Adani Green Energy Limited

October 18, 2017

Ratings

Facilities	Amount (Rs. Crore)	*Rating[1]	Rating Action
Long-term Bank Facilities	62.50	**CARE BBB+ (SO); Stable [Triple B Plus (Structured Obligation); Outlook: Stable]**	**Revised from CARE BBB (Triple B)**
Total Facilities	**62.50 (Rupees Sixty Two crore and Fifty lakh only)**		

** The above rating is based on 'credit enhancement' available in the form of existence of a ring-fenced cash flow structure by way of an 'Escrow Agreement' entered in to by Adani Green Energy Ltd (AGEL) with the project lender under the 'Facility Agreement' for ensuring that the entire project proceeds are prioritized for debt servicing of all the bank facilities availed by AGEL for funding the implementation & operations of its 12 MW wind power project (the project) at Lahori, Madhya Pradesh (MP).*

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of AGEL is on account of establishment of moderate track record of operations of power generation by its 12 MW wind mill at Lahori in Madhya Pradesh (MP) along with creation of requisite debt service reserve account (DSRA). The rating also takes cognizance of the presence of a ring-fenced cash flow structure through an escrow mechanism for ensuring application of entire project proceeds for priority in debt servicing of the bank facilities availed by AGEL for funding the implementation and operations of the afore-mentioned 12 MW wind mill project. CARE also notes that the cash flows of this 12 MW wind mill in MP is segregated from all existing and future debt of AGEL and that these 'ring-fenced' cash flows would not be used by AGEL for meeting its equity commitments in its existing/upcoming special purpose vehicles (SPVs).

The rating is also underpinned by AGEL being part of the Adani group which is a diversified conglomerate engaged in varied businesses including power generation and transmission; along with increasing presence of AGEL in the renewable energy sector. The rating also continues to derive strength from the presence of long-term power purchase agreement (PPA) with M. P. Power Management Company Ltd (MPPMCL) and stable industry outlook.

The rating is, however, mainly constrained on account of counter-party credit risk with instances of delay in receipt of energy charges along with dependence of the project on favourable wind patterns and climatic conditions for achieving envisaged plant load factor (PLF).

Satisfactory track record of achievement of envisaged plant load factor (PLF) for the project, track record of receipt of payments from MPPMCL within envisaged time frame along with improvement in credit profile of the off-taker; and any change in the standalone credit risk profile of AGEL shall be the key rating sensitivities. Also, adverse renegotiation of existing PPA tariff, if any, would be treated as an event risk for AGEL.

Detailed description of the key rating drivers

Key Rating Strengths

Establishment of moderate track record of operations: AGEL's 12 MW wind mill project at Lahori in MP achieved commercial operations on March 31, 2016 and has now established a moderate operational track record of around 18 months of power generation. The wind mill achieved peak PLF of 31.80% in April 2017 and average PLF of 18.72% over the twelve months ended June 2017. The project has healthy revenue potential as per Wind Resource Assessment study conducted by Inox Wind Limited (IWL; rated CARE A-; Negative), though the average PLF for past twelve months was lower than P90 level of 20.9%. AGEL has also entered into an O&M contract with IWL for this wind mill on August 20, 2016.

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

Creation of required DSRA along with availability of undrawn working capital limits: As on September 30, 2017, AGEL has maintained DSRA balance of Rs.1.66 crore towards one quarter debt servicing of the project's bank facilities. Also, AGEL has drawn only Rs.45.41 crore out of the sanctioned term loan of Rs.55.50 crore for the project. The balance debt is expected to be drawn in FY18. Furthermore, AGEL had not utilised the sanctioned cash credit limit of Rs.7.00 crore despite instances of late payment of invoices by MPPMCL.

Presence of ring-fenced cash flow structure for servicing of debt availed for the 12 MW wind mill project at Lahori in MP: In line with the facility agreement entered in to by AGEL with its project lender (Yes Bank Ltd), AGEL has established an escrow mechanism for ensuring priority in debt servicing of the bank facilities pertaining to the 12 MW wind mill project. Revenue proceeds from the aforesaid project are deposited in a separate Escrow account (operated under the instructions of the lender and security trustee) and debt servicing for the bank facilities also happens from the same. Accordingly, there is a ring-fenced cash flow structure.

PPA executed with MPPMCL for off-take of entire power ensures long-term revenue visibility: AGEL has entered into a long term PPA with MPPMCL for off-take of entire power generated from its 12 MW wind mill for a period of 25 years at a fixed tariff of Rs.5.92 per unit (kwh) which provides long-term revenue visibility. Further, AGEL is also entitled to receive an additional 50 paisa per kWh under the generation based incentive (GBI) policy of Ministry of New and Renewable Energy (MNRE) for the project.

Parentage of Adani group which has diversified business operations and growing presence in renewable energy sector: AGEL belongs to the Adani Group, which has evolved into a diversified conglomerate and is engaged in various businesses across a range of sectors, primarily energy (including coal mining), power generation and transmission, port operations, logistics, oil and gas exploration and city gas distribution. The Adani Group is also involved in agro-processing (including sale of branded edible oil) & its storage and commodities trading.

The Adani Group, primarily through various SPVs under AGEL, has also expanded its presence in the renewable energy sector. In September 2017, AGEL's operational renewable energy portfolio increased to 908 MW whereas under-implementation portfolio stood at 1,180 MW. The portfolio was spread across around 10 states with approximately 50% of the capacity being tied up with strong counter-parties such as NTPC Ltd (rated CARE AAA; Stable/ CARE A1+) / Solar Energy Corporation of India (SECI). On October 7, 2017 the Board of Directors of Adani Enterprises Ltd (AEL; rated CARE A; Stable/ CARE A1) has considered and approved the scheme of arrangement between AEL and AGEL for demerger of the 'renewable power undertaking' of AEL and its transfer to AGEL with an appointed date of April 1, 2018. The scheme is subject to requisite statutory and regulatory approvals along with sanction of the respective shareholders and creditors of each of the companies involved. The scheme also envisages listing of shares of AGEL on the stock exchanges. Post implementation of the above scheme, AGEL is expected to become the largest listed renewable energy IPP in India with a total portfolio of 2,148 MW of renewable energy assets with all renewable energy generation assets of Adani group to be housed under AGEL. During FY17, apart from its own cash accruals, the infusion of funds by AEL also aided AGEL's debt servicing and creation of requisite DSRA.

Stable outlook for wind power sector: The Govt. of India has increased its thrust on renewable energy projects. It plans to install 60,000 MW of wind power capacity by 2022, also with the aim of reducing the emission of greenhouse gases. To achieve the aforesaid, the government plans to push the private participation in wind generation with various initiatives such as generation based incentive (GBI), renewable purchase obligation (RPO), i.e. discoms to purchase minimum level of renewable energy out of the total consumption in the area of a distribution licensee and exemption from Customs and Central Excise Tax on renewable energy equipment. Thus, considering the government thrust and incentives, the long-term demand outlook for wind power generation projects remains stable.

Key Rating Weaknesses

Counterparty credit risk: There have been instances of delayed payments from MPPMCL to various wind power producers on account of moderate financial risk profile of MP discoms. Hence, even AGEL remains exposed to counter party credit risk pertaining to its 12 MW wind power project. AGEL has received payment for the invoices raised up to September 2016, with the September 2016 invoice payment being received in August 2017. AGEL had filed a petition under Electricity Act, 2003, wherein the Commission under the Act had directed MPPMCL vide order dated July 29, 2017 to make the payment of outstanding invoices as per terms of PPAs (within 30 days of monthly invoice) and to make suitable arrangements to avoid future delay. AGEL expects to receive the outstanding payments in the near term. Consequently, establishing a track record of timely receipt of energy charges from MPPMCL would remain a key rating sensitivity. Also, adverse renegotiation of existing PPA tariff, if any, would be treated as an event risk for AGEL.

Inherent risk associated with wind patterns and climatic conditions: Wind projects are exposed to the inherent risk of weather fluctuations leading to variations in the wind patterns (beyond control of the company) which affects the PLF and yields seasonal generation levels.

Analytical approach: ***Standalone based on 'ring-fenced' structured cash flows for 12 MW wind power project at Lahori in MP.*** AGEL has a separate Escrow Account w.r.t servicing of the rated term debt and working capital borrowings pertaining to the 12 MW wind power project at Lahori, MP. Revenue proceeds from this project are deposited in this Escrow account and debt servicing for loans of this project is prioritized through it. Accordingly, there is a ring-fenced cash flow structure for debt servicing of project loans/working capital borrowings.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Factoring Linkages in Ratings
CARE's Rating Methodology for Infrastructure Sector
Rating Methodology - Private Power Producers
Financial Ratios – Non-Financial Sector

About the Company
AGEL is promoted by the Adani Group of Gujarat for foraying in to the renewable energy projects. AGEL's shareholding till May 2017 was AEL (51%) and Adani Properties Pvt Ltd (49%) which subsequently changed to AEL (47.19% stake), Adani Trading Services LLP (ATSLLP; 38.54%) and Universal Trade and Investments Limited (UTIL; 14.27%).
On October 7, 2017, AEL had announced a Scheme of Arrangement for demerger of the Renewable Power Undertaking of AEL into AGEL and the subsequent listing of AGEL on BSE and NSE along with transfer of AEL's holding in AGEL to the existing shareholders of AEL through a share swap. The appointed date for the scheme, viz. the date on which the Renewable Power Undertaking shall vest in AGEL has been fixed at April 1, 2018. Immediately after implementation of the scheme, the promoters of Adani Group will hold 86.58% in AGEL.
As of September 2017, AGEL's renewable energy portfolio included solar power generation capacity of 1,978 MW, out of which 848 MW has been commissioned while the balance 1,130 MW is under implementation and wind power generation capacity of 110 MW, out of which 60 MW has been commissioned and the balance 50 MW is under implementation.
Out of the above-mentioned projects, one 12 MW wind power project located at Lahori, Madhya Pradesh was commissioned in March 2016 and was structured in AGEL's standalone balance sheet while remaining projects were under its various subsidiaries/SPVs. The total project cost of this 12 MW wind mill project was Rs.85.99 crore (Rs.7.17 crore per MW).

Brief Financials (Rs. crore) – Standalone AGEL	FY16 (A)	FY17 (A)
Total operating income	0.00	17.75
PBILDT	(0.13)	(12.32)
PAT	(0.89)	(49.30)
Overall gearing (times)	0.41	0.45
PBILDT/ Interest coverage (times)	NM	NM

A: Audited; NM - Not meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Naresh M. Golani
Tel : 079-40265618
Mob : +91-98251-39613
Email: naresh.golani@careratings.com

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2034	55.50	CARE BBB+ (SO); Stable
Fund-based - LT-Cash Credit	-	-	-	7.00	CARE BBB+ (SO); Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	55.50	CARE BBB+ (SO); Stable	-	1)CARE BBB (09-Aug-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	7.00	CARE BBB+ (SO); Stable	-	1)CARE BBB (09-Aug-16)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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