# Adani Power Ltd.

January 27, 2017

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 8,777.83 | **CARE BBB-; Stable [Triple B Minus; Outlook : Stable]** | **Reaffirmed** |
| Long-term / Short-term Bank Facilities | 5,062.68 | **CARE BBB-; Stable / CARE A3 [Triple B Minus; Outlook: Stable / A Three]** | **Reaffirmed** |
| Long Term Bank Facilities (Rupee Term Loan – Phase IV) * | 6,466.40 | **CARE BBB+ (SO); Stable [Triple B Plus (Structured Obligation); Outlook: Stable]** | **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 Adani Power Ltd. (APL) at Mundra in Gujarat.*
*Details of instruments/facilities in Annexure-1*

**Detailed 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 relative 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 ratings 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. While the promoters have already infused ~Rs.970 crore equity in APL during 9MFY17 against the overall planned infusion of Rs.1700 crore for FY17 as has been articulated by the company management, infusion of balance ~Rs.730 crore equity during Q4FY17 would remain a key rating monitorable.

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.

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

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

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.

**Detailed description of the key rating drivers**

APL has entered in to 25 year PPAs with Gujarat Urja Vikas Nigam Ltd. (GUVNL), Uttar Haryana Bijli Vitran Nigam Ltd. (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Ltd. (DHBVNL) for 2000 MW, 712 MW and 712 MW respectively. Hence, out of total power generation capacity of 4620 MW, APL has almost 74% of its capacity tied up under long-term PPAs; whereas balance 1196 MW is on merchant basis. However, all the long-term PPAs have fixed tariff structure without any escalations for fuel cost. On the back of relatively higher fuel cost due to spot purchases of imported coal, fixed rate tariff structure is leading to substantial under-recovery of cost for APL over the years.

Total coal requirement envisaged to run 4620 MW power generation capacity at Mundra was 16.60 million metric tonne p.a. (MMTPA) out of which 10.20 MMTPA was envisaged to be imported from Banyu mines, Indonesia and balance 6.40 MMTPA was envisaged to be sourced domestically. However, due to slow ramp up of operations at Banyu Mines, APL had to rely on relatively costlier imported coal available in the spot market. Although cost of imported coal has gradually declined during FY15 & FY16, rupee depreciation over this period against the USD has resulted in limited reduction in its payout towards imported coal. APL had signed FSA with Mahanadi Coalfield Ltd. (MCL; a subsidiary of CIL) in June 2012 for supplying 6.40 MMTPA of domestic coal for Phase-IV of the project and supplies commenced from July 2012. With substantial growth in domestic coal production during FY16, there has been improvement in the receipt of domestic coal under FSA. However, CIL has announced increase in prices for its domestic coal in May 2016 which is likely to result in higher cost of domestic coal under FSA in FY17.

During FY16, APL’s PBILDT was hardly sufficient for meeting its interest servicing; thereby requiring significant financial support from its promoters for principal term debt repayment. On the back of cash losses in APL in FY13, FY14 and FY15 and marginal profit in FY16, promoters and group companies have supported APL by way of infusion of equity & subordinated unsecured loans. Also, in April 2016, APL had announced its plans to allot 52.30 crore of its equity shares to the promoter group through preferential allotment route which is expected to result in infusion of around Rs.1700 crore during FY17 for meeting its debt servicing requirement and other general corporate purposes. Out of this, promoters have already infused ~Rs.970 crore during 9MFY17 and remainder is planned to be infused in Q4FY17 according to the company management.

On the back of losses, APL requested its off-takers to allow compensatory tariff till the time tariff at PPA rate is insufficient to cover its costs. However, there has been deterioration in the liquidity of APL primarily on account of significant delay in receipt of compensatory tariff under its fixed price PPAs. Though Central Electricity Regulatory Commission (CERC) had directed a mechanism for allowance of compensatory tariff to APL in February 2014, the matter is still sub-judice since Discoms are contesting the allowance of higher tariff. Delay in resolution of the matter has resulted in significant cash losses for APL along with recognition of Rs.3,619 crore of compensatory tariff on a standalone basis and Rs.7,215 crore on a consolidated basis by end of FY16 (as against APL’s consolidated net worth of Rs.7377 crore as on March 31, 2016). However, in April 2016, Appellate Tribunal for Electricity (APTEL) has upheld that a case of ‘force majeure’ is made out in APL’s case and directed CERC to tabulate the compensation payable to APL within three months’ time. Subsequently, CERC has issued an order dated December 06, 2016 wherein it has considered APL’s plea that the challenges pertaining to supply of coal (short-supply/higher cost) arose on account of force majeure. However, the ultimate determination of the matter and implementation of the above-mentioned CERC order is subject to the permission of the H’ble Supreme Court of India; hence, there continues to be a lack of clarity regarding the timelines for commencement of cash flows pertaining to CT and its quantum which has now lingered on since very long.

APL had outstanding ECBs of ~USD 1000 million as on March 31, 2015 with an average maturity period of 4 years which, according to APL’s management, were envisaged to be refinanced by way of 10 years tenure new ECBs in line with the longer life of its power generation plants/tenure of its Power Purchase Agreements (PPAs). However, the envisaged refinancing has been inordinately prolonged resulting in tightening of its liquidity. The delay in refinancing of its ECBs has persisted since very long; although the company now expects to complete the refinancing by end of FY17. Out of total ECBs outstanding of USD 576 Million as on Sept. 30, 2016, APL has already refinanced USD 319 million with a longer tenure ECBs, USD 40 million is scheduled to be repaid by Q.E. December 2016 as per its schedule. For the balance ECBs of USD 217 million, while APL has received in-principle sanction from foreign banks, its refinancing is now likely to be completed by end FY17 according to APL’s management.

APL has also got appraised total corporate loans of Rs.4600 crore from various banks. Out of which, it has already availed Rs.3200 crore by December 15, 2016. Further, it has got sanctioned and undisbursed loans of Rs.1100 crore; while balance Rs.300 crore is yet to be sanctioned. The undisbursed portion of the corporate term loan along with envisaged support of the promoters by way of equity infusion is expected to aid the shortfall in APL's operational cash flows for meeting its immediate debt servicing.

In line with the RBI Circular of December 15, 2014 (popularly termed as 5/25 scheme), APL had refinanced its rupee term debt pertaining to Phase-IV of the project. As per the said scheme, rupee term debt repayment obligation of APL for Phase-IV is now spread across a period of around 18 years as against substantially shorter repayment tenure previously. This has resulted in relatively better debt coverage indicators of APL Phase – IV debt compared to the other three Phases. Also, there is a ring-fenced structure as per Trust and Retention Account (TRA) Agreement for servicing of debt pertaining to Phase-IV power project. However, as per terms of refinancing, APL was initially required to create DSRA equivalent to one quarter principal and interest repayment by March 31, 2016 and this was to be subsequently raised to two quarters principal and interest repayment by September 30, 2016. However, DSRA creation for one quarter principal and interest repayment has not yet happened; consequently the previously envisaged comfort has diluted.

APL's operations are vulnerable to the impact of depreciation in the value of Indian rupee because of its large un-hedged exposure in the form of foreign currency payables while it has no receivables in foreign currency. As on March 31, 2016, it had total outstanding un-hedged foreign currency exposure of Rs.4,452 crore which largely comprised of un-hedged ECBs & foreign currency LCs for coal imports. However, APL's plans to refinance its entire ECBs with longer tenure ECBs shall enable it to mitigate this risk to a certain extent.

APL has plans to substantially enhance its total installed power generation capacity. In November 2014, APL announced its plans for acquisition of Avantha Power & Infrastructures' 600 MW Korba power plant at Chhattisgarh. APL has made substantial payment of around Rs.775 crore towards acquiring Avantha's Korba Power plant which is expected to be completed during FY17. Debt funded acquisitions of the above plant along with another power plant at Udupi (already acquired in April 2015) has led to weakening of APL's capital structure on a consolidated level with an overall gearing of 7.19 times as on March 31, 2016. Also, its overall gearing on a standalone basis stood at 3.28 times as on March 31, 2016.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios - Non- Financial Sector]
[Rating Methodology - Infrastructure Companies]
[Rating Methodology - Private Power Producers]

**About the Company**

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 acquired 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.

**Status of non-cooperation with previous CRA:**

In December 2016, CRISIL has published its rating action on Adani Power Ltd. wherein it has mentioned that company has not provided the required information and rating action is based on publicly available information.

**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: Hardik Shah
Tel: 079 – 40265620
Mobile # 9898802101
Email: hardik.shah@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**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 |
|---|---|---|---|---|---|
| Non-Fund Based - LT/ ST-BG/LC | NA | NA | NA | 89.60 | CARE BBB-; Stable / CARE A3 |
| Fund Based - LT-External Commercial Borrowings (Rupee Equivalent) | NA | NA | March 31, 2026 | 2191.49 | CARE BBB-; Stable |
| Fund Based/Non Fund Based-LT/ST | NA | NA | NA | 4973.08 | CARE BBB-; Stable / CARE A3 |
| Fund Based - LT-Term Loan | NA | NA | March 31, 2033 | 6466.40 | CARE BBB+ (SO); Stable |
| Fund Based - LT-Term Loan | NA | NA | Sept. 30, 2025 | 4939.09 | CARE BBB-; Stable |
| Fund Based - LT-External Commercial Borrowings (Rupee Equivalent) | NA | NA | March 31, 2026 | 1647.25 | CARE BBB-; Stable |

**Annexure-2: Rating History of last three years**

| | | Current Ratings | | | Chronology of Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| **Sr. No.** | **Name of the Instrument/Bank Facilities** | **Type** | **Amount Outstanding (Rs. crore)** | **Rating** | **Date(s) & Rating(s) assigned in 2016-2017** | **Date(s) & Rating(s) assigned in 2015-2016** | **Date(s) & Rating(s) assigned in 2014-2015** | **Date(s) & Rating(s) assigned in 2013-2014** |
| 1. | Debentures-Non Convertible Debentures | LT | - | - | - | - | - | 1)Withdrawn (26-Mar-14) |
| 2. | Fund Based - LT-Term Loan | LT | - | - | - | 1)Withdrawn (19-Feb-16) | 1)CARE BBB (Under Credit Watch) (20-Feb-15) | 1)CARE BBB (04-Dec-13) |
| 3. | Non-Fund Based - LT/ ST-BG/LC | LT/ST | 89.60 | CARE BBB-; Stable / CARE A3 | 1)CARE BBB- / CARE A3 (28-Oct-16)<br>2)CARE BBB- / CARE A3 (25-Aug-16)<br>3)CARE BBB- / CARE A3 (04-Aug-16) | 1)CARE BBB / CARE A3 (19-Feb-16) | 1)CARE BBB / CARE A3 (Under Credit Watch) (20-Feb-15) | 1)CARE BBB / CARE A3 (04-Dec-13) |
| 4. | Fund Based - LT-External Commercial Borrowings (Rupee Equivalent) | LT | 2191.49 | CARE BBB-; Stable | 1)CARE BBB- (28-Oct-16)<br>2)CARE BBB- (25-Aug-16)<br>3)CARE BBB- (04-Aug-16) | 1)CARE BBB (19-Feb-16) | 1)CARE BBB (Under Credit Watch) (20-Feb-15) | 1)CARE BBB (04-Dec-13) |
| 5. | Fund Based - LT-Term Loan | LT | 287.95 | CARE A (SO) | 1)CARE A (SO) | 1)CARE A (SO) (19-Feb-16) | 1)CARE A (SO) (Under | 1)CARE BBB (04-Dec-13) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | (28-Oct-16) | | Credit Watch) (26-Mar-15) | |
| 6. | Fund Based/Non Fund Based-LT/ST | LT/ST | 4973.08 | CARE BBB-; Stable / CARE A3 | 1)CARE BBB- / CARE A3 (28-Oct-16) 2)CARE BBB- / CARE A3 (25-Aug-16) 3)CARE BBB- / CARE A3 (04-Aug-16) | 1)CARE BBB / CARE A3 (19-Feb-16) | 1)CARE BBB / CARE A3 (Under Credit Watch) (20-Feb-15) | 1)CARE BBB / CARE A3 (04-Dec-13) |
| 7. | Fund Based - LT-Term Loan | LT | 6466.40 | CARE BBB+ (SO); Stable | 1)CARE BBB+ (SO) (28-Oct-16) 2)CARE BBB+ (SO) (04-Aug-16) | 1)CARE A- (SO) (19-Apr-16) | - | - |
| 8. | Debentures-Non Convertible Debentures | LT | 500.00 | CARE AA- (SO) | 1)CARE AA- (SO) (04-Aug-16) | 1)CARE AA- (SO) (08-Jan-16) | - | - |
| 9. | Debentures-Non Convertible Debentures | LT | 750.00 | CARE AA- (SO) | 1)CARE AA- (SO) (04-Aug-16) | 1)CARE AA- (SO) (08-Jan-16) | - | - |
| 10. | Fund Based - LT-Term Loan | LT | 4939.09 | CARE BBB-; Stable | 1)CARE BBB- (28-Oct-16) 2)CARE BBB- (25-Aug-16) 3)CARE BBB- (04-Aug-16) | 1)CARE BBB (19-Feb-16) | - | - |
| 11. | Fund Based - LT-External Commercial Borrowings (Rupee Equivalent) | LT | 1647.25 | CARE BBB-; Stable | 1)CARE BBB- (28-Oct-16) 2)CARE BBB- (25-Aug-16) 3)CARE BBB- (04-Aug-16) | - | - | - |

# CONTACT

**Head Office Mumbai**


**Mr. Amod Khanorkar**
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

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


**CREDIT ANALYSIS & RESEARCH LIMITED**

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. Mehul Pandya**
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

**BENGALURU**
**Mr. Deepak Prajapati**
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

**CHANDIGARH**
**Mr. Sajan Goyal**
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@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

CIN - L67190MH1993PLC071691