Adani Electricity Mumbai Limited

March 27, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	-	-	Withdrawn
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable / A One Plus) and Withdrawn
Short Term Bank Facilities	-	-	Withdrawn
Total Facilities	-		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE AA; Stable / CARE A1+' [Double A; Outlook: Stable / A One Plus] assigned to the bank facilities of Adani Electricity Mumbai Limited (AEML) with immediate effect. The above action has been taken at the request of AEML and 'No Objection Certificates' and 'No Dues Certificates' received from the banks that have extended the facilities rated by CARE

The ratings continue to draw strength from AEML's strong parentage of Adani Transmission Limited (ATL), long standing satisfactory operational track record of the Mumbai-Generation, Transmission & Distribution (Mumbai-GTD) business, professional and qualified management team retained by AEML post its acquisition from Reliance Infrastructure Limited (R-Infra), strong business profile with stable cash flows as a result of regulated cost plus model of operations, diversified and vibrant customer base and satisfactory operational efficiency exhibited during the past periods. The ratings also take into account 25.10% stake sale of AEML by ATL to Qatar Holding LLC i.e. a subsidiary of Qatar Investment Authority (QIA) - sovereign wealth fund of the State of Qatar in February 2020.

The long term rating, however, continues to remain constrained due to limited experience and track record of the Adani Group in power distribution business, moderate leverage leading to moderate debt coverage indicators, high reliance on short term power purchase upon termination of power purchase agreement (PPA) with Vidarbha Industries Power Limited (VIPL) and exposure to regulatory risks associated with open access of power, customer migration and requirement of regular tariff approval.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage of Adani Transmission Limited (ATL)

ATL was incorporated in the year 2013 with a view to consolidate power transmission businesses of the Adani Group under one entity. Upon conclusion of business restructuring of the Adani Group in the year 2015, ATL got listed in July 2015 and the promoter group holds 74.92% of equity stake in ATL as on December 31, 2019. ATL through multiple subsidiaries holds 17 operational projects and 9 under implementation projects as on date (including the integrated Mumbai-GTD business housed in AEML and operational power transmission project acquired from KEC International Limited in February 2019). Operational projects of ATL have demonstrated very good operating performance. ATL has presence across a number of states like Gujarat, Maharashtra, Rajasthan, Haryana, Chhattisgarh, Madhya Pradesh, Jharkhand, Bihar and Uttar Pradesh. ATL is India's largest private sector transmission company with a cumulative transmission network reaching to around 14,738 circuit kms as on date out of which 11,477 circuit kms is operational and 3,261 ckm is at various stages of construction. During FY19, ATL reported TOI of Rs.6,797 crore with a PAT of Rs.559 crore reflecting comfortable financial risk profile even after factoring equity commitment of ATL towards above-said under implementation projects under its subsidiaries. During 9MFY20, ATL reported TOI of Rs.8,152 crore with a PAT of Rs.648 crore.

Long standing satisfactory track record of operations of the acquired Mumbai-GTD asset

Mumbai-GTD business consists of the Generation, Transmission and Distribution segments through which electricity is supplied to around 3.05 million consumers in the suburbs of Mumbai. The details of each of the Mumbai-GTD segments are given as below:

A. <u>Generation Segment</u>

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

- *Capacity:* 2 units x 250 MW thermal power station at Dahanu near Mumbai.
- *CoD:* CoD of Unit-I achieved in July 1995 and CoD of Unit II achieved in January 1996.
- *Regulator:* Regulated by Maharashtra Electricity Regulatory Commission (MERC), tariff fixation is based on cost plus regime with a fixed post-tax RoE (Return on Equity) of 15.50% p.a.
- *PPA:* Long term PPA up to February 2023 with Mumbai Distribution Business for the entire installed capacity (subject to regulatory renewal process).
- Normative plant availability factor (PAF): 85%.
- Dahanu power plant has maintained PAF above normative levels during last seven years ended FY19. However, the plant load factor (PLF) levels have reduced during the same period due to backing down instructions given by State Load Dispatch Centre (SLDC) as per merit order dispatch.

B. Transmission Segment

- Evacuates power generated by Mumbai Generation and connects Mumbai Distribution to the state grid.
- Transmission license is valid for a 25 year period till 2036.
- The segment is regulated by MERC and the tariff is determined through a cost plus regime with a fixed post-tax ROE of 15.50% p.a.
- AEML has been able to maintain system availability of its transmission network above normative levels for the last seven years end FY19.

C. Distribution Segment

- It is the oldest of the three segments and the license area comprises Mumbai suburbs and parts of Mira-Bhayandar with an area of 400 sq. km.
- The distribution license is valid till 2036.
- The segment is regulated by MERC and the tariff is determined through a cost plus regime with a fixed post-tax ROE of 15.50% p.a. in wires business and 17.50% p.a. in supply business.
- The distribution segment has a normal demand of around 1,300 MW with a peak demand of around 1,900 MW (including changeover consumers).
- Before this asset was acquired by ATL, it was in operation for a reasonably long period of time and has demonstrated satisfactory operational track record.

Professional and qualified management team of R-Infra retained by AEML

Acquisition of Mumbai-GTD business marked ATL's foray in to large scale electricity distribution sector, the most vital function within the power supply chain. For seamless business operations at AEML, largely entire professional and qualified management team of R-Infra is retained by AEML, including absorption of about 5,000 existing employees across three business segments.

Strong business profile with stable cash flows as a result of regulated cost plus model of operations subject to maintenance of operational parameters above normative levels

All three business segments of AEML viz. Generation, Transmission & Distribution operate under a cost plus fixed ROE regime subject to maintenance of operational parameters above normative levels. As per the MERC multi-year tariff (MYT) regulations, all three business segments of AEML are required to file MYT petition with MERC for approval of their aggregate revenue requirement (ARR) for next 4 year control period based on the expected costs and defined ROE of 15.50% p.a. (17.50% p.a. in case of supply business of the distribution segment). Any variation (positive or negative) in the actual costs vis-à-vis the approved cost by MERC is required to be adjusted in the future years by AEML based on a true-up mechanism wherein AEML is required to file petition with MERC as specified in the MYT regulations. MERC after due verification of the tariff petition filed by AEML and after public hearing process decides the final tariff through its tariff order. Further, the capex incurred by all the three segments of AEML is also required to be approved by MERC. This leads to all three business segments of AEML to operate on a cost plus fixed ROE basis thereby ensuring steady returns and thus providing comfort for debt servicing. All three segments have demonstrated track record of meeting the normative requirement of PAF, transmission losses and distribution losses resulting in generation of stable cash flows in the past. The tariff of all three segments of AEML for the control period ending FY20 has been approved by MERC.

Diversified and vibrant customer base

The company supplies power to about 3.05 million customers serving the suburbs of Mumbai from Bandra to Mira Bhayander covering an area of 400 sq. kms. The company caters to a favorable customer base in the prime urban area of the country. The Mumbai region consists of people with one of the highest per capita incomes in the country and contributes a significant portion to the overall tax collection of the country reflecting high level of affluence. Further the service area has high level of per capita consumption of electricity at about 3,300 units per annum as against a national average annual consumption of about 1,180 units in FY198.

AEML has a diversified mix of customers consisting of residential, industrial and commercial providing diversity of revenue streams. From FY13 to FY19, the demand for electricity has grown at CAGR of 5.12%. This robust consumption is mainly driven by commercial and industrial segments which have grown at CAGR of 9.01% and 14.29% respectively during this period.

Satisfactory operational efficiency exhibited during the past periods
AEML operates with high level of operating efficiencies across all three segments viz. Generation, Transmission and Distribution businesses. AEML has consistently been able to reduce the transmission losses and distribution losses through continuous capex and improvement in its operational efficiencies which enabled it to operate within the normative level of losses and hence, the same have been approved by the regulator as a part of regular business. As against transmission and distribution losses of 1.41% and 8.12% respectively during FY18, AEML's transmission and distribution losses stood at 1.67% and 7.85% respectively during FY19.

Key Rating Weaknesses
Limited experience and track record of the Adani Group in power distribution business
Adani Group has a long standing experience in power generation and transmission segments. However, it has a limited experience and track record in large scale power distribution business as the Mumbai-GTD business has been acquired by since August 2018 only. Prior to acquiring the Mumbai-GTD business from R-Infra, Adani Group, through MPSEZ Utilities Private Limited (MUPL), was acting as a distribution licensee for Mundra special economic zone (SEZ) area where annual requirement of electricity is around 200-250 million units (MUs) vis-à-vis annual energy requirement of more than 10,000 MUs for Mumbai distribution area. Accordingly, seamless operations of the Mumbai-GTD business would be critical considering the highly sensitive area of its operations. However, retention of large part of the management team of Mumbai-GTD division of R-Infra is expected to alleviate this risk.

Moderate leverage leading to moderate debt coverage indicators
AEML has funded the Mumbai-GTD business acquisition cost of Rs.12,101 crore by way of debt equity of 70:30 resulting in moderate leverage leading to moderate debt coverage indicators. Also, it has availed term debt for funding its capex requirement which adds up to its leverage resulting in moderate debt coverage indicators. Moreover, AEML has proposed mandatory capex to be incurred from FY20 onwards for the next 5 years for all its three segments in order to upgrade its infrastructure which, net of consumer contribution by way of service line contribution (SLC), is proposed to be funded in a debt to equity ratio of 70:30. This would further result in moderation of its leverage/debt coverage indicators. However, additional capex would also lead to improvement in AEML's PBILDT on account of its cost-plus fixed ROE business model. In spite of the expected improvement in operating performance of AEML, the leverage/debt coverage indicators are expected to be very steady.

High reliance on short term power purchase upon discontinuation of power supply by VIPL
The distribution segment of AEML has a normal demand of around 1,300 MW and a peak demand of around 1,900 MW (including changeover consumers). Out of the same it had long term PPA of 5 years with Dahanu power plant for 500 MW, long term PPAs for 162 MW of renewable power and a long term 25 year PPA starting from April 01, 2014 with VIPL for 600 MW. VIPL operates as a domestic coal-based power project with a capacity of 600 MW (2 units X 300 MW) at the Butibori Industrial Area in Nagpur, Maharashtra. However, with effect from May 20, 2019, AEML has terminated the PPA with VIPL which is resulting in higher reliance of AEML on short term power purchases from various alternative sources. Moreover, even when VIPL was supplying power to AEML, its reliance on short term sources of power was on a higher side thereby exposing AEML to fluctuations in prices of short term power; which would require regulatory approval for its pass-through. However, till date the regulator has allowed recovery of actual power purchase cost to AEML.

Exposure to regulatory risks associated with open access of power, customer migration and approval of tariff
Operations of AEML are exposed to various regulatory risks as it is being a highly regulated business as follows.
<u>Susceptibility to open access of power</u>
Though open access below 1 MW is not allowed in the licensee area, any change in regulation may result in migration of commercial and industrial consumers shifting to open access thereby denting the demand growth of power for AEML. However, the open access consumers prefer using the network of AEML due to its low network charges leading to realisation of revenue in the form of cross-subsidy surcharge and wheeling charge for AEML.
<u>Migration of consumers from AEML</u>
There is a possibility that consumers may migrate to Tata Power (if after other charges, the tariff is lower than that of AEML). In the past, it was witnessed that significant customer base was lost to Tata Power. However, the customer migration trend has been declining over the past few years post August 2013 due to MERC order specifying cross subsidy surcharge and regulatory asset charge.
<u>Tariff approval</u>

As a best practice, tariff petition for the next year should be filed by November 30 and final tariff order for the next year should be available by March 31. However, in the past it was observed that there had been delay in issuance of tariff order by the regulator. Any such delay could result in temporary cash flow mismatches.

Analytical approach: Standalone

Applicable Criteria
Policy on Withdrawal of Ratings
Criteria on Assigning 'Outlook' and 'Credit Watch'
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Private Power Producers
Rating Methodology - Infrastructure Sector Ratings (ISR)
Rating Methodology - Consolidation and Factoring Linkages in Ratings
Financial Ratios - Non-Financial Sector

About the Company
On August 29, 2018, Adani Transmission Limited (ATL), part of the Adani Group, acquired Reliance Infrastructure Limited's (R-Infra) integrated Mumbai power business which included R-Infra's assets in power generation, transmission and distribution in Mumbai (Mumbai-GTD business). The integrated business includes the power generation units based at Dahanu, power transmission network spread across Mumbai and Maharashtra and the retail power distribution network in Mumbai suburbs which serves around 3.05 million customers spread across 400 sq. kms in the city of Mumbai. The acquired asset from R-Infra is housed in Adani Electricity Mumbai Limited (AEML) (formerly known as Reliance Electric Generation and Supply Limited), a newly formed entity and a subsidiary of ATL.
Acquisition of the Mumbai-GTD business was valued at Rs.12,101 crore which was funded by way of term debt of Rs.8,500 crore and equity of Rs.3,601 crore from ATL. Subsequently, in February 2020, ATL sold-off its 25.10% stake in AEML to Qatar Holding LLC i.e. a subsidiary of Qatar Investment Authority (QIA) - sovereign wealth fund of the State of Qatar for a consideration of around Rs.1,210 crore.

Particulars (Rs. Crore) – AEML (Standalone)	FY19 (A)
Total Operating Income	7,740
PBILDT	1,631
PAT	61
Overall Gearing (times)	2.44
Interest Coverage (times)	1.61

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Bank Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Derivative Limits	-	-	-	0.00	Withdrawn
Fund-based - ST-Term	-	-	-	0.00	Withdrawn

Name of the Bank Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
loan					
Fund-based/Non-fund-based-LT/ST	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	1)CARE AA; Stable (02-Apr-19)	1)CARE AA; Stable (28-Sep-18)	-	-
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	1)CARE AA; Stable / CARE A1+ (02-Apr-19)	1)CARE AA; Stable / CARE A1+ (28-Sep-18)	-	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	1)CARE AA; Stable / CARE A1+ (02-Apr-19)	1)CARE AA; Stable / CARE A1+ (28-Sep-18)	-	-
4.	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	-	-	1)CARE AA; Stable / CARE A1+ (02-Apr-19)	1)CARE AA; Stable / CARE A1+ (28-Sep-18)	-	-
5.	Fund-based - ST-Term loan	ST	-	-	1)CARE A1+ (02-Apr-19)	1)CARE A1+ (28-Sep-18)	-	-
6.	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	1)CARE AA; Stable / CARE A1+ (02-Apr-19)	1)CARE AA; Stable / CARE A1+ (28-Sep-18)	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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