Rating Rationale

Brickwork Ratings assigns BWR BBB+ Rating with Stable outlook for long-term Bank Loan Facilities and BWR A3+ to the short-term Bank Loan Facilities sanctioned to Adhunik Power and Natural Resources Limited totaling ₹ 3023.66 Cr

Brickwork Ratings has assigned the following Ratings[1] to the Bank Loan Facilities of Adhunik Power and Natural Resources Limited (APNRL):

Facility	Limits (₹ Cr)	Tenure	Rating
Fund Based: **Cash Credit** **Term Loan**	257 2544.66	Long Term	**BWR BBB+** (Pronounced BWR Triple B Plus) **(Outlook – Stable)**
Non-Fund Based: **Letter of Credit/Bank Guarantee**	222	Short Term	**BWR A3+** (Pronounced BWR A Three Plus)

The rating factors, inter alia, the support provided by the group (via equity infusions and managerial support), achievement of financial closure, the current stage of project execution with Phase I of the project having achieved COD in January 2013, expected commissioning of Phase II in April 2013, allocation of a captive coal block on a 50:50 sharing basis with Tata Steel Ltd (TISCO), long term Power Purchase Agreements in place and the execution of Fuel Supply Agreements with Central Coalfields Ltd (CCL) on a tapering linkage basis.

The rating is constrained by its exposure to fuel supply risks from CCL, post implementation risks that may arise due to the recent achievement of COD, exposure to tariff price movements due to its functioning as a merchant power plant to a certain extent.

The company's ability to meet the timelines specified for commissioning of Phase II, the ability to manage its feed availability and pricing, management of cash flows and managing further expansion without recourse to excess debt will remain key rating sensitivities.

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

Background of the Promoters

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.

The group currently holds more than 96% stake in APNRL, expected to be diluted going ahead with the conversion of the Compulsorily Convertible Preference Shares issued to IDFC and SBI Macquarie.

The group has to date, infused a total of Rs. 352.93 Cr to fund the project.

Project Details:

The company has entered into an 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.

Locational advantages with regards to proximity to the source of raw materials (via mines) and railways render issues regarding transportation of fuel negligent.

The project has seen two cost and time overruns during implementation due to changes in the design for Phase I, delays in awarding contracts and increase in prices from the budgeted amount.

However, the company financed its principal and interest repayments despite non-achievement of the scheduled COD by availing a credit line from IL & FS.Since then, Phase I has achieved COD in January 2013 and power generated has been sold under the PPA agreements in place.

Phase II is expected to achieve COD in April 2013, and with this, the entire project implementation risk would be over

Project Financing:

The total cost of the project under the two phases is estimated at Rs.3376.7 Cr, of which Rs.903.1 Cr is the equity portion taking the debt to equity ratio to 2.67 times.

Of this, the debt has been funded by term loans sanctioned by consortiums for the two phases, the total sanctioned limit stands at Rs. 2544.66 Cr.

Private Equity Infusion

Private equity has been infused by the PE arms of IDFC and SBI Macquarie in the company. The total amount funded so far by the two firms stands at Rs.435 Cr.

Coal Linkages:

The company has been allocated a captive Ganeshpur coal block on a 50:50 basis with Tata Steel. The total reserves of the block stand at 138 Mn Tons, of which the share of APNRL comes to around 69 Mn Tons.

Tata Steel will fund the mining operations and sell the mined coal to APNRL at the transfer price fixed by the Government of India to the extent of its share. APNRL has the first right over its entitlement of the mined reserves.

The operations of the coal mine are yet to commence; however, the company has obtained the forest and environmental clearance recently and is expecting to be able to proceed with the process.

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.

Power Purchase Agreements:

The company has signed PPAs with the Jharkhand State Electricity Board (JSEB) to supply 25% of the power generated by the two units; of this 12% will be supplied at variable cost and 13% at the CERC tariff. The payments from JSEB are backed by LCs reducing the time for recovery.

The company has also signed long term PPAs with Tata Power Trading Company Ltd for 100 MW (with an "upside" sharing ratio of 85%) and 200 MW under different PPAs with PTC (of which 100 MW will be supplied to West Bengal State Electricity Board).

The total power covered under PPAs stands at 423 MW; the remaining power generated is expected to be sold on a merchant basis via power exchanges/long term or short term basis.

Rating Outlook

The performance of the firm is closely linked to its ability to achieve COD of Phase II on schedule, manage its cash flows and plan its future expansion plans conservatively.

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