

## Adani Power Rajasthan Limited

April 02, 2020

### Rating

Facilities	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities <sup>^</sup>	-	-	Reaffirmed at CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable] and Withdrawn
<b>Total Facilities</b>	-		

Details of facilities in Annexure-1

<sup>^</sup> The rating assigned is based on the credit enhancement in the form of 25% 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 Ports and Special Economic Zone Limited (APSEZ; rated CARE AA+; Stable) such that the value of these shares provides a cover of at least 1.50 times of the facility amount (net of cash margin) throughout the tenor of the facility.

### Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding rating of 'CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable] assigned to the above bank facility of Adani Power Rajasthan Limited (APRL) with immediate effect. The above action has been taken at the request of APRL and 'No Objection Certificate' received from the bank that has extended the facility rated by CARE.

The rating assigned to the above bank facility of APRL derives strength from the credit enhancement in the form of upfront creation of lien-marked FD for 25% of the outstanding bank guarantee (BG) amount along with security of first and exclusive pledge of unencumbered shares of APSEZ 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) along with strong credit profile of APSEZ whose shares are pledged. 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 bank facility along with presence of collateral and top up clause in the structure and low liquidity risk associated with the underlying shares as evidenced from low number of days that would be required to liquidate the pledged shares in order to meet total repayment obligation of the extant bank facility assuming average traded volume of the pledged shares.

The rating is, however, constrained by 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), 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 APSEZ held by the promoter group**

APRL has created FD under lien with the bank for upfront backing of 25% of the issued BG facility. Further, the bank facility is secured by way of first and exclusive pledge of unencumbered shares of APSEZ 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 APSEZ 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.

#### Adani Ports and Special Economic Zone Limited (APSEZ)

APSEZ, incorporated in 1998, belongs to the Adani Group with promoter group holding 62.46% stake in the company as on December 31, 2019. APSEZ operates in three segments - port development, SEZ development and logistics. In the port segment, APSEZ has developed and operates the Mundra port located on the western coast which is the largest port in India in terms of cargo handling. Apart from Mundra port, APSEZ owns and has developed ports at various other locations

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

like Dhamra, Dahej, Hazira, Vizag, Kandla (Tuna), Kamarajar ports (erstwhile Ennore port), Vizhinjam, Kattupalli and Mormugao. During FY19, APSEZ reported total operating of Rs.12,233 crore with a PAT of Rs.4,045 crore on a consolidated basis reflecting comfortable financial risk profile. During 9MFY20, APSEZ reported total operating income of Rs.10,374 crore with a PAT of Rs.3,444 crore on a consolidated basis.

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

As on December 31, 2019, the promoter group held 62.46% stake in APSEZ. Out of this, high proportion of shares held by the promoters are unencumbered i.e. 63.59% of promoter holding in APSEZ as on December 31, 2019 (which has increased from 59.72% unencumbered promoter holding in APSEZ as on September 30, 2019), 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) Limited) 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.

***Low liquidity risk associated with the underlying shares***

The number of days required to liquidate the pledged shares of APSEZ in order to meet total repayment obligation of the extant bank facility assuming average traded volume of the pledged shares is low which indicates low liquidity risk.

**Key Rating Weaknesses**

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

Over the last one year, the share prices of APSEZ have shown high volatility as compared to Sensex leading to high value of 'Beta' of APSEZ 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 PE of the underlying shares compared to industry.

**Applicable Criteria**

[Policy on Withdrawal of Ratings](#)

[Criteria on Assigning 'Outlook' and 'Credit Watch'](#)

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

[Rating of Loans by Investment Holding Companies \(Including Backed by Pledge of Shares\)](#)

[Rating Methodology - Private Power Producers](#)

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

[Rating Methodology - Consolidation and 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 BBB-; Stable / CARE A3) to implement 1,320 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 in to long term 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 1,200 MW. APRL's PPAs with Rajasthan Discoms have a two-part tariff structure i.e. fixed capacity charge upon maintaining billed plant availability factor (PAF) equal to or above normative level (i.e. 85%) and energy charges and inland transportation charges that are escalable for variation linked to Central Electricity Regulatory Commission (CERC) index.

Brief Financials – APRL (Standalone) (Rs. Crore)	FY18 (A)	FY19 (A)
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Total Operating Income (Excl. Non-Cash Income)	2,080	4,008
PBILDT (Excl. Non-Cash Income)	168	1,195
PAT (Incl. Non-Cash Income)	(468)	80
Overall Gearing (times)	6.98	2.73
Interest Coverage (times)	0.20	1.36

A: Audited

**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 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 - LT-Bank Guarantees	-	-	-	0.00	Withdrawn

**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 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.	Fund-based - LT-Term Loan	LT	4,002.49	CARE BBB; Stable	1)CARE BBB; Stable (05-Jul-19)	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (28-Aug-17)	1)CARE BBB; Stable (16-Feb-17)
2.	Fund-based - LT-External Commercial Borrowings	LT	1,257.81	CARE BBB; Stable	1)CARE BBB; Stable (05-Jul-19)	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (28-Aug-17)	1)CARE BBB; Stable (16-Feb-17)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	1,800.00	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (05-Jul-19)	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)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	460.00	CARE BBB; Stable / CARE A3+	1)CARE BBB; Stable / CARE A3+ (05-Jul-19)	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)
5.	Non-fund-based - LT-Bank Guarantees	LT	160.00	CARE BBB; Stable	1)CARE BBB; Stable (05-Jul-19)	1)CARE BBB-; Stable (03-Oct-18)	1)CARE BBB-; Stable (28-Aug-17)	1)CARE BBB; Stable (16-Feb-17)
6.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	1)CARE A-(SO); Stable (19-Nov-18) 2)Provisional CARE A- (SO); Stable (03-Oct-18)	-	-
7.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A2+ (SO) (19-Mar-19) 2)Provisional CARE A2+ (SO) (01-Feb-19)	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact Us

### Media Contact

Name: Mradul Mishra  
Contact No.: +91 22-6837 4424  
Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Name: Naresh M. Golani  
Contact No.: +91 79-4026 5618  
Email: [naresh.golani@careratings.com](mailto:naresh.golani@careratings.com)

### Relationship Contact

Name: Deepak Prajapati  
Contact No.: +91 79-4026 5656  
Email: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

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