

Adani's "Green" new issue

David Lewis [(*)]

The Adani Group, an Indian conglomerate, is involved in several high-emitting and environmentally sensitive sectors, with reportedly more than 60% of revenue derived from coal-related businesses in 2022.[1] This week it announced a global roadshow ahead of a planned USD bond issue supporting projects at Adani Green Energy Limited, a major company within the Group that focuses on renewables.[2] **The roadshow is due to commence on 28 February 2024, covering Asia, the Middle East, Europe and the US.**

The proposed new issue is a $409mm amortising note with an 18-year term. The proceeds are earmarked to refinance a green bond supporting 930MW of existing solar generation in India.

This issuance represents an engagement opportunity for investors. Against this backdrop, this note provides a brief overview of the new issue, the Group's existing debt and capital structure, and the historic interconnections between Adani Green and the wider Group. It also poses questions for investors considering the new issue.

The key takeaways are:

- **Observers including rating agencies and courts have cited interconnections, related party transactions, and contagion risks across the Adani Group. This is an important context for assessing the green credentials of specific lower-emission entities.**
- **Sustainable investors should carefully consider certain aspects of the new issue. These include the lack of alignment of sustainability targets across the Group, and risks of possible future funding linkages to undesirable investments. Examples include Adani Green shares being pledged in 2023 as collateral for debt facilities supporting coal mining.[3]**
- **This interconnectedness raises important questions for investors across all Adani Group entities, in particular those who have restrictions on funding greenfield thermal coal mining.**

[1] "How political will often favours a coal billionaire and his dirty fossil fuel", Washington Post, 9 Dec 2022.
[2] "Sub: Intimation under Regulation 30 of the Securities and Exchange Board of India (NSE release)", Adani Green, 27 Feb 2024.
[3] "Adani Green/Ports and Carmichael funding exposures", AFII, 14 Feb 2023.

(*) Anthropocene Fixed Income Institute (www.anthropocenefii.org), Author for contacts: dlw@anthropocenefii.org

New issue – USD Green Bond

The proposed new issue from Adani Green Energy UP (ticker: ADGREG) is a $409mm amortising note with an 18-year term and 12.7 year weighted average life. It will refinance the existing 6.25% $500mm green bond maturing in December 2024 (ISIN XS1854172043).

As noted by Fitch in its Second Party Opinion (SPO), while the underlying solar projects in the issuing group are "environmentally positive and contribute to climate change mitigation", the fact that the proposed new bond issue refinances an existing solar operation (rather than supporting a new development) indicates reduced additionality.[4] The issue deploys a SPV (Special Purpose Vehicle) structure with three SPVs (Adani Green Energy (UP) Limited, Parampujya Solar Energy Private Limited and Prayatna Developer Private Limited) linked together to service the bond. While SPV structures are common for project-oriented financing, in some cases they can contribute to reduced transparency for emission disclosure.[5]

This new issue marks the Group's first return to offshore primary bond markets since the widely publicised report in January 2023 from Hindenberg Research that raised concerns on the Group's governance and financial management,[6] and led to a collapse in prices across the Group's bonds. More recently, positive regulatory news has supported a strong recovery for the Group in capital markets. As we recently outlined,[7] this backdrop, as well as widely publicised funding plans for 2024, suggested that a new issue was likely forthcoming.

Interconnections across the Adani Group

AFII encourages Adani Green, and the Adani Group, in its efforts to expand renewable capacity. At the same time, we believe investors considering the new issue should look closely at Adani Green's interconnectedness with the broader Group and globally significant coal-developing activities to ensure they are comfortable with their investment.[8] The following examples, which are not exhaustive, highlight potential concerns driven by these connections:

- Shares from Adani Green, Adani Transmission, and Adani Ports and Special Economic Zone were used as collateral in a credit facility of $300 million for Adani's highly controversial Carmichael coal mine project in Australia. This activity has been associated with Adani Green being removed from the UN-backed Science Based Targets Initiative (SBTi).[9]
- The Queensland Supreme Court in Australia highlighted group connections in a 2020 ruling relating to the export terminal serving the Carmichael mine.[10] As highlighted in previous

[4] "Sustainable Fitch: SPO Provided for Adani Green Energy Limited Restricted Group 1's Green Bond", Fitch, 27 Feb 2024.
[5] For another example of SPV structures reducing transparency please see "The arbitrage of a pipeline", AFII, 3 Apr 2023.
[6] "Adani Group", Hindenburg Research, 24 Jan 2023.
[7] For our earlier analysis please see "Adani's SLB: Likely to meet its weak targets", AFII, 2 Feb 2024.
[8] Adani is ranked as the world's largest private sector coal developer, and sixth overall (behind public-sector entities). See "Global Coal Exit List 2023", Urgewald, accessed 30 Jan 2024.
[9] "Adani companies booted from UN CO2 targets initiative", Net Zero Investor, 2 May 2023.
[10] Adani Abbot Point Terminal Pty Ltd v Lake Vermont Resources Pty Ltd & Ors [2020] QSC 260. Section 184, page 45.

AFII research,[11] the ruling observed that several Group companies "are likely to act in the best interests of the Adani Group, not their individual corporate entities".

- Interconnectedness, related party transactions, and contagion risks across the Group contribute to governance concerns cited by third parties including S&P[12] and Fitch.[13]
- This interconnectedness also raises important questions for investors across any Adani Group entity who have restrictions on funding greenfield thermal coal mining.[14]

Questions for investors

We highlight the following questions that, among others, we believe are pertinent for investors considering supporting Adani Green's new issue:

- How do Adani Green's sustainability targets compare to those of the broader Adani Group? For example, what share of Group electricity generation is expected to be renewable by 2030?
- What assurance can be given that any funding provided to Adani Green will not indirectly support coal development at other Adani entities?
- Are sustainability commitments at each Adani Group entity certified as being aligned to the same transition pathway?

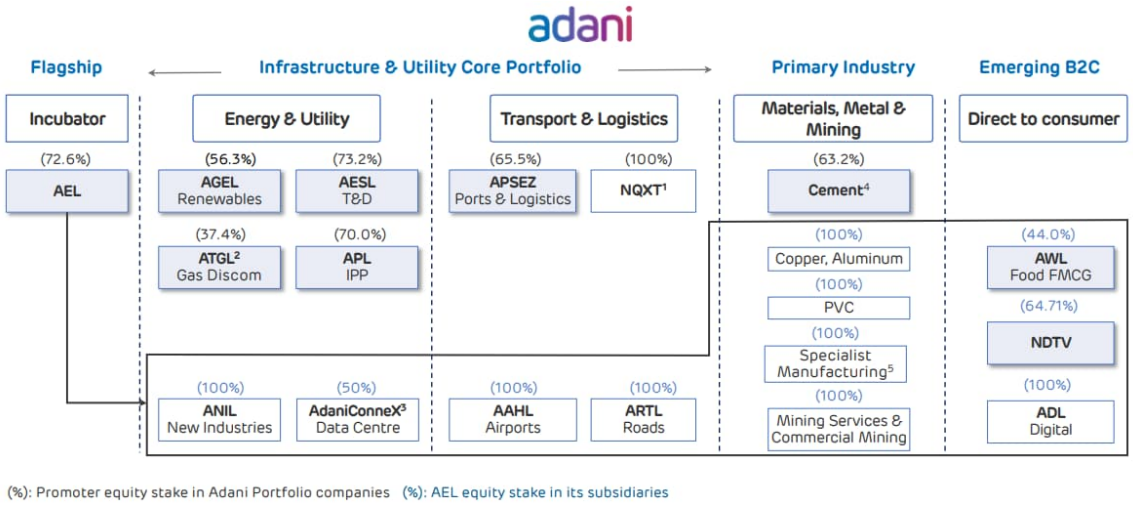
Overview of the Adani Group

The Adani 'Group' is not a legal or reporting entity, but this designation is regularly cited in company communications.[15] A simplified organisation structure is shown in Figure 1 overleaf and Table 1 below provides an overview of outstanding debt across key entities.[16]

The highest leverage (net debt to EBITDA) is at Adani Green and AESL (Adani Energy Solutions Limited, renamed from Adani Transmission in July 2023). These businesses are focused on renewables and electricity transmission/distribution respectively, and as such appear not to have a direct connection to coal development. Similarly, Adani Ports, which operates 13 ports and terminals across India, is the largest borrower in the hard currency bond markets with $4.5bn on issue. The Group's hard currency bond issuance is all in USD, with issuance in AUD having matured over 2020-22. Adani Power, which accounts for around 60% of Group emissions, largely relies on bank funding.

[11] "Global investors and the Carmichael mega-mine", AFII, 1 Sep 2020.
[12] "S&P Global Ratings upgrades Adani Ports, Adani Electricity on cash flow optimism", India Times, 22 Jan 2024.
[13] "Fitch Assigns Adani Green Energy RG1's Proposed USD Notes 'BBB-(EXP)'; Outlook Stable ", Fitch Ratings, 27 Feb 2024.
[14] "Adani Green/Ports and Carmichael funding exposures". AFII, 14 Feb 2023.
[15] For example "Adani Electricity Mumbai Limited: Compliance Certificate", Adani, Sep 2023.
[16] These data are sourced from Bloomberg. AFII has not attempted to reconcile these with primary public disclosures such as annual reports.

Figure 1: Adani Group organisational overview as of November 2023. Source: Adani[1].



1. NQXT: North Queensland Export Terminal | 2. ATGL: Adani Total Gas Ltd, JV with Total Energies | 3. Data center, JV with EdgeConnex, | 4. Adani Cement includes 63.19% stake in Adani Cements which in turn owns 50.05% in ACC Limited. Adani directly owns 6.64% stake in ACC Limited | 5. Includes the manufacturing of Defense and Aerospace Equipment | AEL: Adani Enterprises Limited; APSEZ: Adani Ports and Special Economic Zone Limited; AESL: Adani Energy Solutions Limited; T&D: Transmission & Distribution; APL: Adani Power Limited; AGEL: Adani Green Energy Limited; AAHL: Adani Airport Holdings Limited; ARTL: Adani Roads Transport Limited; ANIL: Adani New Industries Limited; AWL: Adani Wilmar Limited; ADL: Adani Digital Limited; IPP: Independent Power Producer | NDTV: New Delhi Television Ltd | PVC: Polyvinyl Chloride | Promotors holding are as on 30th September,2023

Table 1: Overview of Adani capital structure and outstanding debt (in $mm equivalent). Source: Bloomberg, AFII.

Entity	Equity ticker*	Free float (%)	Market cap USDmn	Total debt USDmn	Bonds	USD bonds	Loans	Bonds % of total	Net debt	EBITDA	Net leverage (x)
Adani Enterprises	ADE IN	23	45,324	5,388	1,584	0	3,804	29%	**4,741**	1,041	**5.51**
Adani Ports	ADSEZ IN	34	34,575	6,724	4,549	3,575	2,175	68%	**6,212**	1,545	**3.45**
Adani Total Gas	ATGL IN	19	13,881	0	0	0	0	na	**-45**	105	**1.21**
AESL	ADANIENS IN	24	15,078	5,913	2,731	2,073	3,182	46%	**5,708**	542	**7.00**
Adani Green	ADANIGR IN	28	37,751	4,508	987	818	3,522	22%	**4,269**	594	**10.39**
Adani Wilmar	AWLTD IN	12	6,069	0	0	0	0	na	**-448**	222	**-0.75**
Adani Power	ADANI IN	34	26,315	6,322	301	0	6,021	5%	**6,097**	1,209	**3.97**
Ambuja Cement	ACEM IN	31	14,424	157	60	0	96	38%	**-194**	445	**-0.65**
Adaniconnnex	1942986D IN	n/a	n/a	512	299	0	213	58%	**486**	na	**na**
Total			193,416	29,523	10,510	6,466	18,800	36%	26,341	5,704	**4.62**

* For debt tickers on Bloomberg, run {SRCH @ADANI<Go>} for a search across the 31 applicable debt tickers.

Conclusions

Adani Green's new bond issue, due to begin roadshowing in February 2024, provides an engagement opportunity for investors.

This note has provided a brief overview of the Group's structure and highlighted areas that investors considering the new issue may want to assess closely.

These include the Group's interconnectedness, related relevance of any thermal coal restrictions investors may employ, and the alignment of sustainability targets across varying Adani Group companies.

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