

## Rating Rationale

Adani Enterprise Ltd.

2 July 2019

**Brickwork Ratings reviews the ratings of the Commercial Paper Programme of Rs. 2000 Crs of Adani Enterprise Ltd. (AEL or “the Company”).**

### Particulars

Instrument	Previous Amount (Rs. Crs)	Current Amount	Previous Rating (June 2018)	Rating Reaffirmed
CP Programme	2000	2000	BWR A1+ (Pronounced as BWR A Ones Plus)	BWR A1+ (Pronounced as BWR A Ones Plus)
	2000	Rs. 2000 Crores (Rupees Two Thousand Crores Only)		

^ Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

### Rating: Reaffirmed.

### Rationale / Description of Key rating drivers / Rating Sensitivities:

BWR has essentially relied on audited financials of Adani Enterprises Ltd. (AEL) till FY19, publicly available information and other information, projections and clarifications provided by the company.

The rating factors, *inter alia*, importance of the company to the Adani Group in terms of business and investment linkages, and its financial flexibility, AEL’s strong position in Integrated Coal Management business coupled with other diversified sources of revenue, improvement in overall gearing profile post hiving off the renewable energy segment and city gas distribution business in FY19 and its demonstrated ability to nurture new businesses and subsequently getting them independently listed.

The rating is, however, constrained by working capital intensive nature of AEL’s core trading business leading to relatively high Short Term debt, exposure to related parties mainly in the power group, and continued delays with respect to AEL’s Australian mining project. AEL’s

ability to manage the required liquidity or refinancing in a timely manner is a key rating sensitivity.

**Analytical Approach:** BWR has considered consolidated financials of AEL to arrive at the short-term rating of Commercial Paper Programme of Rs. 2000 Crs with the maturity ranging from 7 to 365 days. AEL, on a standalone basis, has mainly coal trading, power trading and coal Mine Developer & Operator (MDO) businesses, whereas on a consolidated basis AEL has solar PV cell and module manufacturing, agro-processing (including sale of branded edible oil) & storage and commodities trading and oil and gas exploration. BWR has also taken note of Adani Group's overall financial flexibility and AEL's ability to mobilise liquidity for meeting the CP commitments.

**Key Rating Sensitivities:**

**Flagship Company of Adani Group** – Adani Enterprise Ltd. (AEL), listed on BSE and NSE, is the flagship company of the Adani Group along with other group companies which are listed – viz., Adani Ports and Special Economic Zone, Adani Transmission Ltd., Adani Power Ltd., Adani Green Energy Ltd. and Adani Gas Ltd. Being an important company of the group, it has demonstrated a track record of nurturing new businesses of the group. All these listed companies / businesses were initially incubated under AEL and are now functioning independently.

**Diversified sources of revenue:** AEL earns revenue and profitability from two main sources – Integrated Coal Management (ICM) and Mining Developer & Operator (MDO), while other segments such as solar PV cell & module manufacturing, shipping, bunkering and agri-storage are smaller contributors to AEL's overall profitability.

AEL has leading position in India in integrated coal management business wherein AEL imports coal through its established coal sourcing arrangements with coal suppliers of Indonesia,

Australia and South Africa and sells to a diversified clientele. ICM business contributes 79% of the total consolidated revenue and 35% of consolidated EBITDA for FY19.

MDO business involves mining, processing, acquisition, exploration and development of mining assets. AEL has been acting as a mine developer and operator on behalf of Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL) for its coal requirements. Although MDO business does not contribute much to the total operating income (TOI) of AEL, it has healthy contribution to its profitability since it is a high margin business. MDO business contributed 4.0% of total revenues and 41% of consolidated EBITDA of FY19.

For FY2019, the solar PV cell & module manufacturing division generated revenues of ~Rs. 1,433 crore (3.5% of consolidated revenue) but was unable to contribute to the company's bottom-line mainly on account of stiff competition from cheaper imports available in the market.

**Improvement in Gearing:** After hiving off of renewable energy business in April 2018 and City Gas Distribution business in November 2018, gearing of the company improved from 1.41 x as on March 31, 2018 to 0.95x as on March 31, 2019.

**Huge Capex Plans in in near future:** During FY19, AEL has announced various projects across businesses that entail large capex.

The capex in the 'infrastructure and utility' space includes three Hybrid Annuity Model (HAM) projects in Road sector, one HAM project in Water under Clean Ganga Mission of the Government of India (GoI), renewable power generation project in Australia & USA, data center business with Government of Andhra Pradesh (GoAP) for setting up data centers in and around Visakhapatnam over next 20 years), award of six airports under privatization programme of the GoI wherein AEL has emerged as the winning bidder for privatization of six domestic airports viz. Ahmedabad, Jaipur, Lucknow, Thiruvananthapuram, Mangaluru and Guwahati. AEL expects to incur Rs.7,810 crore towards these segments over FY20-21.



As AEL doesn't necessarily have prior experience in most of these businesses which have long gestation period, this exposes AEL to project execution risks. However, comfort is also derived from AEL's long track record of successfully incubating and nurturing businesses across various 'infrastructure and utility' projects such as ports, thermal & renewable power generation and transmission and city gas distribution.

**Delay in Australian Mining Project:** AEL acquired a mine at Carmichael Basin in Australia in 2010 and decided to develop the mine and lay down a railway line from the mine to Abbot Point Port terminal (held directly by the promoters of the Adani Group). While all environmental clearances and government approvals have now been received, AEL is still in the process of achieving financial closure as a result of which the project has been significantly delayed.

During FY19, the company has written-off Rs.670.80 Cr as impairment of non-current assets in mining and renewable business in Australia due to continuous delay in regulatory approval process and various legal challenges as assessed through an independent valuation of the non-current assets. First phase of the project is expected to be operational by December 2020 with a coal mining capacity of 10 MTPA.

**Substantially high Short Term Debt:** AEL's operations are working capital intensive leading to high reliance on short term debt. The company essentially uses non-fund based bank lines for imports of coal (Letters of Credit facilities) and hence the requirement of large fund-based facilities is only moderate. Consequently, the amount of short term debt raised by the company (including the Brickwork rated CP programme) is quite large. The company is exposed to the risk of managing short term liquidity partly by refinancing.

However, as the instruments are issued in multiple tranches, the company's ability to manage liquidity to meet the commitments is considered good.

**Exposure to Power Business:** Post Adani Group's business restructuring in April 2015, AEL on consolidated basis had a significant amount of exposure to Adani Power Limited (APL) and its subsidiaries in the form of loans and advances, receivables and corporate guarantees. As on March 31,



2018 the total exposure to these entities was Rs. 6,313 crore. AEL has been able to realize ~Rs. 2, 100 crore and the total outstanding as on March 31, 2019 stood at ~Rs. 4, 200 crore which is mainly dominated by receivables from APL and its subsidiaries.

**Increasing debt levels of the Adani Group:** Overall debt level of the Adani Group has been increasing on account of new initiatives as well inorganic growth undertaken across businesses by the Group, given the significantly capital intensive infrastructure nature and long gestation period of most of these businesses. However, at an overall Group level, the debt is adequately covered through committed cash-flows across the strong businesses. For the equity requirements of new businesses and support requirements for existing businesses, the promoters largely rely on dividends from strong businesses and raising additional funds through pledge of their equity shares in the listed companies. Servicing of some of this debt largely depends on refinancing options.

### About the Company

Incorporated in 1993, AEL is a part of the Adani Group, promoted by Mr. Gautam Adani.

On a standalone basis, the Company is primarily engaged in Integrated Coal Management (ICM) i.e coal trading and logistic services, Coal Mine Developer & Operator (MDO) business and power trading business. AEL has diverse interests through its direct and stepdown subsidiaries.

On a consolidated basis AEL has evolved into a diversified company engaged in other businesses including Solar PV cell and module manufacturing business, agro-processing (including sale of edible oil under the brand name 'Fortune') & storage, commodities trading and oil & gas exploration. AEL is also entering new businesses like road projects, water treatment plants, data center and airports.

### Company Financial Performance

Adani Enterprises Ltd.	Consolidated		Standalone	
	FY18	FY19	FY18	FY19
Total Income	37984	40951	10166	15923.6
Operating profit	3002	2541	1243	1330.28
Net Profit	594	506	197	487
Total Debt	17637	11242	6912	3044

Tangible Net Worth	12497	11891	3278	2632
Gearing	1.3	0.9	1.8	1.2
Current Ratio	1.0	1.0	1.0	1.0

**Rating History for the last three years (including withdrawn/suspended ratings)**

Sl. No.	Instrument/Facility	Current Rating (Year 2019)			Rating History		
		Type	Amount (Rs Crs)	Rating	June 2018	June 2017	April 2017
1.	Commercial paper	Short Term	2000	A1+	A1+	A1+	A1+
	<b>Total</b>		<b>2000</b>				

**Hyperlink/Reference to Applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Commercial Paper](#)

For any other criteria obtain hyperlinks from website

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### **About Brickwork Ratings**

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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