

Rating Report

Brickwork Ratings assigns “BWR AA-(SO)” Rating for the Proposed Structured Non-Convertible Debenture issue of Upto ₹ 1000 Crs of Adani Power Ltd.

Brickwork Ratings (BWR) has assigned the Rating¹ of BWR AA- (SO) (Pronounced BWR Double A Minus Structured Obligation) (Outlook: Stable) Rating for Adani Power Ltd’s (APL or the ‘Company’) proposed NCD issue of upto ₹1000 Crs with tenor upto 38 months. Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low 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 Adani Ports & Special Economic Zone Ltd which are listed, structure of the proposed NCD issue and financial flexibility of the group. However, the rating is constrained by the fundamentals of issuer, reliance on promoter funds, refinance or, alternatively, liquidation of the securities - to meet the obligations arising from the proposed NCD issue, market volatility in the price of equity shares of Adani Ports & Special Economic Zone Ltd and regulatory issues faced by the power industry.

Background

APL is a 68.99% subsidiary of Adani Enterprises Ltd (AEL). AEL is the flagship company of the group. It was incorporated in August 1996. APL is a power project development company and is operating and maintaining 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 installed capacity of APL will increase to 11,040 MW with the acquisition of the soon-to-be-completed 1,200 MW Udipi plant and Korba plant (600 MW). The Company intends to use the proceeds of the NCD towards acquisition and General Corporate Purposes.

NCD Structure

The Company has proposed to raise this structured NCD of upto ₹ 1000 Cr with tenor upto 38 months. There will be voluntary redemption option at any date falling between 18 months and 18 months and 10 days post allotment. The coupon is pre decided for first 18 months and 10 Days and will be reset between the Issuer and the Investors for the remaining period. The repayments are due at maturity or voluntary redemption date alongwith applicable interest

payments. The NCD's are backed by way of pledge of equity shares of Adani Ports & Special Economic Zone 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 incase cover is greater than 2.2 times for a consecutive period of 7 days. Also, there is a cash escrow date 10 days prior to the Maturity Date or first coupon payment date as applicable. Other key covenants of the issue ensure a balance between issuer and investors.

Other Key Covenants of the Issue

- No change in management control of the Issuer, Share Issuers and Security Providers. Change in management control to be defined as a holding below 51%
- Indebtedness at the Issuer from group companies to be subordinated to the NCDs. No restriction on payments till such time that there is no EOD under the NCDs
- No change of business
- No change in ownership of the Issuer
- Obtain, comply with and maintain all licenses / authorizations

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

Incorporated in 1998, APSEZ is an 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 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 ports 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 112.75mn tonnes in FY14 (69mn tonnes in H1FY15).

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 9MFY15, on a consolidated basis the company reported total operating income of ~₹ 4463 Crs, while PAT before minority interest stood at ~₹ 1665 Crs.

Financials of APL

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) with regards to 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

Rating Outlook

The rating captures the performance of APL & APSEZ and the NCD structure which involves pledge of APSEZ equity shares provided as security. 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) 10 days prior to voluntary redemption date, if exercised, or at maturity. 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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Adani Power Ltd		
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		
EQUITY AND RESERVES		
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		
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		
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		
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		
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