Adani Power Limited

April 07, 2023

Sr. No.	Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
1.	Long-term bank facilities	-	-	Withdrawn
2.	Long-term / Short-term bank facilities	-	-	Revised to CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two) from CARE BBB- / CARE A3 (Rating Watch with Positive Implications) and Withdrawn and removed from Rating Watch with Positive Implications; Stable outlook assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the bank facilities of Adani Power Limited (APL) bearing Sr. No. 1 with immediate effect, as the company has repaid the aforementioned facilities in full and there is no amount outstanding as on date.

CARE Ratings has revised the ratings assigned to the bank facilities of APL bearing Sr. No. 2 from CARE BBB- (Rating Watch with Positive Implications) / CARE A3 (Rating Watch with Positive Implications) to CARE BBB+; Stable / CARE A2 and simultaneously withdrawn with immediate effect. The above action has been taken at the request of APL and 'No Objection Certificate' from the bank that has extended the facilities rated by CARE Ratings.

The 'Rating Watch with Positive Implications' assigned to the bank facilities of APL has been resolved upon completion of amalgamation of APL's six wholly owned subsidiaries viz., Adani Power (Mundra) Limited (APMuL), Adani Power Maharashtra Limited (APML), Adani Power Rajasthan Limited (APRL), Udupi Power Corporation Limited (UPCL), Raipur Energen Limited (REL) and Raigarh Energy Generation Limited (REGL) with APL. In order to arrive at the ratings of APL, CARE Ratings has assessed the consolidated performance of APL.

The revision in the ratings assigned to the bank facilities of APL factors in realisation of significant amount of regulatory cash flows from its various counterparties, debt prepayment in some of the projects and settlement of issues with Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA; Stable / CARE A1+) in case of Mundra plant leading to signing of supplemental power purchase agreement (SPPAs). The revision in the ratings also take into consideration improved financial performance backed by improved demand and realisation in the merchant market and consequent improvement in APL capital structure, debt coverage and liquidity indicators.

The ratings assigned to bank facilities of APL continue to draw strength from availability of long-term / medium-term power purchase agreement (PPAs) for majority of power off-take with diverse counterparties and adequate fuel supply agreements (FSAs) with respect to sourcing of domestic coal. The ratings further draw comfort from its parentage of the Adani group which has vast experience in thermal power generation, presence of the Adani Group in the entire value chain of power viz., coal mining, coal import, port operations and logistics to thermal and renewable power generation, transmission & distribution and track record of extending support to APL in the past.

The aforementioned rating strengths are however tempered by APL's modest capital structure and debt coverage indicators despite improvement, weak credit profile of few of its power off-takers, exposure to revenue risks pertaining to untied power generation capacity which are exposed to lower merchant power tariff and subdued demand. Uncertainty with respect to receipt of balance regulatory cash flows along with any lower than contracted supplies of domestic coal under FSAs resulting into reliance on costlier alternative fuel supplies could potentially lead to increased working capital intensity and are thus viewed as credit weaknesses. Also, expansion / acquisition plans, including the ongoing implementation of large greenfield / brownfield thermal power generation projects under Adani Power (Jharkhand) Limited (APJL) and Mahan Phase-II project and capex towards installation of flue gas desulphurisation (FGD) are likely to further weaken its already leveraged capital structure thereby restricting APL's credit profile improvement.

CARE Ratings also takes note of the moderation in the financial flexibility of the Adani group amid ongoing regulatory and legal scrutiny directed by the Hon'ble Supreme Court of India in connection with various allegations against the Adani Group companies by the US-based short seller.

Rating sensitivities: Factors likely to lead to rating actions: Not applicable

Analytical approach: Consolidated, in view of the fact that APL largely acts as a holding company for all thermal power generation ventures of the Adani group. List of entities getting consolidated into APL are placed at **Annexure-6.**

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable
Stable outlook reflects the company's ability to sustain satisfactory operational and financial performance along with timely receipt of payments from the contracted off-takers (including regulatory cash flows) in the medium term.

Key strengths

Favourable orders of various regulatory authorities with respect to long pending regulatory claims of APL along with substantial realisation
APL's Kawai plant had significant amount of outstanding regulatory claims from the Rajasthan Discoms towards domestic coal shortfall. Post series of regulatory petitions and appeals during past few years, the Hon'ble Supreme Court of India approved the said regulatory claims of APL along with associated carrying cost and late payment surcharge (LPS). Basis the same, the Rajasthan Discoms have paid additional cash flows of around Rs.7,180 crore since March 2022 (and total cash flows of around Rs.9,610 crore till March 31, 2023 against regulatory dues of APL's Kawai plant (including carrying cost and LPS). Based on the regulatory cash flows, APL's Kawai plant has entirely paid-off its term debt in April 2022.
Similarly, in case of the Tiroda plant, APL has realised total regulatory cash flows of around Rs.17,190 crore till March 31, 2023 (including carrying cost and LPS) from Maharashtra State Electricity Distribution Company Limited (MSEDCL) against its domestic coal shortfall claims and claims pertaining to de-allocation of Lohara coal block basis favourable orders of various regulatory authorities. Of the aforementioned, claims of ₹7,910 crore have been realised during FY23. Also, APL's Mundra plant has realised total regulatory cash flows of around ₹1,200 crore (including carrying cost and LPS) from Haryana Discoms against its domestic coal shortfall claims on similar grounds. APL's Udupi plant has also realised cash flows of ₹1,360 crore from the Karnataka Discoms towards LPS.
Despite receipt of favourable orders by APL from various regulatory authorities and receipt of cash flows, there still exists a fair degree of uncertainty with respect to receipt of balance regulatory cash flows, both in terms of timelines as well as quantum, especially in view of the moderate financial health of the respective State Discoms.

Execution of SPPAs with GUVNL and Haryana Discoms in respect of the Mundra plant
Pursuant to the recommendations of the High Power Committee (HPC) and approved by the Central Electricity Regulatory Commission (CERC) on April 12, 2019, APL had signed supplemental PPAs with GUVNL on December 05, 2018 for 1,200 MW and 1,234 MW capacity for its Mundra project under the Bid-01 PPA and Bid-02 PPA respectively. Subsequently, on July 02, 2019, Hon'ble Supreme Court of India had approved an appeal made by APL for termination of its Bid-02 PPA of 1,234 MW with GUVNL against which APL expected to receive termination compensation from GUVNL. Later, Government of Gujarat (GoG), vide its Government Resolution (G.R.) dated June 12, 2020, had revoked and superseded its earlier G.R. dated December 01, 2018, which had led APL and GUVNL to sign Bid-01 and Bid-02 supplemental PPAs in December 2018 which were subsequently approved by the CERC. Also, GUVNL started withholding certain amounts against monthly invoices raised by APL towards supply of power. However, In January 2022, APL and GUVNL signed a Deed of Settlement whereunder it had been, inter-alia, provided to mutually amend the energy charge formula of both the PPAs (including their respective supplementary PPAs) with retrospective effect from October 15, 2018 to avoid disputes in calculation of energy charges under the respective tariffs and to approach CERC for its approval. Supply from 1,234 MW capacity under Bid-02 PPA has been since restored and SPPAs were signed for both the PPAs i.e., Bid-01 PPA and Bid-02 PPA aggregating 2,434 MW allowing fuel cost pass through. This development will aid APL with utilization of the capacity of its Mundra plant for the entire term of the original PPAs i.e., for 25 years till the year December 2035 for Bid-01 PPA and February 2037 for Bid-02 PPA.
Furthermore, on February 28, 2023, APL has signed SPPA with Haryana Discoms for its Mundra plant for 1,320 MW (gross) capacity. Earlier the PPA with Haryana Discoms was for 1,566 MW (gross) out of 1,980 MW (660 MW x 3 units) due to which APL was required to run third 660 MW unit at lower load thereby affecting the plant efficiency. Hence, amended PPA has been signed for two units i.e., 1,320 MW (gross) capacity. This development will allow APL to operate the third unit at optimum load by scheduling power to other counterparties.

PPAs in place for majority of power generation capacity with diverse counterparties
Out of total operational thermal power generation capacity of 13,610 MW on a consolidated basis, APL has tied-up around 10,895 MW i.e., nearly 80% of its gross power generation capacity with diverse off-takers under long-term / medium-term PPAs providing good revenue visibility. APL has also tied-up 1,600 MW and 1,230 MW (net of auxiliary consumption) thermal power generation capacity under APJL and Mahan Phase-II, which are under construction.
Out of all the counter parties of APL, except GUVNL, credit risk profile of its other off-takers is weak to moderate, which may result into delays in payment of bills leading to temporary cash flow mismatches. However, APL benefits from existence of payment security mechanism in the form of monthly revolving letter of credit (LC) opened by the counterparties for various assets of APL. Also, APL has created requisite debt service reserve account (DSRA) to offset this risk.

Adequate fuel supply arrangements in place
Out of total generation capacity of 7,790 MW which is based on domestic coal, APL has domestic linkage coal of 29.25 million metric tonne per annum (MMTPA) under long-term / medium-term FSAs with Coal India Limited's (CIL) subsidiaries. This linkage coal is sufficient to meet 82% of the fuel requirements of its domestic coal-based plants thereby reducing fuel availability and pricing risk. Also, materialisation under these domestic FSAs has been adequate at around 85% during the past 2-3 years.

Parentage of experienced the Adani group with track record of extending financial support
Adani Group has evolved as a diversified conglomerate with primary interests in the energy sector. The Adani group has operations ranging from coal mining, coal import, port operations and logistics to thermal and renewable power generation, transmission & distribution, cement and city gas distribution through various listed group companies. Its long track record in the entire value chain of power provides significant synergetic benefits. As on December 31, 2022, the promoters held 74.97% equity stake in APL which is the holding company of the Adani group's thermal power generation business. APL, along with its wholly owned subsidiaries, has total operational thermal power generation capacity of 13.61 GW. Also, APL is in the process of setting-up 3.2 GW of greenfield / brownfield thermal power generation projects. APL's promoters have extended financial support to the power vertical over the past few years and group companies have also offered extended credit period on coal supplies to the assets of APL that use imported coal thereby imparting financial flexibility to them.

Key weaknesses

Exposure to risk pertaining to lower merchant power tariff and demand; albeit favourable with higher merchant realisation
A significant portion i.e., around 20% of the total installed power generation capacity of 13,610 MW of APL is untied. Lack of PPAs for around 20% of the total installed power generation capacity of APL on a consolidated basis exposes it to volatility in the merchant power tariffs and demand. The merchant power tariffs are a function of various variables including availability of fuel, fuel cost, generation cost from alternative sources, demand-supply situation and average PLF of the power plants.

Financial risk profile constrained by moderate debt coverage indicators
The overall gearing of APL on a consolidated basis stood at 9.02x as on March 31, 2020 primarily due to past accumulated losses pending receipt of regulatory cash flows from its off-takers and disallowance of imported coal pass through to its Mundra plant. However, basis receipt of regulatory cash flows, signing of SPPA with GUVNL for the Mundra plant with fuel cost pass through along infusion of unsecured perpetual securities (UPS) by the promoters and group companies, there has been an improvement in the overall gearing of APL. Despite improvement, the overall gearing (including unsecured loans from related parties) of APL on a consolidated basis stood modest at 2.70x as on March 31, 2022. Also, its total debt / PBILDT ratio (including unsecured loans from related parties) though improved stood high at 5.32x as on December 31, 2022, as against 8.67x as on March 31, 2021.

Risk related to expansion / acquisition plans despite already leveraged capital structure
APL is setting-up two thermal power projects (one greenfield and one brownfield) under its wholly owned subsidiaries APJL and Mahan Phase-II for which it has tied-up long-term PPAs with Bangladesh Power Development Board and M.P. Power Management Company Limited [MPPMCL; rated CARE BBB-; Stable / CARE A3] respectively. APL is also incurring capex towards installation of FGD in its power plants. First unit of APJL's project has been commissioned. Also, the second unit is expected to be commissioned by Q1FY24 thereby leading to lower execution risk. The management of the company has articulated that the equity requirement of these projects would be met through internal accruals, including regulatory cash flows. Furthermore, according to APL's management APL has no active plans to acquire any power asset while it may explore opportunities in future.

Liquidity: Adequate

The liquidity profile of APL is adequate characterized by moderate level of cushion in cash accruals vis-à-vis repayment obligations on senior long-term debt over the next three years and free cash and cash equivalents of around ₹1,870 crore as on February 28, 2023 on a consolidated basis. Moreover, unutilised fund-based working capital limits were Rs.1,184 crore as on March 26, 2023. Also, it has capex requirements towards installation FGD system and greenfield / brownfield coal-based thermal power generation projects in APJL and Mahan Phase-II which are likely to be funded through a mix of debt and equity. APL has created requisite DSRA on its senior long-term debt obligations which is likely to provide some cushion in APL's debt servicing in case of any exigencies and/or any temporary cash flow mismatches.

Environmental, social and governance (ESG) risks
The environment risks in case of thermal power plants like APL emanate from high emission of polluting gases coupled with significant consumption of water. In order to mitigate environment risk, APL is incurring capex towards installation of FGD. APL also has rainwater harvesting in its premises.
In order to mitigate social risk, APL supports social projects and community initiatives in consonance with United Nations Sustainable Development Goal in partnership with Adani foundation to support local communities in which it operates.
From a governance point of view, the Board of APL is diversified with three out of six directors as independent directors. Also, the quality of financial reporting and disclosures are adequate.

Applicable criteria
[Rating Outlook and Rating Watch]
[Policy on Default Recognition]
[Policy On Curing Period]
[Short Term Instruments]
[Liquidity Analysis of Non-Financial Sector Entities]
[Consolidation]
[Thermal Power]
[Solar Power Projects]
[Financial Ratios – Non-Financial Sector]
[Policy on Withdrawal of Ratings]

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

APL is the holding company of the Adani group's coal-based thermal power generation business. APL, through its wholly owned subsidiaries, has total operational thermal power generation capacity of 13.61 GW spread across states of Gujarat, Maharashtra, Rajasthan, Karnataka, Chhattisgarh and Madhya Pradesh. As on March 31, 2023, APL is in the process of setting-up 3.2 GW of greenfield thermal power generation projects which is expected to commission by June 2024 and June 2027 respectively.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	23,634	24,803	26,604
PBILDT	6,120	7,013	6,210
PAT	1,270	4,912	5,484
Overall gearing (times)	4.13	2.70	NA
Interest coverage (times)	1.20	1.71	2.40

A: Audited; UA: Unaudited; NA: Not available; The above financials have been adjusted as per CARE Ratings' criteria.
Note: The above results are latest financial results available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments/facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund based – LT-Term Loan	-	-	-	March 2023	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST*	-	-	1)CARE BBB- / CARE A3 (RWP) (27-Dec-22)	1)CARE BBB- / CARE A3 (CWP) (30-Mar-22)	1)CARE BBB- ; Stable / CARE A3 (31-Mar-21)	1)CARE BBB- ; Stable / CARE A3 (23-Jan-20)
2.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB- (RWP) (27-Dec-22)	1)CARE BBB- (CWP) (30-Mar-22)	1)CARE BBB- ; Stable (31-Mar-21)	1)CARE BBB- ; Stable (23-Jan-20)

*Long-term/Short-term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities
Not applicable

Annexure-4: Complexity level of the various instruments/facilities rated

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1.	Fund based LT – Term Loan	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated into APL

Name of the Entity	Subsidiary / Associate / Joint Venture	% Shareholding by APL
Mahan Energen Limited (formerly know as Essar Power MP Limited)	Subsidiary	100%
Adani Power (Jharkhand) Limited	Subsidiary	100%
Pench Thermal Energy (MP) Limited (formerly known as Adani Pench Power Limited)	Subsidiary	100%
Kutch Power Generation Limited	Subsidiary	100%
Adani Power Dahej Limited	Subsidiary	100%
Adani Power Resources Limited	Subsidiary	51%

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

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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