OCTOBER 28, 2016

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

Ratings

Bank Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
a) Long-term Bank Facilities	8,777.83 (enhanced from 7,830.30)	**CARE BBB- [Triple B Minus]**	Reaffirmed
b) Long-term / Short-term Bank Facilities	5,062.68 (reduced from 5,079.60)	**CARE BBB- / CARE A3 [Triple B Minus / A Three]**	Reaffirmed
c) Long Term Bank Facilities (Rupee Term Loan – Phase IV) *****	6,466.40 (reduced from 6,497.00)	**CARE BBB+ (SO) [Triple B Plus (Structured Obligation)]**	Reaffirmed
Total Facilities	**20,306.91 (Rupees Twenty Thousand Three Hundred Six Crore and Ninety One Lac 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 ratings continue to draw strength from Adani Power Ltd's (APL) 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 Power Purchase Agreements (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 substantial delay in resolution of APL's 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 PPAs which has adversely impacted its liquidity, with significant build-up of CT receivables on its books. The rating also continue to remain constrained by 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 also remain constrained by APL's exposure to fuel price risk, susceptibility to foreign exchange rate fluctuations, high leverage and risk associated with its aggressive expansion plans.

The ultimate determination of quantum of CT in APL's fixed price PPAs along with its receipt, improvement in domestic coal supplies under Fuel Supply Agreement (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.

The rating assigned to the Rupee Term Loans (RTL) availed for Phase-IV of APL's power project [c) in the above table] 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.

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

However, the rating assigned to the RTL availed for Phase-IV of APL's power project continues to remain constrained on account of moderation of APL's standalone credit risk profile, moderation 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, higher than envisaged interest rate on the RTL and non-creation of the stipulated Debt Service Reserve Account (DSRA) for meeting the repayment obligations on the Phase - IV RTL.

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 a standalone level. As per provisional results for H1FY17, APL (on a standalone basis) had a total operating income of Rs.5,305 crore with a net loss of Rs.141 crore. During H1FY17, APL has recognized compensatory tariff income of Rs.401 crore on a standalone basis.

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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