January 19, 2023

Adani Transmission 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-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 ATL's power transmission projects with line availability remaining above the normative level and the associated low demand risks for these projects due to the long-term transmission service agreements (TSA) signed with beneficiary customers, with availability-linked tariff payments. Moreover, the cost-plus tariff for the four major transmission lines housed under the 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 licence area under Adani Mumbai Electricity Limited (AEML) 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 for the company is low due to the significant diversification and the strong payment security mechanism for the underlying inter-state power transmission assets, which contributed to about half of the total tariff for ATL's transmission business in FY2022. 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 function is managed by Central Transmission Utility of India Limited, a subsidiary of Power Grid Corporation of India Limited (PGCIL).

The rating also favourably factors in ATL's financial flexibility, evident from its debt raising abilities through different instruments such as rupee term loans, offshore dollar-denominated bonds as well as non-convertible debentures (NCD) of varying maturities. The rating also takes into consideration the favourable customer profile in the Mumbai licence 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 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 eight operational assets (including Mumbai Generation-Transmission-Distribution (GTD) assets and the Mundra-SEZ T&D business), operationalisation of 14 greenfield assets, addition of seven greenfield projects in its under-construction portfolio, including the cost-plus Kudus-Aarey HVDC line secured in January 2021, and the ongoing acquisition of an operational transmission asset from Essar Power Transmission Company Limited.

While the leverage level for the company remains high given 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 the revenue stability of the transmission assets and the cost-plus operations for the distribution business.

ATL, however, is exposed to the execution risk associated with the sizeable under-construction portfolio of the transmission assets (through seven subsidiaries), though the risk is partly mitigated by its strong track record of 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. Further, the company is entering into the installation of smart metering with income on an annuity basis, with the first such project being executed in Mumbai.

The rating also factors in the refinancing risk associated with the debt having bullet repayments (first such debt of US$ 500 million bond maturing in FY2027) and the foreign exchange movement risk on the dollar debt, which constitutes over 70% of the consolidated debt as of September 2022. The refinancing risk is mitigated by the demonstrated financial flexibility of the Group and the long residual TSA tenure of the transmission assets. Also, the forex 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.

The rating also takes into consideration the moderate counterparty credit risk pertaining to the exposure to the state-owned power utilities (STU) of Rajasthan, Maharashtra and Uttar Pradesh wherein these utilities accounted for about half of the company's overall tariff in FY2022. However, the payments have remained timely so far from the utilities in Rajasthan and Maharashtra. The counterparty risk is also offset to some extent because of 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 as transmission charges constitute a small portion of the overall cost structure of the discoms.

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 the commissioning date. This also allows the project subsidiaries of ATL to earn availability-linked incentives. For the Mumbai distribution licence area, the demographic profile is favourable and the distribution loss levels remained low at 6.4% in 8M FY2023, while also being well within the approved loss level of 7.05% for FY2023.

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 transmission revenue is estimated to decline from over 90% in FY2018 to about 40-50% over the next three fiscals and stabilise at ~50% post commissioning of the HVDC project. 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 cash flows. While the recent increase in regulatory asset owing to the sharp rise in fuel costs and cost of power from the short-term market for AEML is a near-term concern, the 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 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, Maharashtra and Uttar Pradesh in FY2022 was about half of the company's tariff revenues for the transmission business, the payments have been largely 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 right of power regulation available with CTU/STU in case of any significant large delays by the system users and as transmission charges constitute a small portion of the overall cost structure for 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 as well as NCDs of varying maturities in the last three to four years. In FY2022, AEML tied up 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-construction transmission projects. Also, the company raised US $500-million equity from a strategic investor in FY2023, which was used to retire the perpetual equity instruments of the promoter group.

Credit challenges

Large capital expansion plans to keep leverage level elevated, besides concerns over project execution – As on November 30, 2022, ATL had seven under-construction greenfield projects (including the cost-plus Kudus-Aarey HVDC line secured in January 2021) with a total length of 3,505 circuit kilometres (ckm) and project cost of about Rs. ~16,300 crore. Additionally, at AEML, the capex requirement over the four-year period (FY2023 to FY2026) is close to Rs 6,400 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 (net debt/OPBDITA of 5.5-6.0x) 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 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. 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, 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. Further, 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. 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

ATL’s subsidiary, AEML, owns and operates a 500-MW coal-fired power station for supply to the Mumbai licence area. The environmental risks for coal-based power producers emanate from their exposure to fossil fuels and as they are one of the leading emitters of pollutants and largest industrial users of water. However, this plant contributes to a small portion of the Group’s earnings. AEML has committed to increasing the use of renewable power to meet its energy requirements. Some of ATL's transmission projects have been delayed because of the delays in securing the required forest approvals. Further, ATL 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, ATL would likely 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.

ATL 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 resistance against tariff hikes from the public and the consequent inability to recover the costs.

Liquidity position: Adequate

ATL's liquidity position remains adequate with the available cash balances (~Rs 745 crore as on September 30, 2022 at standalone level), working capital lines and upstreaming of surplus cash flows sufficient to meet the debt obligation at the standalone level and equity funding for ongoing projects. The debt at the standalone level constitutes a Rs. 100-crore NCD maturing in 2024 and working capital facility of Rs. 510 crore, with Rs. 10 crore fund-based and Rs. 500 crore non-fund-based limits. The funding for the ongoing projects in subsidiaries is being met through a mix of internal accruals and debt funding. The company has demonstrated exceptional financial flexibility, 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 – 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 pressure on the rating. Also, significant delays in getting payments from counterparties that will adversely impact the liquidity could trigger a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Power Transmission Companies Rating Methodology for Power Distribution Utilities
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 the holding company for the transmission & distribution business of the Adani Group and it owns 100% stake in various operational companies, viz. ATIL, MEGPTCL, among others. As on November 30, 2022, ATL had a portfolio of 31 transmission projects (including seven lines under construction), Adani Electricity Mumbai Limited's (AEML) generation, transmission & distribution (GTD) business in Mumbai and the transmission & distribution (TD) business in Mundra SEZ with presence in 13 states. Its network includes transmission lines with a total length of 18,795 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

	FY2021 - Audited	FY2022 – Audited	H1 FY2023 - Unaudited
Operating income (OI) (Rs. crore)	10,509	11,940	6,991
PAT (Rs. crore)	1,290	1,236	363
OPBDIT/OI (%)	43.1%	40.9%	35.0%
PAT/OI (%)	12%	10%	5.2%
Total outside liabilities/Tangible net worth (times)	3.3	3.3	3.4
Total debt/OPBDIT (times)	6.0	6.1	6.9
Interest coverage (times)	2.1	2.1	1.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: Company data, 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 (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022 (Rs. crore)	Date & rating on		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 19, 2023	Sep 21, 2022	Jan 31,2022	Jan 29,2021	Dec 30,2019
1	**Commercial paper**	Short-term	1000	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
CP	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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Commercial paper***	-	-	7-365 days	1000.00	[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% (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
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	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 Step- Limited	100.0%	Full Consolidation
Adani Transmission Mahan Limited	100.0% (step-down subsidiary)	Full Consolidation

Company Name	ATL Ownership	Consolidation Approach
Adani Electricity Jewar Limited	100.0%	Full Consolidation

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About ICRA Limited:

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