestic coal, along with its carrying cost. The company, till 30 September 2020, raised claims amounting to Rs. 1746.07 Crs on the Haryana discoms; however, it has been able to realise only Rs. 291.83 Crs of the same till now. Although APMuL has recovered the compensation towards the installation of FGD systems from Haryana discoms, the CT dues for the shortfall in domestic coal still largely remain outstanding. Additionally, the company has not been able to realise the one-time compensation with respect to the cancellation of Bid-2 PPA, as explained earlier.

Analytical Approach and Applicable Rating Criteria

For arriving at the rating, BWR has considered the terms of PPAs, project parameters, audited financials till FY20 and financial projections of the company. The expectation of timely and need-based support from the promoters has also been factored in while arriving at the rating.

The methodology applied by BWR is highlighted in the end.

Rating Sensitivities

Positive: The signing of long-term PPAs for the untied-up capacities, sustained improvement in PLF and timely receipt of the pending compensatory tariff dues from Haryana discoms

Negative: Any further delay in the realisation of the one-time compensation pertaining to the cancellation of Bid-2 PPA and deterioration in the financial support from the promoters leading to any shortfall in the cash flows to meet key obligations

Liquidity Position: Adequate

The company has created a DSRA equivalent to two quarters of the principal and interest payments as additional security to the phase-IV lenders. APMuL is expected to report cash accruals of ~ Rs. 1000 Crs in FY21 as compared to its principal obligations of ~ Rs. 900 Crs. The company also has sanctioned working capital limits amounting to Rs. 3578 Crs. Additionally, the promoters have been supporting the company since inception and have assured the lenders that they will continue to support the company until its financial profile strengthens. During FY21 also, the promoters have brought in additional loans amounting to Rs. 1000 Crs. Any realisation towards the past CT dues during the year will also improve the company's liquidity position.

Company Profile

Adani Power (Mundra) Limited (APMuL), incorporated on 16 February 2015, is a 100% subsidiary of Adani Power Limited, the flagship company of Adani Group in the power generation segment. The Mundra project, which was initially developed by Adani Power Ltd, was hived-off into APMuL in 2017. The project constitutes a coal-based 4620 MW Supercritical Thermal Power Project at Mundra Taluka, Kutch District, in Gujarat in four phases, viz, Phase I (2X330 MW, sub-critical), Phase II (2X330 MW, sub-critical), Phase III (2X660 MW, super-critical) and Phase IV (3X660 MW, super-critical). All the four phases are operational, with the last unit achieving a COD in May 2012.

The company has a long-term PPA with GUVNL for 1200 MW from Phase I, for 1424 MW with Haryana Discoms from Phase IV and for 40 MW with MUPL. The remaining capacity is used to sell power in the merchant market.

Key Financial Indicators

Particulars	Units	FY19 (A)	FY20 (A)
Revenue from Operations	Rs. Crs	11618.41	13011.99
EBITDA	Rs. Crs	2107.37	1837.23
PAT	Rs. Crs	-1044.10	-1427.10
Total Debt/TNW (Adjusted)	Times	3.05	3.52

Note: Adjusted ratios have been calculated after taking unsecured loans from promoters as quasi equity. All financials have been reclassified as per BWR standards.

Non-cooperation With Previous Rating Agency If Any: NA

Rating History for the past three years (including ratings suspended/withdrawn)

<table>
<tr><th rowspan="2">Facility</th><th colspan="3">Current Rating (Jan 2021)</th><th colspan="3">Rating History</th></tr>
<tr><th>Tenure</th><th>Amount (₹ Crs)</th><th>Rating</th><th>2020</th><th>Dec 2019</th><th>2018</th></tr>
<tr><td>Term Loans</td><td rowspan="2">Long Term</td><td>9023.78</td><td rowspan="2">BWR BBB-/Stable</td><td rowspan="4">Not Reviewed</td><td rowspan="2">BWR BBB-/Stable</td><td rowspan="4">NA</td></tr>
<tr><td>ECB</td><td>1241.43</td></tr>
<tr><td>WC Limits</td><td>Long/Short Term</td><td>4881.79</td><td>BWR BBB-/Stable/A3</td><td>BWR BBB-/Stable /A3</td></tr>
<tr><td>LER</td><td>Short Term</td><td>105.00</td><td>BWR A3</td><td>BWR A3</td></tr>
<tr><td>Total</td><td></td><td>15252</td><td colspan="4">INR Fifteen Thousand Two Hundred and Fifty Two Crores Only</td></tr>
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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 Power (Mundra) Ltd

Annexure I - Details of Bank Facilities Rated

Type of Facilities	Tenure	Amount (Rs. Crs)
Phase-IV Term Loans	Long Term	5612.87
Phases I, II and III Corporate Loans	Long Term	3410.91
WC Limits	Long/Short Term	3578.00
Proposed WC Limits	Long/Short Term	1303.79
ECBs	Long Term	1241.43
LER	Short Term	105.00
Total		**15252.00**

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