Adani Power Ltd.

July 10, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	**277.18** (reduced from 7,431.71)	**CARE BB- (Double B Minus) [Under credit watch with developing implications]**	Rating Withdrawn for bank facilities of Rs.7,154.53 crore; and rating continues to remain on credit watch with developing implications for the balance facilities
Long-term / Short-term Bank Facilities	**39.60** (reduced from 5,062.68)	**CARE BB- / CARE A4 (Double B Minus / A Four) [Under credit watch with developing implications]**	Ratings Withdrawn for bank facilities of Rs.5,023.08 crore; and ratings continue to remain on credit watch with developing implications for the balance facilities
Long Term Bank Facilities (Rupee Term Loan – Phase IV)	**---** (reduced from 6,417.59)	-	Withdrawn
Total Facilities	**316.78 (Rupees Three Hundred Sixteen Crore and Seventy Eight Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has withdrawn its ratings assigned to the majority of APL's bank facilities mentioned above as these facilities which pertained to its erstwhile Mundra power generation business undertaking have been transferred to another entity [viz. Adani Power (Mundra) Ltd. (APMUL)] pursuant to its scheme of demerger as per National Company Law Tribunal (NCLT) order.

Post slump sale of APL's Mundra power generation business undertaking to a separate entity, APL would largely act as the holding company of Adani group's thermal power generation business. As such CARE would engage with APL's management to gain better understanding of its medium-term funding plans to meet its various investment requirements in its subsidiaries as well as understand its plans to turnaround the operations of APMUL which has been incurring huge cash losses. Pending greater clarity on these matters, CARE continues to keep the ratings of APL's residual bank facilities (of Rs.316.78 crore) under **'Credit watch with developing implications'**.

The ratings of the residual bank facilities of APL, however, continue to remain constrained on account of huge cash losses incurred by it for the past few years on a consolidated basis, significant amount of built up compensatory tariff (CT) receivables whereby there is lack of clarity w.r.to its quantum & timelines for realisation, significant erosion of its net-worth leading to very weak capital structure and substantial term debt installment repayment obligations falling due in near term. The losses of APL on a consolidated level have further accentuated in FY18 (refers to the period from April 1 to March 31) due to increase in its fuel cost on account of higher imported coal prices and lower availability of its power plants leading to weak liquidity.

The ratings of the residual bank facilities of APL continue to draw strength from its 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 with long-term PPAs in place for off-take of majority of its power generation and expected improvement in supply of domestic coal under SHAKTI for some of its subsidiaries.

Timely need-based financial support from the promoters of APL, improvement in performance of APMUL, maintaining normative availability of all its plants, ramp up in coal supply under SHAKTI policy, determination of quantum of CT along

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

with timelines for its receipt, improvement in merchant power tariff rates and improvement in its leverage shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant deterioration in consolidated financial profile of APL by end FY18 on the back of subdued operations of its power plants

Operations of plants of APL's subsidiaries were impacted during FY18 with very low PAF & PLF on the back of short supply of domestic coal, rise in prices of imported coal and technical problems in plants of UPCL. Accordingly, there was under-recovery of capacity charges leading to reduction in PBILDT from Rs.5421 crore in FY17 to Rs.4839 crore in FY18 (Prov.). With the decline in PBILDT, its cash losses have widened to Rs.761 crore in FY18 (Prov.) from Rs.494 crore in FY17.

Adverse verdict of the H'ble Supreme Court of India on the CT matter of APMUL leading to large reversal of previously booked CT income and in turn significant erosion in APL's net-worth base along with its tight liquidity

With respect to Mundra power generation business undertaking, APL used to recognise CT based on the orders of CERC/APTEL. However, on April 11, 2017, the H'ble Supreme Court of India gave its verdict in that CT matter. As per the order, APL's claim for CT on the grounds of 'force majeure' and 'change in Indonesian/foreign law' was turned down by the H'ble Supreme Court of India. However, it allowed the claim for CT to the extent that it has arisen on the grounds of 'change in Indian law'.

Accordingly, APL reversed the entire CT income booked by it to the extent of Rs.4364 crore in FY17 which led to significant erosion of its net-worth base as on March 31, 2017. It further, reported net losses of Rs.2119 crore in FY18 which has further eroded its net-worth base resulting in worsening its overall gearing from 18.17 times as on March 31, 2017 to 55.53 times as on March 31, 2018 (Prov.).

Further, as on March 31, 2018, out of total outstanding debt of APL on a consolidated basis, nearly 41% is occupied by APMUL (~ 30% pertains to senior debt) which has a very weak financial risk profile. On the back of its tight liquidity, current portion of APL's consolidated long term debt on March 31, 2018 stands at Rs.3,714.62 crore out of which Rs.2,914.45 crore pertains to secured debt & balance Rs.800.17 crore is pertaining to unsecured loans (including loans from related parties & share backed NCD issues).

Lack of clarity w.r.to timelines & quantum of CT receivable w.r.to 'Change in Indian law' for short/non supply of domestic coal

Though both MERC & RERC have issued their final orders allowing CT to APML & APRL respectively w.r.to short/ non supply of domestic coal, there still exists a degree of uncertainty w.r.to timelines & quantum of CT. Also, looking at the financial health of respective Discoms, there is fair degree of uncertainty w.r.to their ability to clear the dues of APML & APRL within a quick time frame. Discoms had been contesting CT claim of Adani group companies since long, accordingly any further litigation could elongate the liquidation of built up CT receivables. The realization of these CT claims of APL has lingered since very long.

Risk associated with expansion/acquisition plans

In November 2014, APL announced its plans for acquisition of Avantha Power & Infrastructures' 600 MW Korba power plant at Chhattisgarh. APL had made substantial investment of around Rs.1600 crore towards acquiring Avantha's Korba Power plant and the acquisition is yet to be completed & the plant is currently under repairs. Purchase consideration towards Korba power plants was arranged by APL by way of raising debt through promoter's support. Debt funded acquisitions have added to the leverage on a consolidated level.

Furthermore, APL has set-up another subsidiary named Adani Power (Jharkhand) Ltd for setting-up of a 1600 MW coal-based thermal power plant in Jharkhand at a total cost of Rs.13,450 crore which is envisaged to be funded through a debt-equity mix of 70:30. They have already entered in to a PPA for this plant with Bangladesh Power Development Board.

CARE would engage with APL's management to gain better understanding of its medium-term funding plans to meet its various investment requirements in its subsidiaries as well as understand its plans to turnaround the operations of

APMUL which has been incurring huge cash losses. Pending greater clarity on these matters, CARE has kept the ratings of APL's residual bank facilities (of Rs.316.78 crore) under 'Credit watch with developing implications'.

Key Rating Strengths

Long standing experience of Adani group in thermal power generation

As on March 31, 2018, the promoter group held 73.07% equity stake in APL. Through its four wholly-owned subsidiaries, APL has total operational coal-based thermal power generation capacity of 10,440 MW [4620 MW (330 MW x 4 and 660 MW x 5) in Adani Power (Mundra) Ltd. (APMUL) at Mundra, Gujarat; 3300 MW (660 MW x 5) in Adani Power Maharashtra Ltd. (APML, *rated CARE A-; Stable / CARE A2*) at Tiroda, Maharashtra; 1320 MW (660 MW x 2) in Adani Power Rajasthan Ltd. (APRL, *rated CARE BBB-; Stable / CARE A3*) at Kawai, Rajasthan and 1200 MW (600 MW x 2) in Udupi Power Corporation Ltd. (UPCL, *rated CARE BBB+; Stable / CARE A2*)]. Post hiving off 4620 MW Mundra power generation asset from APL to APMUL, APL is vested with 40 MW operational solar power project located at Kutch, Gujarat on a standalone basis. Also, in Q3FY18, it announced to set up 1600 MW (800 MW x 2) ultra-supercritical coal based thermal power plant in Jharkhand under its wholly owned subsidiary Adani Power (Jharkhand) Ltd. Further, APL is also in the process of acquiring 600 MW power plant of Korba West Power Company Ltd. (KWPCL) from Avantha group. APL along-with its subsidiaries has long standing experience in setting up and operating large power generation capacity.

Presence of Adani group in entire value of chain of power viz. coal import, coal MDO, port operations, power generation, power transmission & power distribution

Adani group has evolved as a diversified conglomerate with primary interests in energy sector. Adani group was initially mainly involved in imported coal trading business and gradually it has backward integrated its operations in domestic and overseas coal mining along with forward integration in ports, logistics, power generation and transmission through various group companies. Also, the group has expanded its presence in renewable energy sector with total operational capacity of 1958 MW in the solar & wind power generation with a further pipeline of 820 MW of projects under various stage of implementation as on March 31, 2018. Moreover, the group has commissioned India's largest integrated solar cell and module manufacturing unit at Mundra with an installed capacity of 1200 MW, which was fully commissioned by June 2017. Furthermore, Adani group has entered in to Share Purchase Agreement (SPA) with Reliance Infrastructure Limited (R-Infra) for acquiring its Power Generation, Transmission & Distribution business for Mumbai city leading to its foray in power distribution business.

Long term PPAs in place for off-take of majority of power with diverse off-takers

On a consolidated basis, APL has tied up 2000 MW of power with Gujarat Urja Vikas Nigam Ltd. (GUVNL), 1424 MW with Haryana Discoms, 3085 MW with Maharashtra State Electricity Distribution Company Ltd. (MSEDCL), 1200 MW with Rajasthan Discoms and 1200 MW with Karnataka Discoms. Accordingly, out of total capacity of 10,440 MW, it has tied up 8909 MW with State Discoms under 25 year PPA reflecting nearly 85% of total operational capacity being tied-up with diverse off-takers.

Receipt of domestic coal linkage under SHAKTI policy by its subsidiaries APML & APRL

Till FY18, APML had partial coal linkage vis-à-vis its total coal requirement whereas APRL had no coal linkage to meet its fuel requirement. Accordingly, performance of both these subsidiaries of APL was subdued as they were relying on alternate sources of coal which were costlier. However, APML & APRL participated in the auctions for allotment of coal linkage under SHAKTI policy (Scheme for Harnessing and Allocating Koyla (Coal) Transparently in India) in Sept. 2017 and were successful in it and signed Fuel Supply Agreements (FSAs) for 5.85 MMTPA & 4.12 MMTPA respectively. Under SHAKTI linkage, APML started receiving coal from April 2018 whereas APRL started receiving coal from February 2018. Accordingly, performance both these subsidiaries is expected to improve going forward.

Favourable orders of CERC, MERC & RERC w.r.to CT claims of APMUL, APML & APRL

During FY15-FY18, APML & APRL had been largely running their power plants on a mix of imported coal, e-auction coal, FSA coal and coal under short-term MoUs resulting in very high blended cost of coal which led to under-recovery of cost at PPA defined tariff structure even after considering CERC linked tariff escalation. In light of the H'ble Supreme Court's judgment in the CT case of APL, Appellate Tribunal of Electricity (APTEL) remanded APML & APRL's CT matters back to MERC & RERC for fresh adjudication. Both MERC & RERC have given their final orders on CT matters between March-2018 to May-2018 whereby they have upheld claims of APML & APRL for CT pertaining to change in domestic law and asked the Discoms to work out & clear the dues of APML & APRL. Similarly, CERC has also granted compensation to APMUL in respect of its PPA with Haryana Discoms under 'Change in Indian Law', for which substantial payment has already been received.

Analytical Approach: Consolidated

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria for placing rating on credit watch
Financial ratios - Non- Financial Sector
Rating Methodology - Infrastructure Companies
Rating Methodology - Private Power Producers
Rating Methodology - Factoring Linkages in Ratings
CARE's Policy on Withdrawal of Ratings

About the Company
Adani Power Ltd. (APL) was earlier primarily engaged in the business of coal based thermal power generation. It had implemented a 4620 MW coal based power plant at Mundra in Gujarat. It also operated three coal based power plants through its wholly-owned subsidiaries. APL also operates a 40 MW solar power plant in Kutch district of Gujarat.
On June 06, 2017, APL submitted intimation to the stock exchange stating that the Board of Directors of APL had considered and approved 'the Slump Sale' of APL's Mundra power generation business undertaking to its wholly-owned subsidiary viz. Adani Power (Mundra) Ltd. (APMUL). The sale was for a lump sum consideration, without values being assigned to the individual assets and liabilities. The sale was subject to statutory and regularity approvals as stated in the scheme and also approval of National Company Law Tribunal (NCLT). On November 03, 2017, the NCLT bench at Ahmedabad approved the aforesaid scheme of arrangement between APL and APMUL. Subsequently, the NCLT order was filed with the Registrar of Companies (ROC) on December 22, 2017 post which the Mundra Power Generation business of APL has been transferred to and vested with APMUL with effective date of December 22, 2017 and appointed date of March 31, 2017. With this APMUL has become the fourth major operational subsidiary of APL.
With the above development, APL has now largely become a holding company for various thermal power generation companies of the Adani Group. Apart from this, on a standalone basis, it is vested with a 40 MW solar power plant situated in Gujarat.

Brief Financials – APL (Consolidated) (Rs. Crore)	FY16 (A)	FY17 (A)	FY18 (Prov.)
Total operating income	22,462	22,233	19,853
PBILDT (excluding CT income)	5,784	5,421	4,839
PAT	488	-6,174	-2,119
Overall gearing (times)	7.19	18.17	55.53
Interest coverage (times)	0.97	0.92	0.87

A: Audited; Prov.: Provisional

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.*

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Annexure-1: Details of 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	NA	NA	March 31, 2023	277.18	CARE BB- (Under Credit watch with developing Implications)
Non-fund-based - LT/ ST-BG/LC	NA	NA	NA	39.60	CARE BB- / CARE A4 (Under Credit watch with developing Implications)

NA: Not Applicable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (19-Feb-16)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	39.60	CARE BB- / CARE A4 (Under Credit watch with Developing Implications)	-	1)CARE BB- / CARE A4 (Under Credit watch with Developing Implications) (14-Jul-17) 2)CARE BB- / CARE A4 (Under Credit watch with Developing Implications) (16-Jun-17) 3)CARE BBB- / CARE A3 (Under Credit watch with Negative Implications) (14-Apr-17)	1)CARE BBB-; Stable / CARE A3 (27-Jan-17) 2)CARE BBB- / CARE A3 (28-Oct-16) 3)CARE BBB- / CARE A3 (25-Aug-16) 4)CARE BBB- / CARE A3 (04-Aug-16)	1)CARE BBB / CARE A3 (19-Feb-16)
3.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE BB- (Under Credit watch with Developing Implications) (14-Jul-17) 2)CARE BB- (Under Credit watch with Developing Implications) (16-Jun-17) 3)CARE BBB- (Under Credit watch with Negative Implications) (14-Apr-17)	1)CARE BBB-; Stable (27-Jan-17) 2)CARE BBB- (28-Oct-16) 3)CARE BBB- (25-Aug-16) 4)CARE BBB- (04-Aug-16)	1)CARE BBB (19-Feb-16)
4.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (14-Jul-17)	1)CARE A (SO) (28-Oct-16)	1)CARE A (SO) (19-Feb-16)

5.	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	1)CARE BB- / CARE A4 (Under Credit watch with Developing Implications) (14-Jul-17) 2)CARE BB- / CARE A4 (Under Credit watch with Developing Implications) (16-Jun-17) 3)CARE BBB- / CARE A3 (Under Credit watch with Negative Implications) (14-Apr-17)	1)CARE BBB-; Stable / CARE A3 (27-Jan-17) 2)CARE BBB- / CARE A3 (28-Oct-16) 3)CARE BBB- / CARE A3 (25-Aug-16) 4)CARE BBB- / CARE A3 (04-Aug-16)	1)CARE BBB / CARE A3 (19-Feb-16)
6.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB- (Under Credit watch with Developing Implications) (14-Jul-17) 2)CARE BB- (Under Credit watch with Developing Implications) (16-Jun-17) 3)CARE BBB+ (SO) (Under Credit watch with Negative Implications) (14-Apr-17)	1)CARE BBB+ (SO); Stable (27-Jan-17) 2)CARE BBB+ (SO) (28-Oct-16) 3)CARE BBB+ (SO) (04-Aug-16) 4)CARE A- (SO) (19-Apr-16)	-
7.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA- (SO); Stable (14-Jul-17)	1)CARE AA- (SO) (04-Aug-16)	1)CARE AA- (SO) (08-Jan-16)
8.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA- (SO); Stable (14-Jul-17)	1)CARE AA- (SO) (04-Aug-16)	1)CARE AA- (SO) (08-Jan-16)
9.	Fund-based - LT-Term Loan	LT	277.18	CARE BB- (Under Credit watch with Developing Implications)	-	1)CARE BB- (Under Credit watch with Developing Implications) (14-Jul-17) 2)CARE BB- (Under Credit watch with Developing Implications) (16-Jun-17) 3)CARE BBB- (Under Credit	1)CARE BBB-; Stable (27-Jan-17) 2)CARE BBB- (28-Oct-16) 3)CARE BBB- (25-Aug-16) 4)CARE BBB- (04-Aug-16)	1)CARE BBB (19-Feb-16)

						watch with Negative Implications) (14-Apr-17)		
10.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE BB- (Under Credit watch with Developing Implications) (14-Jul-17) 2)CARE BB- (Under Credit watch with Developing Implications) (16-Jun-17) 3)CARE BBB- (Under Credit watch with Negative Implications) (14-Apr-17)	1)CARE BBB-; Stable (27-Jan-17) 2)CARE BBB- (28-Oct-16) 3)CARE BBB- (25-Aug-16) 4)CARE BBB- (04-Aug-16)	-
11.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (17-Jan-18) 2)CARE BBB (SO); Stable (14-Jul-17)	-	-

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