



Adani Power Limited

ICRA has assigned an IPO Grade 3 indicating average fundamentals, to the proposed initial public offering (IPO) of Adani Power Limited. ICRA assigns IPO gradings on a scale of IPO Grade 5 through to IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

The IPO Grade 3 assigned by ICRA factors in the strengths of the proposed projects arising from their location in power deficit states, tie-up of entire fuel linkages and the fact that long-term Power Purchase Agreements (PPAs) have been signed with state utilities for about 70% of the proposed capacity. In addition, APL has also been granted additional coal linkages in the form of Letter of Assurance (LOA) from Ministry of Coal. The grading also factors in the expected benefits from being a part of the Adani Group with demonstrated experience in executing infrastructure sector projects. While Unit I of 330 MW in Phase I of Mundra Project has been recently synchronised with Grid, Phase I & II of 660 MW each are expected to start operations shortly, which is a strength from the grading perspective. On successful commissioning of first two phases of Mundra Project, the company should be able to generate healthy accruals given the prevailing tariffs for traded power. The grading also draws comfort from the Adani group's

experience in setting up infrastructure projects, and the fact that the company would have considerable control on cost of imported coal by virtue of the fact that the group owns rights for coal mining in Indonesia, has its own ships and also owns the port at Mundra. APL has achieved debt tie-up for all four phases of Mundra Project as well as Tiroda Project. APL has raised pre-IPO equity of Rs. 3.75 billion and the proceeds of the proposed IPO will ensure that the equity requirement of the remaining units in the planned projects would be fully met, thus facilitating their financial closure.

The grading is however constrained by the execution risks that are typical of green-field projects and the fact that the company's profitability and returns are critically dependent on its ability to ensure the availability of imported coal at budgeted costs. Further, the company's profitability will be influenced by its ability to maintain actual costs and operating parameters within the budgeted levels since the projects are 'competitively bid tariff' based projects, wherein the cost escalations are not a pass-through. The company also remains exposed to exchange rate risks, given the current funding mix of the project cost & such cost escalations would not be a pass through. The grading also takes into account technology risks arising out of the company's reliance on

imported Boiler Turbine & Generator (BTG) sets, which have not been proven in the Indian conditions for projects of similar magnitude. Also the company is yet to arrange equity tie-up of about Rs.29.7 billion for the ongoing projects, a part of which would be met through the proposed IPO.

Company Profile

Adani Power Limited (APL) is the holding company of Adani Group in power business and is into the business of implementing green-field power generation projects both on its own and through Special Purpose Vehicles (SPV) being its subsidiary. The company has now focused only on two projects namely Mundra Project (4620 MW in four phases on its own books) and Tiroda Project (1980 MW in two phases on the books of Adani Power Maharashtra Limited, APML – subsidiary of APL), while it has kept on hold other planned investments of about 3300 MW. The company intends to sell electricity from the proposed projects under a combination of long term PPAs and on merchant basis.

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