December 26, 2017

Adani Transmission Limited

Summary of Rated Instrument:

Instrument	Rated Amount (in crore)	Rating Outstanding
Commercial Paper Programme	Rs 1,000 crore	[ICRA]A1+ & Placed on rating watch with developing implications

Material Event

Adani Transmission Limited (ATL) has announced the signing of a binding Share Purchase Agreement (SPA) to acquire the Mumbai generation, transmission and distribution business of Reliance Infrastructure limited (RInfra) at a total consideration of Rs. 12,101 crore.

Impact of the Material Event

ICRA has placed the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs 1,000 crore commercial paper programme of Adani Transmission Limited (ATL) on 'rating watch with developing implications'. The above transaction is expected to be concluded over the next few months subject to completion of certain regulatory and statutory approvals. ICRA will continue to monitor the developments in this regard and evaluate the impact of the acquisition on the credit risk profile of ATL after the clarity emerges

Rating Rationale

ICRA has considered the consolidated business and financial profile of ATL while assigning the ratings to ATL which is the holding company of the power transmission business. The rating continues to factor in the satisfactory operating track record in terms of transmission line availability as well as the associated low demand risks as these lines are part of the grid system strengthening process. Also, the 'cost-plus' nature of tariffs for four transmission lines together owned by Adani Transmission India Ltd (ATIL) and Maharashtra Eastern Power Transmission Company Ltd (MEGPTCL) provide regulated returns (15.5% post tax) subject to ensuring the costs and availability within the normative parameters, as per approved tariff orders. Further, the counterparty credit risk is low due to the pooling benefit associated with Point of Connection (PoC) mechanism where Power Grid Corporation of India Limited (PGCIL) (rated [ICRA]AAA(Stable)/[ICRA]A1+) (forming 35% of total revenues in FY 2017) is the central transmission utility (CTU) and is responsible for collecting the transmission charges from the beneficiary users and disbursing the same to interstate transmission licensee. The ratings also favourably take into account the company's financial flexibility as evident from its demonstrated debt raising abilities to re-finance debt through different debt instruments such as INR denominated masala bond, offshore USD denominated bond as well as non-convertible debentures (NCD) of varying maturities.

The company is exposed to execution risks because of its sizeable under-construction portfolio of transmission assets (through eight SPVs) and the moderate counter-party credit risks pertaining to state owned beneficiary utilities in Rajasthan and Maharashtra. Further, the demonstrated financial flexibility notwithstanding, ICRA notes that ATL has refinancing risk associated with debt maturity profile (varying from 3 to 10 years period) as well as foreign exchange risk arising from un-hedged portion of the interest on dollar loans. Also for the bid-based under construction projects, the company's ability to keep the cost (both capital & operating) and efficiency level post commissioning within the tariff assumption remains critical, given that the tariff is competitively bid & fixed in nature. While the exposure to utilities in Rajasthan and Maharashtra in FY 2017 accounts for about 65% of the company's overall revenues, the same is expected to decline subsequent to commissioning of a few under-construction projects which are part of the inter-state transmission network with PGCIL as CTU by FY 2020. Also the counter-party risk is further offset to some extent because of the stipulation of payment security mechanism (1 month of LC), the right of power regulation available with CTU/STU in case of any significant delays by system users. Further, the company has announced the acquisition of three operational transmission lines owned by Reliance Infrastructure Ltd. The acquisition is currently under progress and the company expects it to be concluded in next 6-12 month period, subject to regulatory approvals(regulatory approvals in place for two out of three assets). The counter-party credit risk is low by virtue of these assets (where acquisition is under progress) are part of the inter-state transmission network with PGCIL as CTU. Nonetheless, any further sizeable debt funded capacity expansion and/or acquisition plans remain a rating sensitivity.

Key rating drivers

Credit strengths

Satisfactory operating track record of six transmission lines: The line availability for all the six operational lines has been higher (>99%) than the normative levels (95%/98%) since commissioning date. This in turn also allows the project subsidiaries of ATL to earn availability linked incentive. Overall, the weighted average track record for the operational portfolio of the company of about five years as on March 2017.

Tariff orders for cost-plus based projects 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). Going forward, with the commissioning of new Greenfield projects by FY2020, the overall ratio of cost-plus based projects in the total revenues is estimated to decline to about 60% from about 98% in FY 2017. For the bid based projects, the tariff is competitively bid and fixed and as a result the ability to ensure the costs within the tariff assumption remains critical.

No demand risks; Demand risk is low, given that transmission lines are part of 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 counter-parties: Counter-party risk is low for projects SPVs which are part of inter-state transmission network with PGCIL as CTU. While exposure to utilities in Rajasthan and Maharashtra in FY 2017 was about 65% of the company’s overall revenues, payments are currently on-time and overall exposure is expected to decline subsequent to commissioning of few under-construction projects which are part of the inter-state transmission network with PGCIL as CTU by FY 2020. Further, counter-party credit risk for intra-state and inter-state transmission projects is offset to some extent due to stipulation of payment security mechanism (1 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 INR denominated masala bond, off-shore USD denominated bond as well as non-convertible debentures (NCD) of varying maturities in past 18 months.

Credit weaknesses

Project implementation related risks: ATL currently has eight greenfield projects with total length of ~2369 circuit kilometres (ckms) and project cost of about Rs 4,000 crore underway that are progressing as per schedule to be completed by FY2020/2021. 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 and bonds with maturities varying from 3-10 years. Major refinancing requirement is in FY 2020-FY2022 and in FY2027.

Debt structure: ATL has under an obligor group structure (which includes ATL (standalone), ATIL and MEGPTCL) initially raised about Rs 8,500 crore of debt including long-term fixed-coupon debt, which includes Rs 3,580 crore NCDs, Rs 3,350 crore of USD bonds, Rs 500 crore of masala bonds and Rs 760 crore of commercial papers as on June 2017. The terms under the obligor group require a compulsory amortisation of debt by Rs 400 crore annually. Escrow accounts have been set up in ATL, ATIL and MEGPTCL, such that the entire project revenue from ATIL and MEGPTCL is available to ATL for debt servicing. Outside of this obligor group, ATL at a consolidated level will have long term debt under respective SPVs that have projects under development as well as operational SPVs -Aravali Transmission Service Company Ltd (Aravali) and Maru Transmission Service Company Ltd (Maru) that are outside the obligor group. Only surplus cash flow after meeting debt servicing for the obligor group and testing for pre-set covenants like fixed-asset-coverage (FACR) and debt-service reserve account (DSRA) will be available for any funding requirements of the SPVs outside the obligor group.

Foreign exchange risks on $-bond issuance: The terms of dollar bonds stipulate hedging at least 95% of principal for the entire tenor of the bonds. The company has currently hedged 64% of the principal for the entire ten year tenure of the paper through principal swaps and balance through one-year forwards. The annual coupon for dollar bonds due in forthcoming year is also hedged and subsequent coupon payments would be hedged as required.

Expansion/acquisition risk: Over the last two years, ATL has completed the acquisitions of two transmission assets, added eight new Greenfield in its under-construction portfolio and is currently in the process of acquiring three other transmission assets (from Reliance Infrastructure Limited). The overall balance equity requirement for ongoing projects and the ongoing acquisition will be about Rs 1100 crore over the next three years. The surplus cash flows of the operational assets is estimated to be sufficient to meet this requirement. However, 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.

The previous rating rationale is available on the following link: **Click here**

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