AUGUST 04, 2016

CARE REVISES THE RATINGS ASSIGNED TO THE BANK FACILITIES OF ADANI POWER LTD.

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
a) Long-term Bank Facilities	4,830.30	**CARE BBB- (Triple B Minus)**	**Revised from CARE BBB (Triple B)**
b) Long-term / Short-term Bank Facilities	5,079.60	**CARE BBB- / CARE A3 (Triple B Minus / A Three)**	**Revised from CARE BBB / CARE A3 (Triple B / A Three)**
c) Long Term Bank Facilities (Rupee Term Loan – Phase IV) *	6,497.00	**CARE BBB+ (SO) [Triple B Plus (Structured Obligation)]**	**Revised from CARE A- (SO) [Single A Minus (Structured Obligation)]**
Total Facilities	**16,406.90 (Rupees Sixteen Thousand Four Hundred Six Crore and Ninety Lacs only)**		

** rating is based on the Credit Enhancement which is available in the form of a ring-fenced cash flow structure as per Trust and Retention Account (TRA) agreement for priority in debt servicing of rupee term loans availed for funding the Phase-IV power generation project assets of 1980 MW of APL at Mundra in Gujarat.*

Rating Rationale

The revision in the ratings of the bank facilities of Adani Power Ltd. (APL) is on account of substantial delay in resolution of its dispute related to compensatory tariff (CT) with its power off-takers than what was previously envisaged which has led to substantial under-recovery of its power generation cost in the backdrop of its largely fixed rate tariff Power Purchase Agreements (PPAs) which has adversely impacted its liquidity, with significant build-up of CT receivables on its books. The rating revision also takes into account inordinate delay in refinancing of its outstanding External Commercial Borrowings (ECBs) than what was previously envisaged and consequent adverse impact on its debt coverage indicators in light of substantial installment obligations falling due in near term, entailing significant financial support from the promoters for timely debt servicing. It is, however, noted that APL has made reasonable progress in its refinancing efforts, which is expected to be concluded shortly.

The ratings, however, continue to draw strength from APL's strong parentage being part of the Adani group, financial support from the promoter group by way of infusion of equity/unsecured loans, group's diversified presence in various sectors predominantly in energy businesses, substantially large power generation capacity in operation, long-term PPAs in place for off-take of majority of power, availability of adequate transmission infrastructure and softening of imported coal prices.

The ratings, however, continue to remain constrained on account of APL's exposure to fuel price risk, susceptibility to foreign exchange rate fluctuations, high leverage and risk associated with its aggressive expansion plans.

The revision in rating of the Rupee Term Loans (RTL) availed for Phase-IV of APL's power project [c) in the above table] is on account of moderation of APL's standalone credit risk profile, apart from deterioration in its envisaged debt coverage indicators, due to various factors including delay in receipt of CT, decline in merchant tariff rate, increase in price of domestic coal, adverse impact of depreciation of INR against USD on the cost of imported coal as well as higher than envisaged interest rate on the RTL. Further, non-creation of the stipulated

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

Debt Service Reserve Account (DSRA) for meeting the repayment obligations on the Phase - IV RTL has also diluted the comfort which was previously drawn.

At the same time, the rating of the RTL availed for Phase-IV of APL's power project continues to derive comfort from the credit enhancement available to it by virtue of the presence of a ring-fenced cash flow structure as per Trust and Retention Account (TRA) agreement for priority in its debt servicing and relatively better debt coverage indicators vis-à-vis the overall credit quality of APL due to its higher rate fixed price PPA, Fuel Supply Agreement (FSA) in place for supply of domestic coal and elongation of its repayment obligation on completion of refinancing of the RTL under RBI guidelines.

The ultimate determination of quantum of CT in APL's fixed price PPAs along with its receipt, improvement in domestic coal supplies under FSA, improvement in merchant power tariff rates, quantum of dividend & interest 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 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.

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 standalone level.

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