Adani Transmission Limited

November 29, 2018

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; rating on watch with developing implications removed
Total	**1,000.0**	**1,000.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs 1000.0-crore[1] commercial paper programme of Adani Transmission Limited (ATL or the company)[2]. The rating watch with developing implications has been removed. The removal of the rating watch follows the completion of the acquisition of Mumbai generation, transmission and distribution (GTD) business from Reliance Infrastructure Ltd (R-Infra) following the receipt of necessary regulatory and statutory approvals. Consequently, the financials of the acquired business have been consolidated with the financials of ATL for Q2FY2019.

Rationale

ICRA has considered the consolidated business and financial profile of the entity while arriving at the rating for ATL, which is the holding company of the power transmission 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 viz. Adani Transmission India Ltd (ATIL) and Maharashtra Eastern Power Transmission Company Ltd (MEGPTCL) as well as for the Mumbai GTD business provide regulated returns (15.5% post tax) subject to ensuring the 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 where the Power Grid Corporation of India Ltd (PGCIL; rated [ICRA]AAA(Stable)/[ICRA]A1+), contributing ~36% of total tariff revenue for ATL in FY2018, is the central transmission utility (CTU). PGCIL is responsible for collecting the transmission charges from the beneficiary users and disbursing the same to inter-state transmission licensee. The ratings also favourably take into account ATL'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, off-shore USD denominated bond as well as non-convertible debentures (NCD) of varying maturities.

ATL is exposed to the execution risk associated with the sizeable under-construction portfolio of transmission assets (through nine subsidiaries), though the same is partly mitigated by its strong track record of before-time project completion. Despite the demonstrated financial flexibility, ICRA notes that ATL has refinancing risk associated with debt maturity profile (varying from three to 10 years period) as well as foreign exchange risk arising from unhedged portion of the interest on dollar loans. Moreover, for the bid-based under-construction projects, the company's ability to keep the

[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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. The rating also takes into consideration the moderate counter-party credit risk pertaining to state-owned transmission utilities (STU) in Rajasthan and Maharashtra wherein these utilities accounted for about 64% of the company's overall tariff revenue in FY2018. However, the same is expected to decline subsequent to commissioning of a few under-construction projects by March 2019 for which PGCIL is the counter-party. Additionally, the counter-party risk is further off-set to some extent because of 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 factors in the company's acquisition of the Mumbai GTD business from R-Infra for a total consideration of about Rs. 12,100 crore which has been funded by debt of Rs. 8,500 crore, promoter contribution of Rs. 3,100 crore and internal accruals of Rs. 500 crore. The debt funding has a long tenor of 15 years and the business has an estimated EBITDA of Rs. 1,550-1,600 crore. ICRA notes that any further sizeable debt-funded capacity expansion and/or acquisition plans remain a rating sensitivity. Moreover, any amendments in tariff framework for cost-plus based inter-state projects by CERC in the next control period (FY2019-2024) remains a rating sensitivity.

Outlook: Not applicable

Key rating drivers

Credit strengths

Satisfactory operating track record of six transmission lines - The line availability for all the eight operational lines has been higher (>99%) than the normative levels (95%/98%) since the commissioning date. This in turn also allows the project subsidiaries of ATL to earn availability linked incentive.

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). 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 the commissioning of new competitive-tariff based greenfield transmission assets by FY2020, the ratio of cost-plus based projects in the overall tariff revenue of ATL is estimated to decline to about 65% in FY2020 from over 90% in FY2018. However, the cost-plus nature of the Mumbai GTD business will ensure that a significant proportion (more than 85%) of the total revenue of the consolidated entity will continue to be cost-plus based, thus assuring stable cashflows.

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 counter-parties - The counter-party risk is low for project subsidiaries which are part of inter-state transmission network with PGCIL as CTU. While exposure to utilities in Rajasthan and Maharashtra in FY2018 was about 64% of the company's overall tariff revenues, the payments have been on-time over the past two to three years. Moreover, the overall exposure is expected to decline by FY2020 subsequent to commissioning of few under-construction projects which are part of the inter-state transmission network with PGCIL as CTU. Further, the counter-party credit risk for intra-state and inter-state transmission projects is offset to some extent due to 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 INR denominated masala bond, off-shore USD denominated bond as well as non-convertible debentures (NCD) of varying maturities in the past two to three years.

Credit challenges

Project execution risk - At present, ATL has nine under-construction greenfield projects with total length of ~3,150 circuit kilometres (ckm) and project cost of about Rs. 5,470 crore that are progressing as per schedule. Six of these projects (three in Chhattisgarh and three in Rajasthan) are expected to be commissioned by March 2019. However, the other 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 three to 10 years. Major refinancing requirement will arise in FY2020-FY2022 and in FY2027.

Debt structure - ATL, under an obligor group structure (which includes ATL (standalone), ATIL and MEGPTCL), had initially raised about Rs. 8,500 crore of debt including long-term fixed-coupon debt, which includes Rs. 3,580 crore NCDs, $500 million (about Rs. 3,350 crore at the time of raising) of USD bonds, Rs. 500 crore of masala bonds and the rest by way of commercial papers. 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, has long-term debt under respective project subsidiaries that have under-construction as well as operational projects. 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 project subsidiaries outside the obligor group.

Acquisition of the Mumbai GTD business from R-Infra - ATL completed the acquisition of the Mumbai GTD business from R-Infra in August 2018 at a total consideration of about Rs. 12,100 crore which has been funded by debt of Rs. 8,500 crore, promoter contribution of Rs. 3,100 crore and internal accruals of Rs. 500 crore. The debt funding has a long tenor of 15 years and the business, that has been housed under a wholly-owned subsidiary of ATL viz. Adani Electricity Mumbai Ltd (AEML), has an estimated EBITDA of Rs. 1,550-1,600 crore. AEML is expected to contribute about 68% of revenue and 33% of EBITDA of ATL at a consolidated level in FY2020. ICRA notes that any further sizeable debt-funded capacity expansion and/or acquisition plans remain a rating sensitivity.

Foreign exchange risks on dollar-bond issuance - The terms of dollar bonds stipulate hedging at least 95% of principal for the entire tenor of the bonds. At present, the company has hedged 64% of the principal for the entire 10-year tenure of the bond through principal swaps and the 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 four operational transmission assets (two each from GMR and R-Infra), completed construction of one greenfield asset in Rajasthan and added nine new greenfield in its under-construction portfolio. The overall balance equity requirement for ongoing projects and the ongoing acquisition will be about Rs. 550-600 crore over the next two to 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.

Liquidity position

The company's liquidity position remained comfortable with a surplus free cash balance of over Rs. 300 crore as of March 2018 owing to its healthy internal accruals. The liquidity is also supported by ATL's ability to raise funds at reasonable rate using commercial papers and its ability to refinance it. The company also has fund-based facilities of Rs. 400 crore in ATL obligor group and Rs. 420 crore in AEML, major portion of which remains un-utilized which further supports the liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Power Transmission Companies
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Adani Transmission Limited. As on September 30, 2018, the company had 16 subsidiaries that 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 operational companies - Adani Transmission India Ltd (ATIL), Maharashtra Eastern Grid Power Transmission Company Ltd (MEGPTCL), Western Transmission (Gujarat) Ltd (WTGL) and Western Transco Power Ltd (WTPL), Aravali Transmission Service Company Ltd and Maru Transmission Service Company Ltd. The total length of lines under operation as of June 2018 was 8,511 ckm. Additionally, ATL is also the holding company for several other project subsidiaries that are individually executing greenfield transmission projects with total transmission lines under construction totalling to about 3,450 ckm, making it the largest privately operating transmission line company in India. ATL's transmission assets are primarily spread across western and central parts of the country.

In FY2018, the company reported a net profit of Rs. 1,142.9 crore on an operating income (OI) of Rs. 3,944.5 crore, as compared to a net profit of Rs. 416.4 crore on an OI of Rs. 2,875.7 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	2,875.7	3,944.5
PAT (Rs. crore)	416.4	1,142.9
OPBDIT/OI (%)	69.0%	71.6%
RoCE (%)	13.4%	19.3%
Total Debt/TNW (times)	3.0	1.7
Total Debt/OPBDIT (times)	4.5	3.7
Interest coverage (times)	2.2	3.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S.n.	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016
					Nov 2018	Dec 2017	Oct 2017	-	-
1	Commercial Paper	Short Term	1000.0	-	[ICRA] A1+	[ICRA] A1+ &; Placed on rating 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 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: Adani Transmission Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
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 Transco (Gujarat) Ltd	100.0%	Full Consolidation
Fatehgarh-Bhadla Transmission Ltd	100.0%	Full Consolidation
Adani Electricity Mumbai Ltd	100.0%	Full Consolidation

* Company has acquired 74% equity shares in these companies from GMR Energy Ltd. The balance 26% shares are pledged in favour of the company and the same will get transferred after fulfilment of certain regulatory requirements and completion of lock-in period. As per the agreement, during the lock-in period, it will be the beneficial owner of all the rights and accretion in connection with the pledged shares. Given the above, the company has 'in-substance' ownership of the pledged shares.

ANALYST CONTACTS

Sabyasachi Mazumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Ankit Patel
+91 79 4027 1509
ankit.patel@icraindia.com

Parth Shah
+91 79 4027 1527
Parth.shah@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999