AUGUST 04, 2016

CARE REAFFIRMS THE RATING ASSIGNED TO THE NCD ISSUE OF ADANI POWER LTD. BACKED BY PLEDGE OF SHARES

Ratings

Instrument	Amount (Rs. crore)	Ratings[1]	Remarks
Non-Convertible Debenture issue $	500.00	**CARE AA- (SO) [Double A Minus (Structured Obligation)]**	**Reaffirmed**
Total Instrument	**500.00 (Rupees Five Hundred Crore only)**		

$ backed by credit enhancement in the form of security of first and exclusive pledge of unencumbered shares of Adani Ports & SEZ Ltd. (APSEZ) and Adani Transmission Ltd. (ATL) in the ratio of 80: 20, such that the value of these shares is 2 times the value of the outstanding NCDs.

Rating Rationale

The rating assigned to the above Non-Convertible Debenture (NCD) issue of Adani Power Ltd (APL) continues to derive strength from the availability of credit enhancement in the form of security of first and exclusive pledge of unencumbered shares of APSEZ and ATL held by promoter group in the ratio of 80:20, such that the aggregate value of these shares, at all times is maintained at 2 times the value of outstanding NCDs. The rating further derives strength from availability of adequate unpledged shares of APSEZ with the promoters despite reduction in its quantum so as enable it to maintain the aggregate collateral cover during the tenure of the instrument, presence of collateral and cash top up clause in the structure and strength derived from the APSEZ shares forming part of Nifty 50 index.

The rating, however, continues to be constrained by the liquidity risk associated with the underlying shares as evidenced from the very high proportion of pledged shares of APSEZ via-a-vis its average daily traded volume, unavailability of assured cash flows for redemption of NCDs, possible reliance on refinancing or group support and eventuality of liquidation of shares to meet NCD redemption. The rating is further constrained on account of increased volatility in the share price of APSEZ vis-à-vis Sensex during the last one year (as reflected by rise in value of 'Beta' of APSEZ shares).

The rating is subject to maintenance of the aggregate collateral cover (by way of the pledge of shares) as per the structure during the tenure of the instrument and timely liquidation of shares in case of occurrence of an 'event of default' during the tenure of the instrument.

Background

APL is a part of Gujarat based Adani group. Previously APL was a subsidiary of Adani Enterprises Ltd (AEL). However, subsequent to the group restructuring amongst various Adani group entities in March 2015, controlling stake in APL has been transferred from AEL to the promoters. APL along-with its three wholly-owned subsidiaries has total power generation capacity of 10,440 MW and it has achieved Commercial operations Date (CoD) for the entire power generation capacity [4620 MW (330 MW x 4 and 660 MW x 5) in APL at Mundra, Gujarat; 3300 MW (660 MW x 5) in Adani Power Maharashtra Ltd. (APML) at Tiroda, Maharashtra; 1320 MW (660 MW x 2) in Adani Power Rajasthan Ltd. (APRL) at Kawai, Rajasthan and 1200 MW (600 MW x 2) in Udupi Power Company Ltd. (UPCL). APL has taken 100% equity stake in UPCL in April 2015. Also, with the change in group's shareholding, APL has been vested with the 40 MW operational solar power project located at Kutch, Gujarat. Further, acquisition of 600 MW Korba power plant of Avantha Power & Infrastructure Ltd. is underway against which it has already given an advance of Rs.775 crore by March 31, 2016.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

During FY16 (refers to the period from April 1 to March 31), APL (on a standalone basis) had a total operating income of Rs.12,285 crore (FY15: Rs.10,165 crore) with a PAT of Rs.6 crore (FY15: Net loss of Rs.69 crore). During FY16, APL has recognized compensatory tariff income of Rs.919 crore on a standalone basis.

The shares of APSEZ and ATL held by promoter group viz. S.B. Adani Family Trust and/or Adani Properties Pvt. Ltd. (APPL) is pledged to provide an aggregate collateral cover of two times the outstanding amount of the NCD. As on March 31, 2016, promoter and promoter group companies held 56.39% and 75.00% equity stake in APSEZ and ATL respectively.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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