Press Release

Adani Enterprises Limited

June 12, 2018

Rating Reaffirmed

Commercial Paper Program*	Rs. 2000 Cr.
Short Term Rating	ACUITE A1+

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the short-term rating of **'ACUITE A1+' (read as ACUITE A one plus)** on the Rs. 2000 crore Commercial Paper issue of Adani Enterprises Limited (AEL).

Incorporated in 1993, AEL is a part of Adani Group, chaired by Mr. Gautam Adani. On a standalone basis, the company is engaged in Coal Trading, Power Trading and Coal Mine Developer & Operator (MDO) business, whereas, on a consolidated basis AEL has evolved into a diversified company and is engaged in other businesses including Solar PV cell and module manufacturing business, agro-processing (including sale of edible oil under the brand name `Fortune') & storage and commodities trading, oil and gas exploration, city gas distribution and solar power generation. The Adani Group also has business interests across a range of sectors, primarily energy (including thermal power generation, power transmission), port operations and logistics.

Analytical Approach

Acuité to arrive at its rating has considered consolidated financial and business risk profiles of AEL. The segments reported under AEL include Coal trading, Power trading, Renewable energy, City gas distribution, Mine developer and operator (MDO) and other businesses (which includes shipping, bunkering, agro- edible oil and commodities trading, agri-storage, solar PV manufacturing).

Update on demerger of renewable power undertaking and city gas distribution from AEL's consolidation

On October 07, 2017, the board of directors of AEL had considered and approved the scheme of arrangement between AEL and Adani Green Energy Limited (AGEL) for demerger of the Renewable Power Undertaking of AEL and transfer of the same to AGEL. AEL shareholders have received 761 equity shares of AGEL (of Rs 10/- each paid up) for every 1,000 equity shares of AEL (of Re 1/- each paid up). The effective date for demerger was April 1, 2018. The provisional financials for FY2018 account for the demerger as discontinuing operations.
AEL has extended corporate guarantees to the tune of Rs.2,964 crore which is expected to fall-off within next 6-12 months.

On January 18, 2018, the scheme of arrangement between Adani Gas Holding Limited (AGHL), Adani Gas Limited (AGL) and AEL was approved. AGHL will merge into AGL and AEL will de-merge its Gas sourcing and distribution business into AGL. AEL shareholders will receive 1 equity share of AGL (Face Value of Re 1) for every 1 equity share held in AEL. The transaction is expected to be concluded by September-October 2018.

Key Rating Drivers

Strengths

- **Extensive promoters experience in diversified businesses**
  AEL is a flagship company of Adani Group which is a diversified conglomerate. The major listed companies of the group are Adani Enterprises Limited (market cap of Rs. 12961 crore as on June 06, 2018) Adani Ports and SEZ Limited (market cap of Rs. 77805 crore as on June 06, 2018) Adani Power Limited (market cap of Rs. 7038 crore as on June 06, 2018) and Adani Transmission Limited (market

cap of Rs. 14682 crore as on June 06, 2018). AEL is promoted by Mr. Gautam Adani the Chairman and Founder of the Adani Group. Under his leadership, the Group has emerged as a global integrated infrastructure player with interest across Resources Logistics and Energy verticals. Adani Group has demonstrated a propensity to nurture new businesses under the flagship company. Once the new venture is capable of operating on its own, it is demerged to function independently. Acuite believes that any adverse impact on AEL's credit profile on account of any future acquisition or demerger will be a key rating sensitivity factor. The promoters are well supported by a qualified and experienced management team.

- **Diversified Revenue streams**

AEL has diverse revenue streams ranging from trading of coal, power, agri-business, domestic coal mining (MDO - mining development and operator), city gas distribution, solar PV manufacturing which (commenced operations in 2017-18), shipping, bunkering and overseas mining. The diversity in its revenue profile imparts resilience to its earnings and limits exposure to vagaries on any single segment.

AEL has been the largest importer of non-coking coal catering to the requirements of both private clients and public-sector undertakings for over a decade now. AEL imports coal from Indonesia, South Africa and other countries and sells to various customers pan-India. AEL procures ~40 per cent of India's total coal imports. Growth in coal trading volumes has been moderate due to increase in the production of domestic coal by Coal (India) Ltd (CIL) during FY16, FY17 & FY18 which has led to reduction in overall coal imports in the country. For AEL, coal trading business accounts for ~ 78 per cent of the total revenues in FY 2018.

The MDO business commenced in 2013 and the operations have stabilized with one coal block already generating revenues of Rs.814 crore in FY 2018. The commissioning of Surguja Rail corridor in March 2018 will further augment the ramping-up of operations at Parsa East & Kante Basan (PEKB) Coal Block from 7MMT in FY2018 to 10.5MMT in FY2019 and full ramp-up to 11.5MMT in FY2020. Talabira II & III coal blocks are likely to commence operations from the current year and will generate cumulative revenues of ~Rs. 12,000 crore over next 25 years.

Acuité notes that while the coal trading business (~3%-4% EBITDA Margin) has been a major contributor to overall revenues; in terms of operating profitability other business segments have higher operating margins.

Acuité believes that AEL will continue to benefit from the diversity of its earnings and steady growth in cash flows from capacity expansions. The timely and successful execution of these projects, and the ability to generate incremental cash flows commensurate with additional investment will remain a key rating sensitivity factor.

- **Commissioning and stabilization of Solar PV cell and module manufacturing facility**

AEL through its subsidiary Mundra Solar PV Ltd. (MSPVL 51% stake of AEL) has commissioned India's largest solar cell and module manufacturing facility at Mundra for manufacturing of crystalline silicon PV cells and modules with an installed capacity of 1200 MW per annum at a total project cost of ~Rs. 2,000.00 crore. MSPVL commenced trial runs for the module manufacturing in November 2016 and had commissioned the entire cell and module capacity in May 2017. The unit generated revenues of Rs.1800 crore and reported operating margins of around 18-20 per cent in FY2018.

- **Strong resource mobilization ability and healthy liquidity position**

AEL is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company, with market capitalization of Rs. 12,961.26 crore as on June 06, 2018 has successfully raised funds from banks, financial institutions, exchanges and capital markets. The promoters of Adani group hold over 70 per cent of shares in the Group's listed companies i.e. AEL (74.92 per cent), Adani Power Limited (APL - 73.07 per cent), Adani Ports and Special Economic Zone Limited (APSEZL - 66.27 per cent) and Adani Transmission Limited (ATL - 74.92 per cent) as on March 31, 2018. Out of the total promoter's equity holding in AEL, APL, APSEZL and ATL 79.84 per cent, 68.08 per cent, 65.67 per cent and 73.30 per cent is un-encumbered as on March 31, 2018, respectively. 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/ bonds in Indian as well as foreign currency. The diversified lender/investor profile augments the resource raising ability of the company/group.

On consolidated level, AEL has unencumbered cash and cash equivalents of Rs. 1,159 crore as on March 31, 2018. In FY2018, AEL generated net cash accruals of Rs. 1,594 crore as against debt repayment obligation of ~Rs. 992 crore.

• **Moderate financial risk profile**

AEL has moderate financial risk profile marked by healthy net worth, moderate gearing and moderate debt protection measures.

AEL's net worth stood at Rs.15,588 crore as on March 31, 2018 (on a provisional basis) against Rs. 14,698 crore as on March 31, 2017 on account of healthy accretion to reserves. Acuité believes that the net worth of the company will remain healthy backed by its stable operating margins leading to healthy accretion to reserves.

AEL has followed a moderately aggressive financial policy in the past, with its peak gearing (Debt/Networth) estimated at around 1.37 times as on March 31, 2017. AEL's gearing has declined to around 1.10 times as on March 31, 2018 (Provisional). The improvement in gearing is attributed to reduction in long term obligations on account of demerger of capital intensive renewable power undertaking. The TOL/TNW ratio however is estimated to be at around 2.64 times as on March 31, 2018 (provisional). Net debt to EBITDA stood at 5.86 times in FY2018 (Provisional). Although AEL does not have any major expansion plans, the routine capital expenditure is likely to remain in the range of Rs. 1000 - 1200 crore over FY 2019. Acuité expects that the targeted net debt to adjusted EBITDA (EBITDA + other income) is likely to remain below 6 times over the medium term.

AEL's debt protection metrics remained moderate, with Interest coverage (ICR) of 2.24 times and Net cash accruals to Total Debt (NCA/ TD) of 0.09 times. The debt protection measures are likely to remain moderate over the medium term on account of absence of any major debt funded capex plans and moderate improvement in profitability. Acuité expects that the ICR is likely to remain in the range of 2 to 2.5 times over the medium term.

Acuité believes that AEL's financial risk profile will remain moderate over the medium term in absence of any major debt funded capex plan over the medium term.

On a consolidated level, AEL has reported net profit after tax (NPAT) of Rs. 594 crore (includes the impact of Rs. 184 crore exceptional item written off pertaining to reimbursement claim in MDO business, and Rs.113 crore loss discontinued operations pertaining to renewable power undertaking) on an operating income of Rs. 37,533 crore for FY2018 (on a provisional basis) as compared to NPAT of Rs. 925 crore and an operating income of Rs. 36,767 crore for FY 2017.

Weaknesses

• **Susceptibility of profit margins to volatility in coal prices and stiff competition from domestic coal producers and regulatory changes**

AEL has strong relationships with coal miners, which has led to timely delivery of coal. Also it has developed business relationships with diversified customers across various end-user industries in India. Till FY15, availability of domestic coal used to remain a concern. However, during FY2016, Coal India Ltd (CIL) registered a record growth in coal production which has led to reduction in coal imports. Accordingly, Indian import of thermal coal declined as the domestic production sequentially grew during the two year period 2016-18. Consequently, AEL's coal trading margins have declined with increased competition for meeting lower requirement of imported coal in the country. In imported coal trading business, prices are largely linked with the International Coal Price Indexes. Apart from the back to back supply contracts, AEL maintains around 20-30 days inventory to meet the spot demand from its customers. Hence, it is exposed to short-term variation in imported coal prices under its stock-and-sale coal trading business. Further, the regulatory change in India or other countries impacts the demand-supply dynamics, hence making the industry competitive and price sensitive.

• **High Exposure to power business in the form of loans and advances corporate guarantees and receivables**

On a consolidated basis AEL had extended loans and advances to Adani Power limited (APL). Historically, the exposure to power business has remained high (around 50 per cent of its networth). During FY2018, there has been significant reduction in the amount of loans and advances extended to APL to Rs.744 crore in FY 2018 from Rs. 5,196 crore in FY2016. However, the receivables from the group's power business (includes APL, APML, APRL and UPCL) on account of supply of imported coal by AEL have gone up from Rs. 3,027 crore in FY2016 and Rs. 5,086 crore in FY2017 to Rs. 5,669 crore in FY 2018 (Provisional) and continue to account for ~47% of the total receivable position as on March 31, 2018 (Provisional). This has led to significant stretch on the working capital cycle of AEL. Acuité believes that the receivable position due to exposure to the power business will continue to remain stretched over the medium term. Further, AEL has extended corporate guarantees to Adani Power Rajasthan Ltd (APRL) for Rs. 1,196 crore.

- **Significant delays in Carmichael mine (Australia)**
AEL through its wholly owned step-down subsidiaries in Australia acquired Carmichael Coal Mine in the Galilee Basin in Queensland. As a part of this project company decided to develop the mine and lay down a railway line from the mine to Abbot Point Port terminal (held directly by Adani Group's promoters). While all environmental clearances and government approvals have now been secured, AEL is still in the process of achieving financial closure as a result of which the project has been delayed significantly. Out of the total project cost of Rs.14,500 crore AEL has already invested Rs.6,000 crore as on March 31, 2018 funded from internal accruals whereas the balance ~Rs.8,500 crore is expected to be a combination of debt and equity - and the actual mix will be determined subject to financial closure. Acuite believes that the uncertainty regarding the Australian project would continue over the medium term. AEL has taken a modest impairment of Rs. 90 Cr. on the assets in 2017-18. Any additional equity infusion or loans & advances from AEL towards the Australian project will be a key rating sensitivity factor.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	37,533.69	36,767.43	33,876.18
EBITDA	Rs. Cr.	2,666.28	2,218.11	1,990.92
PAT	Rs. Cr.	594.20	925.25	1,041.13
EBITDA Margin	(%)	7.10	6.03	5.88
PAT Margin	(%)	1.58	2.52	3.07
ROCE	(%)	6.31	7.46	16.39
Total Debt/ Net Worth	Times	1.10	1.37	1.35
PBDIT/Interest	Times	2.24	2.20	1.97
Total Debt/PBDIT	Times	5.86	7.25	6.11
Gross Current Assets (Days)	Days	206	208	219

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-6.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm

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

Rating History (Upto last three years)
Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	2000.00	ACUITE A1+

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in Manmitha Sodhi Analyst - Rating Operations Tel: 022-67141133 manmitha.sodhi@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.