

Adani Power Rajasthan Limited

July 05, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings ^[1]	Rating Action
Long Term Bank Facilities	5,420.30 (reduced from Rs.5,684.06 crore)	CARE BBB; Stable [Triple B; Outlook: Stable]	Revised from CARE BBB-; Stable [Triple B Minus; Outlook: Stable]
Long Term / Short Term Bank Facilities	2,260.00 (enhanced from Rs.1,960.00 crore)	CARE BBB; Stable / CARE A3+ [Triple B; Outlook: Stable / A Three Plus]	Revised from CARE BBB-; Stable / CARE A3 [Triple B Minus; Outlook: Stable / A Three]
Total Facilities	7,680.30 (Rupees Seven Thousand Six Hundred Eighty Crore and Thirty Lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of the bank facilities of Adani Power Rajasthan Limited (APRL) takes into account actual receipt of part cash flows during FY19 (refers to the period from April 01 to March 31) pertaining to its claimed amount of compensatory tariff (CT) relating to short supply of domestic coal arising out of 'Change in Indian Law'. The revision also takes into account improvement in plant parameters in terms of higher billed plant availability factor (PAF) and plant load factor (PLF) during FY19 due to better availability of domestic coal on a sustained basis under its fuel supply agreements (FSAs) signed in terms of the Scheme for Harnessing and Allocating Koyala (Coal) Transparently in India (SHAKTI) policy to meet substantial part of APRL's fuel requirement leading to low reliance on costly alternate sources of coal and corresponding improvement in its profitability, liquidity and debt coverage indicators and improvement in its capital structure upon conversion of unsecured loans from the promoters into Unsecured Perpetual Securities (UPS) during FY19 whereby APRL does not have any interest payment or redemption obligation on these UPS which provides additional cushion to its cash flows for debt servicing.

The ratings continue to draw strength from APRL being part of the Adani Group which has diversified business presence across various sectors including the entire value chain of energy sector with vast experience in thermal power generation, its long term power purchase agreements (PPA) for selling almost entire power generation capacity providing good revenue visibility and availability of adequate transmission line. CARE also takes note of APRL receiving favorable orders from Rajasthan Electricity Regulatory Commission (RERC), Appellate Tribunal for Electricity (APTEL) and Hon'ble Supreme Court of India in its CT related dispute with the Rajasthan Discoms and that Rajasthan Discoms have taken tariff hike to pass on the CT paid to APRL (as approved by RERC vide order dated June 13, 2019). CARE further takes note of the fact that favorable regulatory orders have been received by other thermal power generators in the country (as well as other Adani Power group companies) for their respective carrying cost matters basis which there is high likelihood of receipt of carrying cost amount w.r.t. the CT amount of APRL in the near to medium term; albeit the final order from the APTEL w.r.t. CT matter of APRL is still awaited.

The ratings, however, continue to remain constrained by the significant amount of claimed CT arising out of short supply of domestic coal and inordinate delay in receipt of entire CT amount as the final order from the APTEL w.r.t. CT matter of APRL is still awaited, persistent exposure to fuel price risk upon only partial tie-up of its coal requirement under SHAKTI FSAs, susceptibility of its operations to lower than envisaged supply of domestic coal and foreign exchange rate fluctuations, weak credit profile of its counter-parties viz. the state power sector distribution companies of Rajasthan, lower capacity charges as per bid schedule, especially during FY24 to FY27 and concomitant moderation in debt coverage indicators during the same period, its moderate leverage, debt coverage indicators and liquidity with only partial creation of debt service reserve account (DSRA).

Ultimate determination of quantum of APRL's claimed CT under its PPA along with actual receipt of cash flows pertaining to balance portion of CT in a timely manner, timely receipt of carrying cost, sustained receipt of committed domestic coal supplies under FSAs signed in terms of SHAKTI policy, maintaining normative billed PAF, timely tie up of debt for flue gas desulphurisation (FGD) project and its implementation, improvement in its profitability, capital structure, debt coverage indicators and liquidity, effective management of its working capital requirement and receiving need-based financial support from promoter group in a timely manner are the key rating sensitivities.

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

Detailed description of the key rating drivers

Key Rating Strengths

Parentage of Adani Group with vast experience in the entire value of chain of power viz. coal mining, coal import, port operations, power generation, power transmission and power distribution and track record of extending financial support

Adani Group has evolved as a diversified conglomerate with primary interests in the energy sector. Adani Group has operations ranging from domestic and overseas coal mining to port operations, logistics, thermal and renewable power generation, transmission and distribution and city gas distribution through various listed group companies. Adani Group's long standing presence in coal value chain viz. coal mining, coal imports, port facilities and imported coal based thermal power generation provides significant synergetic benefits.

As on March 31, 2019, the promoter group held 74.97% equity stake in Adani Power Limited (APL; rated CARE BB+; Stable / CARE A4+) which is the holding company of Adani Group's thermal power generation ventures. Through its four wholly-owned subsidiaries, APL has total operational coal based thermal power generation capacity of 10,440 MW [4,620 MW (330 MW x 4 units, 660 MW x 5 units) in Adani Power (Mundra) Limited (APMuL) at Mundra, Gujarat; 3,300 MW (660 MW x 5 units) in Adani Power Maharashtra Limited (APML; rated CARE A-; Stable / CARE A2) at Tiroda, Maharashtra; 1,320 MW (660 MW x 2 units) in APRL at Kawai, Rajasthan and 1,200 MW (600 MW x 2 units) in Udupi Power Corporation Limited (UPCL; rated CARE A-; Stable / CARE A2+) at Udupi district, Karnataka]. APL is vested with 40 MW operational solar power project located at Kutch, Gujarat on a standalone basis. Also, it is in the process of setting up a 1,600 MW (800 MW x 2 units) ultra-supercritical coal based thermal power plant in Jharkhand under its wholly owned subsidiary Adani Power (Jharkhand) Limited (APJL). Further, APL is in the process of acquiring 600 MW coal based thermal power plant of Korba West Power Company Limited (KWPC) from lenders and 1,370 MW coal based thermal power plant of GMR Chhattisgarh Energy Limited (GCEL) from GMR Group for which it has received approval from the National Company Law Tribunal (NCLT), Ahmedabad and letter of intent (LOI) from the lenders of GCEL respectively. APL on a consolidated basis has vast experience in setting up and operating large thermal power generation capacities. APL's promoters have extended financial support to APL and its subsidiaries over last few years and Adani Enterprises Limited (AEL; rated CARE A; Stable / CARE A1) has offered extended credit period on coal supplies to subsidiaries using imported coal. Further, APL's promoters have high financial flexibility as reflected in total value (market cap) of un-pledged promoter holding in listed Adani Group entities at Rs.68,837 crore as on March 31, 2019 and they have articulated their strong commitment and support to service the obligations of APL and its subsidiaries on a timely basis.

As on March 31, 2018, APL had infused unsecured loans of ~Rs.2,200 crore in APRL primarily to support its operations on account of build-up of CT. During FY19, these unsecured loans were converted into UPS having no maturity and no interest payment obligations. This has provided flexibility to APRL to defer payments on these UPS in case of lower than adequate availability of cash accruals for debt servicing.

Tie-up of almost entire power generation capacity under long term PPAs

Out of the total power generation capacity of 1,320 MW, APRL has long term off-take arrangement of 25 years with Rajasthan Discoms for 1,200 MW (i.e. almost entire capacity after considering auxiliary consumption) which provides good revenue visibility. APRL's PPAs with Rajasthan Discoms have a two-part tariff structure i.e. fixed capacity charge upon maintaining billed PAF equal to or above normative levels (i.e. 85%) and energy charges and inland transportation charges that are escalable for variation linked to Central Electricity Regulatory Commission (CERC) index. APRL is also raising bills against Rajasthan Discoms for taxes & duties on coal purchase relating to 'Change in Indian Law'. Cash flows in respect of the same are also being received by APRL.

Availability of adequate transmission line infrastructure

As per the terms of the long term PPAs, it is the responsibility of Rajasthan Discoms to arrange for transmission line network for off-take of power from APRL's plant switchyard. With Rajasthan Rajya Vidyut Prasaran Nigam Limited's existing lines, there is no power transmission bottleneck for APRL.

Higher receipt of domestic coal on a sustained basis under SHAKTI policy during FY19 leading to improved performance for the year; albeit with persistent exposure to fuel price risk

In APRL, total domestic coal requirement for achieving normative billed PAF is more than 5 million tonne per annum (MTPA). As against this, till FY18 it was largely relying on a mix of imported and domestic e-auction coal resulting in very high fuel cost which could not be passed on to the Rajasthan Discoms at PPA defined tariff structure even after considering escalation linked to CERC index; thereby incurring huge cash losses. However, APRL was successful in bidding for domestic coal under SHAKTI policy in September 2017 and executed FSAs for 4.12 MTPA of domestic coal with very marginal discount in its PPA tariff. The supplementary PPAs for discount in PPA tariff have been approved by RERC. In terms of above FSAs, APRL has started receiving domestic coal at notified prices by Coal India Limited (CIL) from February 2018. During FY19, APRL received more than 98% of domestic coal allocated to it under SHAKTI policy. Going forward, APRL's management expects 85% materialization of the contracted quantity (i.e. 4.12 MTPA) to be received every year which is expected to reduce reliance on costlier alternate coal. Also, it would result in very minimal CT build up. However,

even after considering full materialization (i.e. 4.12 MTPA) of committed supply of domestic coal under these FSAs, APRL would be left with shortfall to meet its balance fuel requirement to achieve normative billed PAF. Accordingly, it would have to continue to rely on costlier alternate sources of coal which would continue to expose APRL to fuel price risk. Also, any shortfall in committed supply of domestic coal under FSAs would increase the reliance of APRL on costlier alternate sources of coal and increase the fuel price risk.

Continued track record of receipt of committed domestic coal supplies from its executed FSAs under SHAKTI policy would be a key rating monitorable.

On account of better domestic coal availability from its FSAs under SHAKTI policy, the average billed PAF and PLF of APRL improved to ~76% and ~66% respectively in FY19 as compared to ~49% and ~44% respectively in FY18. The supply of domestic coal under SHAKTI policy ramped up gradually from Q2FY19. During FY19, APRL incurred under-recovery of fixed capacity charges as billed PAF was lower than normative requirement of 85%, however, there was no penalty as the billed PAF for 1,200 MW PPA with Rajasthan Discoms was more than 80%. The improvement in billed PAF and PLF of APRL during FY19 resulted in improved financial performance in terms of higher profitability and debt coverage indicators during FY19. As against cash losses of Rs.666 crore during FY18, APRL reported cash profit of Rs.320 crore during FY19. Further, during FY19, APRL has converted unsecured loans from the promoters into of ~Rs.2,200 crore into UPS which has led to improvement in its capital structure during FY19 marked by overall gearing of 2.73 times as on March 31, 2019 vis-à-vis 6.98 times as on March 31, 2018. Based on the improvement in the domestic coal supplies under SHAKTI policy, APRL expects to achieve normative billed PAF and recover full capacity charges going forward.

Key Rating Weaknesses

Significant delay in resolution of dispute w.r.to APRL's CT; albeit with actual receipt of partial CT cash flows

Since commencement of its operations, APRL had been largely running its plant on imported coal, domestic e-auction coal and coal under short-term Memorandum of Understanding (MoUs), which was very costly, resulting in under-recovery of cost at PPA defined tariff structure even after considering CERC linked tariff escalation. APRL has continued to recognize CT income since commencement of operations. It has estimated accumulated CT of ~Rs.5,130 crore till January 2018 against which it has recognised ~Rs.2,558 crore in its books as on March 31, 2019. Post series of regulatory petitions and appeals on the CT matter of APRL during past few years, RERC on May 17, 2018 issued its order whereby it confirmed APRL's eligibility for compensation arising from short / non-supply of domestic coal. Subsequently, APTEL on appeal of Rajasthan Discoms vide its order dated September 24, 2018 directed the Discoms to clear 70% of the build-up CT dues of APRL immediately pending final adjudication of the matter. Further on appeal of Rajasthan Discoms, on October 29, 2018, the Hon'ble Supreme Court of India directed the Rajasthan Discoms to pay interim 50% of the CT amount claimed by APRL within 2 months' time pending final adjudication by APTEL.

Pursuant to the order of Hon'ble Supreme Court of India on October 29, 2018, APRL has received ~Rs.2,351 crore from Rajasthan Discoms till March 31, 2019 and further ~Rs.76 crore during FY20. The same has been, *inter-alia*, used to reduce trade payables of APRL to AEL for past supplies of imported coal to the extent of Rs.1,100 crore and advancing loans of Rs.715 crore to its parent company viz. APL. Further, Rajasthan Discoms have passed on the part CT amount paid to APRL to their consumers as approved by RERC vide order dated June 13, 2019 as fuel adjustment charge. However, final order pertaining to CT claims of APRL is still pending with APTEL. Any adverse order by APTEL / further litigation of the CT matter could further delay liquidation of the claimed amount of CT of APRL. ***Consequently, timely receipt of cash flows pertaining to balance claimed amount of CT and carrying cost along with receipt of future CT amount on an ongoing basis resulting in improvement in its leverage and debt coverage indicators would be a key credit monitorables.***

Lower capacity charges as per bid schedule, especially during FY24 to FY27 and creation of only one quarter DSRA

As per the terms of the PPA executed between APRL and Rajasthan Discoms, APRL has bid for lower fixed capacity charges especially for the period from FY24 to FY27 resulting in moderation in debt coverage indicators during the same period.

Furthermore, as per the sanction terms of lenders, APRL was required to create DSRA equivalent to two quarter's interest & principal repayment obligation on its rupee term loans and one half yearly interest & principal repayment obligation on its external commercial borrowings (ECBs). As against this, APRL has created DSRA of equivalent to 1 quarter's interest and principal repayment obligation on its rupee term loans only and has sought waiver for the rest, which has been agreed upon by its lead bank, while it is awaited from its other lenders.

Weak credit profile of its counter-party viz. Rajasthan Discoms

The credit risk profile of Rajasthan Discoms has remained inherently weak since long upon significant delays in tariff revisions in the past coupled with very high aggregate technical & commercial (AT&C) losses. Debt levels of Rajasthan Discoms have increased significantly during the past few years. Although as per the terms of the PPA, the Rajasthan Discoms are required to provide monthly revolving letter of credit (LC) towards payment security mechanism, the same has not been instituted yet. However, Rajasthan joined the Ujwal Discom Assurance Yojana "UDAY" scheme for the

financial turnaround of the Discoms. Under UDAY, Government of Rajasthan (GoR) has already taken over 75% of the outstanding debt of Rajasthan Discoms as on September 30, 2015 and balance 25% debt is refinanced with longer tenure bonds with GoR guarantee. Accordingly, the liquidity profile of Rajasthan Discoms has improved during FY17 to FY19 largely upon tariff revisions and reduction in finance cost upon takeover of its debt by GoR. However, their AT&C losses have still remained at elevated levels. Consequently, sustenance of improvement in the liquidity of Rajasthan Discoms would remain a key monitorable. As articulated by the company, APRL has been receiving payment for its regular bills in around 3 months' time from Rajasthan Discoms.

Risks associated with exchange rate fluctuations

APRL's financial risk profile is also vulnerable to foreign exchange rate fluctuations to the extent of servicing ECB payment obligations while it has no receivables in foreign currency. Its total foreign currency exposure which was not hedged by derivative instruments stood at ~Rs.1,111 crore as on March 31, 2019. However, foreign currency loans are of a longer tenure and according to the company management its medium term debt repayment obligations have been hedged which neutralizes the effect of short-term exchange rate movements to an extent.

Liquidity analysis

APRL's requirement of fund based working capital limits has increased from FY19 onwards as it is required to make upfront payment to CIL's subsidiaries for sourcing of coal under FSAs signed under SHAKTI policy. However, upon receipt of part CT dues and higher availability of drawing power due to better operational performance of its power plant, liquidity position of the company has improved leading to reduction in average fund based working capital utilization to ~72% during trailing 10 months ended April 2019 as compared to around ~93% during the trailing 12 months ended June 2018. Adequate liquidity of APRL is further characterized by sufficient cushion in accruals vis-à-vis repayment obligations of around Rs.1,000-1,100 crore over next three years.

Prospects

CARE believes that the positive developments on the regulatory front in the thermal power sector with respect to allowance of CT and carrying costs would augur well for APRL's cash flows in the medium term. CARE also expects continued higher materialisation of domestic coal under SHAKTI policy leading to better operating efficiency and improvement in financial profile of APRL which together may result in benefit through reduction in interest rates in the near term. CARE also sees better prospects of ECB refinancing especially during the years wherein the capacity charges are low, considering improvement in overall financial performance along with track record of the Adani Group in refinancing.

Analytical Approach: Standalone along with factoring financial support from APRL's parent viz. APL. On the back of losses in APRL at various points of time during the past few years, APL has supported their operations by way of unsecured loans and AEL by way of extended credit period on supplies of imported coal.

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[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 APL 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 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 PAF equal to or above normative level (i.e. 85%) and energy charges & inland transportation charges that are escalable for variation linked to CERC index.

Brief Financials – APRL (Standalone) (Rs. Crore)	FY18 (A)	FY19 (A)
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
Fund-based - LT-Term Loan	NA	NA	October 01, 2034	4,002.49	CARE BBB; Stable
Fund-based - LT-External Commercial Borrowings	NA	NA	August 31, 2027	1,257.81	CARE BBB; Stable
Fund-based/Non-fund-based-LT/ST	NA	NA	NA	1,800.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-BG/LC	NA	NA	NA	460.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT-Bank Guarantees	NA	NA	NA	160.00	CARE BBB; Stable

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 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 (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 (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 (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 (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 (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	45.00	CARE A-(SO); Stable	-	1)CARE A-(SO); Stable (19-Nov-18)	-	-

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
						2)Provisional CARE A- (SO); Stable (03-Oct-18)		
7.	Non-fund-based - ST-Letter of credit	ST	200.00	CARE A2+ (SO)	-	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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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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.

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