

Adani Power (Mundra) Ltd.

July 10, 2018

Rating

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debenture issue [^]	408.00 (reduced from 451.00)	CARE AA- (SO); Stable [Double A Minus (Structured Obligation); Outlook: Stable]	Final Rating Assigned
Total	408.00 [Rupees Four Hundred and Eight Crore only]		

Details of instrument in Annexure-1

[^] backed by credit enhancement in the form of security of first and exclusive pledge of promoters' unencumbered shares of Adani Ports and Special Economic Zone Ltd. (APSEZ) and Adani Transmission Ltd. (ATL) in the ratio of 80:20, such that the value of these shares is 2 times the value of the outstanding Non-Convertible Debentures (NCDs).

Detailed Rationale & Key Rating Drivers

CARE has finalized its earlier 'Provisional' rating assigned to above-said NCD issue upon fulfillment of the conditions attached to the 'Provisional' rating.

The rating assigned to the above NCD issue of APMUL derives strength from the availability of credit enhancement in the form of security of first and exclusive pledge of unencumbered shares of APSEZ and ATL held by promoter group in the ratio of 80:20, 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 is, however, constrained by the liquidity risk associated with the underlying shares as evidenced from the high proportion of pledged shares of APSEZ vis-à-vis its average daily traded volume, high volatility in the share price of APSEZ vis-à-vis Sensex during the last one year (as reflected by high value of 'Beta' of APSEZ shares), unavailability of assured operating 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 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 and ATL held by the promoter group

The rated NCD is secured by way of the first and exclusive pledge of unencumbered shares of APSEZ and ATL 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) and ATL, 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

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

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.

Adani Ports and Special Economic Zone Ltd. (APSEZ)

APSEZ, incorporated in 1998, belongs to the Adani group with promoter group holding 66.27% stake in the company as on March 31, 2018. 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.

During FY18, APSEZ on a consolidated basis reported a total operating income of Rs.12,334 crore (FY17: Rs. 9,632 crore) and a PAT of Rs.3,690 crore (FY17: Rs. 3,908 crore). As per consolidated provisional financials for FY18, APSEZ's PBILDT interest coverage stood at 5.45 times (FY17: 4.80 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, 2018. ATL is a holding company, created to house the transmission assets of Adani group. ATL has fifteen wholly-owned subsidiaries, six of which namely Adani Transmission (India) Ltd. (ATIL), Maharashtra Eastern Grid Power Transmission Company Ltd. (MEGPTCL), Aravali Transmission Service Company Ltd. (ATSCL, rated CARE A; Stable) & Maru Transmission Service Company Ltd. (MTSCL, rated CARE A-; Stable), Western Transco Power Ltd. & Western Transmission (Gujarat) Ltd. have operational transmission projects. Other subsidiaries house ongoing transmission line projects under implementation. The surplus cash accruals of ATL are being utilized to meet its equity commitments in its various SPVs. It has also entered in to Share Purchase Agreement with Reliance Infrastructure Limited to acquire its Mumbai Electricity Generation-Transmission-Distribution (GTD) business.

During FY18, ATL on a consolidated basis reported a total operating income of Rs.3243 crore (FY17: Rs. 2902 crore) and a PAT of Rs.1143 crore (FY17: Rs.416 crore). As per consolidated provisional financials for FY18, ATL's PBILDT interest coverage stood at 3.32 times (FY17: 2.21 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, 2018, the promoter group held 66.27% stake in APSEZ and 74.92% stake in ATL. Out of this, high proportion of shares held by the promoters are unencumbered i.e. 65.67% of promoters holding in APSEZ and 77.08% of promoter holding in ATL as on March 31, 2018, which provides cushion in case of any fall in market price of the underlying shares.

Structure and Repayment Mechanism

APMUL's above rated NCDs are as per the following series;

Series	Series C
Maturity Date	April 07, 2019
Put/Call Option Date	January 14, 2019
Amount of the Series	Rs.408 crore
Amount Outstanding as on March 31, 2018	Rs.408 crore

The NCD issue structure also has collateral top-up mechanism whereby APMUL 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, the structure has put/call option with both investor and APMUL on the expiry of a specified period. Further, it requires mandatory prepayment upon happening of specified events. Furthermore, the structure contains voluntary redemption by APMUL.

Redemption premium of 10.70% p.a. is to be compounded annually and payable on maturity date of the above-said NCDs. IDBI Trusteeship Services Ltd. is the Trustee to this NCD issue and has 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-à-vis its average daily traded volume

As on March 31, 2018, out of total promoters holding in APSEZ & ATL, 34.33% & 22.92% 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 APMUL for redemption of NCDs

On account of unavailability of assured operating cash flows in APMUL 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.

High 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 high value of 'Beta' of APSEZ (which contributes 80% of the pledged shares) vis-à-vis Sensex.

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, Price to Earnings (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 Sector Ratings](#)

[Rating Methodology - Private Power Producers](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

APMUL is a subsidiary of APL. The Board of Directors of APL had considered and approved the slump sale of APL's Mundra Power Generation Undertaking to APMUL on June 06, 2017. Subsequently on November 03, 2017, National Company Law Tribunal (NCLT) bench at Ahmedabad has sanctioned the Scheme of Arrangement between APL and APMUL. Post receipt of requisite approvals as required under the Scheme of Arrangement approved by the NCLT and upon filing of the NCLT order with the Registrar of Companies, the Mundra Power Generation Undertaking has been transferred from APL to APMUL along-with all its assets & liabilities with effective date of December 22, 2017 and appointed date of March 31, 2017.

Brief Financials of APMUL – Standalone (Rs. Crore)	FY18 (Prov.)
Total operating income	9067
PBILDT	1004
PAT	-1693
Overall gearing (times)	NM
Interest coverage (times)	0.44

Prov.: Provisional; NM: Not Meaningful as its net worth is negative

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments

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	10.70%	Apr 07, 2019	408.00	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 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.	Debentures-Non Convertible Debentures	LT	408.00	CARE AA- (SO); Stable	-	Provisional CARE AA- (SO); Stable (12-Dec-17)	-	-
2.	Debentures-Non Convertible Debentures	LT	600.00	CARE AA- (SO); Stable	-	Provisional CARE AA- (SO); Stable (12-Dec-17)	-	-

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