Adani Power Rajasthan Limited

February 16, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	6,040.61	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE A- (Single A Minus)
Long term / Short term Bank Facilities	2,627.70	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable, A Three Plus)	Revised from CARE A- / CARE A2+ (Single A Minus / A Two Plus)
Total Facilities	**8,668.31 (Rupees Eight Thousand Six Hundred Sixty Eight Crore and Thirty One Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings of the bank facilities of Adani Power Rajasthan Ltd. (APRL) is on account of inordinate delay in resolution of its dispute related to compensatory tariff (CT) with its power off-takers as compared to what was previously envisaged due to short-supply of cheaper domestic coal which has led to substantial under-recovery of its power generation cost in the backdrop of limited escalation in its tariff under Power Purchase Agreements (PPAs) resulting in APRL incurring cash losses in FY16 (refers to the period April 1 to March 31) and 9MFY17 along with an expected adverse impact on its liquidity and debt coverage indicators going forward especially in light of imminent step-up in installment repayment obligations from FY18 onwards. The revision in ratings also takes into account significant build-up of CT receivables on its books (exceeding 100% of its tangible net worth as on December 31, 2016) and APRL's continued heavy reliance on costlier imported coal during FY16 & 9MFY17 to meet large part of its fuel requirement in the absence of a fuel supply agreement (FSA) for domestic coal at notified/linkage price.

The ratings, however, continue to draw strength from APRL's parentage being part of the Adani group, financial support from promoter group by way of infusion of unsecured loans and creation of requisite debt service reserve account (DSRA), group's diversified presence in various sectors predominantly in energy businesses, substantially large power generation capacity in operation, long-term PPAs in place for off-take of majority of power, availability of adequate transmission infrastructure and expected improvement in availability of domestic coal through e-auction route.

The ratings, however, continue to remain constrained on account of APRL's exposure to fuel price risk, high counter party risk due to weak credit risk profile of its off-takers resulting in elongation of its average collection period, susceptibility to foreign exchange rate fluctuations, high leverage and exposure to regulatory risks.

The ultimate determination of quantum of CT in APRL's PPAs along with its receipt, tie-up for domestic coal under FSA along with sustained improvement in its availability, maintaining normative Plant Availability Factor (PAF), improvement in its profitability and debt coverage indicators, effective management of its working capital requirements along with receiving need-based financial support from promoter group are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Tie-up of largely entire power generation capacity under long-term PPAs

Out of the total power generation capacity of 1320 MW, APRL has long-term off-take arrangement by way of 25 year PPAs for 1200 MW (i.e. almost 91% of total capacity) which provides good revenue visibility. Also, in case of the PPA, tariff is escalable for energy charges and inland transportation cost linked to CERC index. For FY17, APRL is receiving fixed capacity charge of Rs.1.27/kWh on achieving normative PAF and variable energy charge of Rs.2.00/kWh for actual power supplied to Rajasthan Discoms.

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

Availability of adequate transmission line for evacuation of power

As per PPA, it is the responsibility of procurers to arrange for transmission line network for off-take of power from the plant switchyard. The 400 kV Switch yard has been constructed by APRL whereas Rajasthan Rajya Vidyut Prasaran Nigam Ltd. (RVPN; rated CARE BBB-) has completed 100 CKM 400 kV Double Circuit Kawai-Anta Transmission line in FY14. Also, power is being evacuated through Kawai-Chhabra Start-up power line which was charged in FY13.

Promoter support of Adani group

On the backdrop of ongoing delay in resolution of CT issue at APL & its subsidiaries level, promoters committed equity infusion of ~Rs.1700 crore in APL during FY17 to meet the debt servicing and working capital requirement of APL & its subsidiaries. Out of this, by Feb. 11, 2017, promoters have already infused equity of ~Rs.1165 crore and APL's management has articulated that the promoters would infuse the balance equity of ~Rs.535 crore as planned over the remaining period of FY17. Also, APL has raised debt of Rs.3450 crore by end FY16 which is backed by pledge of shares of promoter group in other listed companies of the group. APL has also extended unsecured loans of ~Rs.1482 crore to APRL by Sept. 30, 2016 (out of which Rs.1000 crore is sub-ordinated) mainly to support the subdued operations of APRL. Also, APL has undertaken neither to seek interest payment on entire unsecured loans extended by it to APRL nor to seek recovery of such unsecured loans unless surplus funds are available with APRL after servicing all its senior debt and other obligations as per the Trust & Retention Account (TRA) mechanism and Facility agreement. This provides some flexibility to APRL to defer such payments in case of lower availability of cash accruals.

Creation of stipulated DSRA

As per the sanction terms of refinanced debt, APRL was required to create DSRA equivalent to one quarter's principal & interest repayment obligation by March 31, 2016. Against the same, APRL has got issued Rs.165 crore of bank guarantee backed by pledge of shares of promoter in other listed companies of the group.

Key Rating Weaknesses

High reliance on costlier imported coal / domestic E-Auction coal pending tie-up and receipt of domestic linkage coal under FSA resulting in under-recovery of its power generation cost

Total requirement of coal for APRL's power plants is estimated at 5.41 MMTPA. The power plants of APRL fall under the 12th Five Year Plan (FYP) whereby there is lack of clarity regarding domestic coal allocation under long-term linkage. However, after approval of the Cabinet Committee on Economic Affairs (CCEA) with regard to the mechanism for coal supply to power producers falling under the Twelfth FYP and subsequent Presidential directives for implementation of the mechanism suggested by CCEA, APRL executed MoUs with MCL, CCL and SECL (subsidiaries of CIL) for supply of aggregate 3.389 MMTPA coal i.e. ~63% of its total requirement. Coal supplies commenced under MoU route from April 2014. However, supply under MoU route declined significantly during FY16 and H1FY17. Also, coal supply under MoU route is costlier compared to linkage coal under FSA. Hence, APRL relied heavily on costlier coal (imported and MoU) till H1FY17 resulting in cash losses and build-up of CT. Subsequently, there has been improvement in availability of relatively cheaper domestic coal under E-Auction route upon increase in coal production in India. Accordingly, APRL has won E-Auction coal to meet part of its requirement for H2FY17. Also, CT requirement for H2FY17 is expected to be on the lower side upon usage of relatively cheaper E-Auction coal compared to imported coal earlier. Despite improvement in supply of domestic coal under e-auction route, APRL relied on imported coal to meet around 40% of its fuel requirement during Q3FY17. However, until it receives adequate domestic coal under FSA, it would continue to under recover its fuel cost as per its existing PPA defined tariff structure despite considering CERC linked tariff escalation.

Inordinate delay in resolution of CT along with significant built-up of CT receivables

Previously, Rajasthan Electricity Regulatory Commission (RERC) had given interim relief to APRL by allowing 25 paisa per unit compensatory tariff in variable cost till the time final compensatory tariff is worked out by the committee constituted by RERC. Subsequently the Rajasthan Discoms filed petition with Appellate Tribunal for Electricity (APTEL) against the said RERC order and APTEL has referred the case back to RERC stating the same as a case of 'Force Majeure' and asked RERC to formulate a methodology to calculate the CT. The order of RERC in this regard is still pending and consequently no cash flows towards CT have commenced for APRL.

APRL has recognized revenue pertaining to CT amounting Rs.305.92 crore, Rs.948.52 crore and Rs.542.16 crore during FY15, FY16 and 9MFY17 respectively, towards additional cost of coal due to non-allocation of adequate domestic coal. Consequently, there has been significant build-up of CT and the accumulated CT recognized by APRL till Dec. 31, 2016 even exceeds its net-worth as of even date which remains a cause of concern in the backdrop of continued uncertainty on resolution of its CT dispute.

Weaker than envisaged debt coverage indicators and liquidity on account of continuing cash losses during FY16 and 9MFY17

During FY16, APRL, in line with RBI's 5/25 scheme, had refinanced its rupee term debt. Due to longer spreading out of the repayment schedule along with expected tie-up for coal under FSA, the profitability and debt coverage indicators of APRL were expected to improve significantly. However, upon delay in resolution of CT issue and APRL's continued reliance on higher cost imported coal and coal under MoUs to meet its fuel requirement during FY16 and 9MFY17, its debt coverage indicators remained weaker than previously envisaged which is a cause of concern especially in the backdrop of imminent step-up in installment repayment obligations from FY18 onwards. APRL incurred cash losses during FY16 (GCA excluding CT of Rs.362.71 crore) and 9MFY17 (GCA excluding CT of Rs.286.12 crore). This also resulted in weakening of its liquidity as reflected in high utilization of its working capital limits during the trailing 12 months ended September 2016. The management of APRL has articulated that the company is in the process of getting its working capital limits enhanced from its lenders to Rs.1500 crore by end-FY17 so as to meet their increased working capital requirements – its timely tie-up would remain a key monitorable.

Weak financial risk profile of its power off takers - the state power sector distribution companies of Rajasthan; albeit expected to improve gradually

There has been weakening of financial profile of Discoms of Rajasthan over the last few years. There had been almost no tariff revisions in the state during 2005 to 2011 leading to substantial under recovery of cost for Discoms. The same was funded by availing additional bank borrowings by Discoms which was ultimately guaranteed by Govt. of Rajasthan. Accordingly, there has been substantial rise in debt level of Discoms over the past few years. Aggregate debt of Rajasthan Discoms was more than Rs.80,000 crore as on March 31, 2016. Consequently, there has been an elongation of its receivables from Rajasthan Discoms and APRL has been receiving its payments from Rajasthan Discoms in around 3 months' time. However, APRL has received 'delayed payment' surcharge claim of around Rs.100 crore from Rajasthan Discoms in February 2017 which is expected to shore-up its liquidity in the short-term.

Rajasthan has joined the "UDAY" scheme for the financial turnaround of the DISCOMS. Under UDAY, GoR has already taken over 75% of the outstanding debt of the DISCOMs as on Sept. 30, 2015 and balance 25% debt is being refinanced with longer tenure bonds with GoR guarantee. Accordingly, liquidity profile of Rajasthan Discoms is expected to improve going forward.

Exposure to foreign exchange rate fluctuations

APRL's financial risk profile is vulnerable to exchange rate fluctuations because of its un-hedged exposure in the form of foreign currency payables (import LCs for capex, import LCs for coal, ECB repayment obligations) while it has no receivables in foreign currency. Its total foreign currency exposures which were not hedged by derivative instruments stood at USD 236.16 million as on March 31, 2016. However, its foreign currency loans are of a longer tenure and medium term debt repayment obligations to the extent of ~40% have been hedged at an average exchange rate of Rs.67.11/USD which is expected to lead to neutralizing effect of short-term exchange rate movements.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios - Non- Financial Sector
Rating Methodology - Infrastructure Companies
Rating Methodology - Private Power Producers
Rating Methodology - Factoring Linkages in Ratings

About the Company

Adani Power Rajasthan Limited (APRL), a 100% subsidiary of Adani Power Ltd. [APL, rated CARE BBB-; Stable/CARE A3 for its bank facilities and CARE BBB+ (SO); Stable for the 'ring-fenced' Rupee Term Loan availed for Phase-IV of its power project], has implemented 1320 MW (2 x 660 MW) super-critical coal based power generation project at Kawai, Rajasthan. The Unit-I (660 MW) and Unit-II (660 MW) of the power project achieved commercial operations date (CoD) on May 31, 2013 and December 31, 2013 respectively. APRL has entered in to long-term Power Purchase Agreement (PPA) with power sector distribution companies of Rajasthan for 1200 MW.

During FY16 (refers to the period April 1 to March 31), APRL had a total operating income of Rs.3209.06 crore (FY15: Rs.2747.54 crore) with a PAT (including CT) of Rs.260.20 crore and cash loss (GCA, after excluding CT) of Rs.362.71 crore (FY15: Net loss of Rs.538.09 crore and cash loss of Rs.531.55 crore). As per the limited review results for 9MFY17, APRL had a total operating income (excluding CT) of Rs.2294.64 crore with a PAT (including CT) of Rs.8.51 crore and cash loss of Rs.286.12 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.*

Analyst Contact:
Name: Hardik Shah
Tel: 079 – 40265620
Mobile # 9898802101
Email: hardik.shah@careratings.com

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Annexure-I

Details of Facilities:-

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund Based - LT-Term Loan	NA	NA	October 01, 2034	4428.00	CARE BBB; Stable
Fund Based - LT-External Commercial Borrowings (Rupee Equivalent)	NA	NA	August 31, 2027	1447.61	CARE BBB; Stable
Fund Based/Non Fund Based-LT/ST	NA	NA	NA	1627.70	CARE BBB; Stable / CARE A3+
Non-Fund Based - LT/ ST-BG/LC	NA	NA	NA	1000.00	CARE BBB; Stable / CARE A3+
Non-Fund Based - LT-Bank Guarantees	NA	NA	NA	165.00	CARE BBB; Stable

Annexure-II

Rating History for last three years:-

		Current Ratings			Chronology of Rating history			
Sr. No.	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Term Loan	LT	-	-	-	1)Withdrawn (06-May-15)	1)CARE BBB (24-Dec-14)	1)CARE BBB- (08-Nov-13)
2.	Non-Fund Based - LT/ ST-BG/LC	LT/ST	-	-	-	1)Withdrawn (06-May-15)	1)CARE BBB / CARE A3+ (24-Dec-14)	1)CARE BBB- / CARE A3 (08-Nov-13)
3.	Fund Based - LT-External Commercial Borrowings (Rupee Equivalent)	LT	-	-	-	1)Withdrawn (06-May-15)	1)CARE BBB (24-Dec-14)	1)CARE BBB- (08-Nov-13)
4.	Fund Based/Non Fund Based-LT/ST	LT/ST	-	-	-	1)Withdrawn (06-May-15)	1)CARE BBB / CARE A3+ (24-Dec-14)	1)CARE BBB- / CARE A3 (08-Nov-13)
5.	Non-Fund Based - LT-Bank Guarantees	LT	-	-	-	1)Withdrawn (06-May-15)	1)CARE BBB (24-Dec-14)	-
6.	Fund Based - LT-Term Loan	LT	4428.00	CARE BBB; Stable	-	1)CARE A- (25-Jan-16) 2)CARE A- (06-May-15)	-	-
7.	Fund Based - LT-External Commercial Borrowings (Rupee Equivalent)	LT	1447.61	CARE BBB; Stable	-	1)CARE A- (25-Jan-16) 2)CARE A- (06-May-15)	-	-
8.	Fund Based/Non Fund Based-LT/ST	LT/ST	1627.70	CARE BBB; Stable / CARE A3+	-	1)CARE A- / CARE A2+ (25-Jan-16) 2)CARE A- / CARE A2+	-	-

						(06-May-15)		
9.	Non-Fund Based - LT/ ST-BG/LC	LT/ST	1000.00	CARE BBB; Stable / CARE A3+	-	1)CARE A- / CARE A2+ (25-Jan-16) 2)CARE A- / CARE A2+ (06-May-15)	-	-
10.	Non-Fund Based - LT-Bank Guarantees	LT	165.00	CARE BBB; Stable	-	1)CARE A- (25-Jan-16) 2)CARE A- (06-May-15)	-	-

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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