APRIL 19, 2016

CARE ASSIGNS 'CARE A- (SO)' RATING TO THE LONG-TERM RUPEE TERM LOAN OF PHASE IV POWER PROJECT OF ADANI POWER LTD. AT MUNDRA (GUJARAT)

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long term Bank Facilities	6,546.00	**CARE A-(SO) # [Single A Minus (Structured Obligation)]**	**Assigned**
Total Facilities	**6,546.00 (Rupees Six Thousand Five Hundred and Forty Six Crore Only)**		

 # the above rating is based on the Credit Enhancement which is available in the form of a ring-fenced cash flow structure for priority in debt servicing of rupee term loans availed for funding the Phase-IV power project assets of 1980 MW of APL.

Rating Rationale

The rating assigned to the bank facilities (Rupee Term Loan availed for Phase IV power project) of Adani Power Ltd. (APL) takes into account completion of refinancing of its rupee term debt under RBI guidelines leading to elongation of the repayment obligation, presence of a ring-fenced cash flow structure as per Trust and Retention Account (TRA) Agreement for its debt servicing along with stipulation for creation of a Debt Service Reserve Account (DSRA) providing credit enhancement, Fuel Supply Agreement (FSA) in place and long-term Power Purchase Agreement (PPA) in place with Haryana Discoms.

The rating also takes in to account APL's strong parentage being part of the Adani group, demonstrated financial support from the promoter group by way of infusion of sub-ordinated unsecured loans, Adani group's diversified presence in various sectors predominantly in energy businesses, substantially large power generation capacity in operation, long-term Power Purchase Agreements (PPAs) for off-take of majority of power in place and softening of imported coal prices.

The rating is, however, constrained on account of weakened financial risk profile of APL upon reporting losses, fixed rate PPAs leading to substantial under-recovery of power generation cost, significant delay in receipt of compensatory tariff, worsening of its capital structure upon largely debt funded acquisitions, risks associated with aggressive expansion plans, exposure to fuel price risk and susceptibility to exchange rate fluctuations.

The quantum of compensatory tariff to be determined along with the timely receipt thereof in APL's fixed price PPAs, improvement in domestic coal supplies under FSA, prevailing merchant power tariff, quantum of dividend income from its subsidiaries, improvement in its profitability and leverage along with need based financial support from the promoter group are the key rating sensitivities.

Background

APL is a part of the Adani group and was previously, a subsidiary of Adani Enterprises Ltd. (AEL). However, subsequent to the group restructuring in March 2015, controlling stake in APL has been transferred from AEL to the promoters of Adani Group. APL along-with its three wholly-owned subsidiaries has total power generation capacity of 10,440 MW.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 whereby Phase-IV comprises of 3 units of 660 MW each. APL's Phase IV power project at Mundra has a ring fenced structure with separate set of lenders, revenue stream and Trust & Retention Account (TRA) mechanism. The security cover is exclusively available for Phase IV lenders.

Also, it has achieved COD for 3300 MW (660 MW x 5) in its subsidiaries - Adani Power Maharashtra Ltd. (APML) at Tiroda, Maharashtra and 1320 MW (660 MW x 2) in Adani Power Rajasthan Ltd. (APRL) at Kawai, Rajasthan. Further, APL has taken 100% equity stake in Udupi Power Company Ltd. in April 2015 which has 1200 MW (600 MW x 2) operational power generation capacity. Accordingly, consolidated coal based thermal power generation capacity of APL stands at 10440 MW. Also, with the change in shareholding at group level, APL has also been vested with 40 MW operational solar power project located at Kutch, Gujarat. Further, deal for acquisition of 600 MW Korba Power plant from Avantha Power & Infrastructure Ltd. is in process.

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

Promoter group has infused equity capital of around Rs.1,115 crore in APL in Q4FY16. Further, in April 2016, Board of Directors of APL has approved preferential allotment of 52.30 crore warrants, convertible in to equivalent number of equity shares which is expected to improve its net-worth base.

During FY15 (refers to the period from April 1 to March 31), APL (on a standalone basis) reported a total operating income of Rs.10165 crore (FY14: Rs.9452 crore) with a net loss of Rs.69 crore (FY14: PAT of Rs.595 crore). As per provisional results for 9MFY16, APL has reported a total operating income of Rs.8909 crore with a net loss of Rs.352 crore.

During FY15, APL (on a consolidated basis) reported a total operating income of Rs.17383 crore (FY14: Rs.13336 crore) with a net loss of Rs.1298 crore (FY14: Net loss of Rs.291 crore). As per provisional results for 9MFY16, APL has reported a total operating income of Rs.16382 crore with a net loss of Rs.685 crore.

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