

India Ratings Revises Outlook on Adani Enterprises and its Proposed NCDs to Negative; Affirms 'IND A+'

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India Ratings and Research (Ind-Ra) has revised Adani Enterprises Ltd's (AEL) Outlook to Negative from Stable while affirming the Long-term Issuer Rating at 'IND A+'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Proposed non-convertible debentures (NCDs)*				INR10	IND A+/Negative	Affirmed, Outlook revised to Negative from Stable

* Yet to be issued

ANALYTICAL APPROACH: Ind-Ra continues to take a consolidated view of AEL's integrated resource management (IRM), mining services and power trading entities (wholly owned) - Adani Global Fze Dubai, Adani Global Pte Ltd Singapore, Indonesia Mining BU, Parsa Kente Collieries Ltd, Gare Pelma III Collieries Ltd, Talabira Odisha Mining Pvt Ltd and Adani Mining PTY Limited, to arrive at the ratings. Ind-Ra has only consolidated the mine operations at Carmichael as the connecting rail infrastructure is only 50% owned by AEL, while the port is 100% held by promoters in their personal capacity, and furthermore, it has no debt. Ind-Ra has excluded other business segments from consolidation - including agri fresh, airports, roads, copper, petrochemical and other upcoming business under Adani New Industries Limited (ANIL) as i) these businesses are expected by the management to be hived off from AEL once they become self-sustaining and inflows from them are to likely remain limited to dividends. Also, Ind-Ra does not expect continued financial support from AEL towards them once they operationalise and/ or ii) the debt at these entities is non-recourse to AEL. However, Ind-Ra has assessed AEL's capability to fund equity commitments for its large upcoming capex programs, given its role as an incubator. The agency will continue to assess the funding plans for the upcoming capex in relation to expected inflows for any capex overruns or debt shortfalls till these projects become self-sustaining.

The Negative Outlook reflects the uncertainty on the cash flow mismatches resulting from the revised capex plans and the possible sources of funding available which may keep the equity cover lower than 2x. AEL, being an incubator, has large, although reduced, capital commitments across different businesses including ANIL, airports, and roads. As per Ind-Ra's previous assessment, the total capex to be undertaken by the company over FY24-FY25 was estimated around INR1,172 billion which as per the management, is being reevaluated. AEL has a committed capex of INR450 billion where financial closure has been achieved.

From an equity funding perspective, Ind-Ra had earlier relied on the group's financial flexibility to access the capital markets, venture into strategic partnerships, monetisation of some of the assets and liquidity availability at the promoter level. However, there exists risks associated with capital raise as investments by the strategic partnerships have been put on hold, the promoters have committed to reduce loans against shares to nil by March 2023 which cumulatively reduce equity cover visibility. Additionally, Ind-Ra would continue to monitor the ability of the group to borrow fresh debt at

competitive rates on a sustained basis. Post the secondary market sale to GQG Partners Inc, there is additional liquidity buffer available at the promoter level which alleviates the risk to some extent.

Ind-Ra would continue to monitor the financial flexibility, capital commitments towards capex, liquidity management at the group level.

Key Rating Drivers

To read the full rating drivers, please [click here](#).

Rating Sensitivities

Outlook Revision to Stable: A significant and sustained improvement in AEL’s EBITDA generation, successful tie up of funding for ongoing and planned capex, successful ramp-up of the incubated portfolio with minimal support requirement from AEL leading to gross leverage sustaining below 4.5x could lead to the Outlook being revised back to Stable.

Negative: Any of the following individually or collectively could lead to a negative rating action:

- a substantial decline in the EBITDA generation on the consolidated basis,
- delays in funding tie-ups for both debt and equity to fund the upcoming investments,
- higher-than-expected debt drawdown to fund capex, leading to adjusted gross leverage of over 4.5x on a sustained basis;
- significant time and cost overruns in the incubation portfolio leading to higher-than-anticipated support requirement in those entities; and
- any other adverse development which materially impacts the credit profile of the entity
- any adverse regulatory development

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on AEL over the short-medium term, due to either their nature or the way in which they are being managed by the entity. The group structure does show complexity which has been factored into the ratings. For more information on Ind-Ra’s ESG Relevance Disclosures, please [click here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please [click here](#).

Company Profile

AEL is the flagship company of the Adani Group engaged in mining services, IRM, power trading apart from acting as an incubator for the group’s new investments.

FINANCIAL SUMMARY - CONSOLIDATED

Ind-Ra Consolidated Financial Summary	1HFY23	FY22	FY21
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Revenue (INR billion)	708.8	567.4	297.7
EBITDA (INR billion)	26.6	30.8	21.3
EBITDA margin (%)	3.8	5.4	7.2
Adjusted gross debt (including acceptances and promoter debt) (INR billion)	237.1	203.3	108.0
Interest coverage (x)	2.5	3.0	2.7
Adjusted gross leverage (x)	-	6.6	5.1
Gross leverage on external debt including acceptances (x)	-	4.3	4.2
Consolidated Reported Financial Summary	1HFY23	FY22	FY21
Revenue (INR billion)	795.1	704.3	402.9
EBITDA (INR billion)	41.0	47.3	32.6
EBITDA margin (%)	5.2	6.7	8.1
Adjusted gross debt (including acceptances and promoter DEBT) (INR billion)	440.9	426.0	179.0
Adjusted gross leverage (x)	-	9.0	5.5
Gross external debt including acceptances (INR billion)	375	300	134
Gross leverage on external debt including acceptances (x)	-	6.4	4.1
Source: AEL, Ind-Ra			

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook		Historical Rating/Outlook	
	Rating Type	Rated Limits (billion)	Rating/Outlook	20 Decemb
Proposed NCDs	Long-term	INR10	IND A+/-Negative	IND A+/-S



Complexity Level of Instruments

Instrument Type	Complexity Indicator
Proposed NCDs	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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APPLICABLE CRITERIA

Corporate Rating Methodology

The Rating Process

Evaluating Corporate Governance

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