

Adani Power Rajasthan Limited

March 19, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short Term Bank Facilities [^]	200.00	CARE A2+(SO) [A Two Plus (Structured Obligation)]	Final Rating Assigned
Total Facilities	200.00 (Rupees Two Hundred Crore only)		

Details of facilities in Annexure-1

[^] The rating assigned is based on the credit enhancement in the form of 10% of the facility amount being kept as margin in the form of Fixed Deposit (FD) under lien with the lender; along with security of first and exclusive pledge of promoters' unencumbered shares of Adani Transmission Limited (ATL) such that the value of these shares provides a cover of at least 1.50 times of the facility amount (net of cash margin in the form of FD) throughout the tenor of the facility.

Detailed Rationale & Key Rating Drivers

CARE has finalized its earlier 'Provisional' rating assigned to the aforesaid bank facilities upon fulfillment of the conditions attached to the 'Provisional' rating.

The rating assigned to the above bank facility of Adani Power Rajasthan Limited (APRL) derives strength from the credit enhancement in the form of upfront creation of lien-marked FD for 10% of the outstanding LC amount along with security of first and exclusive pledge of unencumbered shares of ATL held by the promoter group such that the aggregate value of these shares at all times is maintained at 1.50 times of the amount of outstanding bank facility (net of cash margin in the form of FD). The rating further derives strength from availability of adequate unpledged shares of ATL with the promoters so as to enable it to maintain the aggregate collateral cover during the tenure of the bank facility, along with presence of collateral and top up clause in the structure.

The rating is, however, constrained by the liquidity risk associated with the underlying shares as evidenced from the high proportion of pledged shares of ATL vis-à-vis their average daily traded volume, high volatility in the share price of ATL vis-à-vis Sensex during the last one year (as reflected by high value of 'Beta' of ATL shares), moderate operating cash flows of APRL for its debt servicing and consequent possibility of liquidation of shares to meet the debt servicing obligations on the extant rated bank facility.

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

Detailed description of the key rating drivers

Key Rating Strengths

Credit enhancement in the form of security of first and exclusive pledge of unencumbered shares of ATL held by the promoter group

APRL has created FD under lien with the bank for upfront backing of 10% of the issued letter of credit (LC) facility. Further, the bank facility is secured by way of first and exclusive pledge of unencumbered shares of ATL held by the promoter group, the market value of which should be equivalent to an amount that is sufficient to maintain a cover at all times of not less than 1.50 times of the outstanding amount of the facility (net of cash margin kept in the form of FD).

Further, the credit profile of ATL whose shares are pledged is strong. ATL is engaged in power transmission business and all its operational power transmission projects have exhibited track record of better than normative line availability.

Adani Transmission Limited (ATL)

ATL is a holding company created to house the power transmission assets of the Adani group. ATL has significant amount of operational and under implementation power transmission projects under its subsidiaries. Further, during August 2018, ATL acquired R-Infra's Mumbai Generation, Transmission & Distribution (GTD) power business which is housed under Adani Electricity Mumbai Limited (AEML; rated CARE AA; Stable/ CARE A1+). Moreover, in February 2019, ATL has acquired 100% equity share capital of KEC International Limited's subsidiary KEC Bikaner Sikar Transmission Private Limited (KBSTPL) having operational power transmission lines of ~344 ckt kms. The cumulative power transmission network of ATL has reached to around 13,450 circuit kms as on December 31, 2018 [10,355 circuit kms operational assets (including acquired asset of KBSTPL) and approx. 3,095 circuit kms under construction assets]. ATL has presence in

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

number of states with projects spread across Gujarat, Maharashtra, Rajasthan, Haryana, Chhattisgarh, Madhya Pradesh, Jharkhand, Bihar and Uttar Pradesh. The surplus cash accruals of ATL from its operational power transmission projects are being utilized to meet its equity commitments in its various special purpose vehicles (SPVs).

During FY18, ATL on a consolidated basis reported a total operating income of Rs.3,239 crore (FY17: Rs.2,142 crore) with a PAT of Rs.1,143 crore (FY17: Rs.416 crore). Its PBILDT interest coverage for FY18 stood at 3.32 times. As per consolidated provisional financials for 9MFY19, ATL had a total operating income of Rs.4,495 crore with a PAT of Rs.454 crore and an interest coverage of 2.15x.

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

As on December 31, 2018, the promoter group held 74.92% stake in ATL. Out of this, high proportion of shares held by the promoters are unencumbered i.e. 55.57% of promoter holding in ATL as on December 31, 2018 (which has increased from 45.92% unencumbered promoter holding in ATL as on September 30, 2018), which provides cushion in case of a fall in market price of the underlying shares.

Further, the structure for the bank facility also has collateral top-up mechanism whereby APRL shall be required to deliver additional collateral shares within a specified time limit in case closing price of the underlying shares declines by a specified limit. The trustee (i.e. Vistra ITCL (India) Ltd.) and the banker (i.e. Yes Bank Limited) have to monitor adherence and ensure compliance to the structure for this bank facility during its entire tenure.

Key Rating Weaknesses

Liquidity risk associated with the underlying shares due to high proportion of pledged shares vis-à-vis their average daily traded volume

As on December 31, 2018, out of total promoter holding in ATL, 44.43% of the shares were pledged. This pledging proportion vis-à-vis average daily traded volume for the last one year of the shares of ATL is high which poses liquidity risk.

High volatility in the share price of ATL vis-à-vis Sensex during the last one year

Over the last one year, the share prices of ATL have shown more volatility as compared to Sensex leading to high value of 'Beta' of ATL share prices vis-à-vis Sensex.

Moderate operating cash flows of APRL for debt servicing of the rated bank facility

On account of moderate operating cash flows in APRL, there exists a possibility of liquidation of the pledged shares to meet the debt servicing obligations on this rated bank facility.

Analytical Approach

CARE's criteria on rating instruments / bank facilities backed by pledge of 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 / bank facilities. The key parameters considered for this purpose are: security cover, credit rating of the underlying company whose shares are being pledged, 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 and Price to Earnings (PE) of the underlying shares compared to industry.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Private Power Producers](#)

[Rating Methodology - Infrastructure Sector Ratings \(ISR\)](#)

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

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in January 2008, APRL was floated as a wholly owned subsidiary of Adani Power Limited (APL, rated CARE BB+; Stable / CARE A4+) to implement 1320 MW (660 MW x 2 units) super-critical coal based thermal power generation project at Kawai, Rajasthan. Unit-I (660 MW) and Unit-II (660 MW) achieved commercial operations on May 31, 2013 and December 31, 2013 respectively. APRL has entered into power purchase agreements (PPAs) with power distribution companies of Rajasthan i.e. Ajmer Vidyut Vitran Nigam Limited (AVVNL), Jaipur Vidyut Vitran Nigam Limited (JVVNL) and Jodhpur Ajmer Vidyut Vitran Nigam Limited (JoVVNL) (collectively referred to as Rajasthan Discoms) for 1200 MW. APRL's PPAs with Rajasthan Discoms have a two-part tariff structure i.e. fixed capacity charge upon maintaining plant availability

factor (PAF) equal to or above normative level (i.e. 85%) and energy charges and inland transportation cost that are escalable for variation linked to Central Electricity Regulatory Commission (CERC) index.

Brief Financials – APRL (Standalone) (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	3,281	2,080
PBILDT (excluding CT income)	547	168
PAT (including CT income)	15	-468
Overall gearing (times)	4.92	6.98
Interest coverage (times)	0.61	0.20

A: Audited

CT: Compensatory Tariff pertaining to short-supply of domestic coal arising out of change in domestic law

As per provisional results for Q1FY19, APRL had a TOI of Rs.791 crore with a net loss of Rs.58 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

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 Facilities

Name of the Bank Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit	NA	NA	NA	200.00	CARE A2+ (SO)

NA: Not Applicable

Annexure-2: Rating History of last three years

Sr. No.	Name of the 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 (06-May-15)
2.	Non-fund-based - LT/ST-BG/LC	LT/ST	-	-	-	-	-	1)Withdrawn (06-May-15)
3.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	-	-	1)Withdrawn (06-May-15)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	-	-	1)Withdrawn (06-May-15)
5.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	-	-	1)Withdrawn (06-May-15)
6.	Fund-based - LT-Term Loan	LT	4181.37	CARE BBB-; Stable	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (28-Aug-17)	1)CARE BBB; Stable (16-Feb-17)	1)CARE A- (25-Jan-16) 2)CARE A- (06-May-15)
7.	Fund-based - LT-External Commercial Borrowings	LT	1342.69	CARE BBB-; Stable	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (28-Aug-17)	1)CARE BBB; Stable (16-Feb-17)	1)CARE A- (25-Jan-16) 2)CARE A- (06-May-15)
8.	Fund-based/Non-fund-based-LT/ST	LT/ST	1500.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (03-Oct-18)	1)CARE BBB-; Stable / CARE A3 (28-Aug-17)	1)CARE BBB; Stable / CARE A3+ (16-Feb-17)	1)CARE A- / CARE A2+ (25-Jan-16) 2)CARE A- / CARE A2+ (06-May-15)
9.	Non-fund-based - LT/ST-BG/LC	LT/ST	460.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (03-Oct-18)	1)CARE BBB-; Stable / CARE A3 (28-Aug-17)	1)CARE BBB; Stable / CARE A3+ (16-Feb-17)	1)CARE A- / CARE A2+ (25-Jan-16) 2)CARE A- / CARE A2+ (06-May-15)
10.	Non-fund-based - LT-Bank Guarantees	LT	160.00	CARE BBB-; Stable	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (28-Aug-17)	1)CARE BBB; Stable (16-Feb-17)	1)CARE A- (25-Jan-16) 2)CARE A- (06-May-15)
11.	Non-fund-based - LT-Bank Guarantees	LT	45.00	CARE A- (SO); Stable	1)CARE A- (SO); Stable (19-Nov-18) 2)Provisional CARE A- (SO); Stable (03-Oct-18)	-	-	-
12.	Non-fund-based - ST-Letter of credit	ST	200.00	CARE A2+ (SO)	1)Provisional CARE A2+ (SO) (01-Feb-19)	-	-	-

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