

Press Release

Adani Power (Mundra) Limited

January 10, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.15,252.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 15,252.00 Cr bank facilities of Adani Power (Mundra) Limited (APMuL). The outlook is '**Stable**'.

Adani Power (Mundra) Limited (APMuL) was incorporated in 2015 is a 100 per cent subsidiary of Adani Power Limited. Adani Power Limited (APL) is a flagship company of Adani Group promoted by Mr. Gautam Adani and Mr. Rajesh Adani engaged in Power generation. APL, a listed entity, is one of the India's largest Independent Power Producer (IPP) with generation capacity of 14 GW (gigawatt). APMuL is located in Mundra, Gujarat comprising of 9 units of coal based thermal power plant. These 9 units are spread across four Phases with a total of 4620 MW constituting sub-critical and super critical thermal power plants. The four Phases has been divided into Phase 1&2 (330 MW x 2) each, Phase 3 (660 MW x 2) and Phase 4 (660 MW x 3).

The company has a long term PPA with Gujarat Urja Vikas Nigam Limited (GUVNL) for Phase 1 1320 MW, Phase 4 with Haryana Power Purchase Centre (HPPC) 1580 MW and 50 MW with MUPL. The open capacity of 1670 MW is being sold under merchant sale to other distribution companies (discoms) with short term or medium term PPA and to private players.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the APMuL to arrive at this rating.

Key Rating Drivers

Strengths

- **Significant and consistent support from Adani Group**

Adani Power Mundra Limited (APMuL) was incorporated in 2015 and is a 100 per cent subsidiary of Adani Power Limited (APL). Adani Power Limited is a flagship company Adani Group promoted by Mr. Gautam Adani and Mr. Rajesh Adani. APMuL has a total of 9 thermal power plants with total capacity of 4620 MW and long term PPAs signed for 2674 MW.

APMuL has a total long term debt outstanding of Rs. 11,200 Cr as on 31 March, 2019 with annual repayments ranging between Rs.2400 Cr to Rs.1800 Cr in next three years. APMuL has been incurring losses on account of under recovery of variable cost vide the terms of original PPA, high interest cost and write off of compensatory tariff. However, Adani Group has consistently supported the loan repayments and the working capital management (procurement of coal) by offering preferential credit terms. The group has demonstrated support to APMuL in form of fund infusion both in form of equity and unsecured loans whenever required. The promoter group has infused Unsecured Perpetual Securities (with no maturity or redeemable but callable at company's option) to the tune of Rs.5050 Cr (considered as quasi equity) and Unsecured Loans of Rs.6715 Cr. aggregating to ~Rs. 11,765 Cr in FY2019. Acuité believes that APMuL is a strategically important entity in the Group and will continue to receive financial support from Adani Group as and when required.

- **Expected improvement in Cash Flows**

The company has existing long term PPAs with various discoms which like GUVNL, HPPC and MUPL among other for a total capacity of 2,950 MW out of 4,620 MW. The untied capacity is sold as merchant sales for which the company signs a short term or medium term PPAs and also to private players. While the company's Plant Load Factor (PLF) had dropped in FY18 it has subsequently improved in FY2019 and in FY2020. The aggregate PLF for all four phases has improved to 58 per cent in FY2019 over 54 per cent in the previous year. Further, for 6MFY2020, the PLF has improved to 77 per cent. The company has witnessed higher recoveries on account of higher realization of capacity charges linked with Plant Availability Factor (PAF) and pass through of variable costs. As per the approval received from CERC in April 2019, full imported fuel cost has to be passed on to the discoms effective October 2018.

Acuité notes that the company has realized Rs.3.89/unit as against the fuel cost of Rs.3.35/unit for 6MFY2020 as against Rs.3.27/unit and fuel cost per unit of Rs.3.29 for 6MFY2019. The improvement in realization per unit has led to significant improvement in the profitability of the company.

Further, the company has also been allowed compensatory tariff and carrying cost from Haryana Discoms for shortage of coal. The company is eligible for receipt of compensatory tariff and carrying cost for which it has already received Rs.640 Cr as on 30 September, 2019 as against total claim raised of Rs. 1,600 Cr. The receipt of these cash flows has further improved its liquidity position in FY2020.

Acuité believes that receipt of compensatory tariff, carrying cost, full pass through of coal prices and sustained improvement in PLF would improve the cash flows of APMUL further in near to medium term.

- **Receipt of approval for cancellation of Bid-2 PPA with GUVNL**

APMuL had signed a long term PPA with GUVNL (Bid-2) in 2010 with a condition that Gujarat Mines Development Corporation (GMDC) will allocate mines with a capacity of 4 MTPA for captive consumption. Since the coal mines were not allocated to APMUL, the company had filed a suit in Appellate Tribunal for Electricity for termination of PPA in 2010. However, APMUL continued supplying power to GUVNL until the final hearing of cancellation of PPA. However, as per the Supreme Court verdict in July 2019, the PPA was cancelled effective from January 04, 2010. APMUL has already filed its petition for onetime compensation with CERC and the same is under review. However, the amount and timelines for same is yet to be finalized. Acuité believes that receipt of one-time compensation is likely to enhance the financial flexibility of APMUL.

Weaknesses

- **Weak Capital Structure**

The company has been incurring losses on account of under recovery of variable cost vide the terms of original PPA, high interest cost and write off of compensatory tariff. Further, the company has also reversed the compensatory tariffs for the PPA signed with GUVNL (Bid-2) albeit it is due to receive termination payments in the near future. The reversal of compensatory tariff amounted Rs. 3,619 Cr in FY2017 leading to accumulated losses which stood at Rs. 10,789 Cr as on 31 March 2019. However, Adani Power Limited has infused Unsecured Perpetual Securities (which has been considered as quasi equity) of Rs.5050 Cr in FY2019. Post infusion of quasi equity, the negative tangible net worth has reduced to Rs. 2,466 Cr as on 31 March, 2019. Going ahead, the capital structure is expected to improve on account of the receipt of termination payment from GUVNL which has been approved by Supreme Court in FY2019.

- **Significant Untied Capacity**

The company has existing long term PPAs only for ~64 per cent of total capacity. The company has a total capacity of 4620 MW of which the long term PPAs has been signed for 2,950 MW with GUVNL (1320 MW), HPPC (1580 MW) and MUPL (50 MW). The untied capacity pertains to the PPA with GUVNL (Bid-2) that was terminated. APMUL supplies power for the untied capacity on short term to medium term capacity and to private players at price range of ~Rs.4.00/unit to Rs.4.25/unit. The company's offtake on merchant sales is dependent growth in power demand along with APMUL's ability to generate lower cost

power. Further, the company's ability to enter into a long term PPA for the untied capacity will remain a key monitorable.

Liquidity position: Adequate

APMuL's liquidity will be driven by support from Adani Group. Adani Group has demonstrated its support towards APMuL. The promoter group has invested Rs.5050 Cr as unsecured perpetual security (considered as quasi equity) and unsecured loan of Rs. 6715 Cr. in FY2019. Further, as on 30 September, 2019, APMuL has received Rs.640 Cr as compensatory tariff and carrying cost from Haryana Discom for shortage of coal. Going ahead, the company is expected to generate net cash accruals in a range of Rs.900 – Rs.1000 Cr as against the repayment of Rs.1032 Cr – Rs.1108 Cr. Further, Acuité has taken into consideration the continued support from Adani Group.

Rating Sensitivities

- Significant improvement in capital structure
- Ability to improve overall PLF levels

Material Covenants

- None

Outlook: Stable

Acuité believes that APMuL will maintain a 'Stable' credit profile on the back of its association and continuous support from Adani Group. The outlook may be revised to 'Positive' if APMuL demonstrates significant improvement in its capital structure and debt coverage indicators. Conversely, the outlook may be revised to 'Negative' if business profile of APMuL deteriorates significantly marked by decline in profitability and PLF levels.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	12,251.75	9,743.50
PAT	Rs. Cr.	(1,044.10)	(1,678.12)
PAT Margin	(%)	(8.52)	(17.22)
Total Debt/Tangible Net Worth	Times	(7.98)	(3.29)
PBDIT/Interest	Times	1.03	0.75

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
Term Loan – I	Not Applicable	Not Applicable	Not Applicable	1460.36	ACUITE BBB/Stable
Term Loan – II	Not Applicable	Not Applicable	Not Applicable	790.00	ACUITE BBB/Stable
Term Loan – III	Not Applicable	Not Applicable	Not Applicable	800.00	ACUITE BBB/Stable
Term Loan – I	Not Applicable	Not Applicable	Not Applicable	510.75	ACUITE BBB/Stable
Term Loan – II	Not Applicable	Not Applicable	Not Applicable	430.00	ACUITE BBB/Stable
Term Loan – I	Not Applicable	Not Applicable	Not Applicable	197.97	ACUITE BBB/Stable
Term Loan – II	Not Applicable	Not Applicable	Not Applicable	430.00	ACUITE BBB/Stable
Term Loan – III	Not Applicable	Not Applicable	Not Applicable	56.76	ACUITE BBB/Stable
Term Loan – I	Not Applicable	Not Applicable	Not Applicable	34.29	ACUITE BBB/Stable
Term Loan – II	Not Applicable	Not Applicable	Not Applicable	265.17	ACUITE BBB/Stable
Term Loan – I	Not Applicable	Not Applicable	Not Applicable	136.20	ACUITE BBB/Stable
Term Loan – II	Not Applicable	Not Applicable	Not Applicable	158.00	ACUITE BBB/Stable
Term Loan – III	Not Applicable	Not Applicable	Not Applicable	140.40	ACUITE BBB/Stable
Term Loan - I	Not Applicable	Not Applicable	Not Applicable	607.92	ACUITE BBB/Stable
Term Loan – II	Not Applicable	Not Applicable	Not Applicable	42.07	ACUITE BBB/Stable
Term Loan – I	Not Applicable	Not Applicable	Not Applicable	246.50	ACUITE BBB/Stable
Term Loan – II	Not Applicable	Not Applicable	Not Applicable	340.57	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	476.50	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	893.81	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	329.86	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	306.45	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	295.23	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	197.91	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	133.54	ACUITE BBB/Stable

Term Loan	Not Applicable	Not Applicable	Not Applicable	136.18	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	136.20	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	68.10	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	170.28	ACUITE BBB/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	655.98	ACUITE BBB/Stable
Cash Credit^	Not Applicable	Not Applicable	Not Applicable	115.00	ACUITE BBB/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/Stable
Cash Credit^^	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE BBB/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB/Stable
WCDL	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB/Stable
Cash Credit^^^	Not Applicable	Not Applicable	Not Applicable	145.00	ACUITE BBB/Stable
Cash Credit^^^^	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BBB/Stable
Letter of Credit^^^^^	Not Applicable	Not Applicable	Not Applicable	1948.00	ACUITE A3+
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A3+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	58.00	ACUITE A3+
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1040.00	ACUITE A3+
Letter of Credit^^^	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A3+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	819.00	ACUITE A3+

^ 100% interchangeable with Letter of Credit and Bank Guarantee

^^ 100% interchangeable with Letter of Credit

^^^ 100% interchangeable with Letter of Credit

^^^ 100% interchangeable with Cash Credit

^^^^ 100% interchangeable with Letter of Credit and Bank Guarantee

^^^^^ 100% interchangeable with Cash Credit

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About Acuité Ratings & Research:

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