

Rating Report

Brickwork Ratings assigns 'BWR A1+' Rating for the Proposed Commercial Paper (CP) Issue of ₹ 300 Cr of Adani Enterprises Ltd.

Brickwork Ratings (BWR) has assigned the **Ratings**¹ of "BWR A1+" (pronounced BWR A One Plus) for Proposed Commercial Paper issue of ₹ 300 Crores of Adani Enterprises Ltd. ('AEL' or 'the Company'), having a tenor up to one year. With this, total amount of CP rated for AEL aggregates to ₹ 1050 Crores.

BWR has essentially relied upon the draft terms, audited financial results up to FY14, limited review financial results for FY15 and projected cash flow and key financial figures provided, publicly available information and information/clarification provided by the issuer.

The rating factors, *inter alia*, the experience and resourcefulness of the promoters of the Company, improving financial performance and scale of operations, strong market position, expected benefits arising out of the demerger of the diversified business and financial flexibility of the group. However, the rating is constrained by volatility in commodity prices, forex exposure risk, regulatory issues faced by the Coal & mining industry, deployment of funds for group's needs, and refinance or, alternatively, rollover risk - to meet the obligations arising from the proposed CP issue.

AEL Background

Incorporated in 1993, Adani Enterprises Ltd. (AEL) is the flagship company of Adani Group being chaired by Mr. Gautam Adani. Adani Group as a whole is engaged in diversified areas of businesses and operates in a range of sectors - primarily energy - including coal mining, power generation and transmission, port operations, logistics, oil and gas exploration, city gas distribution. The group is also involved in agro-processing & storage mainly in to edible oil and commodities trading. AEL, on a standalone basis, has mainly coal trading and power trading businesses. The Company undertakes coal trading business directly and through its subsidiaries.

AEL has announced scheme of demerger in Jan 2015, post which AEL would not be a holding company of two listed entities, viz., Adani Power Ltd and Adani Ports & Special Economic Zone Ltd. The record date for the same was 1st April 2015 and it is subject to statutory approvals. Subsequently, AEL on a standalone basis will be focused on the business of coal mining and trading.

The proposed restructuring is expected to simplify the corporate structure of the group, as also unlock the value of its various businesses. Ultimately, there will be four listed companies in the group, including AEL. The primary coal related integrated operations under AEL is expected to

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

help the company to strengthen its market position and substantially improve its performance both operationally and financially.

The Company proposes to issue Commercial Papers having a tenor up to one year keeping in view its requirements as a business entity as also its current role as a holding company.

AEL - Board of Directors and Shareholding

Mr. Gautam Adani is the Chairman of AEL, and also the founder of the Adani Group. The Board has six other Directors who have vast experience in the field of Administration Finance, Economics, Accounting and other fields. As of March 2015, promoters holds 75% equity stake in the Company, while Institutions and Non Institutions hold 20.58% and 4.42% stake respectively.

Financials of AEL

In FY14, on standalone basis, AEL recorded total revenue of ~₹ 12993 Crs and net loss of ~₹ 179 Crs. As of March 2014, on a standalone basis AEL had total debt of around ₹ 6576 Crs, as against a tangible networth of at around ₹ 10017 Crs. The non-current investments stood at around ₹ 6551 Crs, while long term loans and advances stood at around ₹ 4221 Crs.

In FY15, on a standalone basis AEL reported total operating income of ~₹ 14932 Crs, while PAT stood at ~₹ 406.85 Crs.

In FY14, on consolidated basis, AEL recorded total revenue of ~₹ 56225 Crs and profit after tax of ~₹ 2645 Crs. As of March 2014, on a consolidated basis AEL had total debt of around ₹ 71980 Crs, as against a tangible networth of at around ₹ 24936 Crs. The net fixed tangible assets stood at around ₹ 67277 Crs, while long term loans and advances stood at around ₹ 5327 Crs.

In FY15, on a consolidated basis AEL reported total operating income of ~₹ 64582 Crs, while PAT before minority interest stood at ~₹ 2298 Crs.

Key performance /financial indicators have been shown in the Annexure I & II

Credit Risk Analysis

Adani Enterprises Ltd is proposing to raise additional short term funds via commercial paper issue to take care of its requirements as a business entity as also its current role as a holding company. The commercial paper component of short term debt for the company has increased significantly, and is currently at 41%. The funds proposed to be raised are likely to be for a tenor of around 2 - 3 months as per the cash flow requirements. The company is expected to repay or rollover the said facility depending on the receivables/cash flow position going forward. The timely arranging of the said funds will be crucial for the Company to sustain the rating. Further, considering the nature of operations the AEL is exposed to volatile commodity prices and forex exposure risk. Additionally, timely completion of the proposed restructuring and reduction of debt as envisaged will be important for the company's credit risk profile.

Rating Outlook

The rating captures the strong market presence and the improving overall performance of AEL, both on standalone and consolidated basis. The other key business entities of the group, viz., Adani Power Ltd and Adani Ports & Special Economic Zone Ltd, have also shown reasonable improvement in the current year. Further, Adani Power Ltd., which has a large debt to service, is expected to benefit out of elongated repayment schedule being worked out by its lenders under Reserve Bank of India's 5/25 scheme. The proposed demerger of Adani Power Ltd and Adani Ports & Special Economic Zone Ltd is expected to result in substantial reduction in debt levels and interest cost for AEL.

Going forward, the sustained increase in the scale of operations and improvement in profitability, smooth implementation of the demerger plan, judicious deployment and timely recovery of CP proceeds, and efficient management of short term liquidity, would remain the key rating sensitivities.

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<u>Adani Enterprises Ltd</u>		
Annexure I – P & L		
₹ Crores	FY13	FY14
Result Type	Audited	Audited
Gross Sales	11882.68	11699.54
Net Sales	11882.68	11699.54
Other Operating Income	8.20	89.77
Total Operating Income	11890.88	11789.31
Operating Expenses	11611.64	11919.86
OPBDIT	279.24	-130.55
Depreciation/Amortization/Impairment	57.55	59.07
OPBIT	221.69	-189.62
Interest and Finance Charges	302.10	761.18
OPBT	-80.41	-950.80
Non-Operating Income(Expenses)	488.72	589.00
PBT	408.31	-361.80
Extraordinary/Prior Period - Income(Expense)	202.84	-0.52
Provision for Taxes	91.31	-183.62
PAT	519.84	-178.70

Adani Enterprises Ltd		
Annexure II – Balance Sheet		
₹ Crores	FY13	FY14
Liabilities	Audited	Audited
EQUITY AND RESERVES	10366.94	10034.27
Share capital	109.98	109.98
Reserves and Surplus	10256.96	9924.29
Non-current liabilities	1909.05	2296.78
Long-Term Borrowings	1490.00	2040.58
Deferred tax Liabilities (Net)	72.61	0.00
Other Long Term liabilities	341.25	250.09
Long-Term Provisions	5.19	6.11
Current liabilities	8026.68	10226.03
Short-Term Borrowings	3438.27	3973.50
Current Portion Of Long Term Debt	160.00	562.54
Trade Payables	3951.96	5360.95
Other Current Liabilities	271.27	113.81
Short-Term Provisions	205.18	215.23
Total Liabilities	20302.67	22557.08
ASSETS		
Non-current assets	10879.79	12061.64
Net Fixed assets	895.46	906.64
Capital Work-In-Progress	163.49	254.86
Net Intangible assets	21.53	17.33
Non-Current Investments	4046.10	6550.59
Long Term Loans and Advances	5753.21	4221.07
Current assets	9422.88	10495.44
Current Investments	20.59	1.00
Inventories	736.71	1068.51
Trade Receivables > Six Months	725.75	438.59
Trade Receivables < Six Months	2972.57	2674.43
Cash and Cash Equivalents	1898.88	260.88
Short-Term Loans and Advances	3001.10	5938.43
Other Current Assets	67.28	113.60
Total Assets	20302.67	22557.08