Adani Transmission Limited

August 08, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	600.00	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Assigned**
Long Term / Short Term Bank Facilities	400.00	**CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable / A One Plus)**	**Assigned**
Total Facilities	**1,000.00 (Rupees One Thousand Crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Adani Transmission Limited (ATL) derive strength from its parentage of Adani group which has presence in diversified sectors, its experienced management, strong revenue visibility due to approved tariffs under multi-year tariff (MYT) orders in the cost-plus based projects and fixed tariffs in the projects under competitive bidding model, its diverse counterparties, low operating risk along with satisfactory track record of operations of its transmission lines, recent foray in to integrated Mumbai Generation, Transmission, Distribution (GTD) business, strong financial performance marked by healthy profitability & cash accruals and comfortable debt coverage indicators, comfortable liquidity profile and favorable scenario for the power transmission industry in the long term.

The rating of ATL is, however, constrained on account of inherent project execution risk associated with under-implementation projects in subsidiaries, moderate leverage, refinancing risk, risk associated with foreign exchange rate fluctuations on its foreign currency borrowings and risk related to its aggressive expansion / acquisition plans.

Ability of ATL to complete its ongoing projects as per schedule, maintain transmission line availability above normative levels for its transmission assets along with timely receipt of payment of transmission charges from its counterparties specifically state discoms, timely refinancing of its debt, maintain seamless operations of recently acquired Mumbai GTD business and improvement in its leverage would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage of the Adani Group which has presence in diversified sectors and its experienced management

ATL is Adani Group's flagship company for all power transmission and distribution businesses. The promoters of the Adani Group directly hold 74.92 % equity stake in ATL as on June 30, 2019. Adani Group has presence in diverse sectors with primary interests in the energy and infrastructure sectors. Adani Group has operations ranging from ports and logistics to thermal and renewable power generation, power transmission & distribution, city gas distribution and domestic & international coal mining. Adani Group's long standing presence in the entire power chain viz. generation, transmission & distribution provides significant synergetic benefits.

ATL is being managed by a professional and experienced management team having knowledgeable personnel with respect to various aspects of the power transmission industry in India. Further, the management of ATL has demonstrated capability to execute and operate multiple power transmission projects.

Strong revenue visibility due to approved tariffs under multi-year tariff (MYT) orders of the cost-plus based projects and fixed tariffs of the projects under competitive bidding model

Four power transmission assets of ATL housed under its subsidiaries Adani Transmission (India) Limited (ATIL) and Maharashtra Eastern Grid Power Transmission Company Limited (MEGPTCL) operate under a cost plus fixed return on equity (ROE) regime whereby these assets are entitled to recover full costs along with fixed post-tax ROE of 15.50% p.a. subject to maintenance of operational parameters above normative levels which results in strong revenue visibility.

Also, for various fixed price projects under its other subsidiaries, ATL is entitled to receive fixed payment in the form of monthly transmission charges, subject to availability of the transmission line equal to or more than normative level of 98% / 95% (depending upon the type of transmission line). The transmission charges of the fixed price projects are identified through the competitive bidding process are fixed for the entire tenor of the agreement viz. 25 years / 35 years and provide very good revenue visibility to ATL. Moreover, the transmission charges of these projects have already been approved by the respective regulators, thereby mitigating adverse regulatory risk for ATL.

Diverse counterparties

ATL has diversified counterparties for various projects undertaken under its subsidiaries. ATL's transmission projects are undertaken either under central government (inter-state transmission service) or under state governments (intra-state

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

transmission service). Out of 20 operational and under-implementation power transmission projects of ATL, the counterparty in case of 9 projects (contributing around 45-50% of the total revenues from transmission projects of ATL) is Power Grid Corporation of India Limited (PGCIL; rated CARE AAA; Stable / CARE A1+). The billing and payment mechanism for these projects is governed by the CERC (Sharing of Inter-State Transmission Charges and Losses) Regulations, 2010. As per the CERC regulations, PGCIL is the designated agency, the Central Transmission Utility (CTU), handling the billing, collection and disbursement (BCD) for all the inter-state transmission service (ISTS) licensees under the Point of Connection (PoC) mechanism. The CTU collects the transmission charges from all the utilities, the designated inter-state customers (DICs), in a central pool and makes proportionate payment to the ISTS licensees from that pool. Any delay in payment or any partial payments are shared amongst all the ISTS licensees on a pro-rata basis; so the counter-party risk gets diversified. Further, the risk is largely mitigated by PGCIL's strong collection efficiency as demonstrated over the last three years.
For two operational power transmission projects, the counterparty is Maharashtra State Electricity Transmission Company Limited (MSETCL) and for the balance projects (both operational and under-implementation), the counterparties are state distribution companies of Rajasthan and Uttar Pradesh viz. Rajasthan Discoms and UP Discoms. Despite the weak financial risk profile of the state Discoms, ATL has been largely receiving timely payments from the state Discoms for the past few years. Due to diverse counterparties, the counterparty risk is largely minimised in case of power transmission projects of ATL.

Low operating risk and satisfactory operational track record of its transmission lines
Operational risks are minimal in power transmission projects once the same are operational. Also, the technology used for operation of transmission projects is tested and proven. Further, as the transmission lines are a part of inter-state and intra-state grid network, the availability and demand risk are on the lower side. ATL is entitled to receive tariffs in the form of monthly transmission charges, subject to availability of the transmission lines (time in hours when transmission line is capable to transmit electricity at rated voltage) for 98% / 95% (depending upon the type of transmission line) of the time. ATL is entitled to receive the transmission charges irrespective of actual utilization of the line by the LTTCs for power transmission so long as normative availability of the transmission line is maintained. Past track record of operational transmission assets of ATL have demonstrated transmission line availability of above 99% since inception which have enabled them to even earn availability based incentives apart from normal transmission tariffs.

Recent foray in to integrated Mumbai Generation, Transmission, Distribution (GTD) business
On August 29, 2018, ATL acquired Reliance Infrastructure Limited’s (R-Infra) integrated Mumbai power generation, transmission and distribution assets (Mumbai-GTD business). The integrated business includes the power generation units based at Dahanu, power transmission network spread across Mumbai and Maharashtra and the retail power distribution network in Mumbai suburbs which serves around 2.90 million customers spread across 400 sq. kms in the city of Mumbai. The acquired asset from R-Infra is housed in Adani Electricity Mumbai Limited (AEML; rated CARE AA; Stable / CARE A1+), a newly formed entity and a 100% subsidiary of ATL. Acquisition of the Mumbai-GTD business was valued at Rs.12,101 crore which was funded by way of term debt of Rs.8,500 crore and equity of Rs.3,601 crore from ATL.
All three business segments of AEML viz. Generation, Transmission & Distribution operate under a cost plus fixed ROE regime (currently at 15.50% p.a. as approved by MERC) subject to maintenance of operational parameters above normative levels, thereby ensuring steady cash flows.. Also, the counterparty for AEML primarily consists of retail customers comprising residential, commercial and industrial customers of Mumbai region who have one of the highest per capita incomes in the country as well as high level of per capita consumption of electricity along with good payment track record which provides additional comfort w.r.to counterparty default risk.

Strong financial performance marked by healthy profitability margins & cash accruals and comfortable debt coverage indicators
Given the strong operating efficiency and stable cash flows of its power transmission projects & Mumbai GTD business, financial risk profile of ATL is characterised by healthy profitability margins & cash accruals, comfortable debt coverage indicators and moderately leveraged capital structure. With the commissioning of its greenfield transmission projects and acquisition of the integrated Mumbai-GTD business by ATL from R-Infra (housed under AEML), ATL’s total operating income grew from Rs.2,353 crore in FY18 to Rs.6,757 crore in FY19. However, post the acquisition of AEML, ATL’s consolidated PBILDT margin has moderated from 87.13% in FY18 to 45.73% in FY19 and is expected to further continue in the same range.
The projected cash accruals are expected to provide enough cushion to its debt coverage indicators albeit with a moderately leveraged capital structure.

Liquidity analysis
On a standalone basis, ATL has tied-up working capital limits of Rs.500 crore which are partly interchangeable between fund based limits and non-fund based limits. These limits have been tied-up for meeting the working capital requirements of ATIL and MEGPTCL. Apart from the same, both ATIL and MEGPTCL, on a standalone basis have tied-up fund based working capital limits of Rs.100 crore each. The major source of revenue of ATL is transmission charges from the LTTCs for its various

projects. The fund based working capital limit requirement of ATL would depend upon timeliness in receipt of monthly transmission charges by ATL from the LTTCs. ATL has been largely receiving timely payments from its counterparties for the past few years. Hence, the utilisation of fund based limits of ATL is only occasional. The average non-fund based utilisation level of ATL was moderate at around 54% during trailing 13 months period ended January 2019.
Also, ATL has tied-up working capital limits of Rs.839 crore in AEML (Rs.424 crore of fund based limits and Rs.415 crore of non-fund based limits) in order to meet the working capital requirement of AEML. The average fund based and non-fund based utilisation for the integrated GTD business of AEML were moderate at ~61% and ~53% respectively for the 10-month period ended June 30, 2019.
Further, on a consolidated basis, ATL had total liquid cash & bank balance of Rs.403 as on March 31, 2019 which demonstrates comfortable liquidity profile of ATL. Further, it has easy access to commercial paper (CP) issuances to meet any immediate redemption requirement of NCDs. Further, all its subsidiaries have requisite provisions for maintenance of debt service reserve account (DSRA) under their respective project loan documents as a liquidity back-up mechanism.

Favourable industry scenario in the long term
The long-term demand outlook for the domestic power transmission infrastructure is expected to be favourable as the Indian government continues to exert significant thrust and has embarked on numerous initiatives to ensure and fulfil its promise of providing 'Electricity for All'. Huge investments have been planned and massive network interconnectivity is envisaged, with a focus on affordability and reliability, including substantial outlays by the state sector for expanding the intra-state transmission infrastructure, in addition to PGCIL's annual capital outlay. These developments combined with Ujwal Discom Assurance Yojana (UDAY), which is expected to improve the liquidity position of DISCOMs, augur well for the sector; albeit sustenance of improvement in the financial risk profile of various State Discoms needs to be closely monitored post lapse of reasonable time after UDAY as it would ultimately be a function of their independent operational efficiencies. The shortfall in the peak power supply vis-à-vis peak demand has reduced substantially over the years. Amidst all these developments, on the ground level, issues related to smooth and timely project execution are quite dominant which include challenges such as RoW, land acquisition, environmental and forest clearances, end users (like power plants) not being ready, etc., impacting the project completion timelines. Presently, India has 4,15,517 circuit kilo meters (CKMs) of installed transmission line length and 9,12,113 MVA of substation transformation capacity. The Indian government envisages addition of 99,323 CKMs of transmission lines and 3,41,029 MVA of transformation capacity addition in the next 2-3 years, necessitating a sizeable investment in the sector.

Key Rating Weaknesses
Inherent project execution risk associated with its under-implementation projects
ATL successfully commissioned two of its projects in March 2019, i.e. Sipat Transmission Ltd. (STL) and Raipur-Rajnandgaon Warora Transmission Ltd. (RRWTL) along with Adani Transmission (Rajasthan) Ltd. which achieved its COD in Q1FY20.
Currently, ATL has 4 power transmission projects under implementation (comprising of around 15% of ATL's total revenues from power transmission projects) which are expected to be commissioned through FY20-FY21. Further, as per announcement dated August 1, 2019 on stock exchange, ATL has received Letter of Intent from PFC Consulting Ltd. and REC Transmission Projects Company Ltd. for acquiring Bikaner – Khetri Transmission Ltd. (in Rajasthan) and WRSS XXI (A) Transco Ltd. (in Gujarat) respectively which have been awarded to build, own, operate and maintain the transmission projects. These projects remain exposed to inherent project execution risks like time-overrun, cost overrun, delay in getting the required statutory approvals and clearances, right of way (RoW) approval or payment of liquidated damages arising out of delays in project commissioning from the scheduled commercial operations date (SCOD) as per the terms of respective TSAs.

Refinancing risk
The consolidated long-term debt profile of ATL comprises of NCDs, masala bonds, dollar bonds, external commercial borrowings (ECB) and rupee term loans (RTL). Except for dollar bonds (whose repayment falls due in FY26 by way of bullet repayment) and NCDs and masala bonds (whose repayments fall due during FY20-FY22) at ATL level for an aggregate value of Rs.6,359 crore as on March 31, 2019, rest of the debt has reasonably long repayment tenor commensurate with the annual cash accruals. Hence, ATL is exposed to refinancing risk w.r.t. this debt of Rs.6,359 crore, specifically the dollar bonds which are sizeable in nature and have bullet repayment due in FY26 whereby cash accruals for that particular year would not be sufficient enough for redemption of dollar bonds; thereby entailing refinancing risk. However, ATL had made partial buy-back of NCDs of around Rs.118 crore in March 2019 and has also repaid debt of around Rs.750 crore in FY20 till July 31, 2019 which have been met partially through its internal accruals and partially by refinancing. Further, ATL, under the obligor group of ATIL and MEGPTCL, has undertaken to reduce its outstanding term debt by Rs.400 crore p.a. ATL has demonstrated this in the past by actual reduction in its term debt by Rs.400 crore p.a. Also, there is a good revenue visibility from the underlying cash flows of ATIL and MEGPTCL with long tail period which is expected to mitigate this risk to some extent. Moreover, ATL has a track record of successful refinancing of its term debt till date.

Moderate leverage
In August 2018, ATL acquired 100% equity stake in AEML and this transaction was funded by term debt of Rs.8,500 crore leading to significant increase in the consolidated debt levels of ATL as on March 31, 2019. However, the promoters have infused funds in the form of unsecured perpetual securities in ATL to an extent of around Rs.3,400 crore till March 31, 2019 and further Rs.800 crore in Q1FY20 in order to reinstate the utilisation of internal accruals of the obligor group. This has resulted in a moderate overall gearing and total debt / PBILDT (on a consolidated basis) of 2.70 times and 6.48 times, respectively as on March 31, 2019 (primarily because consolidated financials of ATL for FY19 includes AEML's performance for 7 months only). The overall gearing is expected to improve only gradually over a period of time with gradual accretion of profit to its net-worth along-with scheduled repayment of its debt. However, with expected commissioning of under-implementation projects of few of ATL's subsidiaries and with the expected revenues from AEML in FY20, the total debt / PBILDT is expected to improve from FY20 onwards.

Risk related to foreign exchange rate fluctuation
During FY17, ATL had issued US Dollar Bonds for a value of USD 500 million (~Rs.3,350 crore at the time of issue). As per the terms of repayment of these Bonds, these Bonds are redeemable by way of bullet payment in FY26 with coupon payment getting due on half-yearly basis. Moreover, as per the terms and conditions of these dollar Bonds, ATL is required to hedge at least 95% of the total principal amount and at least 75% of the interest amount. Against which ATL has hedged 64% of the total principal amount for the entire tenor of the Bonds i.e. 10 years through principal swaps and the balance 36% through one-year forwards which are rolled-over every year. Moreover, ATL also hedges the interest amount of the next 2-3 interest payment cycles through one year forwards. Currently, the annual coupon payment for dollar Bonds falling due during next year has been hedged and forthcoming payments will be hedged accordingly on a yearly basis. Accordingly, ATL's cash flows are exposed to sharp adverse foreign exchange rate fluctuations.

Risk related to aggressive expansion / acquisition plans
During last around three years, ATL has acquired 2 operational power transmission projects from GMR group, 2 operational transmission projects from R-Infra, 1 operational power transmission project from KEC International Limited and integrated Mumbai-GTD business from R-Infra. Further, it has also won 11 new power transmission projects through competitive bidding process during the same period. Further, ATL continues to evaluate new projects through organic (competitive bidding process) as well as inorganic (acquiring existing projects) routes. It has recently secured two more transmission projects i.e. Bikaner – Khetri Transmission Ltd. and WRSS XXI (A) Transco Ltd. to build, own, operate and maintain the transmission projects in the state of Rajasthan and Gujarat respectively. Excess cash accruals from its operational projects are being deployed to meet the equity requirement of the on-going power transmission projects. Such excess cash accruals from its operational projects are expected to be sufficient for meeting the equity requirements of its on-going projects. However, any significant large sized debt-funded expansions or acquisitions would have an adverse impact on the capital structure and cash flows of ATL.

Analytical Approach: Consolidated; as ATL on a standalone basis has no operations and it largely acts as a holding company for various transmission assets and Mumbai GTD business under its 100% subsidiaries. List of all companies considered in its consolidation is as per **Annexure-3**.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Infrastructure Sector Ratings (ISR)
Rating Methodology: Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector

About the Company
ATL was incorporated in the year 2013 with a view to consolidate power transmission businesses of the Adani group under one entity. Upon conclusion of business restructuring of the Adani group in the year 2015, ATL got listed in July 2015 and the promoter group holds 74.92% of equity stake in ATL as on June 30, 2019. ATL through multiple subsidiaries holds 17 operational projects and 4 under implementation projects as on February 28, 2019 (including the integrated Mumbai-GTD business housed in AEML and operational power transmission project acquired from KEC International Limited in February 2019). Operational projects of ATL have demonstrated very good operating performance. ATL has presence across a number of states like Gujarat, Maharashtra, Rajasthan, Haryana, Chhattisgarh, Madhya Pradesh, Jharkhand, Bihar and Uttar Pradesh. ATL is India's largest private sector transmission company with a cumulative transmission network reaching to around 13,562

circuit kms as on March 31, 2019 [11,348 circuit kms operational assets and approx. 2,214 circuit kms under construction assets].

Particulars (Rs. Crore) – ATL (Consolidated)	FY18 (A)	FY19 (A)
Total Operating Income *	2,353	6,797
PBILDT	2,050	3,108
PAT	# 1,143	559
Overall Gearing (times)	1.82	2.70
Interest Coverage (times)	2.32	2.23

A: Audited;
** Trading income is removed for arriving at total operating income of ATL*
 # PAT for FY18 included prior period income of Rs.873 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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
Term Loan-Long Term	-	-	June 17, 2022	600.00	CARE AA+; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	400.00	CARE AA+; Stable / CARE A1+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	1,000.00	CARE AA+; Stable	1)CARE AA+; Stable (01-Apr-19)	-	-	-
2.	Term Loan-Long Term	LT	600.00	CARE AA+; Stable	-	-	-	-
3.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	400.00	CARE AA+; Stable / CARE A1+	-	-	-	-

Annexure-3: List of subsidiaries of ATL getting consolidated

Sr. No.	Name of the Company	% Shareholding by ATL (As on March 31, 2019)
1.	Adani Transmission (India) Limited	100%
2.	Maharashtra Eastern Grid Power Transmission Company Limited	100%
3.	Aravali Transmission Services Company Limited	100%
4.	Maru Transmission Service Company Limited	100%
5.	Western Transco Power Limited	100%
6.	Western Transmission (Gujarat) Limited	100%
7.	Adani Electricity Mumbai Limited	100%
8.	KEC Bikaner Sikar Transmission Private Limited	100%
9.	Barmer Power Transmission Service Limited	100%
10.	Hadoti Power Transmission Service Limited	100%
11.	Thar Power Transmission Service Limited	100%
12.	Chhattisgarh-WR Transmission Limited	100%
13.	Adani Transmission (Rajasthan) Limited	100%
14.	Raipur-Rajnandgaon-Warora Transmission Limited	100%
15.	Sipat Transmission Limited	100%
16.	North Karanpura Transco Limited	100%
17.	Fatehgarh Bhadla Transmission Limited	100%
18.	Ghatampur Transmission Limited	100%
19.	Obra-C Badaun Transmission Limited	100%

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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