Adani Power Limited

March 30, 2022

Ratings

Facilities / Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	218.80	**CARE BBB- (CWP) (Triple B Minus) (Under Credit watch with Positive Implications)**	**Placed on Credit watch with Positive Implications**
Long Term / Short Term Bank Facilities	39.60	**CARE BBB- / CARE A3 (CWP) (Triple B Minus / A Three) (Under Credit watch with Positive Implications)**	**Placed on Credit watch with Positive Implications**
Total Bank Facilities	**258.40 (Rs. Two Hundred Fifty-Eight Crore and Forty Lakhs Only)**		

Details of facilities / instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Adani Power Limited (APL) have been placed under credit watch with positive implications in the view of the recent announcement made by the company regarding the approval of amalgamation scheme of various wholly owned operational subsidiaries with APL by its board of directors, 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 Limited is monitoring developments in this regard and shall review the rating when greater clarity in respect of the same emerges.

The ratings assigned to the bank facilities APL continue to draw strength from its parentage of the Adani Group which has vast experience in coal-based thermal power generation and presence of the Adani Group in the entire value chain of power viz., coal mining, coal import, port operations and logistics, power generation, transmission & distribution. The ratings also factor infusion of significant amount of subordinated debt by the promoters to support the operations of APL's subsidiaries along with infusion / conversion of unsecured loans aggregating to Rs.12,615 crore from the promoters into Unsecured Perpetual Securities (UPS) whereby APL does not have any interest payment or redemption obligation on these UPS. The ratings also draw comfort from its long-term power purchase agreement (PPAs) in place for off-take of majority of power with diverse off-takers, stable performance on the back of sustained receipt of domestic coal by its subsidiaries Adani Power Maharashtra Limited [APML; rated CARE A / CARE A1 (CWD)] and Adani Power Rajasthan Limited [APRL; rated CARE BBB / CARE A3+ (CWD)], favourable orders of various regulatory authorities with respect to compensatory tariff (CT) claims of Adani Power (Mundra) Limited (APMuL), APML and APRL pertaining to domestic coal shortfall and CT claims of APML pertaining to de-allocation of Lohara coal block along with actual receipt of part CT cash flows and creation of partial Debt Service Reserve Account (DSRA). The ratings also take into cognisance of execution of settlement deed between APMuL and Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA; Stable / CARE A1+) as per which the long-term PPAs aggregating to 2,434 MW shall be continued. This would ensure greater revenue visibility for APL, however, greater clarity on the terms of the energy and capacity charges shall emerge once the amended terms are crystalised.

The ratings, however, continue to remain constrained on account of its moderate debt coverage indicators, exposure to risk pertaining to lower merchant power tariff and demand due to its untied power generation capacity and lack of clarity with respect to timelines and quantum of receipt of balance CT dues of APMuL, APML and APRL. The rating strengths are also tempered due to risk associated with weak credit profile of part of its power off-takers and susceptibility to lower than contracted supplies of domestic coal under fuel supply agreements (FSAs) leading higher usage of costlier alternative sources of coal which could ultimately lead to increased working capital intensity in the absence of timely receipt of CT. Also, expansion / acquisition plans, including ongoing implementation of large greenfield coal-based thermal power generation projects in Adani Power (Jharkhand) Limited (APJL) and Pench Thermal Energy (MP) Limited (PTEMPL) on the back of its already leveraged capital structure further constrain the ratings of APL.

Rating Sensitivities

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

- Determination of envisaged amount and realization of regulatory cash flows pertaining to domestic coal shortfall in APMuL, APML and APRL, cancellation of Lohara coal block in APML and corresponding carrying costs for all the above claims
- Tie-up of balance untied capacity under long-term PPA(s)

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

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

- Significant deterioration in operating and financial performance
- Inordinate delay in realization of regulatory cash flows pertaining to domestic coal shortfall and corresponding carrying cost in respect of APMuL, APML and APRL and cancellation of Lohara coal block in case of APML
- Significant delay in payments from counterparties on a sustained basis
- Change in promoter's stance towards financial support to APL
- Significant level of debt-funded acquisitions affecting the financial profile of APL

Detailed Description of the Key Rating Drivers
Key Rating Strengths
Parentage of experienced Adani Group with track record of extending financial support
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 December 31, 2021, the promoters held 75.97% equity stake in APL which is the holding company of Adani Group's coal-based thermal power generation business. APL, through its seven wholly owned subsidiaries, has total operational thermal power generation capacity of 13.61 GW. Also, APL is in the process of setting-up 2.92 GW of green-field thermal power generation projects. 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.6.36 lakh crore as on December 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.

Long-term PPAs in place for off-take of majority of power with diverse off-takers
Out of total operational coal-based thermal power generation capacity of 13,610 MW on a consolidated basis, APL has tied-up around 10,268 MW i.e., nearly 75% of its gross power generation capacity with diverse off-takers under 25-year PPAs providing good revenue visibility. APL has also tied-up 1,600 MW and 1,230 MW (net of auxiliary consumption) coal-based thermal power generation capacity under APJL and PTEMPL, 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 results in delays in payment of bills leading to cash flow mismatches at times. In order to manage such timing mismatch in cash flows, the subsidiaries of APL have created partial DSRA.

Sustained availability of domestic coal under all FSAs of APML and APRL
APL has total domestic coal linkage of 21.83 MMTPA from Coal India Limited's (CIL) subsidiaries viz., 6.40 MMTPA in APMuL, 11.31 MMTPA in APML (including 5.85 MMTPA under SHAKTI policy) and 4.12 MMTPA in APRL under SHAKTI policy. Historically, there had been lower than committed supply of domestic coal by CIL under these FSAs due to mine related or logistics related issues which had resulted in reliance on costlier imported coal for APML and APRL and worsening of their cash flows in the absence of CT. However, during past 2-3 years there has been significant improvement in the domestic coal supplies by CIL to APL's subsidiaries which led to their low reliance on costlier alternative sources of coal. Going forward, APL expects around 85% materialization of the total contracted quantity of domestic coal from all its domestic FSAs to be received every year which could largely result in insignificant reliance on costlier alternative sources of coal provided it is able to actually receive its contracted quantity of domestic coal under various domestic coal linkages.

Settlement deed executed between APMuL and GUVNL
APMuL signed a supplemental PPAs with GUVNL on December 05, 2018 for 1,200 MW and 1,234 MW of capacity under the Bid-01 PPA and Bid-02 PPA respectively, pursuant to the recommendations of the High Power Committee (HPC) which were approved by the Central Electricity Regulatory Commission (CERC) on April 12, 2019. Subsequently, on July 02, 2019, Hon'ble Supreme Court of India had approved an appeal made by APMuL for termination of its Bid-02 PPA of 1,234 MW with GUVNL against which APMuL 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 APMuL and GUVNL to sign Bid-01 and Bid-02 supplemental PPAs in December 2018 which were subsequently approved by CERC. Also, GUVNL started withholding certain amounts against monthly invoices raised by APMuL for supply of power. However, In January 2022, APMuL and GUVNL have signed a Deed of Settlement whereunder it has 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 the CERC for its approval. This development will aid APMuL with utilization of its plant capacity 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.

Favorable orders of various regulatory authorities with respect to CT claims of APMuL, APML and APRL respectively and commencement of partial CT and carrying cost cash flows
On April 11, 2017, Hon'ble Supreme Court of India gave its verdict in the CT matter of APMuL wherein it disallowed the claim of APMuL for CT based on 'Force Majeure' and 'Change in Indonesian / Foreign Law' with respect to rise in the prices imported coal, whereas it allowed the claim of APMuL for CT with respect to domestic coal shortfall under FSAs and asked CERC to work out the amount of compensation payable to APMuL. In line with the aforesaid direction of Hon'ble Supreme Court of India and

basis CERC order, Haryana Discoms have made partial payments of around Rs.857 crore against past CT and carrying cost dues to APMuL. Various regulatory commissions have also passed favorable orders in the CT matters of APML and APRL pertaining to domestic coal shortfall and carrying cost based on which APML and APRL have received Rs.4,894 crore (including carrying cost) and Rs.2,427 crore from Maharashtra State Electricity Distribution Company Limited (MSEDCL) and Rajasthan Discoms respectively. APML has also received favourable regulatory order pertaining to CT and associated carrying cost on 800 MW PPA linked to de-allocated Lohara coal block and has received CT cash flows of Rs.3,664 crore.
Despite receipt of favorable orders by APMuL, APML and APRL for their respective CT claims from various regulatory authorities, there still exists a fair degree of uncertainty with respect to receipt of balance CT cash flows, including timelines and quantum. Also, looking at the financial health of respective State Discoms, there exists a fair degree of uncertainty with respect to their ability to clear the dues of APMuL, APML and APRL within a quick time frame. Further, some of these favourable regulatory orders have been contested to by the State Discoms in higher forums. State Discoms have been contesting the CT claims of Adani Group companies since long and accordingly, any further litigation could elongate the liquidation of built-up CT receivables and thus, delay the improvement in financial risk profile of APL.

Stable operating and financial performance during FY21
The operational and financial performance of APL's subsidiaries remained stable FY21 on account of sustained availability of domestic coal under all FSAs of APML and APRL which led to their lower reliance on costlier alternative sources of coal i.e., imported coal / domestic e-auction coal and consequently higher than normative declared PAF due to which they were able to recover their full capacity charges during FY21 and partial receipt of CT and carrying cost cash flows by APMuL, APML and APRL. Also, post settlement of disputes between APMuL and GUVNL, the performance of APL is expected to improve going forward.

Key Rating Weaknesses
Exposure to risk pertaining to lower merchant power tariff and demand
A significant portion i.e., around 25% of the total installed power generation capacity of 13,610 MW of APL's subsidiaries is untied. Lack of long-term PPAs for around 25% 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, cost of generation of alternative sources of power, demand-supply situation which is dependent upon growth rate in the economy 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 79.05x as on March 31, 2018 primarily due to past accumulated losses pending CT dispute with the power off-takers of its subsidiaries, especially APMuL wherein its claim for CT based on 'Force Majeure' and 'Change in Indonesian / Foreign Law' with respect to rise in the prices imported coal was disallowed by the Hon'ble Supreme Court of India whereas its claim for CT was allowed with respect of domestic coal shortfall. However, from FY19 to FY21, the promoters and group companies infused / converted their unsecured loans aggregating to Rs.12,615 crore into UPS in order to augment its net-worth base. Also, APL's subsidiaries recovered their past CT and carrying cost dues pertaining to domestic coal shortfall. This has led to improvement in the overall gearing of APL to 4.13x as on March 31, 2021 on a consolidated basis.

Aggressive expansion plans despite already leveraged capital structure
APL is setting-up two green-field coal-based thermal power projects under its wholly owned subsidiaries APJL and PTEMPL for which it has tied-up long-term PPAs with Bangladesh Power Development Board and M.P. Power Management Company Limited [MPPMCL; rated CARE A- (CE); Negative / CARE A2+ (CE) / CARE BB / CARE A4 (Unsupported)] respectively. The management of the company has articulated that the equity requirement of APJL's and PTEMPL's projects would be met through promoter funds in the form of unsecured loans and equity like instruments. Also, over past two years, APL acquired 1,370 MW, 600 MW and 1,200 MW coal-based thermal power generation plants housed under Raipur Energen Limited (REL; formerly known as GMR Chhattisgarh Energy Limited), Raigarh Energy Generation Limited (REGL; formerly known as Korba West Power Company Limited) and Essar Power M.P. Limited (EPMPL) respectively. Further, according to APL's management, they keep on evaluating proposals for acquiring stressed power generation plants after assessing their economic cost-benefit analysis. However, APL's management has also articulated that any such acquisitions (as and when they fructify) would be funded through a mix of promoter funds in the form of unsecured loans and equity like instruments without dipping into APL's consolidated cash accruals.

Liquidity: Adequate
The liquidity profile of APL was supported in the past by way of financial support from the promoters in the form of unsecured loans, UPS and extended credit period on purchase of imported coal from group entities. However, upon receipt of regulatory cash flows, 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 bank balance of around Rs.114 crore as on March 31, 2021 on a consolidated basis. Also, it has capex requirements towards installation FGD system and greenfield coal-based thermal power generation projects in APJL and PTEMPL which are likely to be funded through a mix of debt and equity. Moreover, the promoters of APL have articulated their strong commitment and support to service the consolidated senior debt obligations of APL and its subsidiaries in a timely manner along with meeting the equity requirement of APJL's and PTEMPL's under-construction projects through a mix of promoter funds in the form of unsecured loans and equity like instruments without dipping into APL's consolidated cash accruals. Further, the subsidiaries of APL have created partial

DSRA on their senior long-term debt obligations through infusion of funds by the promoters / bank guarantees backed by credit enhancement in the form of pledge of promoters' unencumbered shares of listed Adani Group companies which is likely to provide some cushion in APL's debt servicing in case of any exigencies and/or any temporary cash flow mismatches.

Analytical Approach: Consolidated, in view of the fact that APL largely acts as a holding company for all coal-based thermal power generation ventures of the Adani Group, with 40 MW solar power generation project on a standalone basis. List of entities getting consolidated in the FY21 financials of APL are placed at **Annexure-6**.

Applicable Criteria
Criteria on Assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Rating Methodology - Consolidation
Rating Methodology - Thermal Power Producers
Rating Methodology - Solar Power Projects
Financial Ratios - Non-Financial Sector

About the Company
APL is the holding company of Adani Group's coal-based thermal power generation business. APL, through its seven wholly owned subsidiaries, has total operational thermal power generation capacity of 13.61 GW. Also, APL is in the process of setting-up 2.92 GW of green-field thermal power generation projects.

Brief Financials - APL (Consolidated) (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total Operating Income	25,909	23,720	17,279
PBILDT	5,196	6,206	4,747
PAT	-2,275	1,270	266
Overall Gearing (times)	9.00	4.13	NA
Interest Coverage (times)	0.98	1.22	1.55

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of 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 Instrument / Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	39.60	CARE BBB- / CARE A3 (CWP)
Fund-based - LT-Term Loan	-	-	-	March 2023	218.80	CARE BBB- (CWP)

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument / Bank Facilities	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.	Non-fund-based - LT/ ST-BG/LC	LT/ST*	39.60	CARE BBB- / CARE A3 (CWP)	-	1)CARE BBB-; Stable / CARE A3 (31-Mar-21)	1)CARE BBB-; Stable / CARE A3 (23-Jan-20)	1)CARE BB+; Stable / CARE A4+ (18-Sep-18) 2)CARE BB- / CARE A4 (CWD) (10-Jul-18)
2.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	-	-	1)Withdrawn (10-Jul-18)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	-	-	1)Withdrawn (10-Jul-18)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (10-Jul-18)
5.	Fund-based - LT-External Commercial Borrowings	-	-	-	-	-	-	-
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (10-Jul-18)
7.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (10-Jul-18)
8.	Fund-based - LT-Term Loan	LT	218.80	CARE BBB- (CWP)	-	1)CARE BBB-; Stable (31-Mar-21)	1)CARE BBB-; Stable (23-Jan-20)	1)CARE BB+; Stable (18-Sep-18) 2)CARE BB- (CWD) (10-Jul-18)
9.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	-	-	1)Withdrawn (10-Jul-18)

*Long-term / Short-term

Anneuxre-3: Detailed explanation of 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 Instrument / Bank Facilities	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	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**

Annexure-6: List of Entities Getting Consolidated into APL

Name of the Entity	Subsidiary / Associate / Joint Venture	% Shareholding by APL as on March 31, 2021
Adani Power (Mundra) Limited	Subsidiary	100%
Adani Power Maharashtra Limited	Subsidiary	100%
Adani Power Rajasthan Limited	Subsidiary	100%
Udupi Power Corporation Limited	Subsidiary	100%
Adani Power (Jharkhand) Limited	Subsidiary	100%
Adani Power Resources Limited	Subsidiary	51%
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%
Raigarh Energy Generation Limited (formerly known as Korba West Power Company Limited)	Subsidiary	100%
Raipur Energen Limited (formerly known as GMR Chhattisgarh Energy Limited)	Subsidiary	100%

Note on complexity levels of the rated instrument: CARE Ratings Limited 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Limited is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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