Adani Power Rajasthan Limited

March 30, 2022

Ratings

Facilities / Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	5,059.60	**CARE BBB (CWD) (Triple B) (Under Credit watch with Developing Implications)**	**Placed on Credit watch with Developing Implications**
Long Term / Short Term Bank Facilities	2,215.80	**CARE BBB / CARE A3+ (CWD) (Triple B / A Three Plus) (Under Credit watch with Developing Implications)**	**Placed on Credit watch with Developing Implications**
Total Bank Facilities	**7,275.40 (Rs. Seven Thousand Two Hundred Seventy-Five 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 Rajasthan Limited (APRL) 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 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, 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 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 in February 2022 the Hon'ble Supreme Court of India has ordered Rajasthan Discoms to pay the outstanding dues to APRL within a period of four weeks based on contempt petition filed by APRL against Rajasthan Discoms; 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., APL, 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 - Factors that could lead to positive rating action / upgrade:

- 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 - 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
- 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

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

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. 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.

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 RTL and ECB lenders. Maintenance of requisite DSRA is expected to 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 around Rs.9,000 crore till December 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 has 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). Also, in February 2022 the Hon'ble Supreme Court of India has ordered Rajasthan Discoms to pay the outstanding dues to APRL within a period of four weeks based on contempt petition filed by APRL against Rajasthan Discoms. 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 regular 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
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
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)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total Operating Income	3,423	3,516	2,730
PBILDT	1,205	1,461	1,083
PAT	927	348	270
Overall Gearing (times)	1.89	1.65	NA
Interest Coverage (times)	1.67	2.18	2.44

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	-	-	-	April 2035	3,947.60	CARE BBB (CWD)
Fund-based - LT-External Commercial Borrowings	-	-	-	May 2027	1,112.00	CARE BBB (CWD)
Fund-based/Non-fund-based-LT/ST	-	-	-	-	1,983.99	CARE BBB / CARE A3+ (CWD)
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	180.00	CARE BBB / CARE A3+ (CWD)
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	-	51.81	CARE BBB / CARE A3+ (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	3,947.60	CARE BBB (CWD)	1)CARE BBB; Stable (07-Jul-21)	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 (CWD)	1)CARE BBB; Stable (07-Jul-21)	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 / CARE A3+ (CWD)	1)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)	1)CARE BBB-; Stable / CARE A3 (03-Oct-18)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST*	180.00	CARE BBB / CARE A3+ (CWD)	1)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)	1)CARE BBB-; Stable / CARE A3 (03-Oct-18)
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)	1)CARE BBB-; Stable (03-Oct-18)
6.	Non-fund-based - LT-Bank Guarantee	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) 2)Provisional CARE A2+ (SO) (01-Feb-19)

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
8.	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	51.81	CARE BBB / CARE A3+ (CWD)	1)CARE BBB; Stable / CARE A3+ (07-Jul-21)	1)CARE BBB; Stable / CARE A3+ (11-Aug-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-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
6.	Fund-based - LT-External Commercial Borrowings	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.

Contact Us

Media Contact
Name: Mradul Mishra
Contact No.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Naresh M. Golani
Contact No.: +91-79-4026 5618
Email ID: naresh.golani@careedge.in

Relationship Contact
Name: Deepak Prajapati
Contact No.: +91-79-4026 5656
Email ID: deepak.prajapati@careedge.in

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.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**