Press Release

Adani Enterprises Limited (AEL)

06 June, 2017

Rating Assigned

Total Instruments Rated*	Rs. 2000.00 Cr
Short Term Rating	SMERA A1+

**Refer Annexure for details*

Rating Rationale

SMERA has assigned short-term rating of **'SMERA A1+' (read as SMERA A one plus)** on the Rs. 2000.00 crore proposed commercial paper issue of Adani Enterprises Limited (AEL).

Incorporated in 1993, AEL, part of the Adani Group has interests in a range of businesses across sectors primarily energy (including coal mining), power generation and transmission, port operations, logistics, and city gas distribution. The group is led by Mr. Gautam Adani, Chairman and Founder. AEL is engaged in coal trading, power trading and coal Mine Developer & Operator (MDO) businesses. It is also into renewable energy, gas distribution, agro business, bunkering and shipping through various subsidiaries.

Key Rating Drivers

Strengths

Extensive experience of promoters and diversified businesses: AEL was promoted by Mr. Gautam Adani and is well supported by a qualified and experienced management team. The Adani group has over three decades of experience across industries and has grown organically as well as inorganically through acquisitions. The major listed companies are Adani Enterprises Limited (market cap of Rs. 12,867.78 crore as on 05 Jun, 2017), Adani Ports and SEZ Limited (market cap of Rs. 74,802.78 crore as on 05 Jun, 2017), Adani Power Limited (market cap of Rs. 10452.30 crore as on 05 Jun, 2017) and Adani Transmission Limited (market cap of Rs. 14,479.00 crore as on 05 Jun, 2017).

SMERA believes that the promoter's demonstrated track record of operations across diverse businesses and ability to scale up operations through a mix of organic and inorganic initiatives will support the credit profile of AEL over the near to medium term.

Diverse earning streams: AEL has diverse earning streams ranging from trading of coal, power, agri business, domestic coal mining (MDO – mine developer and operator), city gas distribution (GGD), renewable energy (solar and wind), shipping, bunkering and overseas coal mining. The diversity in its earnings streams imparts resilience to its earnings profile and limits's exposure to the vagaries of any single segment.

AEL imports coal from Indonesia, South Africa and other countries and sells to various customers pan-India. The company has ~39 per cent market share in India's coal imports (FY2015-16). The coal trading business which contributed to around 75 per cent of revenues in FY2016 exhibited ~28 per cent compounded annual growth (CAGR) in volume terms from FY2008 to FY2015. The volume growth was on account of shortage of domestic coal and relatively cheaper imports. However, FY2017 onwards the growth has been moderated due to traction in domestic coal supply and changes in Indonesian regulations. Considering the increase in availability of domestic coal, the coal trading segment is expected to exhibit muted growth over the near to medium term.

The MDO business which started operations in February 2013 has stabilised and started generating revenues. Under the MDO segment, the company has entered into public private partnership with Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRUVNL) for development, mining, beneficiation of coal, arranging transportation and delivery of washed coal from Parsa East and Kanta Basan Coal Block to power projects of RRVUNL at Rajasthan. AEL reported revenue of Rs. 545.93 crore from its MDO business in FY2016 as against Rs. 281.21 crore in FY2015 driven by a ramp-up in volumes in the same period. Further, while AEL plans to ramp-up its capacity in the MDO business from 7.5 MMT to 12MMT over the next two years from the existing block, it may also incur additional capital expenditure on developing the two new coal blocks at Chhattisgarh.

In the solar energy segment, 748 MW capacities have been commissioned fully as on March 2017 and around 1,330 MW is presently under commissioning. AEL has power purchase agreements for 1978 MW in place.

AEL, through its subsidiary, Adani Gas Limited (AGL) has stable and cash accretive city gas distribution (CGD) business wherein AEL's CGD business reported revenue of Rs. 1,128.45 crore in FY2016 as against Rs. 1338.17 in FY2015. In FY2017 (provisional), CGD business reported revenue of ~Rs. 1,162.44 crore. The CGD business accounts for ~3 per cent of the revenues in FY2016. In addition to its expansion plans for its existing geography i.e. Ahmedabad, Vadodara, Faridabad and Khurja, the company is also in the process of entering other geographies like Chandigarh, Allahabad, Ernakulam, Daman to name a few through it's 50:50 joint venture with Indian Oil Corporation Limited (CGD).

SMERA notes that while the coal trading business has been a major contributor to overall revenues, in terms of operating profitability, other business segments such as solar and CGD have a major share (i.e. ~3 per cent EBIT margin on coal trading, ~30 per cent in MDO, ~18 per cent in CGD and ~50 per cent in renewable energy).

SMERA believes that AEL will benefit from the diversity of its earnings and steady growth in cash flows from capacity expansion. The timely and successful execution of these projects, ability to generate incremental cash flows commensurate with additional investment will have a significant bearing on the credit profile of AEL over the near to medium term.

Strong resource mobilisation ability and healthy liquidity position: AEL is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company, with market capitalisation of Rs. 13412.18 crore as on 17 May, 2017 has successfully raised funds from banks, financial institutions, exchanges and capital markets. AEL has sanctioned fund based limits of Rs.3,500 cr from Indian banks and financial institutions.

The promoters of Adani group hold over 60 per cent of shares in the group's listed companies i.e. AEL (74.92 per cent), Adani Power Limited (APL – 68.08 per cent), Adani Ports and Special Economic Zone Limited (APSEZL – 61.30 per cent) and Adani Transmission Limited (ATL – 74.92 per cent) as on March 31, 2017. Out of the total value of promoter holdings of Rs.67,851.77 crore as on 31 March, 2017, majority are unencumbered. Entities of the Adani group have demonstrated their ability to raise short term funding through instruments like Commercial Paper and long term funding from instruments like debentures/ FCCBs etc. The diversified lender/investor profile augments the resource raising ability of the company/group. In addition to the conventional sources of liquidity, AEL's management also has the flexibility of monetising a part of its investments in operational assets like solar assets which can provide growth capital for expansion.

On consolidated level, AEL has unencumbered cash and cash equivalents of Rs. 1,210.10 crore as on 31 March, 2016. In FY2016, AEL generated net cash accruals of Rs. 1,431.49 crore as against debt repayment obligation of ~Rs. 1000.00 crore.

SMERA believes that high degree of financial flexibility and resource raising ability of promoters supports the credit profile of the company.

Weaknesses:

Moderate financial risk profile: AEL has total net worth of Rs. 13,500.92 crore with total debt of Rs. 20,563.00 crore as on 31 March, 2016. The gearing (total debt to total net worth ratio) stood at 1.52 times and TOL to TNW (Total outside liabilities to total net worth) stood at 2.33 times as on 31 March, 2016. The Net debt to EBITDA stood at 9.20 times in FY2016. Further, net debt to adjusted EBITDA (EBITDA + other income) stood at 6.17 times in FY2016. As indicated by the management, the targeted net debt to adjusted EBITDA (EBITDA + other income) is ~4 times by FY2019.

The Interest coverage ratio stood at 2.04 times in FY2016. On consolidated level, AEL reported net profit after tax (NPAT) of Rs. 1041.12 crore on operating income of Rs. 44,073.89 crore (Financial performance of FY2016 is not comparable with FY2015 due to demerger of Port, power and transmission business).

SMERA believes that, the financial risk profile is expected to remain moderate over the near to medium term in view of the significant addition to debt considering the major capex plans over next 1-2 years.

Significant exposure to power business in the form of loans and advances, corporate guarantees and receivables: On a consolidated basis, AEL has extended loans and advances of Rs. 5,196.11 crore to Adani Power Limited (APL) as on March 31, 2016. This includes business advances of Rs.700.00 crore as on 31 March, 2016 towards AEL's power trading business. Further, AEL has total outstanding receivables of Rs. 3,026.61 crore from power generation companies (Rs. 1,108.65 crore from Adani Power Limited (APL), Rs. 856.55 crore from Adani Power Maharashtra Limited (APML), Rs. 847.43 crore from Adani Power Rajasthan Limited (APRL) and Rs. 213.98 crore from Udupi Power Corporation Limited (UPCL). These are routine advances extended to power generation companies from AEL's coal trading business. Moreover, AEL has also extended total corporate guarantees of Rs. 1,492.85 crore, of which Rs. 287.95 crore is to Adani Power Limited (APL) and Rs. 1204.90 crore to Adani Power Rajasthan Limited (APRL) as on 31 March, 2016.

While AEL's exposure to power companies in the group, in the form of business advances, guarantees and receivables are expected to continue it is understood from the management discussion that, there may be reduction in exposure towards power companies in the group. However, in light of the recent Supreme Court judgment against APL wherein it disallowed compensatory tariff, APL's ability to repay outstanding loans to AEL may get constrained, which in turn may impact the overall credit profile of AEL.

Susceptibility of operating performance to successful implementation of its projects in Solar, CGD and MDO: AEL has envisaged large capex in solar power generation during the next two years primarily through Adani Green Energy Ltd. (AGEL), a JV between AEL (through Adani Tradecom LLP, 51 per cent equity stake), Adani Trading Services LLP (ATSL, 41.65 per cent equity stake) and Universal Trade and Investments Limited (UTIL – 7.35 per cent). AEL has executed 748 MW solar power generation projects (at a project cost of ~Rs. 5.50 cr/MW amounting to a total project cost of ~Rs. 4,114 crore) in Tamil Nadu and Punjab. AEL has plans to further take up additional 1,330 MW solar power generation project at an estimated cost of ~Rs. 7,315 crore in various SPVs under AGEL across India. The financial closure for the above projects under various SPVs is at varying stages. AEL's equity contribution towards capex is at an estimated ~Rs.1,600 crore till FY2018.

Additionally, AEL has taken up a project to manufacture crystalline silicon PV cells and modules of 1200 per annum capacity at a total project cost of ~Rs. 2000.00 crore. The project is being taken up by Mundra Solar PV Ltd. (MSPVL), wholly owned by Sami Solar (Gujarat) Private Limited – SSGPL (SSGPL is a JV between AEL (through Adani Tradecom LLP, 51 per cent equity stake) and ATSL (49 per cent equity stake). Also, AEL plans to have captive consumption of the solar modules in its own planned solar power plants. However, technology in solar PV cells and modules is fast evolving and can pose a risk. In December 2016, AEL began trial-runs of its solar module manufacturing project. Commercial production of the same is expected to start from July 2017.

AEL has been investing significantly to expand its presence in the solar, CGD and MDO segments. The heavy capex programme in the solar segment will continue in the near to medium term. The capex programme will be funded through a mix of internal accruals and external funding (equity/debt). Since a major part of the capex is expected to be modular in nature, the cash flows from existing operations will support a part of the capex programme.

Analytical Approach

SMERA has considered consolidated financial and business risk profiles of AEL.

About the Rated Entity - Key Financials

Incorporated in 1993, AEL is part of the Adani Group led by Mr. Gautam Adani. The company is engaged in coal trading, power trading and coal Mine Developer & Operator (MDO) businesses. It also has interests in renewable energy, gas distribution, agro business, bunkering and shipping.

The group is a conglomerate with interests across sectors primarily energy (including coal mining), power generation and transmission, port operations, logistics, oil and gas exploration and city gas distribution. The group is also engaged in agro-processing (including sale of branded edible oil and storage) and commodities trading.

For FY2016, AEL on consolidated basis, reported PAT (profit after tax) of Rs. 1041.12 crore on total income of Rs. 44,073.89 cr. For FY2017 (provisional), AEL, reported PAT of Rs. 985.56 crore on operating income of Rs. 37,313.70 crore.

Status of non-cooperation with previous CRA (if applicable): Not applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

*Annexure – Details of instruments rated:

Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating
Commercial Paper (Proposed)	N.A	N.A	N.A	2000.00	SMERA A1+ (Assigned)

Note on complexity levels of the rated instrument:
https://www.smera.in/criteria-complexity-levels.htm

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