Press Release

Adani Enterprises Limited

June 12, 2019

Rating Reaffirmed

Commercial Paper Program*	Rs. 2000.00 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. 2, 000 crore Commercial Paper issue of Adani Enterprises Limited.

About Adani Enterprise Limited (AEL)

Incorporated in 1993, AEL is a part of the Adani Group, promoted by Mr. Gautam Adani. On a standalone basis, the company is primarily engaged in Integrated Coal Management (ICM) i.e coal trading and logistic services, Coal Mine Developer & Operator (MDO) business and power trading business. AEL has diverse interests through its direct and stepdown subsidiaries. On a consolidated basis AEL has evolved into a diversified company 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, commodities trading and oil & gas exploration. AEL is also entering new businesses like road projects, water treatment plants, data center and airports.

About Adani Group

Besides AEL, the Adani group has business interests across a range of sectors, primarily infrastructure related with significant presence in port operations and logistics and energy (including thermal and renewable power generation, transmission and distribution).

Analytical Approach

Acuité has considered consolidated financial and business risk profile of AEL. The entities consolidated include AEL (standalone) along-with all its subsidiaries & step-down subsidiaries as per the published results. The segments currently reported under AEL include ICM, MDO and other businesses (which includes power trading, shipping, bunkering, agro- edible oil and commodities trading, agri-storage, and solar PV manufacturing). Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of the promoters over diverse business segments**

  AEL is the Flagship Company of the Adani Group. The group is a diversified conglomerate with varied interests across resources (coal trading and MDO), logistics (ports and logistics, shipping and rail), energy (power generation, transmission and distribution) and ancillary activities. The major listed companies of the group are Adani Enterprises Limited (engaged in ICM, power trading, MDO, agri-processing & storage and oil & gas exploration), Adani Ports and SEZ Limited (engaged in port operations and logistics) Adani Power Limited (holds Group's thermal power projects), Adani Transmission Limited (holds group's transmission assets), Adani Gas limited (engaged in city gas distribution) and Adani Green Energy Limited (engaged in renewable energy generation).

  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. The promoters are well supported by well qualified and experienced management team. The Group has consistently demonstrated the ability to nurture new businesses under the flagship company i.e AEL and scale them to a level that they can be spun off into separate entities to create value to stakeholders. The recent demergers from AEL include that of the city gas distribution business (which was housed in Adani Gas Limited, and is currently establishing its footprints on pan-India basis) and renewable power generation business (which was housed in Adani Green Energy Limited, and has a 3,195MW portfolio across 11 states).

AEL is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company, 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 – 74.97 per cent), Adani Ports and Special Economic Zone Limited (APSEZL – 62.30 per cent), Adani Transmission Limited (ATL - 74.92 per cent), Adani Gas Limited (AGL- 74.80 per cent) and Adani Green Energy Limited (AGEL- 86.50 per cent) as on March 31, 2019. The aggregate market cap of all these listed entities as on June 05, 2019 is Rs. 1,77,385 crore. The Adani group entities have demonstrated their ability to raise short term and long term funding through various capital market instruments in Indian as well as in foreign currency. The diversified lender/investor profile augments the resource raising ability of the company/group.

- **Significant accruals from ICM and MDO business**

AEL has been amongst the leading importer of non-coking coal catering to the requirements of both private clients and public-sector undertakings for over two decades. AEL imports coal from Indonesia, Australia and South Africa and sells across major power producers including sale to group company Adani Power Limited (~15 per cent of the total sales). ICM revenues increased from Rs. 28, 643.84 crore in FY2018 to Rs. 31, 443.74 crore in FY2019 (Provisional). The division reported EBIT of Rs. 743.98 crore in FY2019 (Provisional) & Rs. 1,103. 77 crore in FY2018. Growth in coal trading volumes has been moderate due to stagnation in overall coal imports in the country. 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. The regulatory change in India or other countries impacts the demand-supply dynamics of the coal trading segment resulting in volatility in volumes and price variations. However, Acuite believes that extensive experience of the group in coal trading and established market presence will help the group manage the commodity risk, forex risk and counterparty risk efficiently.

MDO business involves mining, processing, acquisition, exploration and development of mining assets. AEL has been acting as a mine developer and operator on behalf of Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL) for its coal requirements. AEL reported EBIT of Rs. 725.47 crore on a turnover of Rs. 2,179.38 crore in FY2019 (Provisional) against EBIT of Rs. 263.77 crore on a turnover of Rs. 1,323.87 crore in FY2018 for its ICM business. Apart from the existing Parsa East and Kente Basan Coal blocks, AEL has successfully entered into long term MDO contracts of Gare Pelma Sector III, Talabira II & III coal blocks allocated to Chhattisgarh State Power Generation Company Limited and NLC India Limited respectively. The commissioning of Surguja Rail corridor in March 2018 has resulted in ramp-up of operations and the coal volumes in FY2019 increased to 12.1 MT against 7.05 MT in FY2018. Acuite believes, AEL will benefit from steady cashflows from its MDO business on account of long term contracts with reputed counterparties.

While AEL's ICM and MDO businesses are the major contributors both in terms of revenue and profitability, some other segments such as solar PV cell & module manufacturing, shipping, bunkering and agri-storage are lagging behind in terms of overall profitability. In FY2019, the total revenue generated from ICM and MDO stood at Rs. 33, 623 crore and EBIT at Rs. 1, 469 crore whereas total revenue from other segments stood at Rs. 8, 686 crore and EBIT at Rs. 109 crore.

For FY2019, the solar PV cell & module manufacturing division generated revenues of ~Rs. 1,500 crore but was unable to contribute to the company's bottom-line mainly on account of stiff competition from cheaper imports available in the market. Owing to high dumping of solar cells & modules, there was sharp fall in their prices leading to disruption in operations. The exchange rate fluctuation has also impacted the overall profitability. The stabilization of its solar manufacturing division will continue to remain a key rating sensitivity.

Acuité believes that the ICM and MDO business will continue to be the major drivers of growth in the near to medium term till the other segments scale-up significantly.

Weaknesses

- **Significant exposure to power companies from the group**

AEL had a significant amount of exposure to Adani Power Limited (APL) and its subsidiaries in the form of loans and advances, receivables and corporate guarantees. As on March 31, 2018 the total exposure to these entities was Rs. 6,313 crore. AEL has been able to realize ~Rs. 2, 100 crore and the total outstanding as on March 31, 2019 stood at ~Rs. 4, 200 crore which is mainly dominated by receivables from APL and its subsidiaries. APL was initially facing cash losses on account of inability to pass on the increased cost of imported coal to its customers. Recent regulatory rulings by way of favorable decisions by SC, APTEL, CERC and respective State electricity commissions have led to improvements in the company's cash accruals. AEL had also extended a corporate guarantee of Rs. 1,135 crore to Adani Power Rajasthan Limited and the management is in talks with the lenders for release of the same. Acuité believes that timely realization of receivables from these power subsidiaries will continue to remain a key monitorable.

- **Significant capex plans likely to result in elevated debt levels**

AEL has followed an aggressive gearing policy in the past, with its Debt/ tangible networth at 1.40 times as on March 31, 2018 and 1.77 times as on March 31, 2017. In FY2019 there has been significant improvements in the leverage and debt protection metrics of AEL. Total adjusted debt as on March 31, 2019 (Provisional) stood at Rs. 10, 500. 76 crore (against Rs. 17, 108.23 crore in P.Y) which consists of Rs. 3, 421.56 crore of long term debt, unsecured inter corporate loans of Rs. 120.06 crore and short term working capital borrowings of Rs. 6, 959.14 crore. The gearing has declined to around 0.88 times as on March 31, 2019 (Provisional) against 1.40 times as on March 31, 2018. This decrease is on account of demergers of renewable power undertaking (AGEL) and city gas distribution business (AGL), sale of its investments in agri-logistics and green-field thermal power projects, and reduction in loans and advances from APL and its subsidiaries. The finance cost increased to Rs. 1, 625.06 crore in FY2019 against Rs. 1, 306.02 crore in FY2018 on account of increase in LIBOR during FY19 as compared to FY18 coupled with increase in interest cost in MSPVL along with the MTM effect on foreign currency denominated capex LCs of MSPVL. The debt to EBITDA declined to 3.94 times in FY2019 (Provisional).

During the year AEL announced large size capex plans with main focus towards the infrastructure segment. Adani Transport Limited a wholly owned subsidiary of AEL has been awarded three Hybrid Annuity Models (HAM) projects with a project cost of Rs. 4, 600 crore over three years. As part of the Government of India's (GOIs) Clean Ganga mission, AEL has received the right to development and maintenance of new and existing Sewage Treatment Plant (STP) and associated infrastructure in Allahabad. As part of the GOI's privatization programme for the bids invited for operation and maintenance of six domestic airports viz. Ahmedabad, Jaipur, Lucknow, Thiruvananthapuram, Mangaluru and Guwahati, AEL has emerged as the winning bidder. The other projects include setting up green data center parks upto 5GW in and around Visakhapatnam with an investment outlay of over Rs.70, 000 crore over next 20 years. AEL through its wholly owned step-down subsidiaries in Australia had 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). The project has been facing environmental clearance issues and AEL is still in the process of achieving financial closure as a result of which the project has been delayed significantly. Further, AEL has taken initiatives for setting up a 100 MW renewable power plant in the area. The combined capex envisaged under AEL for FY20 is around Rs. 8, 000 crore which is expected to be funded to the extent of 70 per cent by way of long term debt and the balance by way of internal accruals.

On the back of large sized capex plans, Acuité expects that the targeted external debt to EBITDA is likely to remain in the range of 5.50- 6.50 times and the gearing levels are expected to go beyond 1.50 times over the near term. Acuité further believes that on account of large basket of high gestation projects, company's credit profile will be exposed to high levels of project implementation and execution risk over the near to medium term.

Liquidity Position:

On a consolidated basis, AEL's cash accruals for FY2019 stood at Rs. 895 crore against a repayment obligation of Rs. 764 crore. Unencumbered cash and cash equivalent stood at Rs. 606 crore as on March 31, 2019 (Provisional). The company's operations are moderately working capital intensive marked by Gross Current Assets (GCA) days of 197 in FY2019 (Provisional) which are mainly dominated by receivables which stood at 128 days. The standalone working capital limits as on March 31, 2019 stood at ~Rs. 9, 000 crore with utilization of ~75 per cent for the year ended March 31, 2019. Considering the cashflows vis-a-vis upcoming debt obligations & capex plans, Acuité expects AEL to refinance part of the debt and maintain a comfortable liquidity profile on the back of demonstrated ability to raise funds from a range of investors/ lenders.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	40,584.15	37,531.66	36,679.50
EBITDA	Rs. Cr.	2,201.98	2,664.26	2,130.17
PAT	Rs. Cr.	505.91	594.20	925.25
EBITDA Margin	(%)	5.43	7.10	5.81
PAT Margin	(%)	1.25	1.58	2.52
ROCE	(%)	8.90	7.01	8.31
Total Debt/ Net Worth	Times	0.88	1.40	1.77
PBDIT/Interest	Times	1.64	2.17	2.20
Total Debt/PBDIT	Times	3.94	6.04	7.25
Gross Current Assets (Days)	Days	197	336	209

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
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
12- June- 2018	Commercial Paper	Short Term	2000.00	ACUITE A1+ (Reaffirmed)
6- June- 2017	Commercial Paper	Short Term	2000.00	ACUITE A1+ (Assigned)

***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+ (Reaffirmed)

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About Acuité Ratings & Research:

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