CareEdge RATINGS

Adani Power Rajasthan Limited

June 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long Term / Short Term Bank Facilities	1,578.01 (Reduced from 2,163.99)	**CARE A / CARE A1 (CWD) (Single A / A One) (Under Credit watch with Developing Implications)**	**Revised from CARE BBB / CARE A3+ (Triple B / A Three Plus); Continues to be on Credit watch with Developing Implications**
Long Term / Short Term Bank Facilities	-	**-**	**Withdrawn**
Long Term Bank Facilities	-	**-**	**Withdrawn**
Total Bank Facilities	**1,578.01 (₹ One Thousand Five Hundred Seventy-Eight Crore and One Lakhs Only)**		

Details of facilities/instruments in Annexure-1

Detailed rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Adani Power Rajasthan Limited (APRL) factors in the realization of significant dues with respect to past 'Change in Indian Law' from the Rajasthan Discoms pursuant to the favorable order from Hon'ble Supreme Court of India. APRL has prepaid its entire term debt out of the said proceeds, leading to significant improvement in its capital structure, debt coverage and liquidity.

The ratings of APRL continue to be under credit watch with developing implications in the view of proposed merger of various wholly owned operational subsidiaries (including APRL) of its parent company viz., Adani Power Limited [APL; rated CARE BBB- (CWP[2]) / CARE A3 (CWP)] with itself, subject to receipt of necessary approvals from regulators and stakeholders. The amalgamation is envisaged to translate into synergistic benefits in the form of enhanced operational, organisational and financial efficiencies. CARE Ratings is monitoring the progress of the transaction and the credit watch will be resolved thereon.

The ratings continue to derive strength from its long-term power purchase agreement (PPA) for selling almost entire power generation capacity leading to low sales risk. The ratings also factor stable plant performance during FY22 (refers to the period from April 01 to March 31) due to sustained availability of domestic coal under its fuel supply agreements (FSAs) signed in terms of the SHAKTI policy leading to low reliance on costlier alternative sources of coal. The ratings continue to draw strength from 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.

The ratings, however, continue to remain constrained by weak credit profile of its sole counterparties viz., Rajasthan Discoms, inherent risk associated with implementation of Flue Gas Desulphurization (FGD) system and single asset operations.

CARE Ratings has withdrawn the rating assigned to the rupee term loans, external commercial borrowings (ECBs) and COVID-19 loan with immediate effect, as the company has repaid the aforementioned facilities rated by us in full and there is no amount outstanding as on date.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant improvement in the credit profile of its power off-taker / parent

Negative factors – Factors that could lead to negative rating action/downgrade:

- Non-achievement of normative plant parameters on a sustained basis leading to under-recovery of capacity charges
- Material delay in receipt of payments from off-takers leading to elongated debtor cycle and adversely impacting the liquidity profile
- Non-receipt of envisaged level of domestic coal supplies under the SHAKTI FSAs on a sustained basis
- Higher-then-envisaged debt level, materially impacting the leverage and coverage metrics

Detailed description of the key rating drivers

Key rating strengths

Receipt of significant amount of CT cash flows along with prepayment of entire term debt

ARPL had significant amount of outstanding receivables from the Rajasthan Discoms towards its past compensatory tariff (CT) dues. Post series of regulatory petitions and appeals on the CT matter of APRL during past few years, the Hon'ble Supreme Court of India approved the CT claims of APRL pertaining to 'Change in Indian Law' along with associated carrying cost and late payment surcharge (LPS). Also, in February 2022 the Hon'ble Supreme Court of India ordered the Rajasthan Discoms to

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

[2] Credit Watch with Positive Implications

pay the outstanding dues to APRL within a period of four weeks based on contempt petition filed by APRL against the Rajasthan Discoms. Basis the same, the Rajasthan Discoms have paid additional cash flows of Rs.5,973 crore in March 2022 (and total cash flows of Rs. 8,400 crore till date) against CT dues of APRL (including carrying cost and LPS). Based on the regulatory cash flows, APRL has entirely paid-off its term debt in April 2022 leading to significant improvement in its capital structure, debt coverage indicators and liquidity. Also, the management has expressed that there are no plans to raise any long-term debt in APRL over the course of next two years.

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 the Rajasthan Discoms for 1,200 MW (net) which provides good revenue visibility. Moreover, APRL has also signed an additional PPA of 40 MW on short-term basis with the Rajasthan Discoms on the same terms and conditions. APRL's PPA with Rajasthan Discoms has a two-part tariff structure i.e., capacity charges recoverable fully upon maintaining declared plant availability factor (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 various 'Change in Indian Law' claims. Cash flows in respect of the same are also being received by APRL, currently.

High materialization of domestic coal during FY22 leading to stable operational performance
APRL has executed FSAs with annual contracted quantity (ACQ) of 4.12 million tonne per annum (MMTPA) of domestic coal under the Scheme for Harnessing and Allocating Koyala (Coal) Transparently in India (SHAKTI) policy with very marginal discount in its PPA tariff. During FY22, Coal India Limited (CIL) dispatched around 99% (PY: 95%) of total domestic coal allocated to APRL under the SHAKTI policy. Going forward, APRL's management expects sustenance of such level of ACQ materialization which is expected to partially reduce reliance on costlier alternative sources of coal and hence would also result in very minimal CT build-up.
On account of sustained domestic coal availability, APRL's plant availability factor and plant load factor has been stable during FY22.

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. Its long track record in the entire value chain of power provides significant synergetic benefits. As on March 31, 2022, the promoters held 75.97% equity stake in APL which is the holding company of Adani Group's thermal power generation business. APL, through its seven wholly owned subsidiaries, has total operational thermal power generation capacity of 13.61 GW. APL's promoters have extended financial support to the power vertical 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 the assets of APL that use imported coal which has provided financial flexibility to them. Further, APL's promoters have high financial flexibility as reflected in the total value of unpledged promoter holding in listed Adani Group entities at over Rs.8.91 lakh crore as on March 31, 2022. Given the economic benefit derived from APRL and demonstrated past track of support, the promoters are expected to provide need basis support to APRL going forward also.

Key rating weaknesses
Counter party credit risk emanating from sales to Rajasthan Discoms
The counterparty credit risk of APRL is two-pronged i.e., on account of customer concentration and weak credit profile of its off-takers. The credit profile of the Rajasthan Discoms is constrained on account of its weak operating performance marked by high aggregate technical & commercial (AT&C) losses, high ACS-ARR gap and weak capital structure resulting in reduced financial flexibility. Further, the Rajasthan Discoms have large amount of outstanding overdue payments resulting into very high average overdue to monthly average billing. However, APRL has been able to demonstrate reasonable collection efficiency in last two years despite COVID-19 challenges. As per PPA stipulations, APRL though benefits from existence of payment security mechanism in the form of monthly revolving letter of credit (LC) opened by the Rajasthan Discoms in favor of APRL.

Inherent risk associated with implementation of FGD system
In order to comply with the environmental norms, APRL is required to install an FGD system. The estimated total capex requirement for installation of the said FGD system is more than Rs.1,200 crore which is proposed to be initially funded entirely through internal accruals. The capex is proposed to be incurred FY24 & FY25 and exposes APRL to project implementation risk.

Liquidity: Adequate
APRL has an adequate liquidity profile marked by free cash & bank balance of around Rs.338 crore as on March 31, 2022 as against nil term debt repayment obligations. Also, APRL has capex requirements towards installation of FGD system which is proposed to be initially funded entirely through internal accruals.

APRL's requirement of fund based working capital limits is higher due to requirement of upfront payment to CIL's subsidiaries for sourcing of domestic coal under FSAs signed under the SHAKTI policy and weak credit profile of its counterparty viz., the Rajasthan Discoms 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 87% for 12 months ended March 2022 and has substantially reduced to 30% during April-May 2022.

Analytical approach: Standalone

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
Policy on Withdrawal of Ratings

About the company
APRL owns and operates a 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 a long-term PPA of 1,200 MW and a short-term PPA of 40 MW with the Rajasthan Discoms under Case-1 competitive bidding norms.

Brief Financials - APRL (Standalone) (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total Operating Income	3,355	3,629	NA
PBILDT	1,300	1,226	NA
PAT	348	3,975	NA
Overall Gearing (times)	1.65	0.74	NA
Interest Coverage (times)	1.94	2.03	NA

A: Audited; UA: Unaudited; NA: Not Applicable

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 covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments/facilities rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instruments/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	-	-	-	-	0.00	Withdrawn
Fund-based - LT-External Commercial Borrowings	-	-	-	-	0.00	Withdrawn
Fund-based/Non-fund-based-LT/ST	-	-	-	-	1,398.00	CARE A / CARE A1 (CWD)
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	180.01	CARE A / CARE A1 (CWD)
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instruments/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.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB (CWD) (30-Mar-22) 2)CARE BBB; Stable (07-Jul-21)	1)CARE BBB; Stable (11-Aug-20)	1)CARE BBB; Stable (05-Jul-19)
2.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE BBB (CWD) (30-Mar-22) 2)CARE BBB; Stable (07-Jul-21)	1)CARE BBB; Stable (11-Aug-20)	1)CARE BBB; Stable (05-Jul-19)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST*	1,398.00	CARE A / CARE A1 (CWD)	-	1)CARE BBB / CARE A3+ (CWD) (30-Mar-22) 2)CARE BBB; Stable / CARE A3+ (07-Jul-21)	1)CARE BBB; Stable / CARE A3+ (11-Aug-20)	1)CARE BBB; Stable / CARE A3+ (05-Jul-19)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST*	180.01	CARE A / CARE A1 (CWD)	-	1)CARE BBB / CARE A3+ (CWD) (30-Mar-22) 2)CARE BBB; Stable / CARE A3+ (07-Jul-21)	1)CARE BBB; Stable / CARE A3+ (11-Aug-20)	1)CARE BBB; Stable / CARE A3+ (05-Jul-19)
5.	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	1)CARE BBB; Stable (11-Aug-20) 2)Withdrawn (11-Aug-20)	1)CARE BBB; Stable (05-Jul-19)
6.	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	1)Withdrawn (02-Apr-20)	-
7.	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (02-Apr-20)	-
8.	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	-	-	-	1)CARE BBB / CARE A3+ (CWD) (30-Mar-22)	1)CARE BBB; Stable / CARE A3+ (11-Aug-20)	-

Sr. No.	Name of the Instruments/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
						2)CARE BBB; Stable / CARE A3+ (07-Jul-21)		

*Long-term/Short-term

Anneuxre-3: Detailed explanation of the covenants of the rated instruments/facilities
Not Applicable

Annexure-4: Complexity level of various instruments/facilities rated for this company

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

Annexure-5: Bank/Lender details for this company

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

Note on 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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