January 29, 2021

Adani Transmission Limited: Rating reaffirmed at [ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1,000.0	1,000.0	[ICRA]A1+ reaffirmed
Total	**1,000.0**	**1,000.0**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has considered the consolidated business and financial profile of the entity while arriving at the rating for Adani Transmission limited (ATL), which is the holding company of the power transmission and distribution business.

The rating reaffirmation factors in the satisfactory operating track record in terms of transmission line availability as well as the associated low demand risk as the operational lines are part of the grid system strengthening process. Moreover, the 'cost-plus' nature of tariff for the four major transmission lines housed under two wholly-owned subsidiaries of ATL, Adani Transmission India Ltd (ATIL) and Maharashtra Eastern Power Transmission Company Ltd (MEGPTCL), as well as the distribution licensee business housed under Adani Mumbai Electricity Limited (AEML, 74.9% owned by ATL) provide regulated returns (15.5% post tax) subject to ensuring costs and availability within the normative parameters, as per the approved tariff orders. Further, the counterparty credit risk is low due to the pooling benefit associated with Point of Connection (PoC) mechanism through Central Transmission Utility, CTU which is currently Power Grid Corporation of India Ltd. (PGCIL; rated [ICRA]AAA(Stable)/A1+). PGCIL contributed for about 49% of ATL's transmission business revenue in FY2020. The rating also favourably factors in ATL's financial flexibility as evident from its demonstrated debt raising abilities to refinance debt through different debt instruments such as Rupee denominated masala bond, off-shore Dollar denominated bond as well as non-convertible debentures (NCD) of varying maturities. The rating takes into consideration a stable business profile of AEML supported by favourable demography of the Mumbai licence area as well as the healthy operational profile as reflected from strong collection efficiency, low distribution loss levels and high supply reliability. ICRA notes that while the nation-wide lockdown in Q1 FY2021 resulted in a sharp drop in collections and increase in loss levels, the same has normalised gradually over the past few months.

ICRA also notes the completion of sale of 25.1% stake in AEML by ATL to Qatar Holding LLC (a subsidiary of Qatar Investment Authority or QIA) in February 2020. The total investment by QIA is Rs. 3,220 crore (with Rs. 1,210 crore as equity and Rs. 2,010 crore as sub-ordinated debt).

ATL is exposed to the execution risk associated with the sizeable under-construction portfolio of transmission assets (through 10 subsidiaries), though the same is partly mitigated by its strong track record of timely project completion. Moreover, for the bid-based under-construction projects, the company's ability to keep the cost (both capital and operating) and efficiency level post commissioning within the tariff assumption remains critical, given that the tariff is competitively bid as well as fixed in nature. Despite the demonstrated financial flexibility, ICRA notes that ATL has refinancing risk associated with the $500-million bond maturing in FY2027 as well as foreign exchange risk arising from unhedged portion of the interest on Dollar loans. The company's demonstrated financial flexibility as well as long residual transmission service agreement (TSA) period for the transmission assets provides a comfort against the refinancing risk. The rating also takes into consideration the moderate counterparty credit risk pertaining to state-owned transmission utilities (STU) in Rajasthan and Maharashtra wherein these utilities accounted for about 51% of the company's overall tariff in FY2020. Additionally, the counterparty risk is further off-set to some extent by the stipulation of payment security mechanism (one month of LC) and the right of power regulation available with CTU/STU in case of any significant delays by the system users. The rating also takes into account the rapid growth achieved by ATL over the past four years with acquisition of seven operational assets (including Mumbai GTD asset), operationalisation of seven greenfield assets and addition of 10 new greenfield projects in its under-construction portfolio including the cost-plus Kudus-Aarey HVDC line secured in January 2021.

Key rating drivers and their description

Credit strengths

Satisfactory operating track record of the 17 operational transmission lines and favourable demography in Mumbai licence area - The line availability for most of the 17 operational transmission lines has been higher (more than 99%) than the normative levels (95–98%) since the commissioning date. This also allows the project subsidiaries of ATL to earn availability linked incentives. With respect to the Mumbai distribution license area, the demographic profile is favourable and distribution loss levels remains low at 7.37% in FY2020, while also being well within the approved loss level of 8.36% for FY2020. The operational efficiency of the distribution business was adversely impacted in H1 FY2021 with loss levels increasing to 8.51% as the billing during the lockdown was done on a provisional basis using the past data. However, the same has improved steadily over the past few months.

Tariff orders for cost-plus based transmission projects and distribution licensee business in Mumbai ensure regulatory clarity - The tariff mechanism for cost-plus based projects ensure recovery of all fixed costs and allows a 15.5% post-tax return on equity (RoE). For the competitive tariff-based projects, however, the tariff is fixed and as a result, the ability to ensure the costs within the tariff assumption remains critical. Going forward, with all new projects commissioned being competitive tariff-based in nature, the overall ratio of cost-plus based projects in the total ATL revenue is estimated to decline to about 66% in FY2021 from over 90% in FY2018. However, the cost-plus nature of the AEML business will ensure that a significant proportion of the total revenue of the consolidated entity will continue to be cost-plus based, thus assuring stable cashflows over its 25-year licence period.

No demand risks - The demand risk is low, given that transmission lines are part of the inter-state and intra-state grid network. Further, the payment of transmission tariff is based on meeting the normative line availability criteria of 95–98% depending on the type of transmission line.

Timely payment track record of counterparties - The counterparty risk is low for project subsidiaries, which are part of the inter-state transmission network with PGCIL as CTU. While exposure to utilities in Rajasthan and Maharashtra in FY2019 was about 51% of the company's tariff revenues for the transmission business, the payments have been on-time over the past three-four years. Further, the counterparty credit risk for intra-state and inter-state transmission projects is offset to some extent by the stipulation of its payment security mechanism (one month of LC) and right of power regulation available with CTU/STU in case of any significant large delay by system users.

Demonstrated ability to raise debt funding - The company has demonstrated its debt raising abilities through different debt instruments such as Rupee denominated masala bond, off-shore Dollar denominated bond as well as NCD of varying maturities in the past three to four years. For instance, ATL, in November 2019, raised additional $500-million in forex bond issuance to refinance part of the debt taken for its obligor group assets. Additionally, in Q4 FY2020, it raised a fresh $1-billion forex bond at AEML and $400-million forex bond under ATL's restricted group of seven subsidiaries.

Credit challenges

Project execution risk - At present, ATL has 10 under-construction greenfield projects (including the cost-plus Kudus-Aarey HVDC line secured in January 2021) with total length of 3,307 circuit kilometres (ckm) and project cost of about Rs. 15,500 crore. The HVDC line will require a sizeable investment of ~Rs. 7,000 crore, which will also involve setting up two 400 kV sub-stations with a scheduled COD of January 2025. Of the other nine lines, seven are in advanced stages of construction with a scheduled COD over the next six months. All these projects remain exposed to execution risks arising from any cost overruns, delay in getting the required statutory clearances/ permits or right of way permissions.

Refinancing risk - The debt currently held by ATL comprises a mix of NCDs, term loans and bonds with maturities varying from three to 30 years. A major refinancing requirement will now arise in FY2027 when the bullet payment for its earlier bond issuance ($500 million issued in FY2017) will become due.

Foreign exchange risks on Dollar-bond issuance – Given that a significant proportion of the total debt of the company at a consolidated level is in the form of forex bonds, ATL is exposed to forex risk. However, the terms of Dollar bonds stipulate hedging at least 95% of principal for the entire tenure of the bonds mitigating the risk to some extent. For instance, for the earlier $500-million bonds of the obligor group, ATL has hedged 64% of the principal for the entire 10-year tenure of the paper through principal swaps and remaining 36% through one-year forwards. However, for the recent $500-million bond issuance in November 2019, 100% of the principal has been hedged through rolling one-year forward contracts. The annual coupon for Dollar bonds due in the forthcoming year is also hedged and subsequent coupon payments would be hedged as required.

Expansion/acquisition risk - Over the last four years (till December 2020), ATL has completed the acquisitions of seven operational assets (including Mumbai GTD asset), operationalised seven greenfield assets and has added 10 new greenfield projects in its under-construction portfolio. For the greenfield transmission projects including the Kudus-Aarey HVDC line, the overall balance equity requirement will be about Rs. 3,300 crore over the next four years. The surplus cash flows of the operational assets are estimated to be just sufficient to meet this requirement. Any further significant project commitments or acquisitions that can impact the funding requirements and cash flows substantially will be a rating sensitivity. Further, any direct or indirect exposures, contingent liabilities or guarantees including sponsor support undertakings in relation to its investments that could constrain the financial flexibility or breach any bond covenant would also be a rating sensitivity.

Liquidity position: Strong

ATL's liquidity position remains **strong** with healthy annual fund flow from operations of Rs. 1,982 crore in FY2020 and surplus free cash and liquid investments of Rs. 615 crore as on September 30, 2020. The company has a sanctioned partly-interchangeable working capital facility of ~Rs. 2,950 crore at a consolidated level as on September 30, 2020, the average utilisation of which remained around 75% over the past 12 months. The liquidity position is supported by ATL's significantly high financial flexibility arising from its strong cash accruals and a proven track record in raising low-cost debt funds from international/ domestic lenders with long tenures. The liquidity is affected to some extent by the scheduled repayments over the next five years.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Negative pressure on the rating would arise if the company undertakes any higher-than-expected debt-funded capex and/or acquisition, or if there are any major delays in the receipt of payment from counterparties, which can affect the cash flows of the company. Also, any adverse amendments in tariff framework for cost-plus based projects by Central Electricity Regulatory Commission (CERC) would exert a negative pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Power Transmission Companies Rating Methodology for Power Distribution Utilities
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ATL. As on September 30, 2020, the company had 29 subsidiaries and a stepdown subsidiary (under indirect control), which are all enlisted in Annexure-2.

About the company

ATL is involved in setting up and operating power transmission lines through its subsidiary companies. While ATL is the holding company for the transmission business of the Adani Group, it owns 100% stake in various operational companies, viz. ATIL and MEGPTCL, among others. As on December 31, 2020, ATL had a portfolio of 17 operational transmission assets with a total length of 12,260 ckm lines under operation. Additionally, ATL is also the holding company for several other project subsidiaries that are individually executing greenfield transmission projects with a total length of transmission lines under construction totalling to about 3,307 ckm, making it the largest privately operating transmission line company in India. ATL's transmission assets are primarily spread across western, northern and central parts of the country. Additionally, ATL also has a power distribution license for the Mumbai region with access to the integrated distribution network catering to over three million households which is housed under AEML.

Key financial indicators (audited)

ATL Consolidated	FY2019	FY2020	H1 FY2021*
Operating Income (Rs. crore)	7,305	11,416	4,603
PAT (Rs. crore)	559	706	570
OPBDIT/OI (%)	37.8%	39.3%	46.0%
RoCE (%)	10.6%	11.2%	12.3%
Total Outside Liabilities/Tangible Net Worth (times)	3.0	3.2	3.2
Total Debt/OPBDIT (times)	7.3	5.4	5.8
Interest Coverage (times)	2.0	2.0	1.8
DSCR (times)	1.3	1.0	1.5

**Published H1 FY2021 results*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					Jan 29, 2021	Dec 30, 2019	Nov 29, 2018	Dec 26, 2017	Oct 9, 2017
1	Commercial Paper	Short Term	1000.0	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&; Rating on watch with developing implications	[ICRA]A1+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	1000.0	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	ATL Ownership	Consolidation Approach
Adani Transmission Limited	100.0% (rated entity)	Full Consolidation
Adani Transmission (India) Ltd	100.0%	Full Consolidation
Maharashtra Eastern Grid Power Transmission Company Ltd	100.0%	Full Consolidation
Sipat Transmission Ltd	100.0%	Full Consolidation
Raipur-Rajnandgaon-Warora Transmission Ltd	100.0%	Full Consolidation
Chhattisgarh-WR Transmission Ltd	100.0%	Full Consolidation
Adani Transmission (Rajasthan) Ltd	100.0%	Full Consolidation
North Karanpura Transco Ltd	100.0%	Full Consolidation
Maru Transmission Service Company Ltd	100.0%	Full Consolidation
Aravali Transmission Service Company Ltd	100.0%	Full Consolidation
Hadoti Power Transmission Service Ltd	100.0%	Full Consolidation
Barmer Power Transmission Service Ltd	100.0%	Full Consolidation
Thar Power Transmission Service Ltd	100.0%	Full Consolidation
Western Transco Power Ltd	100.0%	Full Consolidation
Western Transmission (Gujarat) Ltd	100.0%	Full Consolidation
Fatehgarh-Bhadla Transmission Ltd	100.0%	Full Consolidation
Ghatampur Transmission Limited	100.0%	Full Consolidation
Adani Electricity Mumbai Limited	74.9%	Full Consolidation
AEML Infrastructure Limited	100.0%	Full Consolidation
OBRA-C Badaun Transmission Limited	100.0%	Full Consolidation
Adani Transmission Bikaner Sikar Private Limited	100.0%	Full Consolidation
Bikaner Khetri Transmission Limited	100.0%	Full Consolidation
WRSS XXI (A) Transco Limited	100.0%	Full Consolidation
Arasan Infra Private Limited	100.0%	Full Consolidation
Sunrays Infra Space Private Limited	100.0%	Full Consolidation
Lakadia Banaskantha Transco Limited	100.0%	Full Consolidation
Jam Khambaliya Transco Limited	100.0%	Full Consolidation
Power Distribution Services Limited	74.9%	Full Consolidation
Adani Electricity Mumbai Infra Limited	74.9% (step-down subsidiary)	Full Consolidation
Kharghar Vikhroli Transmission Private Limited	100.0%	Full Consolidation
Adani Transmission Step-one Limited	100.0%	Full Consolidation

Source: *ATL H1 FY2021 published result*

Note: *ICRA has taken a consolidated view of the parent (ATL) and its subsidiaries while assigning the ratings*

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