Adani Power Rajasthan Limited

July 07, 2021

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	5,059.60 (Reduced from 5,191.50)	**CARE BBB; Stable [Triple B; Outlook: Stable]**	**Reaffirmed**
Long Term / Short Term Bank Facilities	2,215.80 (Enhanced from 2,083.90)	**CARE BBB; Stable / CARE A3+ [Triple B; Outlook: Stable / A Three Plus]**	**Reaffirmed**
Total Facilities	**7,275.40 (Rs. Seven Thousand Two Hundred Seventy-Five Crore and Forty Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to draw strength from Adani Power Rajasthan Limited (APRL) being part of the Adani Group which has diversified business presence across various sectors, including the entire value chain of energy sector, with vast experience in coal-based thermal power generation, its long-term power purchase agreement (PPA) for selling almost entire power generation capacity providing good revenue visibility, higher plant availability factor (PAF) and plant load factor (PLF) during FY21 (refers to the period from April 01 to March 31) due to better availability of domestic coal on a sustained basis under its fuel supply agreements (FSAs) signed in terms of the Scheme for Harnessing and Allocating Koyala (Coal) Transparently in India (SHAKTI) policy to meet substantial part of APRL's fuel requirement leading to low reliance on costlier alternative sources of coal, availability of adequate transmission line infrastructure and creation of requisite Debt service Reserve Account (DSRA).

CARE also takes note of APRL receiving favorable order dated August 31, 2020 from the Hon'ble Supreme Court of India on its compensatory tariff (CT) and associated carrying cost related dispute with Rajasthan Discoms and also the fact that review petition by Rajasthan Discoms has been rejected in March 2021; albeit cash flows from Rajasthan Discoms are still awaited.

The ratings, however, continue to remain constrained by significant amount of outstanding CT claims pertaining to domestic coal shortfall, persistent exposure to fuel price risk upon only partial tie-up of its coal requirement under the SHAKTI FSAs, susceptibility of its operations to lower than envisaged supply of domestic coal and foreign exchange rate fluctuations on its external commercial borrowings (ECBs), weak credit profile of its counterparties viz., the state power sector distribution companies of Rajasthan, significant amount of loans & advances extended to its parent viz., Adani Power Limited (APL, rated CARE BBB-; Stable / CARE A3), lower capacity charges as per bid schedule, especially during FY24 to FY27 and concomitant moderation in debt coverage indicators during the same period along with its moderate leverage, liquidity and debt coverage indicators.

Rating Sensitivities

Positive Factors

- Receipt of significant cash flows pertaining to balance CT and carrying cost claims
- Significant improvement in its profitability, capital structure, liquidity and debt coverage indicators on a sustained basis
- Significant improvement in the credit profile of its power off-taker / parent

Negative Factors

- Non-achievement of normative plant parameters on a sustained basis leading to under-recovery of capacity charges
- Delay / non-receipt of cash flows pertaining to balance CT and carrying cost claims as envisaged
- Non-receipt of envisaged level of domestic coal supplies under the SHAKTI FSAs on a sustained basis

Detailed description of the key rating drivers

***Key Rating* Strengths**

Strong parentage of Adani Group

Adani Group has evolved as a diversified conglomerate with primary interests in the energy sector. Adani Group has operations ranging from coal mining, coal import, port operations and logistics to coal-based thermal and renewable power generation, transmission & distribution and city gas distribution through various listed group companies. Adani Group's long track record in the entire value chain of power comprising coal mining, coal imports, port operations and imported coal-based thermal power generation provides significant synergetic benefits.

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

As on March 31, 2021, the promoters held majority equity stake in APL which is the holding company of Adani Group's coal-based thermal power generation business. APL, on a consolidated basis, has vast experience in setting up and operating large coal-based thermal power generation capacities. Through its six wholly-owned subsidiaries, APL has total operational coal-based thermal power generation capacity of around 12 GW. Also, APL is in the process of setting-up around 2.9 GW of green-field coal-based thermal power generation projects.
APL's promoters have extended financial support to APL and its subsidiaries over the past few years and Adani Enterprises Limited (AEL; rated CARE A; Stable / CARE A1) has offered extended credit period on coal supplies to assets of APL that use imported coal which has provided financial flexibility to APRL.
Further, APL's promoters have high financial flexibility as reflected in the total value of unpledged promoter holding in listed Adani Group entities at around Rs.4 lakh crore as on March 31, 2021 and they have articulated their strong commitment and support to service the consolidated debt obligations of APL and its subsidiaries on a timely basis.

Availability of adequate transmission line infrastructure
As per the terms of the long-term PPA, it is the responsibility of Rajasthan Discoms to arrange for transmission line network for off-take of power from APRL's plant switchyard. With Rajasthan Rajya Vidyut Prasaran Nigam Limited's existing lines, there is no power transmission bottleneck for APRL.

Tie-up of almost entire power generation capacity under long-term PPA
Out of the total power generation capacity of 1,320 MW, APRL has long-term off-take arrangement of 25 years with Rajasthan Discoms for 1,200 MW (i.e., almost entire capacity after considering auxiliary consumption) which provides good revenue visibility. APRL's PPA with Rajasthan Discoms has a two-part tariff structure i.e., capacity charges recoverable fully upon maintaining PAF equal to or above normative level (i.e., 85%) and energy charges & inland transportation charges that are escalable for variation linked to Central Electricity Regulatory Commission (CERC) index. In addition to the same, APRL is also raising bills against Rajasthan Discoms for taxes & duties on coal purchase relating to 'Change in Indian Law'. Cash flows in respect of the same are also being received by APRL.

Higher materialisation of domestic coal during FY21 leading to improved operational performance; albeit with persistent exposure to fuel price risk
APRL has executed FSAs for 4.12 million tonne per annum (MMTPA) of domestic coal under the SHAKTI policy with very marginal discount in its PPA tariff. During FY21, Coal India Limited (CIL) dispatched around 95% of total domestic coal allocated to APRL under the SHAKTI policy. Going forward, APRL's management expects similar levels of materialization of the contracted quantity of domestic FSA coal to be received every year which is expected to partially reduce reliance on costlier alternative sources of coal and would also result in very minimal CT build-up. Continued partial reliance on costlier alternative sources of coal i.e., imported coal / domestic e-auction coal would expose APRL to fuel price risk.
On account of better domestic coal availability, the average PAF was above the normative level and hence, APRL was able to recover full capacity charges from its counterparty viz., Rajasthan Discoms during FY21. Based on the improvement in the domestic coal supplies under the SHAKTI policy, APRL expects to achieve above normative PAF and recover full capacity charges going forward also.

Creation of one quarter DSRA
APRL has created DSRA equivalent to one quarter of interest and principal obligation on its rupee term loan (RTL) and ECBs. The company has obtained waiver for second quarter of DSRA from its ECB lender and more than 95% of its RTL lenders by value whereas, similar approval is awaited from other RTL lenders. Maintenance of DSRA would provide liquidity cushion to APRL's debt servicing in case of any delays in payments from Rajasthan Discoms which have weak credit profile.

Key Rating *Weaknesses*
Significant amount of outstanding CT claims pertaining to domestic coal shortfall
APRL's CT dispute with its off-taker on account of domestic coal shortfall has lingered since very long with significant amount of claims of over Rs.8,000 crore till March 31, 2021, including CT and carrying cost amount. Rajasthan Discoms had paid around Rs.2,427 crore to APRL during FY19 & FY20, pursuant to an order by the Hon'ble Supreme Court of India. Post series of regulatory petitions and appeals on the CT matter of APRL during past few years, the Hon'ble Supreme Court of India, on August 31, 2020, approved the CT claims of APRL pertaining to domestic coal shortfall arising on account of 'Change in Indian Law' along with associated carrying cost and late payment surcharge (LPS). Further, Rajasthan Discoms' review petition against the said order was also subsequently rejected on March 02, 2021 by the Hon'ble Supreme Court of India. However, further cash flows are yet to be received by APRL. Also, looking at the financial health of Rajasthan Discoms and constrained state finances due to the pandemic, there is some uncertainty with respect to their ability to clear the dues of APRL within a quick time frame. Consequently, timely receipt of cash flows pertaining to balance claim amount and its end-use would be a key credit monitorable.

Lower capacity charges as per bid schedule, especially during FY24 to FY27

As per the terms of the PPA executed between APRL and Rajasthan Discoms, APRL has bid for lower capacity charges especially for the period from FY24 to FY27. This coupled with Flue Gas Desulphurization (FGD) capex requirement during FY24 & FY25 results in moderation in debt coverage indicators during the same period.

Weak credit profile of its counterparty viz., Rajasthan Discoms

The credit profile of Rajasthan Discoms is constrained on account of its weak operating performance marked by high aggregate technical & commercial (AT&C) losses and moderate billing efficiency. The revision in tariff was approved by Rajasthan Electricity Regulatory Commission (RERC) effective from February 2020, however, the financials continue to be constrained by moderate operating margin, weak capital structure with negative net-worth resulting in reduced financial flexibility and weak debt coverage indicators along with poor liquidity position marked by stretched trade payables. Further, Rajasthan Discoms have large amount of outstanding overdue payments resulting into very high average overdue to monthly average billing of over 12 months. APRL received collections of around 92% towards regulars bills from Rajasthan Discoms from April 2020 to May 2021. APRL, though benefits from existence of payment security mechanism in the form of monthly revolving Letter of Credit (LC) opened by Rajasthan Discoms in favor of APRL.

Risks associated with exchange rate fluctuations

APRL's financial risk profile is also vulnerable to foreign exchange rate fluctuations to the extent of servicing ECB payment obligations while it has no receivables in foreign currency. Its total foreign currency exposure which was not hedged by derivative instruments stood at around Rs.901 crore as on March 31, 2021. However, foreign currency loans are of a longer tenure and according to the company management its medium-term debt repayment obligations have been hedged which neutralizes the effect of short-term exchange rate movements to an extent.

Liquidity: Adequate

Liquidity of APRL is characterized by moderate level of cushion in accruals vis-à-vis repayment obligations of around Rs.1,200-1,300 crore over next three years. Also, APRL has created around one-quarter DSRA [largely in bank guarantee (BG) form and some by way of fixed deposits (FD)]. APRL's capex towards installation of FGD system is likely to be funded through a mix of debt and internal accruals.

APRL's requirement of fund based working capital limits is higher due to requirement of upfront payment for sourcing of domestic coal and weak credit profile of its counterparty leading to payment delays. APRL has sanctioned working capital limits of Rs.1,398 crore which are partially interchangeable between fund based and non-fund based. The average fund based working capital limit utilization of APRL stood at around 90% for 12 months ended March 2021.

Analytical Approach: Standalone along with factoring technical, financial and managerial support from Adani Group

Applicable Criteria

Criteria on Assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology: Notching by Factoring Linkages in Ratings
Rating Methodology: Power Generation Projects
Rating Methodology: Thermal Power Producers
Financial Ratios: Non-Financial Sector

About the Company

Adani Power Rajasthan Limited owns and operates 1,320 MW (660 MW x 2 units) super-critical coal-based thermal power generation project at Kawai, Rajasthan. Unit-I (660 MW) and Unit-II (660 MW) achieved commercial operations on May 31, 2013 and December 31, 2013 respectively. APRL has long-term PPA with Rajasthan Discoms for 1,200 MW. APRL's PPA with Rajasthan Discoms has a two-part tariff structure i.e., capacity charges upon maintaining PAF equal to or above normative level (i.e., 85%) and energy charges & inland transportation charges that are escalable for variation linked to CERC index.

Brief Financials - APRL (Standalone) (Rs. Crore)	FY20 (A)	FY21 (A)
Total Operating Income	3,423	3,516
PBILDT	1,205	1,461
PAT	927	348
Overall Gearing (times)	1.89	1.65
Interest Coverage (times)	1.67	2.18

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

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: 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	-	-	April 01, 2035	3,947.60	CARE BBB; Stable
Fund-based - LT-External Commercial Borrowings	-	-	May 30, 2027	1,112.00	CARE BBB; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	1,983.99	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-BG/LC	-	-	-	180.00	CARE BBB; Stable / CARE A3+
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	51.81	CARE BBB; Stable / CARE A3+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	3,947.60	CARE BBB; Stable	-	1)CARE BBB; Stable (11-Aug-20)	1)CARE BBB; Stable (05-Jul-19)	1)CARE BBB-; Stable (03-Oct-18)
2.	Fund-based - LT-External Commercial Borrowings	LT	1,112.00	CARE BBB; Stable	-	1)CARE BBB; Stable (11-Aug-20)	1)CARE BBB; Stable (05-Jul-19)	1)CARE BBB-; Stable (03-Oct-18)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	1,983.99	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (11-Aug-20)	1)CARE BBB; Stable / CARE A3+ (05-Jul-19)	1)CARE BBB-; Stable / CARE A3 (03-Oct-18)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	180.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (11-Aug-20)	1)CARE BBB; Stable / CARE A3+ (05-Jul-19)	1)CARE BBB-; Stable / CARE A3 (03-Oct-18)
5.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	1)Withdrawn (11-Aug-20) 2)CARE BBB; Stable (11-Aug-20)	1)CARE BBB; Stable (05-Jul-19)	1)CARE BBB-; Stable (03-Oct-18)
6.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	1)Withdrawn (02-Apr-20)	-	1)CARE A- (SO); Stable (19-Nov-18) 2)Provisional CARE A- (SO); Stable (03-Oct-18)
7.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)Withdrawn (02-Apr-20)	-	1)CARE A2+ (SO) (19-Mar-19)

Sr. No.	Name of the Instrument	Current Ratings			Rating History			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
								2)Provisional CARE A2+ (SO) (01-Feb-19)
8.	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST	51.81	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (11-Aug-20)	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT-External Commercial Borrowings	Simple
3.	Fund-based/Non-fund-based-LT/ST	Simple
4.	Non-fund-based - LT/ ST-BG/LC	Simple
5.	Fund-based - LT/ ST-Working Capital Demand loan	Simple

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

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