Adani Power Ltd.

July 14, 2017

Rating

Instrument	Amount (Rs. crore)	Rating[1]	Remarks
Non-Convertible Debenture issue ^	750.00	**CARE AA- (SO); Stable [Double A Minus (Structured Obligation); Outlook: Stable]**	Reaffirmed
Total Instrument	**750.00 (Rupees Seven Hundred Fifty Crore only)**		

^backed by credit enhancement in the form of security of first and exclusive pledge of promoter's unencumbered shares of Adani Ports & SEZ Ltd. (APSEZ, rated CARE AA+; Stable), Adani Transmission Ltd. (ATL) and Adani Enterprises Ltd. (AEL, rated CARE A; Stable / CARE A1) in the ratio of 80: 10: 10, such that the value of these shares is 2 times the value of the outstanding NCDs.

Details of instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the above Non-Convertible Debenture (NCD) issue of Adani Power Ltd (APL) continues to derive strength from the availability of credit enhancement in the form of security of first and exclusive pledge of unencumbered shares of APSEZ, ATL and AEL held by promoter group in the ratio of 80:10:10, such that the aggregate value of these shares, at all times, is maintained at 2 times the value of outstanding NCDs. The rating further derives strength from availability of adequate unpledged shares of APSEZ with the promoters so as to enable it to maintain the aggregate collateral cover during the tenure of the instrument, presence of collateral and cash top up clause in the structure and strength derived from the APSEZ shares forming part of Nifty 50 index.

The rating, however, continues to be constrained by the liquidity risk associated with the underlying shares as evidenced from the high proportion of pledged shares of APSEZ vis-a-vis its average daily traded volume, unavailability of assured cash flows for redemption of NCDs, possible reliance on refinancing or group support and eventuality of liquidation of shares to meet NCD redemption. The rating is further constrained on account of increased volatility in the share price of APSEZ vis-à-vis Sensex during the last one year (as reflected by rise in value of 'Beta' of APSEZ shares).

The rating is subject to maintenance of the aggregate collateral cover (by way of the pledge of shares) as per the structure during the tenure of the instrument and timely liquidation of shares in case of occurrence of an 'event of default' during the tenure of the instrument.

Detailed description of the key rating drivers

Key Rating Strengths

Availability of credit enhancement in the form of security of first and exclusive pledge of unencumbered shares of APSEZ, ATL and AEL held by the promoter group

The rated NCD is secured by way of the first and exclusive pledge of unencumbered shares of APSEZ, ATL and AEL held by the security provider, the market value of which should be equivalent to an amount that is sufficient to maintain a cover of not less than 2 times the principal amount outstanding, provided that the aggregate value of APSEZ pledged shares provides at least 80% of the collateral cover.
Further, the credit profile of APSEZ (rated CARE AA+; Stable), ATL and AEL whose shares are pledged, is strong. APSEZ derives strong financial flexibility by virtue of its healthy profitability and cash accruals, strong operating efficiency and competitive position as reflected by its operational port assets at diverse locations with a diversified cargo mix and flexibility to determine tariff at four of its ports (including its landlord Mundra port); the same has aided strong growth in its total operating income during past few years. ATL is engaged in power transmission business and all its operational transmission projects have exhibited track record of better than normative line availability. AEL derives strength from ramp-up of operations of its higher profit margin domestic coal mine developer and operator (MDO) business segment along with improved performance of its subsidiaries viz. Adani Wilmar Ltd. (AWL) and Adani Gas Ltd. (AGL) and likely need-based support that AEL can receive from its subsidiaries.

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

Adani Ports & SEZ Ltd. (APSEZ)

APSEZ, incorporated in 1998, belongs to the Adani group with promoter group holding 61.30% stake in the company as on March 31, 2017. APSEZ operates in two segments viz. port development & operations and special economic zone (SEZ) development. In the port segment, APSEZ has developed and operates the Mundra port located on the Western coast of India. Apart from Mundra port, APSEZ owns and has developed ports at various other locations like Dhamra, Dahej, Hazira, Vizag, Kandla (Tuna) and Mormugao. APSEZ through its special purpose vehicles (SPVs) has ongoing projects for establishing green field capacities at Kamarajar port and Vizhinjam in India.

APSEZ, through its subsidiary Adani Kattupalli Port Private Limited (AKPPL), has entered into an in-principle agreement for acquisition of the Kattupalli Port in Tamil Nadu from L&T Shipbuilding Limited (LTSB), a subsidiary of Larsen & Toubro Limited. During September 2016, APSEZ had acquired Abbot Point Bulkcoal Pty Ltd, a company having control of Operations and Maintenance agreements for the operations of Abbot Point Coal Terminal, Australia. Furthermore, APSEZ has also acquired TM Harbour Services Private Ltd in December 2016 from Tata group and renamed it as The Adani Harbour Services Private Ltd (TAHSPL).

During FY16, APSEZ on a consolidated basis reported a total operating income of Rs.7,904 crore (FY15: Rs.6,778 crore) and a PAT of Rs.2,825 crore (FY15: Rs.2,324 crore). As per the published FY17 results, APSEZ on a consolidated basis reported a total operating income of Rs.9,479 crore and PAT of Rs.3,902 crore.

As per consolidated audited financials for FY16, APSEZ's PBILDT interest coverage stood at 4.88 times. As per the consolidated published financials for FY17, APSEZ's PBILDT interest coverage stood at 4.83 times.

Adani Transmission Ltd. (ATL)

ATL, incorporated in 2013, belongs to the Adani group with promoter group holding 74.92% stake in the company as on March 31, 2017. ATL is a holding company, created to house the transmission assets of Adani group. ATL has nine wholly-owned subsidiaries, four of which namely Adani Transmission (India) Limited (ATIL), Maharashtra Eastern Grid Power Transmission Company Limited (MEGPTCL), Aravali Transmission Service Company Ltd. (ATSCL, rated CARE A; Stable) & Maru Transmission Service Company Ltd. (MTSCL, rated CARE A-; Stable) have operational transmission projects.

The other five subsidiaries house ongoing transmission line projects under implementation under separate SPVs. The surplus cash accruals of ATL are being utilized to meet its equity commitments in its various SPVs. ATL has also entered in to a binding agreement with Reliance Infrastructure Limited (RInfra) to acquire its three operational transmission assets. Post completion of above-said acquisition from RInfra and implementation of its ongoing projects in SPVs, total operational transmission line assets under ATL would be more than 10,000 ckm.

During FY16, ATL had a total operating income of Rs.2259.08 crore with Gross Cash Accruals (GCA) of Rs.918.79 crore. As per the published results for FY17, ATL has a total operating income of Rs.2901.55 crore with a GCA Rs.985.65 crore.

As per consolidated audited financials for FY16, ATL's PBILDT interest coverage stood at 2.05 times. As per the consolidated published financials for FY17, ATL's PBILDT interest coverage stood at 2.22 times.

Adani Enterprises Ltd. (AEL)

AEL, incorporated in 1993, belongs to the Adani group with promoter group holding 74.92% stake in the company as on March 31, 2017. AEL, on a standalone basis, has mainly coal trading, power trading and coal Mine Developer & Operator (MDO) businesses, whereas, Adani Group as a whole has evolved in to 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. Group is also involved in agro-processing (including sale of branded edible oil) & storage and commodities trading.

During FY16, AEL (on a standalone basis) reported a total operating income of Rs.9,037 crore (FY15: Rs.16,202 crore) with a PAT of Rs.496 crore (FY15: Rs.407 crore). As per the published results for FY17, AEL (on a standalone basis) has a total operating income of Rs.8,483 crore with a PAT Rs.221 crore.

During FY16 (refers to the period from April 1 to March 31), AEL (on a consolidated basis) reported a total operating income of Rs.45,148 crore (FY15: Rs.65,376 crore) with a PAT of Rs.1,041 crore (FY15: Rs.2,298 crore). As per the published results for FY17, AEL (on a consolidated basis) has a total operating income of Rs.37,015 crore with a PAT Rs.925 crore.

As per consolidated audited financials for FY16, AEL's PBILDT interest coverage stood at 2.01 times. As per the consolidated published financials for FY17, AEL's PBILDT interest coverage stood at 1.82 times.

High proportion of unencumbered shares held by the promoters along with collateral top-up mechanism which can enable it to maintain aggregate collateral cover

As on March 31, 2017, the promoter group held 61.30% stake in APSEZ, 74.92% stake in ATL and 74.92% stake in AEL. Out of this, high proportion of shares held by the promoters are unencumbered i.e. 70.45% of promoters holding in APSEZ, 69.01% of promoter holding in ATL and 71.09% of promoter holding in AEL, which provides cushion in case of any fall in market price of the underlying shares.

Structure and Repayment Mechanism

APL's above rated NCDs have been issued in the following series;

Series	Series A	Series B	Series C
Maturity Date	April 30, 2019	April 30, 2019	April 30, 2019
Put/Call option Date	January 15, 2019	March 18, 2019	April 15, 2019
Amt. of each series	Rs.250 crore	Rs.250 crore	Rs.250 crore
Amt. Outstanding as on Mar 31, 2017	Rs.250 crore	Rs.250 crore	Rs.250 crore

The NCD issue structure also has collateral top-up mechanism whereby issuer shall be required to deliver additional collateral shares / cash within a specified time limit in case closing price of the underlying shares decline by a specified limit. Also, structure has put/call option with both investor and issuer on the expiry of specified period. Further, it requires mandatory prepayment upon happening of specified event. Furthermore, structure contains voluntary redemption by issuer.
Redemption premium of 10.30% p.a. to be compounded quarterly and payable on maturity date of the above-said NCDs. APL has appointed IDBI Trusteeship Services Ltd. as a Trustee to monitor adherence to the structure of the NCD issue during the tenure of the NCDs.

Key Rating Weaknesses

Liquidity risk associated with the underlying shares due to high proportion of pledged shares of APSEZ vis-a-vis its average daily traded volume
As on March 31, 2017, out of total promoters holding in APSEZ, ATL and AEL, 29.55%, 30.99% and 28.91% of the shares respectively were pledged. This pledging proportion vis-à-vis average daily traded volume for the last one year of the shares of both these companies is high which poses liquidity risk. However, APSEZ shares forming part of the Nifty 50 Index provides greater market depth and in turn better liquidity for the stock which partially mitigates the underlying liquidity risk associated with the structure.

Unavailability of assured operating cash flows in APL for redemption of NCDs
On account of unavailability of assured operating cash flows in APL (rated CARE BB- / CARE A4; under credit watch with developing implications) for redemption of NCDs, there is high degree of reliance on group support/refinancing or eventuality of liquidation of shares to meet the NCD redemption.

Increased volatility in the share price of APSEZ vis-à-vis Sensex during the last one year
Over the last one year, the share price of APSEZ has shown more volatility as compared to Sensex leading to rise in the value of 'Beta' of APSEZ (which contributes 80% of the pledged shares) vis-à-vis Sensex. However, it is to be noted that the price of APSEZ has increased more when compared to Sensex, which provides a comfort.

Analytical approach:
CARE's criteria on rating instruments backed by shares of listed entities require that credit/liquidity enhancement provided is adequate to ensure that the credit protection offered to investors is commensurate with the rating on these instruments. The key parameters considered for this purpose are: security cover, credit rating of the underlying shares, pledged shares to daily average traded volume, proportion of unencumbered shares held by promoter to total issued shares, weighted average tenure of the rated instrument, volatility of the underlying stock vis-à-vis Sensex, PE of the underlying share compared to industry and the overall credit quality of the underlying corporate group.

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

About the Company

APL is a part of the 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. As on March 31, 2017, promoter group held 68.08% equity stake in APL. APL along-with its three wholly-owned subsidiaries has total operational power generation capacity of 10,480 MW [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 Corporation Ltd. (UPCL) along with 40 MW solar power project in APL located at Kutch, Gujarat]. Further, acquisition of 600 MW Korba coal-based power plant of Avantha Power & Infrastructure Ltd. is underway against which it has already extended advance of Rs.775 crore.

On June 06, 2017, the Board of Directors of APL have considered and approved 'the Slump Sale' of APL's Mundra Power Generation business undertaking to its subsidiary viz. Adani Power (Mundra) Ltd. The sale is for a lump sum consideration, without values being assigned to the individual assets and liabilities. The sale shall, however, be subject to statutory and regulatory approvals, as may be required.

During FY17 (refers to the period from April 1 to March 31), APL (on a standalone basis) had a total operating income of Rs.11,653 crore (FY16: Rs.12,285 crore) with a net loss of Rs.6053 crore (FY16: PAT of Rs.6 crore). During FY17, APL has reversed entire compensatory tariff booked by it till Q.E. December 31, 2016 amounting to Rs.4,364 crore on a standalone basis.

The shares of APSEZ, ATL and AEL held by promoter group are pledged to provide an aggregate collateral cover of two times the outstanding amount of the NCD. As on March 31, 2017, promoter and promoter group companies held 61.30%, 74.92% and 74.92% equity stake in APSEZ, ATL and AEL respectively.

Status of non-cooperation with previous CRA:

CRISIL has conducted the review of its ratings on Adani Power Ltd on the basis of best available information and has also classified these ratings as "Issuer Not cooperating" vide its press release dated June 01, 2017.

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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****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 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
Debentures-Non Convertible Debentures	Dec 30, 2015	10.30%	Apr 30, 2019	750.00	CARE AA- (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	-	-	-	-	1)Withdrawn (19-Feb-16)	1)CARE BBB (Under Credit Watch) (20-Feb-15)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	289.60	CARE BB- / CARE A4 (Under Credit watch with Developing Implications)	1)CARE BB- / CARE A4 (Under Credit watch with Developing Implications) (16-Jun-17) 2)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)	1)CARE BBB / CARE A3 (Under Credit Watch) (20-Feb-15)
3.	Fund-based - LT-External Commercial Borrowings	LT	1579.84	CARE BB- (Under Credit watch with Developing Implications)	1)CARE BB- (Under Credit watch with Developing Implications) (16-Jun-17) 2)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-	1)CARE BBB (19-Feb-16)	1)CARE BBB (Under Credit Watch) (20-Feb-15)

						16)		
4.	Fund-based - LT-Term Loan	LT	-	Withdrawn	-	1)CARE A (SO) (28-Oct-16)	1)CARE A (SO) (19-Feb-16)	1)CARE A (SO) (Under Credit Watch) (26-Mar-15)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	4773.08	CARE BB- / CARE A4 (Under Credit watch with Developing Implications)	1)CARE BB- / CARE A4 (Under Credit watch with Developing Implications) (16-Jun-17) 2)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)	1)CARE BBB / CARE A3 (Under Credit Watch) (20-Feb-15)
6.	Fund-based - LT-Term Loan	LT	6417.59	CARE BB- (Under Credit watch with Developing Implications)	1)CARE BB- (Under Credit watch with Developing Implications) (16-Jun-17) 2)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	451.00	CARE AA- (SO); Stable	-	1)CARE AA- (SO) (04-Aug-16)	1)CARE AA- (SO) (08-Jan-16)	-
8.	Debentures-Non Convertible Debentures	LT	750.00	CARE AA- (SO); Stable	-	1)CARE AA- (SO) (04-Aug-16)	1)CARE AA- (SO) (08-Jan-16)	-
9.	Fund-based - LT-	LT	4493.34	CARE BB-	1)CARE BB-	1)CARE	1)CARE BBB	-

	Term Loan			(Under Credit watch with Developing Implications)	(Under Credit watch with Developing Implications) (16-Jun-17) 2)CARE BBB- (Under Credit watch with Negative Implications) (14-Apr-17)	BBB-; Stable (27-Jan-17) 2)CARE BBB- (28-Oct-16) 3)CARE BBB- (25-Aug-16) 4)CARE BBB- (04-Aug-16)	(19-Feb-16)	
10.	Fund-based - LT-External Commercial Borrowings	LT	1358.53	CARE BB- (Under Credit watch with Developing Implications)	1)CARE BB- (Under Credit watch with Developing Implications) (16-Jun-17) 2)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	190.91	CARE BBB (SO); Stable	-	-	-	-

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