

Rating Report

Brickwork Ratings assigns 'BWR A1+ (SO)' Rating for the Proposed Structured Non-Convertible Debenture issue of Upto ₹ 1000 Cr of Adani Power Ltd.

Brickwork Ratings (BWR) has assigned the **Ratings**¹ of BWR A1+(SO) (Pronounced BWR Double A One Plus Structured Obligation) Rating for Adani Power Ltd's (APL or the 'Company') proposed NCD issue of upto ₹1000 Crs with tenor of 364 Days. Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such instruments carry lowest credit risk.

BWR has essentially relied upon the draft term sheet outlining the structure of the deal, audited financial results upto FY14 of the issuer APL as well as audited financials of Adani Ports & Special Economic Zone Ltd (APSEZ) whose equity shares are provided as security, and information and clarification provided by the issuer.

The rating factors, inter alia, the strength of underlying security in the form of pledge of equity shares of Adani Ports & Special Economic Zone Ltd which are listed, structure of the proposed NCD issue, experience and resourcefulness of the promoters of the Company and financial flexibility of the group. However, the rating is constrained by fundamentals of the issuer, reliance on promoter funds, refinance or, alternatively, liquidation of the securities - to meet the payment obligations arising from the proposed NCD issue, market volatility in the price of equity shares of Adani Ports & Special Economic Zone Ltd and the current challenging environment faced by the power sector .

Background

APL is a subsidiary of Adani Enterprises Ltd (AEL), with the latter holding 68.99% of equity. AEL is the flagship company of the Adani group. It was incorporated in August 1996. APL is a power project development company and is operating and maintaining multiple power projects in India. Adani Power currently has an operational capacity of 9240 MW, comprising of 4620 MW at Mundra in Gujarat, 3300 MW at Tiroda in Maharashtra and 1320 MW at Kawai in Rajasthan. The current installed capacity of APL is 10,440 MW including the recently completed acquisition of 1,200 MW Udipi plant. Additional 600 MW Korba plant acquisitions is under process. The Company intends to use the proceeds of the NCD towards acquisition, refinancing, transaction expenses and General Corporate Purposes.

AEL has announced scheme of demerger in Jan 2015, post which AEL would not be a holding company of Adani Power Ltd and Adani Ports & Special Economic Zone Ltd. The record date for

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

the same is 1st April 2015 and it is subject to statutory approvals. The proposed restructuring is expected to simplify the corporate structure of the group, as also unlock the value of its various businesses.

APL - Board of Directors and Shareholding

Mr. Gautam Adani is the Chairman of APL, and also the founder of the Adani Group. The Board has six other Directors. As of March 2015, promoters hold 75% equity stake in the Company, while Institutions and Non Institutions hold 8.11% and 16.89% stake respectively.

NCD Structure

The Company has proposed to raise this structured NCD of upto ₹1000 Cr with tenor of 364 Days. There is a put/call option at the end of 9 Months. All repayments, including the coupon, are due at maturity. The NCD's are backed by way of pledge of equity shares of Adani Ports & Special Economic Zone Ltd. The share pledgor will be Adani Enterprise Ltd.

Security cover of the pledge shall not be less than 2 times the outstanding amount at inception and also during the currency of the NCD's. The Facility will require a top-up if the cover falls below 1.8 times. The structure provides for release of share collateral in case cover is greater than 2.2 times for a consecutive period of 7 days. Also, there is a cash escrow date 3 days prior to the Maturity Date or Put/Call date as applicable. Other covenants are standard terms that are common for issues of this nature.

Financials of Adani Power Ltd:

For FY14, as per consolidated figures, APL reported total revenue of ~₹ 15954 Crs with a net loss of ~₹290 Crs. The Company has recognized revenues of ~₹1843 Crs (~₹829.75 Crs towards the compensatory tariff till 31st March 2013 and ~₹ 1013.37 Crs for the period April 2013 to March 2014) based on the CERC order on compensatory tariff. APL's customers have filed an appeal against the CERC order with the Appellate Tribunal for Electricity. For 9MFY15, on a consolidated basis, APL registered net loss of ~₹1530 Crs on total operating income of ~₹14877 Crs.

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

Background of Adani Ports & Special Economic Zone Ltd (APSEZ), whose Equity shares are pledged

Incorporated in 1998, APSEZ is engaged in the development and operations of Ports and related logistics. APSEZ is also in the business of developing a Special Economic Zone (SEZ) at Mundra. The company provides logistics services including railway networks at various ports. It was initially named Mundra Port & Special Economic Zone Ltd and changed to Adani Ports and

Special Economic Zone Ltd in 2012. Adani Port has developed and operated 12 terminals comprising of 31 berths which handle bulk, liquid and container cargoes. Together with the acquired Dhamra port (an operational port) in the east of India in May'14, it has a total of eight operational terminals under its portfolio. It operates ports at Mundra, Dahej, Hazira, Kandla and Mormugao on the western coast of India and Visakhapatnam and Dhamra on the eastern coast of India, APSEZ is currently developing a container terminal at Ennore in southern India. APSEZ has total cargo volume of 144 mn tonnes in FY15 (112.75 mn tonnes in FY14).

For FY14, on a consolidated basis, APSEZ reported total revenue of ~₹5507 Crs. The net profit before minority interest for FY14 stood at ~₹ 1741 Crs. In FY15, on a consolidated basis, the company reported total operating income of ~₹ 6151 Crs, while PAT before minority interest stood at ~₹ 2324 Crs. For FY15, on a consolidated basis, APSEZ had total debt of ~ ₹ 15155 Crs, as against a tangible networth of at ~ ₹ 8327 Crs while the fixed assets stood at ~ ₹ 19203 Crs.

Credit Risk Analysis

The proposed NCD rated is having a short term tenor of 364 Days. The Security provided for the outstanding issue are equity shares APSEZ. APSEZ is a key company of the Group. The cushion available in the form of additional unencumbered shares would assist in taking care of top-up condition, in the event of security cover dropping. Liquidity of its equity shares which are traded on the stock exchanges is moderate. There is a period of 3 days before the repayment date where the funds need to be available in the cash escrow account in the absence of which the shares could be liquidated to make available the required funds to redeem the NCD as well as for interest payments on the due date. APSEZ's current stock price is trading in the range of ₹ 300-340, with low of ₹ 185.05 and high of ₹ 357.95 during the past one year.

Rating Outlook

The rating captures the current financial flexibility of Adani group, the NCD structure which involves pledge of APSEZ equity shares provided as security, and performance of APSEZ. Security cover of 2 times provides cushion to investors. The Company is required to deposit all amounts payable under the facility (including principal and interest) 3 days prior to maturity or call/put option date. This addresses the liquidity aspects to an extent, should there be a need to invoke the sale of collateral. Overall & Stock Market performance of APL & APSEZ as well as adherence to the structure is a key sensitivity to the Rating.

The rating is also subject to the terms of issue being inline as per draft provided to us and their compliance with the requisite terms of the issue, regulatory and legal requirements.

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Annexure I – P & L

₹ Crores	FY13	FY14
Result Type	Audited	Audited
Gross Sales	6774.79	15754.07
Net Sales	6774.79	15754.07
Other Operating Income	15.87	26.58
Total Operating Income	6790.66	15780.65
Operating Expenses	5711.35	10790.72
OPBDIT	1079.31	4989.93
Depreciation/Amortization/Impairment	1289.68	2218.45
OPBIT	(210.37)	2771.48
Interest and Finance Charges	1646.35	3655.54
OPBT	(1856.72)	(884.06)
Non-Operating Income(Expenses)	14.44	(485.48)
PBT	(1842.28)	(1369.54)
Extraordinary/Prior Period - Income(Expense)	24.06	0.00
Provision for Taxes	476.79	(1078.99)
PAT	(2295.01)	(290.55)

Adani Power Ltd		
Annexure II – Balance Sheet		
₹ Crores	FY13	FY14
Liabilities	Audited	Audited
EQUITY AND RESERVES	4294.21	6544.17
Share capital	2393.27	2871.92
Share Application money Pending allotment	0.80	0.78
Reserves and Surplus	1900.14	3671.47
Non-current liabilities	34780.23	33906.57
Long-Term Borrowings	33191.60	33131.48
Deferred tax Liabilities (Net)	1078.99	0.00
Other Long Term liabilities	343.59	396.84
Long-Term Provisions	166.05	378.25
Current liabilities	15613.42	18288.20
Short-Term Borrowings	4411.19	6637.28
Current Portion Of Long Term Debt	4192.65	4381.47
Trade Payables	3537.47	4095.43
Other Current Liabilities	3066.15	2514.17
Short-Term Provisions	405.96	659.85
Total Liabilities	54687.86	58738.94
ASSETS		
Non-current assets	49635.45	51634.71
Net Fixed assets	29080.26	46354.51
Capital Work-In-Progress	18976.50	3659.83
Net Intangible assets	8.34	10.02
Non-Current Investments	10.01	10.01
Long Term Loans and Advances	1405.47	904.91
Other Non-Current Assets	154.87	695.43
Current assets	5052.41	7104.23
Current Investments	12.36	105.31
Inventories	1555.67	1280.96
Trade Receivables > Six Months	212.79	82.19
Trade Receivables < Six Months	545.69	1461.08
Cash and Cash Equivalents	1718.09	830.63
Short-Term Loans and Advances	371.85	506.82
Other Current Assets	635.96	2837.24
Total Assets	54687.86	58738.94