February 28, 2025

Adani Energy Solutions Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Commercial paper (CP)	1,000.00	1,000.00	[ICRA]A1+; reaffirmed
Total	**1,000.00**	**1,000.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation takes into account the satisfactory operating track record of Adani Energy Solution Limited's (AESL) power transmission projects with the line availability remaining above the normative level and the associated low demand risks for these projects due to the long-term transmission service agreements (TSAs) with beneficiary customers with the availability-linked tariff payments. Moreover, the cost-plus tariff for the four major operational transmission lines housed under the two wholly-owned subsidiaries of AESL - Adani Transmission India Ltd (ATIL) and Maharashtra Eastern Grid Power Transmission Company Ltd (MEGPTCL) - as well as for the Mumbai licence area under Adani Mumbai Electricity Limited (AEML) provides regulated returns (15.5% post tax), subject to the cost and availability remaining within the normative parameters, as per the approved tariff orders.

Further, the counterparty credit risk for the company is mitigated by the significant diversification and the strong payment security mechanism for the underlying inter-state power transmission assets. The Central Transmission Utility (CTU) is responsible for collecting the transmission charges from the beneficiary users and disbursing the same to the inter-state transmission licensees. The CTU's function is managed by the Central Transmission Utility of India Limited, a subsidiary of Power Grid Corporation of India Limited (PGCIL). At present, the proportion of revenue from projects under the national pooling mechanism with the CTU as the counterparty comprises 60-65% of AESL's overall transmission revenues.

The rating takes into consideration the company's favourable customer profile in the Mumbai licence area for AEML's generation, transmission & distribution (GTD) business 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 AEML for the control period from FY2021 to FY2025, enabling a reduction in the regulatory asset position in FY2025. The rating also considers the satisfactory execution track record of the company, with 19 greenfield transmission assets commissioned over the past few years. Also, in the current fiscal, the company completed the acquisition of the Mahan-Sipat transmission line from Essar Power Transmission Company Limited at an enterprise value of Rs. 1,900.0 crore, adding 673 ckm to AESL's total operational network.

While the company's leverage level remains high due to the largely debt-funded expansion, the coverage metrics are expected to be comfortable with the debt service coverage ratio (DSCR) likely to remain above 1.3x, supported by stable revenues from the transmission assets and the cost-plus operations for the distribution business.

AESL, however, is exposed to the execution risk associated with the sizeable under-construction portfolio of the transmission assets (through 12 subsidiaries) at a cumulative investment of ~Rs. 57,190 crore. The company has completed the debt funding tie-up for 10 of the 12 projects. The equity funding for these 10 under-construction projects would be supported by the successful qualified institutional placement (QIP) of Rs. 8,373 crore in August 2024. Funding for the other two recently awarded projects will be tied up in due course. These two projects comprise 56% of the under-construction project value as of January 2025 and are likely to be funded through a mix of cash balances, internal accruals and debt. A timely tie-up of debt funding for

these projects remains important. Moreover, for the bid-based under-construction projects, the company's ability to keep the cost (both capital and operating) within the tariff assumption post commissioning remains critical, given that the tariff is competitively bid and fixed in nature. Nonetheless, comfort is drawn from the execution track record of the company in the transmission segment. Further, the company has ventured into smart meter installation with income on an annuity basis. The company has won nine contracts for installing 22.8 million smart meters. The total capex for these projects is estimated at Rs. 11,500-13,000 crore, which will be funded through debt, lump sum income as allowed under the contract and internal accruals.

The rating also factors in the refinancing risk associated with the debt having bullet repayments (first such debt of $500 million bond maturing in FY2027) and the foreign exchange movement risk on the dollar debt, which constitutes over 69% of the consolidated debt as of September 2024. While the refinancing risk is partially mitigated by the long residual TSA tenure of the transmission assets, ICRA would continue to monitor the impact of any regulatory development on the financial flexibility of the Group and the cost of debt financing. Also, the forex risk is managed by the hedging strategy followed by the company for coupon payments and principal exposure. While some of the exposure has been hedged for the entire tenure of the bonds through swaps, the remaining has been hedged through rolling one-year forward contracts.

The rating also takes into consideration the moderate counterparty credit risk emanating from the exposure to the state-owned power utilities (STU) of Maharashtra, Rajasthan, Uttar Pradesh and Madhya Pradesh. However, the payments have remained largely timely so far from the utilities in these states. The counterparty risk is also offset to some extent by the stipulation of a payment security mechanism (one month of LC), the right of power regulation available with CTU/STU in case of any significant delays by the system users and the small share of transmission charges in the overall cost structure of the discoms.

ICRA also notes that the Group has pending investigations, filed by the US Department of Justice and the US Securities and Exchange Commission, against AESL's chairman, in November 2024. ICRA would continue to monitor these developments and their impact on the availability of funding for AESL.

Key rating drivers and their description

Credit strengths

Satisfactory operating track record of operational transmission lines and favourable demography in Mumbai licence area - The line availability for all the operational transmission lines of the company has been higher (>99%) than the normative levels (95-98%) since commissioning. This also allows the project subsidiaries of AESL to earn availability-linked incentives. For the Mumbai distribution licence area, the demographic profile is favourable and the distribution loss levels remained low at 5.29% in FY2024 and 4.90% in 9M FY2025, while also being well within the approved loss levels of 6.80% for FY2024 and 6.55% for FY2025.

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 that the costs remain 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 the cost-plus based projects in the total AESL transmission revenue is estimated to decline from over 90% in FY2018 to about 30% over the next two fiscals. However, the cost-plus nature of the AEML business will ensure that a sizeable proportion of the total revenue of the consolidated entity will continue to be cost-plus based, assuring stable cash flows. While the increase in regulatory assets (RA) owing to the sharp rise in fuel costs and cost of power from the short-term market for AEML was a concern in FY2023, the company recovered part of the RA in FY2024 and is expected to fully recover the same in the current fiscal. Also, regular and timely issuance of the tariff orders with pass-through of cost variations for AEML in the past is a comforting factor.

Demand risks limited by long-term TSAs for transmission assets - The demand risk for the company is low as AESL'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 the project subsidiaries, which are part of the inter-state transmission network, as they enjoy strong payment security with the CTU being responsible for raising the bills and collecting the payments from the transmission system consumers. While the company's tariff revenues for the transmission business have considerable (~40%) exposure to the utilities in Maharashtra, Rajasthan, Uttar Pradesh and Madhya Pradesh, the payments have been largely on time over the past few years. Further, the counterparty credit risk for the intra-state and inter-state transmission projects is offset to some extent due to the right of power regulation available with the CTU/STU in case of any huge delays by the system users and the small share of transmission charges in the overall cost structure of the discoms.

Demonstrated ability to raise equity and debt funding - The company has demonstrated its debt-raising abilities through different debt instruments, such as rupee term loans, offshore dollar-denominated bonds and NCDs of varying maturities in the last three to four years.

The company raised $500-million equity from a strategic investor in FY2023, which was used to retire the perpetual equity instruments of the promoter group. Also, recently, in August 2024, the company successfully completed a QIP of Rs. 8,373 crore (~$1 billion) at the issue price of Rs. 976 per share. This would allow the company to fund the equity requirement of the under-construction transmission projects.

Credit challenges

Large capital expansion plans to keep leverage level elevated; concerns over project execution and funding risks - AESL has 12 under-construction greenfield projects with a project cost of about ~Rs. 57,190 crore. Additionally, the company has won nine contracts in the smart meter segment to install and operate 22.8 million meters. The contract period for these projects is ~10 years, including ~2.5 years of installation period. The capex for the smart meter projects is estimated at Rs. 11,500-13,000 crore, which will be incurred over the next two years. The overall capital expenditure by AESL for these projects is expected to be funded through debt, internal accruals and lump sum income, as allowed under the contract. Hence, AESL's financial leverage will continue to be high (total debt/OPBDITA of 5.5-6.5x) as more projects get added due to the lag between the debt incurrence and the start of revenue contribution after a project is commissioned.

Any further significant project commitments or acquisitions that can impact the funding requirements and cash flows substantially will be a rating sensitivity. The ability of the company to tie up debt funding in a timely manner remains important. Also, all these projects remain exposed to execution risks arising from delays in getting the required statutory clearances/permits or right of way permissions.

Refinancing and foreign exchange risks on dollar-bond issuance - At present, AESL'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 ($500 million issued in 2016) will be due. Further, AESL is exposed to forex risk as a significant proportion of the company's total debt at a consolidated level is in the form of forex bonds. This risk is managed by the hedging strategy followed by the company for the coupon payments and principal exposure. While some of the exposure has been hedged for the entire tenure of the bonds through 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 of 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.

Environmental and Social Risks

AESL's subsidiary, AEML, has carved out the 500-MW coal-fired Dahanu power station in the current fiscal as part of its commitment to the ESG initiatives. AEML has committed to increasing the use of renewable power to meet its energy requirements. Some of AESL's transmission projects have been delayed because of the delays in securing the required forest approvals. Further, AESL is exposed to some degree of bushfire risk because its network spans forest areas. The company is also exposed to the risk of natural disasters and extreme weather conditions, which could damage the power transmission lines. If these risks materialise, AESL might be able to recover the cost of replacing the damaged equipment through insurance reserve and coverage, and loss of revenues through the force majeure clause under the TSAs for transmission assets.

AESL is exposed to social risks arising from the challenges related to land acquisition for the ongoing transmission projects. Also, projects passing through forests face delays in receiving statutory approvals owing to concerns over their impact on the flora and fauna. Further, the company's distribution business remains exposed to social risks in the form of resistance by consumers to tariff hikes and the consequent inability to recover the costs.

Liquidity position: Adequate

AESL's liquidity position remains adequate, driven by sufficient cash balances (~Rs. 3,800 crore, including liquid investments at the standalone level as on September 30, 2024), supported by the proceeds from the QIP. The liquidity is also supported by the working capital lines and upstreaming of surplus cash flows from the subsidiaries. The available liquidity is expected to be sufficient to meet the debt obligation at the standalone level and the equity funding for the ongoing projects. The incremental funding for the under-constructions projects in the subsidiaries will be met through a mix of available cash balances, internal accruals and debt. At the consolidated level, the company had cash balances of Rs. 8,531 crore, with unrestricted cash balances of Rs. 5,221 crore as of October 2024.

Rating sensitivities

Positive factors - Not applicable.

Negative factors - The rating could be revised downwards 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. Also, significant delays in getting payments from the counterparties will adversely impact the company's liquidity and may trigger a rating revision. Any material adverse regulatory action from the ongoing investigations may also result in a downgrade.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Power Transmission
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of AESL. The entities considered for consolidation are enlisted in Annexure II

About the company

AESL is the holding company for the transmission & distribution business of the Adani Group and it owns a 100% stake in various operational companies, viz. ATIL, MEGPTCL, among others. As on December 31, 2024, AESL had a portfolio of 42 transmission projects (including 12 lines under construction), AEML's generation, transmission & distribution (GTD) business in Mumbai and the transmission & distribution (TD) business in Mundra SEZ with presence in 14 states. Its network includes transmission lines with total length of 25,778 ckm (as on December 31, 2024), making it the largest privately operating transmission line company in India. AESL's transmission assets are spread across the western, northern and central parts of the country. AESL also has a power distribution licence for the Mumbai region with access to the integrated distribution network, catering to over 3 million households. The company has also forayed into the smart metering business with an under-construction pipeline of 22.8 million smart meters across five states as of December 2024.

Key financial indicators (audited)

Consolidated	FY2023	FY2024	9M FY2025*
Operating income	14,328	16,607	17,393
PAT	1,281	1,196	208
OPBDIT/OI	39%	37%	35%
PAT/OI	9%	7%	1%
Total outside liabilities/Tangible net worth (times)	3.19	3.27	-
Total debt/OPBDIT (times)	6.17	6.01	-
Interest coverage (times)	2.00	2.23	2.53

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current (FY2025)		Chronology of rating history for the past 3 years							
Instrument	Type	Amount rated (Rs. crore)	Feb 28, 2025	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short term	1,000.00	[ICRA]A1+	Nov 26, 2024	[ICRA]A1+	Feb 29, 2024	[ICRA]A1+	Feb 24, 2023	[ICRA]A1+	Jan 31, 2022	[ICRA]A1+
				-	-	-	-	Feb 01, 2023	[ICRA]A1+	-	-
				-	-	-	-	Jan 19, 2023	[ICRA]A1+	-	-
				-	-	-	-	Sep 21, 2022	[ICRA]A1+	-	-

Complexity level of the rated instruments

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 analysing 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 are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
-	**Commercial paper***	-	-	7-365 days	1000.00	[ICRA]A1+

*Source: Company; * Unplaced CP*

Annexure II: List of entities considered for consolidated analysis

Company Name	AESL ownership	Consolidation approach
Adani Energy Solutions Limited (Formerly known as 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% (step-down subsidiary)	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
Adani Electricity Navi Mumbai Limited (formerly known as 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 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

Company Name	AESL ownership	Consolidation approach
Warora Kurnool Transmission Limited	100.0%	Full Consolidation
ATL HVDC Limited	100.0%	Full Consolidation
AEML Seepz Limited	74.9% (step-down subsidiary)	Full Consolidation
Adani Transmission Step-One Limited	100.0%	Full Consolidation
MP Power Transmission Package II Limited	100.0%	Full Consolidation
MPSEZ Utilities Limited	100.0%	Full Consolidation
Karur Transmission Limited	100.0%	Full Consolidation
Khavda-Bhuj Transmission Limited	100.0%	Full Consolidation
Adani Transmission Mahan Limited	100.0% (step-down subsidiary)	Full Consolidation
Adani Electricity Jewar Limited	100.0%	Full Consolidation
Adani Transmission Step Two Limited	100.0%	Full Consolidation
Adani Cooling Solutions Limited	100.0%	Full Consolidation
Khavda II-A Transmission Limited	100.0%	Full Consolidation
Adani-LCC JV	Adani Enterprises -60%, Adani Transmission Limited-20%, LCC-20%	Full Consolidation
BEST Smart Metering Limited	100%	Full Consolidation
Adani Transmission Step-Three Limited	100%	Full Consolidation
Adani Transmission Step-Four Limited	100%	Full Consolidation
Adani Transmission Step-Five Limited	100%	Full Consolidation
Adani Transmission Step-Six Limited	100%	Full Consolidation
Adani Transmission Step-Seven Limited	100%	Full Consolidation
Adani Transmission Step-Eight Limited	100%	Full Consolidation
NE Smart Metering Limited (Formerly known as Adani Transmission Step-Nine Limited)	100%	Full Consolidation
Adani Green Energy Thirty Limited	100% (step-down subsidiary)	Full Consolidation
WRSR Power Transmission Limited	100%	Full Consolidation
Adani Electricity Aurangabad Limited	100%	Full Consolidation
Adani Electricity Nashik Limited	100%	Full Consolidation
KPS1 Transmission Limited	49%	Full Consolidation
Sangod Transmission Service Limited	100%	Full Consolidation
Halvad Transmission Limited	100%	Full Consolidation
Sunrays Infra Space Two Limited	100%	Full Consolidation
Arasan Infra Two Limited	100%	Full Consolidation
Adani Energy Solutions Step-Twelve Limited	100%	Full Consolidation
Powerpulse Trading Solutions Limited (formerly known as Adani Energy Solutions Step-Thirteen Limited)	100%	Full Consolidation
Essar Transco Limited (w.e.f. 15 May 2024) (Step-down subsidiary)	100%	Full Consolidation
Pointleap Projects Private Limited (w.e.f. 3 May 2024) (Step-down subsidiary)	100%	Full Consolidation
Gopalaya Build Estate Private Limited (w.e.f. 1 June 2024) (Step-down subsidiary)	100%	Full Consolidation

Company Name	AESL ownership	Consolidation approach
Khavda IVA Power Transmission Limited (w.e.f. 30 August 2024)	100%	Full Consolidation
North Maharashtra Power Limited (w.e.f. 2 August 2024 till 29 September 2024)	100%	Full Consolidation
Adani Energy Solutions Global Limited (w.e.f. 4 October 2024)	100%	Full Consolidation
Navinal Transmission Company Limited (w.e.f.14 October 2024)	100%	Full Consolidation
Jamnagar Network Transmission Network Limited (w.e.f. 17 November 2024)	100%	Full Consolidation
Progressive Grid Network limited (w.e.f. 7 November 2024) (step down subsidiary)	100%	Full Consolidation
Pune III Transmission limited (w.e.f.19 November 2024)	100%	Full Consolidation
Adani Energy Solutions Step-Ten Limited (w.e.f.17 December 2024)	100%	Full Consolidation
Adani Energy Solutions Step-Eleven Limited (w.e.f.18 December 2024)	100%	Full Consolidation

Source: Company

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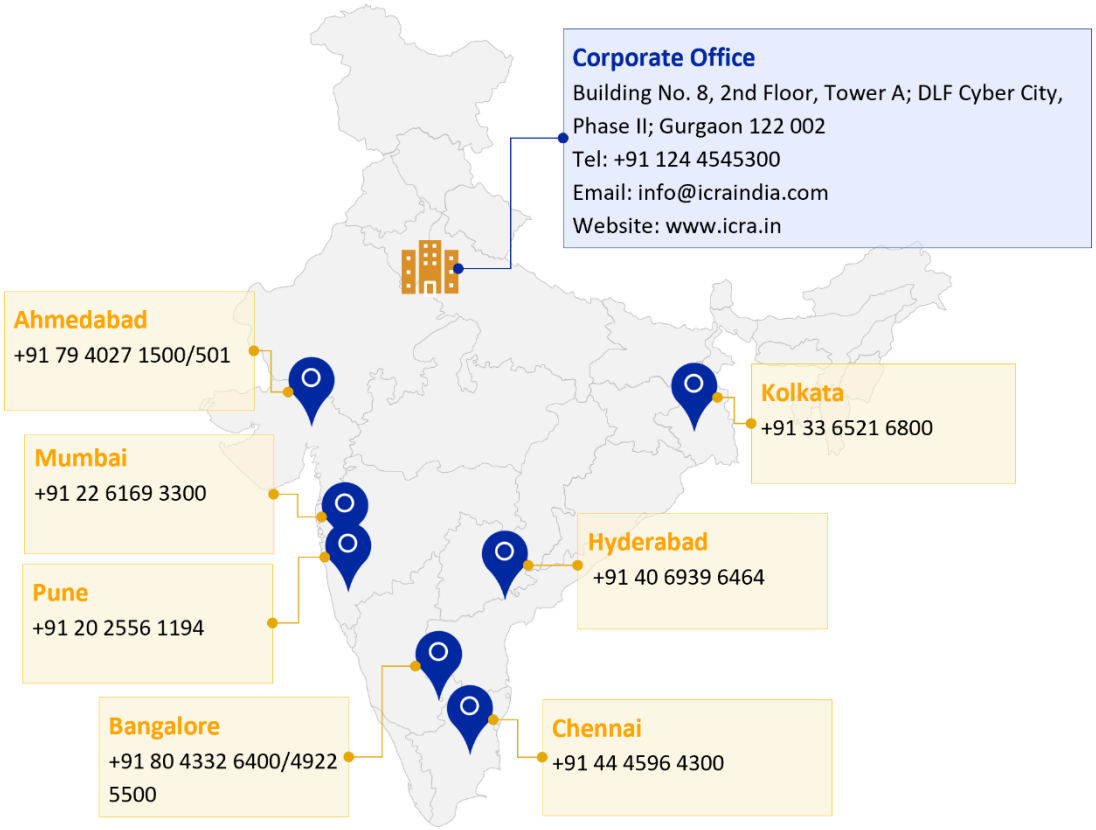

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