Adani Power Maharashtra Limited

March 30, 2022

Ratings

Facilities / Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	12,835.84	**CARE A (CWD) (Single A) (Under Credit watch with Developing Implications)**	**Placed on Credit watch with Developing Implications**
Long Term / Short Term Bank Facilities	465.00	**CARE A / CARE A1 (CWD) (Single A / A One) (Under Credit watch with Developing Implications)**	**Placed on Credit watch with Developing Implications**
Short Term Bank Facilities	3,500.00	**CARE A1 (CWD) (A One) (Under Credit watch with Developing Implications)**	**Placed on Credit watch with Developing Implications**
Total Bank Facilities	**16,800.84 (Rs. Sixteen Thousand Eight Hundred Crore and Eighty-Four Lakhs Only)**		

Details of facilities / instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Adani Power Maharashtra Limited (APML) have been placed under credit watch with developing implications in the view of the recent announcement made by its parent company viz., Adani Power Limited [APL; rated CARE BBB- / CARE A3 (CWP)] 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 of Adani Power Maharashtra Limited (APML) continue to take into account APML being part of the Adani Group which has diversified presence across various sectors, including the entire value chain of power business with vast experience in thermal power generation, availability of need based financial support from the promoter group which provides cushion to its cash flows pending realization of balance regulatory receivables, its long-term power purchase agreements (PPAs) with Maharashtra State Electricity Distribution Company Limited (MSEDCL) for selling entire power generation capacity (net of auxiliary consumption) providing good revenue visibility, availability of adequate transmission line infrastructure and its entire fuel requirement being tied-up in the form of domestic coal under its own fuel supply agreements (FSAs) with Coal India Limited (CIL) along with Inter Plant Transfer (IPT) arrangement of domestic linkage coal with Adani Power (Mundra) Limited (APMuL) against its FSA entitlement whereby APML is expected to pay the difference between APMuL's domestic linkage coal price and transfer price under IPT arrangement (IPT differential) only out of receipt of compensatory tariff (CT) cash flows. APML has also been awarded a coal mine under commercial coal mining auctions which is likely to be utilised by APML for its captive consumption.
The ratings also draw strength from stable operating performance during FY21 (refers to the period from April 01 to March 31) with achievement of normative levels of declared plant availability factor (PAF) due to sustained availability of domestic coal leading to lower reliance on costlier alternative sources of coal i.e., imported coal / domestic e-auction coal and corresponding improvement in its profitability, liquidity and debt coverage indicators and build-up of Debt Service Reserve Account (DSRA) equivalent to two quarters' debt servicing obligations on rupee term loan (RTL) and one quarter's debt servicing obligations on external commercial borrowings (ECBs). The ratings of APML are also underpinned by commencement of part cash flows towards its CT and carrying cost dues pertaining to domestic coal shortfall arising out of 'Change in Indian Law' on its 2,500 MW PPAs (regulatory receivables) and commencement of part cash flows towards its CT and carrying cost dues on 800 MW PPA linked to de-allocated Lohara coal block (regulatory receivables) based of favourable regulatory orders. CARE Ratings notes that with commencement of cash flows pertaining to regulatory receivables, APML has also made payments towards IPT differential to APMuL as per the arrangement. Considering the track record of last three years till FY21, CARE Ratings expects that APML's balance regulatory receivables would be realised over the next 2-3 years, and which, as articulated by management would be utilised first for meeting the requirements of APML and surplus, if any, might be up-streamed to group entities.

The ratings, however, continue to remain constrained by large accumulation of regulatory receivables, susceptibility of its operations to lower than envisaged supply of domestic coal, risk pertaining to foreign exchange rate fluctuations on foreign

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

currency borrowings, moderate credit profile of its sole counterparty viz., MSEDCL, its moderate leverage and debt coverage indicators.

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

- Significant improvement in its profitability, capital structure and debt coverage indicators on a sustained basis
- Significant improvement in the credit risk profile of its power off-taker viz., MSEDCL

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

- Adverse deviation in operational parameters and inadequacy of coal supplies on a sustained basis
- Delay / non-receipt of balance regulatory receivables in a timely manner or any adverse regulatory orders
- Any adverse changes in Adani Group's stance towards support to APML
- Inordinate delay in completion of flue-gas desulphurisation (FGD) project

Detailed Description of the Key Rating Drivers
Key Rating Strengths
Parentage of Adani Group with vast experience in the entire value of chain of power viz., coal mining, coal import, port operations, power generation, power transmission and power distribution and track record of extending need-based 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 coal-based thermal power generation capacity of 13.61 GW. Also, APL is in the process of setting-up 2.92 GW of green-field coal-based 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.

Tie-up of entire power generation capacity under long-term PPAs
Out of the total power generation capacity of 3,300 MW, APML has long-term off-take arrangement of 25 years with MSEDCL for 3,085 MW (i.e., entire capacity after considering auxiliary consumption) which provides good revenue visibility. APML's PPAs with MSEDCL have a two-part tariff structure i.e., capacity charges upon achieving declared PAF equal to or above normative levels and energy charges & transportation costs that are largely escalable for variation linked to Central Electricity Regulatory Commission (CERC) index. In three out of four PPAs (comprising around 60% of its total power generation capacity), energy charges & transportation costs are escalable for variation linked to CERC index. In addition to the same, APML is also raising bills against MSEDCL for taxes & duties on coal purchase relating to 'Change in Indian Law' and regulatory receivables. Cash flows in respect of the same are also being received by APML.

Availability of adequate transmission line infrastructure
As per terms of the long-term PPAs of APML with MSEDCL, APML's obligation is to deliver the electricity to MSEDCL at project bus bar. With the availability of Adani Transmission Limited's (ATL) adequate transmission network through its subsidiaries which connects APML's power plant, there is no power transmission bottleneck for APML.

Tie-up of entire fuel requirement by way of domestic coal linkages, including FSAs under the Scheme for Harnessing and Allocating Koyla (Coal) Transparently in India (SHAKTI) policy and IPT arrangement with APMuL
In APML, total domestic coal requirement for achieving normative declared PAF levels is about 13.50 million tonne per annum (MMTPA). As against the same, it has FSAs for 11.31 MMTPA (including 5.85 MMTPA under the SHAKTI policy) with CIL and 6.40 MMTPA under the IPT arrangement with APMuL (from Phase-IV). In 2018, APML signed FSAs under the SHAKTI policy at negligible discounts to the PPA tariffs and has been receiving regular coal supplies under the same. During FY21 and H1FY22, subsidiaries of CIL dispatched around 64% and 78% of total domestic coal allocated to APML respectively under all its FSAs, including FSA under the IPT arrangement with APMuL, which was in line with the quantity requisitioned by APML. APML requisitioned lower quantity of coal under the FSAs due to the COVID-19 lockdown-related reduction in power demand. APML has also been awarded a coal mine under commercial coal mining auctions which is likely to be utilised by APML for its captive consumption.
Going forward, APML's management expects 85% materialization of the contracted quantity of coal from all its domestic FSAs to be received every year which could largely result in lower reliance on relatively costlier alternative sources of coal which would result in minimal CT build-up. This would continue to be one of the key rating monitorable.

Stable performance of APML during FY21 on the back of sustained availability of domestic coal under all its FSAs
The performance of APML remained stable in FY21 on the back of sustained availability of domestic coal under all its FSAs. APML's declared PAF and plant load factor (PLF) stood at 89.95% and 62.44% respectively in FY21 compared with 87.03% and 80.22% respectively in FY20. Achievement of normative declared PAF in FY21 led to recovery of full capacity charges in FY21. Stable operating performance coupled with receipt of cash flows pertaining to regulatory receivables in FY21 resulted in improved financial performance of APML during FY21. The PBILDT margin improved from 26.11% in FY20 to 39.38% in FY21 whereas the interest coverage improved from 1.64 times to 2.16 times. Simultaneously, the total debt / PBILDT improved from 6.19 times during FY20 to 4.88 times during FY21. Based on the sustained availability in domestic coal supplies under all its FSAs, APML is expected to recover full capacity charges going forward.

Actual receipt of cash flows pertaining to part CT and carrying cost on its 2,500 MW and 800 MW PPAs
Post series of litigations, pursuant to the Hon'ble Supreme Court of India's verdict in the CT matter of APMuL wherein domestic coal shortage was considered as 'Change in Indian Law', APML received favourable regulatory orders from Maharashtra Electricity Regulatory Commission (MERC) and Appellate Tribunal for Electricity (APTEL). Based on the same, APML has recovered partial recognised claims from MSEDCL and it expects to receive the balance recognised claims within next 2-3 years. However, MSEDCL has filed an appeal with the Hon'ble Supreme Court of India on APML's regulatory receivables pertaining to 2,500 MW and 800 MW PPAs and hence, there is lack of clarity with respect to timelines for receipt of cash flows pertaining to balance regulatory receivables along with their final quantum.
APML's CT dispute with its off-taker has lingered since very long. Any further dispute with respect to ascertainment of final quantum of regulatory receivables could further delay realisation of its dues. Consequently, timely receipt of cash flows pertaining to balance regulatory receivables and simultaneous improvement in its leverage and debt coverage indicators would be a key rating sensitivity. Also, end-use of the cash flows pertaining to balance regulatory receivables would be a key rating monitorable as the same would be critical in, inter-alia, funding of equity component of FGD capex.

IPT arrangement with APMuL results in improved liquidity for debt servicing
APML has an IPT arrangement of domestic linkage coal with APMuL against its FSA entitlement whereby APML is expected to pay the IPT differential only out of receipt of CT cash flows. Funds received by APML through liquidation of regulatory receivables over the last three years have been utilized by it in part to pay to APMuL towards IPT differential accumulated over the past few years. Going forward also, it would pass on the full IPT differential to APMuL subject to availability of sufficient cash flows after meeting its debt servicing obligations on its senior debt. Continuous adherence to the terms of arrangement between APMuL and APML by both the companies with respect to payout to be made for domestic coal under the IPT arrangement would remain a key rating monitorable.

Key Rating Weaknesses
Moderate debt coverage indicators
As per the repayment schedule of the RTL of APML, the repayment instalments which were lower in FY16 (0.50% of term loan per annum) and FY17 (1.00% of term loan per annum), have stepped up substantially from FY18 onwards (4.72% of term loan per annum from FY18-FY21 onwards) and would peak in FY23. This step-up in RTL amortization coupled with only partial cash flows pertaining to regulatory receivables has hampered the debt coverage indicators of APML to an extent. The debt coverage indicators of APML are, however, expected to improve going forward on account of lower reliance on costlier alternative sources of coal and receipt of part cash flows pertaining to regulatory receivables.

Moderate credit profile of its sole counterparty viz., MSEDCL
In the state of Maharashtra, MSEDCL operates as the sole state power distribution company. The credit risk profile of MSEDCL has remained inherently moderate with instances of significant delays in payment for power procured by it. However, as articulated by the company, APML has been receiving payment for its regular bills in around three to four months' time from MSEDCL. Also, as per PPA stipulations, APML benefits from existence of additional payment security mechanism in the form of monthly revolving Letter of Credit (LC) issued by MSEDCL in favour of APML. Moreover, MSEDCL would also be required to pay to APML late payment surcharge (LPS) in case of payment delays as per the PPA terms which acts as a deterrent to delayed payments.

Risks associated with foreign exchange rate fluctuations
APML's financial risk profile is also vulnerable to foreign exchange rate fluctuations because of its un-hedged exposure in the form of foreign currency payables (import LCs & creditors and ECB principal repayment and interest payment obligations) while it has no receivables in foreign currency. Its total foreign currency exposure stood at USD 178 million as on September 30, 2021 of which USD 136 million is getting repaid by December 2022. Hence, APML is exposed to forex risk on balance portion of USD 42 million repayable till March 2028.

Liquidity: Adequate
The regulatory receivables by APML realised in FY21 were utilised for repayment of loans and advances of related parties / advancement of loans to APL along with payment to APMuL for retiring IPT coal creditors. Liquidity of APML is characterized by moderate level of cushion in accruals vis-à-vis annual repayment obligations between Rs.900-1,200 crore over next three years. Also, the promoters of APML have articulated their strong commitment and support to service the debt obligations of APML on a timely basis. Moreover, APML has created full required two quarters' DSRA on RTL and one quarter's DSRA on ECBs. Further,

APML has capex requirements towards installation of FGD system which is likely to be funded through a mix of debt and internal accruals.
APML'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 and moderate credit profile of its counterparty viz., MSEDCL leading to payment delays. APML has sanctioned working capital limits of around Rs.2,733 crore which are largely interchangeable between fund based and non-fund based. The average fund based working capital limit utilization of APML stood high at around 91% for 12 months ended September 2021.

Analytical Approach: Standalone

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 - Notching by Factoring Linkages in Ratings
Rating Methodology - Thermal Power Producers
Financial Ratios - Non-Financial Sector

About the Company
Incorporated in April 2007, APML was floated as a wholly-owned subsidiary of APL to implement 3,300 MW super-critical, domestic coal-based thermal power generation plant at Tiroda in Maharashtra. The project was implemented in three phases – Phase-I (660 MW x 2 units), Phase-II (660 MW x 1 unit) and Phase-III (660 MW x 2 units). Out of the total five units of the project, three units achieved commercial operations in September 2012, March 2013 and June 2013 respectively. Subsequently, the balance two units were commissioned in March 2014 and October 2014 respectively. APML has long-term PPAs with MSEDCL for 3,085 MW capacity (net of auxiliary consumption). APML's PPAs with MSEDCL have a two-part tariff structure i.e., capacity charges upon achieving declared PAF equal to or above normative levels and energy charges & transportation costs that are largely escalable for variation linked to CERC index.

Brief Financials - APML (Standalone) (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total Operating Income	8,428	7,233	6,345
PBILDT	2,201	2,856	1,874
PAT	35	3,667	328
Overall Gearing (times)	3.43	1.83	NA
Interest Coverage (times)	1.64	2.16	2.36

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
Fund-based - LT-Term Loan	-	-	-	September 2034	7,781.14	CARE A (CWD)
Fund-based - LT-External Commercial Borrowings	-	-	-	March 2028	1,321.35	CARE A (CWD)
Fund-based - LT-Cash Credit	-	-	-	-	3,104.35	CARE A (CWD)
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	465.00	CARE A / CARE A1 (CWD)
Non-fund-based - LT-Bank Guarantee	-	-	-	-	285.00	CARE A (CWD)
Non-fund-based - LT-Bank Guarantee	-	-	-	-	344.00	CARE A (CWD)
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	3,500.00	CARE A1 (CWD)

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.	Fund-based - LT-Term Loan	LT	7,781.14	CARE A (CWD)	1)CARE A; Stable (06-Dec-21)	1)CARE A; Stable (09-Dec-20) 2)CARE A; Stable (11-Nov-20)	1)CARE A-; Stable (22-Aug-19)	1)CARE A-; Stable (12-Feb-19) 2)CARE A-; Stable (03-Oct-18)
2.	Fund-based - LT-External Commercial Borrowings	LT	1,321.35	CARE A (CWD)	1)CARE A; Stable (06-Dec-21)	1)CARE A; Stable (09-Dec-20) 2)CARE A; Stable (11-Nov-20)	1)CARE A-; Stable (22-Aug-19)	1)CARE A-; Stable (12-Feb-19) 2)CARE A-; Stable (03-Oct-18)
3.	Fund-based - LT-Cash Credit	LT	3,104.35	CARE A (CWD)	1)CARE A; Stable (06-Dec-21)	1)CARE A; Stable (09-Dec-20) 2)CARE A; Stable (11-Nov-20)	1)CARE A-; Stable (22-Aug-19)	1)CARE A-; Stable (12-Feb-19) 2)CARE A-; Stable (03-Oct-18)
4.	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	465.00	CARE A / CARE A1 (CWD)	1)CARE A; Stable / CARE A1 (06-Dec-21)	1)CARE A; Stable / CARE A1 (09-Dec-20) 2)CARE A; Stable / CARE A1 (11-Nov-20)	1)CARE A-; Stable / CARE A2 (22-Aug-19)	1)CARE A-; Stable / CARE A2 (12-Feb-19) 2)CARE A-; Stable / CARE A2 (03-Oct-18)
5.	Fund-based - LT-Term Loan	-	-	-	-	-	-	1)CARE A-; Stable (12-Feb-19) 2)CARE A-; Stable (03-Oct-18)
6.	Non-fund-based - LT-Bank Guarantee	LT	285.00	CARE A (CWD)	1)CARE A; Stable (06-Dec-21)	1)CARE A; Stable (09-Dec-20) 2)CARE A; Stable (11-Nov-20)	1)CARE A-; Stable (22-Aug-19)	1)CARE A-; Stable (12-Feb-19) 2)CARE A-; Stable (03-Oct-18)
7.	Non-fund-based - LT-Bank Guarantee	LT	344.00	CARE A (CWD)	1)CARE A; Stable (06-Dec-21)	1)CARE A; Stable (09-Dec-20) 2)CARE A; Stable (11-Nov-20)	1)CARE A-; Stable (22-Aug-19)	1)CARE A- (SO); Stable (19-Nov-18) 2)Provisional CARE A- (SO); Stable (03-Oct-18)
8.	Non-fund-based - ST-Letter of credit	ST	-	-	1)Withdrawn (06-Dec-21)	1)CARE A1 (09-Dec-20) 2)CARE A1 (11-Nov-20)	1)CARE A2 (22-Aug-19)	1)CARE A2 (12-Feb-19)
9.	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	3,500.00	CARE A1 (CWD)	1)CARE A1 (06-Dec-21)	1)CARE A1 (09-Dec-20) 2)CARE A1 (11-Nov-20)	-	-

*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-Cash Credit	Simple
2.	Fund-based - LT-External Commercial Borrowings	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
5.	Non-fund-based - LT-Bank Guarantee	Simple
6.	Non-fund-based - LT/ ST-Bank Guarantee	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 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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