Rating Report

Brickwork Ratings reaffirms 'BWR BBB+' & 'BWR A3+' for the Bank Credit Facilities of Adhunik Power and Natural Resources Ltd., and enhances the rated amount to ₹3115.53 Cr

Brickwork Ratings (BWR) has *reaffirmed* the following **Ratings**[1] for Bank Loan Facilities of Adhunik Power and Natural Resources Ltd. *("APNRL" or "the Company")* and enhanced the amount rated under working capital facilities as shown below:

Facility	Previous (₹ Cr)	Present (₹ Cr)	Tenure	Rating
Term Loan (Consortium)	2544.66	**2473.53**	**Long Term**	**BWR BBB+** (BWR Triple B Plus) **Outlook: Stable**
Fund Based Working Capital(Consortium)	257	**385@**		
Non-Fund Based Facilities (Consortium)	222	**257#**	**Short Term**	**BWR A3+** (BWR A Three Plus)
Total	3023.66	**3115.53**	**INR Three Thousand One Hundred & Fifteen Crores & Fifty Three Lakhs only**	

*** Annexure I provide details of Bank Loan Facilities being rated.**

@ - Fund Based Working Capital Limit of Rs. 86 Cr not yet tied up with any lender

 # - Non Fund Based Working Capital Limit of Rs. 27.5 Cr not yet tied up with any lender

BWR has relied on the audited financial performance of the Company up to March 2013 and audited figures as of 9MFY14 (December 2013), financial projections, the clarifications provided by the company and discussions held with the Management of the Company.

The ratings factor, inter-alia, experience of the promoters in this business, ownership of the Company by Adhunik Group, presence of PE investors in the Company and on the Board, commissioning of Phase 2 of the Project in June 2013, prepayment of principal up to June 2014, Power Purchase Agreements signed with Tata Power Trading Company Ltd. (TPTCL) and the expectation of start of operations of the Coal Mine allocated to APNRL along with TATA Steel Ltd. during 2015-16.

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

The ratings are constrained by the exposure of the Company to volatility in margins due to reliance on merchant sale of power, high fuel costs, and reliance on market sources for a part of the Coal in order to meet the Coal quality required until the coal mine is operational.

Background

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.

Project Details:

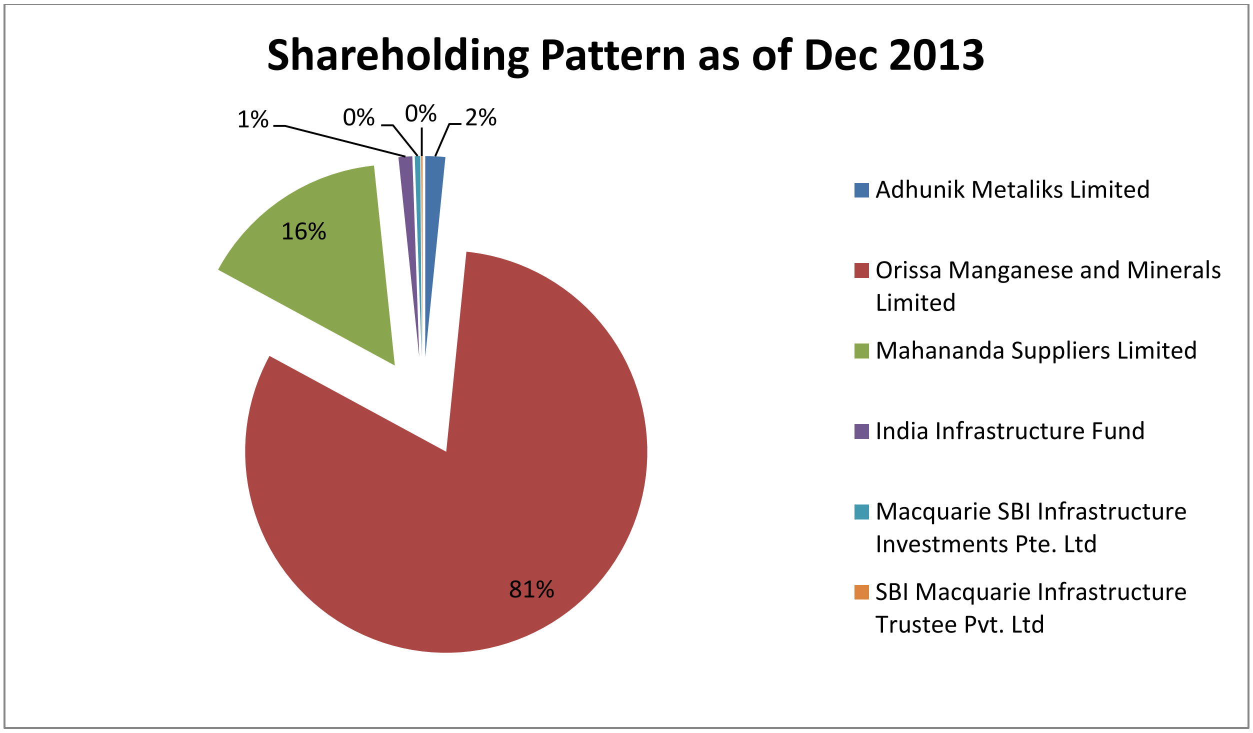
The company has entered into a MoU with the Government of Jharkhand to set up a 1080 MW coal based thermal power plant in 2008. The company has built two units of 270 MW (Phase I and Phase II) under this MoU, taking the total installed capacity at this stage to 540 MW.

The units are located at the Padampur and Srirampur villages in the Sarikela-Kharsawan district in Jharkhand. They benefit from locational advantages with regards to proximity to the source of raw materials (via mines) and railways.

The project has seen two costs and time overruns during implementation due to changes in the design, delays in awarding contracts and increase in prices from the budgeted amount. Phase I of the project achieved COD in January 2013 and Phase II in June 2013.

<u>Board and Management</u>

The shareholding pattern of APNRL as of December 2013 is represented by the chart below:



The Shareholding Pattern shown above does not reflect the conversion of the CCPS by the PE investors – India Infrastructure Fund and SBI Macquarie as per the Agreement signed between the promoters of APNRL and the PE investors'. As per the above mentioned Agreement, the conversion of the preference shares will be done in a ratio such that ownership of the Company by the promoters reduces to around 55.87% post conversion.

Brickwork Ratings considers this a positive for the Company, as the presence of such investors will ensure that related party transactions will be done at arm's length and corporate governance at the Company will remain good.

The Board of Directors consists of the Promoters, nominee directors from the PE investors and two independent directors. The Board has members who have experience in Steel and Mining, Infrastructure, Power, Government and Banking sectors. The average experience of the Board members is around 15 years.

Operational Performance

Coal Linkage:
The company has been allocated a captive Ganeshpur coal block on a 50:50 basis with Tata Steel Ltd. 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 Level I forest and environmental clearance recently and is expecting to be able to proceed with the process. As per the Clearance certificate shared by the Company with Brickwork Ratings, the maximum share of the coal that APNRL is entitled to per year would be around 2 MTPA(normative).

The Coal Block was reviewed recently by the Government and a timeline of November 2014 for obtaining Level 2 Forest Clearance has been given; the Company believes that the same can be obtained by July/August 2014.

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.
With the supply from Central Coalfields Ltd. being transported mainly via road, the fuel costs of the Company has been on the higher side (at an average of Rs. 3500/Ton), reducing the margins of the Company. With sourcing of coal from its captive mine and use of the railway siding proposed to be constructed within the next two years, coal costs are expected to remain high until 2015 and then reduce for the Company.

Plant Efficiency:
While Phase I was commissioned in January 2013, Phase II was commissioned in June 2013. Until March 2013, Phase I operated at PLF levels of 40%-60%.

From April 2013 to December 2013, PLF level for Phase I was around 70%; from June 2013 to December 2013, the PLF level for Phase II was around 60%.

PLF levels are expected to be in the 70-75% range for FY14.

Power Purchase Agreements (PPAs):

As of date, the Company has entered into PPAs with

a) Jharkhand State Electricity Board (as a part of the MoU signed, 12% of total power produced will be sold at variable cost and 13% will be sold at CERC tariff) – 124 MW
b) Tata Power – 100 MW of power produced to be sold at a base rate of Rs. 2.75/KwH with an upside of 85% based on sale of power by Tata Power
c) TANGEDCO (through PTC) – 100 MW of power produced to be sold to Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO) via PTC (finalized with TANGEDCO in November 2013)
d) WBSEDC (through PTC) – 100 MW of power produced to be sold to West Bengal State Electricity Distribution Company (WBSEDC) via PTC

As of date, the total power tied up through PPAs is 424 MW of a total produced 540 MW; assuming an auxiliary consumption of 8.5%, total saleable power is around 494 MW.

The scheduled date for delivery as per the PPA for the latter two PPAs would be 2014-15 and hence; for FY13 and FY14, the Company has relied more on merchant sales.

The tariff rates for merchant sale have reduced over the last year and as a result, total sales of the Company were on the lower side for FY13 and for 9MFY14.

Financial Performance

Gross revenue for APNRL stood at ₹95.63 Cr for FY13; of this ₹ 95.54 Cr was revenue from operations. In 9MFY14, with the commissioning of Phase 2, total sales revenue was ₹868.84 Cr; of this, ₹ 867.19 Cr was revenue from operations.

Around 58% of the total revenue as of 9MFY14 was from merchant sales. The contribution from merchant sales to the total revenue is expected to be around 23% for FY15, reducing the overall volatility in earnings of APNRL.

The gross margins of APNRL stood at 37% for FY13 and 35% for 9MFY14.Coal costs were the biggest contributor to the expenses and averaged around 77% of the total expenses. The Company has reported a loss of ₹ 19 Cr in FY13, mainly on account of depreciation costs (around ₹19 Cr) and a loss of ₹112.01 Cr for 9MFY14 (depreciation costs were around ₹112.46 Cr).

Considering the commissioning of the Project, it can be considered that FY14 is the first operative year of the plant. While the Company has reported a net loss, there has been no cash loss for 9MFY14.

The Interest Service Coverage Ratio stood at 1.02 for FY13 and is expected to improve to 1.16 for FY14. As of 9MFY14, the interest service coverage stood at 1.01 times. As the Company has prepaid installments until June 2014, the interest charges are expected to reduce in the last quarter for FY13.

The Net-worth of the Company stood at 768.57 Cr for FY13, due to infusion of equity by the promoters and the PE investors (through CCPS). As of 9MFY14, the Net Worth of the Company was ₹698.77 Cr (including share application money pending allotment of ₹ 16.35 Cr infused by the Promoters).
The Agreement between the Promoters and the PE investors' calls for infusion of capital to support the project as required to meet cost and time overruns of the project.

Total Debt of the Company stood at around ₹2506 Cr in FY13, with Debt to Equity being 3.26 indicating the nature of operations of the Company (infrastructure). In FY14, the same is expected to be 3.67 times, with total debt levels expected to be at ₹2859 Cr.

The Company has been sanctioned ₹401.19 Cr by IIFCL under its take-out finance scheme and the same will be disbursed one year post achievement of COD (June 2014). The Company expects to prepay its installments using the same.

Considering the prepayment scheduled, the debt service coverage levels (DSCR) which was around 1.02 for FY13 is expected to improve to 1.7 times by FY15. Return on Capital Employed was at 0.48% for FY13 and is expected to improve to 5% for FY14.

Outlook

The ability of APNRL to improve its margins by managing raw material costs, in particular fuel costs, improvement of overall plant efficiency levels and maintenance of financial discipline will be key rating sensitivities. The progress in operationalizing the captive mine allocated to it will help improve margins for the Company in the long run.

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Annexure I

Details of the Existing Bank Facilities

I. Term Loans Outstanding as of 28th March 2014

a) Phase I Term Loans

Sl.No	Bank	Outstanding Amount(in Rs. Cr)
1	Allahabad Bank	122.21
2	Bank of India	40.74
3	Indian Overseas Bank	52.97
4	Oriental Bank of Commerce	40.72
5	Punjab & Sind Bank	28.51
6	Punjab National Bank	81.45
7	State Bank of Bikaner & Jaipur	20.38
8	State Bank of India	162.98
9	State Bank of Patiala	40.74
10	State Bank of Travancore	40.74
11	UCO Bank	79.05
12	United Bank of India	61.09
13	ICICI Bank	186.27
14	ILFS Financial Services Ltd	53.78
15	IFCI Ltd	171.80
16	SBI Additional Loan (Undisbursed)	82.50
	Total	**1265.90**

b) Phase II Term Loans

Sl.No	Bank	Outstanding Amount(In Rs. Cr)
1	Allahabad Bank	74.92
2	Punjab & Sind Bank	30.00
3	Dena Bank	75.00
4	Andhra Bank	29.25
5	Bank of Baroda	65.00
6	Bank of India	40.00
7	Bank of Maharashtra	50.00
8	Life Insurance Corporation of India	100.00
9	PTC India Financial Services Limited	40.00
10	Punjab National Bank	40.00
11	State Bank of Bikaner and Jaipur	29.88
12	State Bank of Hyderabad	50.00
13	State Bank of India	195.00
14	State Bank of Patiala	25.00
15	State Bank of Travancore	40.00
16	Union Bank of India	100.00
17	United Bank of India	50.00
18	ICICI Bank	97.50
19	ILFS Financial Services Ltd (PHASE II)	21.21
20	IFCI Ltd	29.46
21	SBI additional Loan(Undisbursed)	25.05
	Total	**1207.27**

Total Term Loans Rated: Rs. 2473.93 Cr
(Total Outstanding of 2365.62 Cr and Undisbursed Amount of Rs. 107.91 Cr.)

II. Working Capital Facilities

a) Phase I Working Capital Limits

Sl.No	Bank	Fund Based Working Capital Limit(in Rs. Cr)	Non Fund Based Working Capital Limit(in Rs. Cr)
1	Bank of India	13.50	9.25
2	Oriental Bank of Commerce	20.00	6.38
3	Punjab National Bank	15.00	15.00
4	State Bank of India	35.00	37.50
5	United Bank of India	16.50	3.75
6	Syndicate Bank	13.50	10.38
7	Union Bank of India	7.50	5.00
8	Bank of Baroda	3.50	
9	State Bank of Hyderabad	25.00	27.50
	Total	**149.50**	**114.75**

b) Phase II Working Capital Limits

Sl.No	Bank	Fund Based Working Capital Limit(in Rs. Cr)	Non Fund Based Working Capital Limit(in Rs. Cr)
1	Bank of Baroda	3.50	
2	Bank of India	13.50	9.25
3	Punjab National Bank	15.00	15.00
4	State Bank of Hyderabad	25.00	27.50
5	State Bank of India	35.00	37.50
6	Union Bank of India	7.50	5.00
7	United Bank of India	16.50	3.75
8	Syndicate Bank	13.5	10.375
9	Oriental Bank of Commerce	20.00	6.38
	Total	**149.5**	**114.75**

Annexure II

Balance Sheet of Adhunik Power and Natural Resources Ltd.

Year Ending	31-Mar-13
(All amounts are in Rs. Cr)	
Total Equity and Reserves	787
Change in Reserves and Surplus	(19)
Net-worth	**769**
Borrowed Funds	-
Long Term Borrowings	2,320
WC Finance	186
Total Borrowings	**2,506**
Other Long Term Liability	215
Deferred Tax Liability	-
Total Sources	**3,489**
Gross Fixed Assets	3,215
Net Fixed Assets	3,196
	-
Other assets	45
Cash and Bank Balances	15
Total uses	**3,489**

Profit and Loss Statement of APNRL

Year Ending	31-Mar-13
(All amounts are in Rs. Cr)	
Revenue	
Sales to JSEB at variable cost	-
Sales at CERC tariff	-
Sales at Long Term PPA	-
Merchant Sale	96
Total Revenue	96
Expenditure	
Coal Cost	46
Oil Cost	-
O&M Cost	15
Contribution to Environmental Protection Fund	-
Total Expenditure	61
PBDIT	**35**
Interest and Finance Charges	34
PBDT	**1**
Depreciation	19
Preliminary Expenses Amortized	-
PBT	**(19)**
Tax	-
Deferred tax	-
	-
PAT	**(19)**