India Ratings Upgrades Adani Power's Bank Facilities to 'IND AA-'/Stable

Feb 08, 2024 | Power Generation

India Ratings and Research (Ind-Ra) has upgraded Adani Power Limited's (APL) bank facilities' ratings as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Term loan	-	-	FY35	INR163.03 (reduced from INR206.97)	IND AA-/Stable	Upgraded
Working capital facility	-	-	-	INR88.81(reduced from INR93.32)	IND AA-/Stable/IND A1+	Upgraded
Bill discounting	-	-	-	INR13(reduced from INR20)	IND A1+	Upgraded
Bank guarantee	-	-	-	INR19.95(reduced from INR25.69)	IND AA-/Stable/IND A1+	Upgraded
Proposed term loan	-	-	-	INR33.97	IND AA-/Stable	Assigned
Proposed bank guarantee	-	-	-	INR0.63	IND AA-/Stable/IND A1+	Assigned

ANALYTICAL APPROACH: Ind-Ra has taken a consolidated view of APL (merged entity) and its wholly owned subsidiaries, namely Adani Power (Jharkhand) Ltd. (APJL) and Mahan Energen Ltd. (MEL) to arrive at the ratings, owing to the strong operational, strategic and legal linkages among them.

The upgrade reflects the resolution of the key regulatory issues with respect to the Lohara coal block, the receipt of regulatory claims for the past orders, the signing of supplementary power purchase agreements (PPA) for the Haryana PPA at the Mundra plant, the start of commercial operations of the Godda plant, and adequate coal availability for both merchant and PPA capacities, resulting in healthy plant load factor (PLF). The receipt of past regulatory claims and debtor realisation resulted in a significant reduction in APL's debt over 9MFY24. Ind-Ra believes APL could continue to generate a sustainable EBITDA of INR130 billion. Even from the open capacity of around 3GW, given the pithead locations of the plants, the company is likely to generate a healthy EBITDA of around INR8-10 million/MW. APL is now the largest independent power producer in the country, with an operational capacity of 15.2GW, of which 81% is tied up on long-term/medium-term PPAs. During FY23 and 1HFY24, APL received a significant amount of regulatory dues in past claims post the favourable resolution of the matters through the Supreme Court order in March and April 2023, which were utilised to retire perpetual and related party debt of INR125.6billion and senior debt prepayment of INR29.3 billion over 9MFY24. This has resulted in the likelihood of APL's gross leverage staying below 2.5x-3.0x, better than Ind-Ra's earlier expectation. The company is additionally looking at refinancing the entire debt, and move from an asset level financing to corporate level funding, thus allowing better utilisation of collective cash flows.

The ratings, however, are constrained by the ongoing capex at Mahan Phase II (1.6GW), the upcoming flue gas desulfurisation (FGD) capex in plants, the receivables issues at the Godda plant from the Bangladesh government, and the company's plan to acquire assets to grow the thermal portfolio, which could impact the leverage negatively. Ind-Ra would also continue to monitor the impact of the ongoing cases against the group and impact of any adverse outcome that could materially impair the financial flexibility of the group. In addition, the agency would continue to monitor the corporate governance practices of the group and the disclosures to the agency on an ongoing basis.

Key Rating Drivers

Resolution of Past Regulatory Issues: Post the resolution of past regulatory issues on account of approval of change in law for coal shortfalls claims through the Supreme Court order in March and April 2023, particularly with respect to the new coal distribution policy and Lohara coal block, APL has seen a strong recovery of these dues along with carrying cost and late payment surcharge. The resolution of the regulatory issues has resulted in higher EBITDA generation, thereby improving the cash flows.

Strong EBITDA Visibility: Out of APL's large operating capacity of 15.2GW, 81% has been tied up under long-term/medium-term PPAs and the plants also have around 75% domestic coal tie-ups. Ind-Ra estimates APL's sustainable EBITDA generation to be around INR130 billion over FY24-FY25 on account of i) change in law (CIL) claims allowed for Kawai and Tiroda, leading to restitution of economic position in these two plants, ii) signing of additional PPA with MPSEZ Utilities Ltd, led by the freeing up of capacity in the Haryana PPA in Mundra plant, and iii) ramp-up of the Mahan I and Godda plants. Furthermore, APL's open capacity of 3GW with likely EBITDA generation of around INR8-10 million/MW would give the EBITDA a material upside for FY24-FY25, given the demand-supply imbalance over the short-to-medium term. Even in case of high e-auction prices, the pithead location for 1.9GW of the plants could ensure high PLF, though the margins will continue to be dependent upon market prices.

With respect to the tied-up capacity, the merit order despatch (MOD) positioning for the Tiroda and Kawai plants is particularly important, for the plants to achieve higher PLFs and higher operating profitability. Despite the use of imported coal for shortfall purpose, the MOD positioning of Tiroda and Kawai remains competitive as alternative coal meets less than 20% of the heat requirements for both of the plants. However, the EBITDA of Tiroda and Kawai partially depends on their PLFs, given the two-part tariff structure under the PPAs, wherein the energy charges have an escalable component linked to the domestic coal price escalation index. Hence, if the PLFs of these plants increase, the EBITDA would also ramp up. During 9MFY24, the Tiroda and Kawai plants ran at high PLFs of 72.1% (FY23: 78.2%; FY22: 74.9%) and 73.2% (77.1%; 72.2%), respectively.

Healthy Diversification and Tied-up Capacity: APL long-term/medium-term PPA capacity increased to 12.4GW on a gross basis (81%) at 9MFYE24, led by the commissioning of the Godda plant. This tie-up along with Mahan-II 's(1.6GW) under-construction capacity under a long-term PPA will take APL's total PPA capacity to 13.7 GW (81%). The company might also take up inorganic expansion of plants over the medium term; however, on a blended basis, Ind-Ra expects the proportion of EBITDA generation from tied up capacities to remain around 80%. Although APL's off-takers are diversified; two large off-takers, Maharashtra State Electricity Distribution Company Limited (27%) and Gujarat Urja Vikas Nigam Ltd (22%), contributed to bulk of the tied-up PPA capacity at 9MFY24, while the discoms of Haryana/Rajasthan/Karnataka/Bangladesh contributed 11%/11%/9%/13%, respectively. The ability of the company to manage timely collection of receivables, especially from the Bangladesh Power Development Board (BPDB), remains a key monitorable for Ind-Ra.

Credit Metrics to Remain Strong: Ind-Ra expects APL's gross leverage (gross debt/operating EBITDA), including the unsecured and promoter debt and EBITDA from merchant capacities, to remain healthy and improve to around 3.0x over the medium term (FYE23: 4.5x; FYE22:5.0x), led by the higher EBITDA generation and deleveraging aided by cash flows from clearance of past regulatory dues. The interest coverage (operating EBITDA/interest expenses) improved to 5.2x at 9MFYE24 (FYE23: 2.8x; FYE22: 2.4x). APL's consolidated total debt reduced to INR312 billion at end-December 2023 (FYE23: INR425 billion, FYE22: INR490 billion); of this, the external term debt declined to INR250 billion (INR296 billion; INR347 billion), while its short-term borrowing remained stable at INR60 billion (INR60 billion; INR69 billion), and the balance was from related parties and others. The debt reduction was primarily on account of the prepayment done from the receipt of past dues. Apart from external debt prepayment, APL also reduced perpetual securities from the sponsor to INR74.4 billion at end-December 2023 (FYE23: INR132.2 billion, FYE22: INR132.2 billion).

APL's 1.6GW under-construction plant -Mahan II entails capex of INR121 billion spread over FY24-FY28, for which additional debt of around INR85 billion would be taken. Additionally, APL has undertaken flue gas desulfurisation capex of around INR90 billion to be incurred until December 2026 as per regulatory orders. APL could also look at inorganic expansions, necessitating the availing of acquisition debt, although Ind-Ra expects such acquisitions to be of operational assets that would provide ready EBITDA accretion. However, a higher-than-expected debt-funded capex or larger-than-expected acquisition could lead to a moderation in leverage. The leverage could also increase in case of lower-than-expected EBITDA or sharper-than-expected increase in working capital requirements, all of which would be key monitorables.

Synergies from Group Presence in Coal Mining and Coal Trading: APL benefits from the group's presence in domestic and international coal mining and trading operations through Adani Enterprises Limited ('IND A+'/Negative) and logistics and coal handling through Adani Ports and SEZ ('IND AA+'/Stable). APL procures imported coal majorly from the open market for its imported coal requirements. Adani Enterprises' presence in coal mining, coal trading and power trading could also be useful to APL.

Liquidity Indicator – Adequate: The company (across assets) had cash balances of INR40 billion at 9MFYE24 (FYE23: INR28 billion; FYE22: INR30 billion), of which INR35 billion was held as margin money/debt service reserve account (INR19 billion; INR20 billion). APL had total sanctioned fund-based/non-fund-based working capital limits across various plants of around INR89 billion, with average utilisation of 49% over the 12 months ended December 2023. The net working capital to sales ratio stood at 26% as of December 2023 (FY23: 31%; FY22: 31%). APL on a consolidated basis has annual external debt repayment obligations of IN33 billion and INR25 billion along with interest expense of INR42 billion and INR33 billion for FY24 and FY25, respectively. With the likely EBITDA generation, Ind-Ra expects the debt service coverage ratio to remain comfortable over 2.4x.

Moderation in Receivables but Delayed Payments in APJL: The consolidated receivables for APL fell to INR101.5 billion at end-December 2023 (FYE23: INR115.3 billion, FYE22: INR95.7 billion (excluding past dues)). As of December 2023, the counterparty-wise receivables with BPDB, Gujarat Urja Vikas Nigam, Maharashtra State Electricity Distribution Company, Karnataka, Rajasthan and Haryana discoms constituted 37%, 23%, 15%, 8%, 7% and 4% respectively, of the company's consolidated receivables. APJL has been facing issues with respect to timely realisations of dues from BPDB. APJL's total receivables at end-December 2023 stood at USD447 million due to delays in payments from its counterparty, BPDB. As per the management, BPDB is still in the process of setting up a payment mechanism, as this is a recently commissioned project. Any significant delay in payments from the counterparty on a sustained basis is a key rating monitorable.

Corporate Governance Related Matters: There are ongoing investigations on the Adani group, on which final orders are pending from the regulator. Also, as directed by the Supreme Court, the final orders and completion of investigations by the regulator are awaited. Ind-Ra will closely monitor this for any negative outcome that could have implications for the financial flexibility of the overall group, including APL. The regulatory nature of operations, long-term PPAs, adequate fuel supply agreements with fuel cost pass-through in case of imported coal usage, provides healthy business and financial risk buffers to the current ratings. These buffers could aid the entity in case of any adverse development on the outcome of the above investigations and other corporate governance matters. Ind-Ra would continue to evaluate whether the corporate governance practices are in line with the rating category. As of December 2023, APL's related party transactions had reduced materially, following the payment of perpetual securities and related party loans.

Rating Sensitivities

Positive: Substantial improvement in EBITDA, while maintaining strong operating parameters along with a sustainable resolution of the receivables issue at the Godda plant, leading to the gross debt/EBITDA declining below 2.5x, could lead to a positive rating action.

Negative: Unfavourable outcome of regulatory issues concerning the Adani Group, leading to a negative impact on financial flexibility and/or deterioration of corporate governance practices as assessed by Ind-Ra, could be negative for the ratings. The following developments, individually or collectively, that could lead to the gross debt/EBITDA exceeding 3.5x on a sustained basis could be negative for the ratings:
- lower-than-expected operating parameters, leading to a decline in EBITDA
- delay in receivables realisation, including those at Godda, resulting in higher-than-expected working capital borrowings
- higher-than-expected debt funded capex and/or acquisitions.

Company Profile

APL is the largest private thermal power producer in India, with an operational power generation capacity of 15,250MW and under-construction thermal power capacity of 1,600MW.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	9MFY24	FY23	FY22
Net revenue (INR billion)	370	381	277
EBITDA (INR billion)	133.5	93.7	98.3
EBITDA (excl. one-time income)	115.7	98.8	75.6
EBITDA margin (%)	36.1	24.6	35.5
EBITDA interest coverage (x)	5.2	2.8	2.4
Gross leverage (x)	-	4.5	5.0
Source: APL, Ind-Ra			

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate

Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (billion)	Rating	28 March 2023	19 September 2022
Term loan	Long-term	INR197	IND AA-/Stable	IND A/Positive	Provisional IND A/Positive
Working capital facility	Long-term/dhort-term	INR88.81	IND AA-/Stable/IND A1+	IND A/Positive/IND A1	-
Bill discounting	Short-term	INR13	IND A1+	IND A1	-
Bank guarantee	Long-term/short-term	INR20.58	IND AA-/Stable/IND A1+	IND A/Positive/IND A1	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loans	Low
Working capital facility	Low
Bill discounting	Low
Bank guarantee	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Rushabh Shah
Senior Analyst
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40001775
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Paras Pal
Senior Analyst
124 6687241

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER