January 31, 2022

# Adani Transmission Limited: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Commercial Paper | 1,000 | 1,000 | [ICRA]A1+; reaffirmed |
| Total | **1,000** | **1,000** | |

**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 of transmission line availability and the associated low demand risks for the transmission lines due to the long-term transmission service agreements (TSA) with availability-linked tariff payments. 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 for the Adani Mumbai Electricity Limited (AEML) business provides 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 significant diversification and strong payment security mechanism for the underlying inter-state power transmission assets, which contributed to 56% of the total tariff for ATL's transmission business in FY2021.

The Central Transmission Utility (CTU) is responsible for collecting the transmission charges from the beneficiary users and disbursing the same to inter-state transmission licensees. The CTU function has been recently carved out from Power Grid Corporation of India Limited (PGCIL) to its 100% subsidiary, Central Transmission Utility of India Limited, which is likely to become a wholly owned company of the Government of India in the near term.

The rating also favourably factors in ATL's financial flexibility, evident from its debt raising abilities to refinance debt through different debt instruments such as rupee-denominated masala bonds, offshore dollar-denominated bonds as well as non-convertible debentures (NCD) of varying maturities. The rating also takes into consideration the favourable Mumbai license area and the healthy operational profile with good collection efficiency, low distribution loss levels and high supply reliability. Also, the tariff order is in place for the distribution business in Mumbai under Adani Electricity Mumbai Limited (AEML) for the control period from FY2021 to FY2025.

The rating also takes into account the rapid growth achieved by ATL over past four years with the acquisition of seven operational assets (including Mumbai GTD asset), operationalisation of 10 greenfield assets and addition of 11 greenfield projects in its under-construction portfolio, including the cost-plus Kudus-Aarey HVDC line secured in January 2021 and the two recently won transmission projects under the bidding mechanism.

ATL, however, is exposed to the execution risks 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 within the tariff assumption post commissioning remains critical, given that the tariff is competitively bid and fixed in nature. ICRA notes that ATL has refinancing risk associated with the $500-million bond maturing in FY2027; however, the risk is mitigated by the demonstrated financial flexibility and the long residual TSA tenure for the transmission assets.

The rating also takes into consideration the moderate counterparty credit risk pertaining to the exposure to state-owned power utilities (STU) in Rajasthan and Maharashtra wherein these utilities accounted for about 44% of the company's overall tariff in FY2021. However, the payments have largely remained timely so far and the counterparty risk is offset to some extent because of the stipulation of a 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.

## Key rating drivers and their description

### Credit strengths

**Satisfactory operating track record of operational transmission lines and favourable demography in Mumbai license area** - The line availability for all the operational transmission lines of the company has been higher (>99%) than the normative levels (95-98%) since the commissioning date. This also allows the project subsidiaries of ATL to earn availability-linked incentive. For the Mumbai distribution license area, the demographic profile is favourable and the distribution loss levels remained low at 7.19% in 9M FY2022, while also being well within the approved loss level of 7.30% for FY2022.

**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 ensures 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 majority of the 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 38-40% over the next three fiscals 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, assuring stable cashflows over its 25-year licence period. Regular issuance of the tariff orders for AEML is a credit positive.

**Demand risks limited by long-term TSAs for transmission assets** - The demand risk is low as ATL's transmission lines are part of the inter-state and intra-state grid network, having long-term TSAs. Further, the payment of transmission tariff is based on meeting the normative line availability criteria of 95–98% depending on the type of the transmission line (DC or AC).

**Timely payment track record of counterparties** - The counterparty risk is low for project subsidiaries, which are part of the inter-state transmission network, as they enjoy strong payment security with the CTU being responsible for raising bills and collecting payments from the transmission system consumers. While the exposure to the utilities in Rajasthan and Maharashtra in FY2021 was about 44% 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 due to 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 the 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 bonds, offshore dollar denominated bond as well as NCDs of varying maturities in the past three to four years. In the current fiscal, AEML tied up for US$ 2 billion global medium-term notes (GMTN) for the planned capex, of which US$ 300 million was drawn in the first tranche in July 2021. The facility allows AEML to draw down debt in tranches, based on the yearly capex requirement with each tranche repayment after 10 years of drawdown. Additionally, in October 2021, ATL raised a US$ 700-million revolving project finance facility, which will be used to finance its under-transmission projects across four SPVs in Gujarat and Maharashtra.

### Credit challenges

**Large capital expansion plans to keep leverage level elevated, besides concerns over project execution** – As on December 31,2021, ATL had 11 under-construction greenfield projects (including the cost-plus Kudus-Aarey HVDC line secured in January 2021 and the two recently awarded transmission projects) with a total length of 4,887 circuit kilometres (ckm) and project cost of about Rs. ~18,230 crore. Additionally, at AEML, the capex requirement over the five-year period (FY2022 to FY2026) is close to Rs 10,000 crore. The entire capital expenditure related to the transmission projects as well as the integrated utility business under AEML is expected to be funded in a debt to equity mix of 70:30, in line with the Group's policy. Hence, ATL's financial leverage will continue to be high (debt/OPBDITA remains over 6.0x) as more projects are added due to the lag between debt incurrence and the start of revenue contribution after a project has been commissioned.

The surplus cash flows from the operational assets are estimated to be just sufficient to meet the equity requirement for the ongoing projects. 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 exposure, 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. All these projects remain exposed to execution risks arising from cost overruns, delays in getting the required statutory clearances/permits or right of way permissions.

**Refinancing and foreign exchange risks on dollar-bond issuance** – At present, ATL's debt comprises a mix of NCDs, term loans and bonds with maturities varying from three to 30 years. A major refinancing requirement will arise in FY2027 when the bullet payment for its earlier bond issuance (US$ 500 million issued in FY2017) will be due. As a significant proportion of the company's total debt 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 the principal for the entire tenure of the bonds mitigating the risk to some extent. While some of the principal exposure has been hedged for the entire tenure of the bonds through principal swaps, the remaining has been hedged through rolling one-year forward contracts.

**Exposure to state distribution utilities for intra-state projects –** The counterparty credit risks arise from the exposure to the state utilities in Maharashtra, Rajasthan, Uttar Pradesh and Madhya Pradesh for the transmission projects (including under-construction projects). The credit profile of these utilities remains moderate to weak owing to the delays in issuing tariff orders, weak operating efficiencies and inadequate tariffs in relation to the cost of supply. Nonetheless, the payments have been largely timely so far.

## Liquidity position: Adequate

ATL's liquidity position remains adequate with healthy annual cash flows from operations in relation to its debt servicing obligations and equity funding for ongoing projects. Also, the company has healthy cash balances with free cash and investments of ~Rs 705 crore as on September 30, 2021 at a consolidated level. Additionally, it maintained DSRA and capex/liquidity reserve account balance of approximately Rs 1,385 crore, while another Rs 1,205 crore were parked in fixed deposits as security against assets/margin money. The funding for the ongoing projects is being met through a mix of internal accruals and debt funding. The company has demonstrated exceptional financial flexibility as reflected in its proven track record in raising low-cost debt funds from international/domestic lenders with long tenures.

### Rating sensitivities

**Positive factors –** Not applicable

**Negative factors –** Negative pressure on the rating would arise if the company undertakes any large debt-funded capex and/or acquisition without a commensurate increase in revenues and profitability, adversely impacting its leverage and coverage metrics. Further, any adverse regulatory developments for the cost-plus projects or for the distribution business would exert a negative pressure on the rating. Also, significant delays in getting payments from counterparties will adversely impact the cash flows and liquidity and trigger a rating revision.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Power Transmission Companies<br>Rating Methodology for Power Distribution Companies |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of ATL. The entities considered for consolidation are 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, MEGPTCL, among others. As on December 31, 2021, ATL had a portfolio of 21 operational transmission lines with total length under operation of 13,830 ckm. Additionally, ATL is also the holding company for several other project subsidiaries that are individually executing greenfield transmission projects with total length of transmission lines under construction of about 4,887 ckm, making it the largest privately operating transmission line company in India. ATL's transmission assets are primarily spread across the western, northern and central parts of the country. Additionally, ATL also has a power distribution licence for the Mumbai region with access to the integrated distribution network catering to over 3 million households housed under AEML.

### Key financial indicators - Consolidated

| Particulars | FY2020 (Audited) | FY2021 (Audited) | H1 FY2022 (Unaudited) |
|---|---|---|---|
| Operating Income (Rs. crore) | 11,415.96 | 9,926.33 | 5,371.09 |
| PAT (Rs. crore) | 706.49 | 1,289.57 | 722.08 |
| OPBDIT/OI (%) | 39.30% | 39.80% | 43.94% |
| PAT/OI (%) | 6.19% | 12.99% | 13.44% |
| Total Outside Liabilities/Tangible Net Worth (times) | 3.15 | 3.31 | 3.21 |
| Total Debt/OPBDIT (times) | 5.40 | 6.82 | 6.09 |
| Interest Coverage (times) | 2.00 | 1.87 | 2.04 |

**PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*
*Source: Company, ICRA Research; All ratios as per ICRA calculations*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| SN | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding *(Rs. crore) | Date & Rating on | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | **Jan 31,2022** | **Jan 29,2021** | **Dec 30,2019** | **Nov 29,2018** |
| **1** | Commercial Paper | Short-term | 1000 | 0.00 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |

** as on September 30,2021*

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| Commercial Paper | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

## 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; * Unplaced CP*

## 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 |
| Alipurdar Transmission Limited | 100.0% | Full Consolidation |
| Warora Kurnool Transmission Limited | 100.0% | Full Consolidation |
| ATL HVDC Limited | 100.0% | Full Consolidation |
| AEML Seepz Limited | 100.0%(step-down subsidiary) | Full Consolidation |
| Adani Transmission Step-one Limited | 100.0% | Full Consolidation |

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## ICRA Limited

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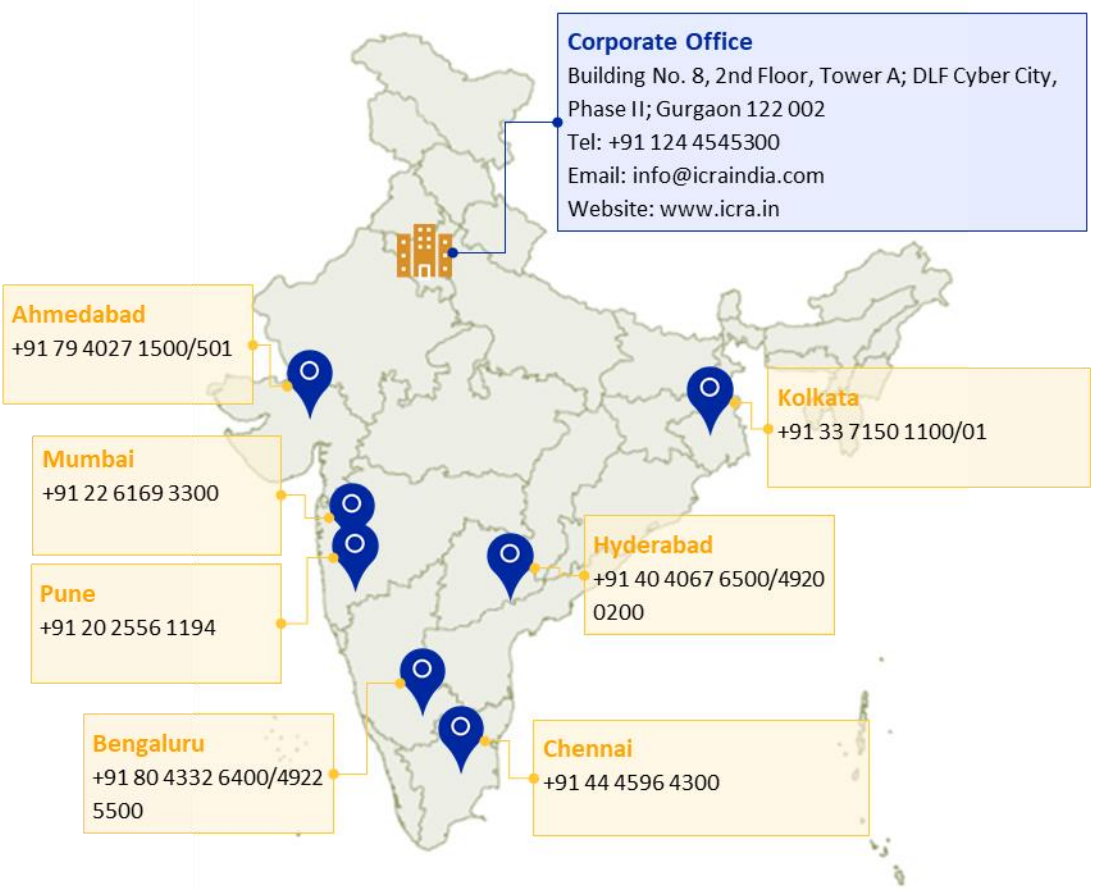




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