December 30, 2019

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 for the Mumbai GTD business housed under Adani Mumbai Electricity Limited (AEML) 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 where the Power Grid Corporation of India Ltd. (PGCIL; rated [ICRA]AAA(Stable)/A1+), contributing ~42% of total tariff revenue for ATL in FY2019, 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 rating also favourably takes into account 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. ICRA notes the company's issuance in November 2019 for a fresh $500-million bond with a longer maturity schedule so as to refinance its debt in the obligor group.

ICRA also notes the signing of definitive agreements between ATL, AEML (a 100% subsidiary of ATL) and Qatar Holding LLC (a subsidiary of Qatar Investment Authority or QIA) for the sale of a 25.1% stake in AEML to QIA and for a shareholder subordinated debt investment by QIA in AEML. The total investment by QIA is estimated at Rs. 3,200 crore (with Rs. 1,200 crore as equity and Rs. 2,000 crore as sub-ordinated debt) and the transaction is expected to get concluded by February 2020, subject to requisite approvals. QIA is a financial investor and not expected to bring in any significant operational synergies for the company.

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 the $500-million bond maturing in FY2027 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 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 counterparty credit risk pertaining to state-owned transmission utilities (STU) in Rajasthan and Maharashtra wherein these utilities accounted for about 58% of the company's overall tariff in FY2019. However, the same is expected to decline with the commissioning of three transmission assets in Chhattisgarh and Madhya Pradesh in Q4 FY2019 for which PGCIL is the counterparty. Additionally, the counterparty 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 takes into account the rapid growth achieved by ATL over past three years with acquisition of six operational assets (including Reliance Infrastructure Ltd.'s (R-Infra's) Mumbai GTD asset), operationalisation of seven greenfield assets and addition of nine new greenfield projects in its under-construction portfolio. ICRA notes that 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 the 16 operational transmission lines and favourable demography in Mumbai licence area - The line availability for most of the operational transmission lines 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. With respect to the Mumbai distribution license area, the demographic profile is favourable and distribution loss levels remain low at 7.59% in H1 FY2020, also being well within the approved loss level of 8.36% for FY2020.

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 the projects recently 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 FY2020 from over 90% in FY2018. However, the cost-plus nature of the Mumbai GTD 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 58% of the company's overall tariff revenues, the payments have been on-time over the past three years. Moreover, the overall exposure is expected to decline, going forward, with the commissioning of few under-construction projects in Q4 FY2019 and Q1 FY2020, which are part of the inter-state transmission network with PGCIL as CTU. Further, the counterparty 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 Rupee denominated masala bond, off-shore Dollar denominated bond as well as non-convertible debentures (NCD) of varying maturities in the past two to three years. For instance, ATL, in November 2019, raised additional $500-million in foreign bond issuance to refinance part of the debt taken for its obligor group assets.

Credit challenges

Project execution risk - At present, ATL has nine under-construction greenfield projects with total length of ~3,335 circuit kilometres (ckm) and project cost of about Rs. 8,400 crore that are progressing as per schedule. Seven of these nine ongoing projects are still in nascent stages with scheduled commercial operation date (COD) post December 2020. 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. Additionally, for its transmission line under North Karanpura Transco Ltd., ATL faced delay in getting land clearance for laying the transmission line. The issue has now been resolved and ATL has applied for extension of timeline from the regulator.

Refinancing risk - The debt currently held by ATL comprises a mix of NCDs, term loans and bonds with maturities varying from three to 16 years. While ATL intends to use the proceeds of the recent $500 million bond issuance to refinance the existing debt of the obligor group, 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 - The terms of Dollar bonds stipulate hedging at least 95% of principal for the entire tenure 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 the forthcoming year is also hedged and subsequent coupon payments would be hedged as required.

Expansion/acquisition risk - Over the last three years (till September 2019), ATL has completed the acquisitions of six operational assets (including R-Infra's Mumbai GTD asset), operationalised seven greenfield assets and has added nine new greenfield projects in its under-construction portfolio. For the greenfield transmission projects, the overall balance equity requirement will be about Rs. 1,350 crore over the next 2-3 years. The surplus cash flows of the operational assets are estimated to be sufficient to meet this requirement. At a consolidated level, the total capex towards the transmission business as well as the Mumbai GTD business combined is estimated at Rs. 4,000-4,500 crore annually. 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. 1,129 crore in FY2019 and surplus free cash and liquid investments of Rs. 1,521 crore as on September 30, 2019. The company has a sanctioned fund-based working capital facility of Rs. 450 crore as on September 30, 2019, the average utilisation of which remained about 60% over the past 12 months. The liquidity position is affected to some extent by the moderate scheduled repayments over the next three years.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Negative pressure on the rating would arise if the company undertakes any sizeable 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 inter-state 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
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, 2019, the company had 21 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 various operational companies, viz. ATIL, MEGPTCL, Western Transmission (Gujarat) Ltd. (WTGL) and Western Transco Power Ltd. (WTPL), among others. As on September 30, 2019, ATL had a portfolio of 14 operational transmission assets with total length of lines under operation of 11,477 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 totalling to about 3,326 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 which is housed under AEML.

In FY2019, the company reported a net profit of Rs. 559 crore on an operating income (OI) of Rs. 7,305 crore, as compared to a net profit of Rs. 1,143 crore on an OI of Rs. 3,944 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	3,944	7,305
PAT (Rs. crore)	1,143	559
OPBDIT/OI (%)	71.6%	37.8%
RoCE (%)	19.3%	10.8%
Total Outside Liabilities/TNW (times)	1.9	3.0
Total Debt/OPBDIT (times)	3.7	7.3
Interest coverage (times)	3.2	2.0
DSCR (times)	2.2	1.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. n.	Instrument	Current Rating (FY2020)				Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating	FY2019	FY2018		FY2017
					30-Dec-2019	29-Nov-2018	26-Dec-2017	09-Oct-2017	-
1	Commercial Paper	Short Term	1000.0	400.0	[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 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 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	100.0%	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

Source: Adani Transmission Limited

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:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

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) 2556 0194/ 6606 9999