

Press Release

Andhra Pradesh Capital Region Development Authority

June 29, 2018



Rating Reaffirmed

Bond Programme*	Rs. 2000.00 Cr.
Long Term Rating	ACUITE AA- (SO) / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE AA- (SO)**' (**read as ACUITE double A (Structured Obligation)**) on the Rs.2000.00 crore proposed bonds Andhra Pradesh Capital Region Development Authority (APCRDA). The outlook is '**Stable**'.

Update

Acuité had assigned the rating of ACUITE AA- (SO) / Stable on 31 May, 2018 based on the initial term sheet received from APCRDA. Subsequently, APCRDA has revised the term sheet with regard to the timelines for invocation of guarantee by GoAP. As per the initial term sheet, a DSRA equivalent to two quarters of debt servicing obligations was required to be maintained at all times during the tenure of the bonds. In the event of shortfall in DSRA, the debenture trustee was to invoke the guarantee of GoAP on T+15 days (T being the due date for servicing interest/principal). As per the revised term sheet, the timelines for invocation are set at T+120days (Please refer Section below on "Unconditional & Irrevocable Guarantee from GoAP" for details)

Introduction of waterfall mechanism:

The amounts lying to the credit of Designated Revenue shall be first utilised towards bond servicing amount equivalent to 1.5 times of debt servicing due for particular quarter, then towards debt servicing or transfer to any other account relevant to servicing of other debt

About the Authority

The erstwhile state of Andhra Pradesh was bifurcated into the successor states of Andhra Pradesh (AP) and Telangana in June 2014 vide the Andhra Pradesh Reorganization Act, 2014 act of the Indian Parliament. Andhra Pradesh Capital Region Development Authority (APCRDA) was formed in 2014 under 'AP Capital Region Development Act 2014' and is a statutory body under GoAP. The objectives of APCRDA are planning, coordination, execution, and financing for the development of Amaravati. Amaravati is located in Guntur district with area of ~217 sq. km. and is strategically located within 30 minutes of driving distance of two major urban centres viz. Vijayawada and Guntur.

Key Rating Drivers

Strengths

- Unconditional and irrevocable guarantee from GoAP along with a structured payment mechanism**

The interest and the principal payments on the NCDs are backed by an unconditional and irrevocable guarantee from the Government of Andhra Pradesh (GoAP).

The structure mechanism entails maintenance of Debt Service Reserve Account (DSRA), and Bond Servicing Account (BSA), the salient aspects being:

- I. The DSRA shall be created and maintained in form of cash or fixed deposits equivalent to total debt servicing obligation of the outstanding bonds for the next 2 quarters
- II. BSA shall be funded at the start of each quarter, amount equivalent to 1.5 times the amount of debt servicing requirement (interest and principal), from its own revenue sources
- III. The debenture trustee will independently monitor the adequacy of collection (interest and principal) in BSA. In case of a shortfall on T-15th day, it shall intimate the APCRDA. In case the shortfall is not met by T-7th day, the debenture trustee shall draw the funds from DSRA by that day.
- IV. In case there is a shortfall in DSRA due to drawal of funds to BSA, the shortfall in DSRA is to be met by APCRDA within 5 days of the utilisation of the funds
- V. If the DSRA is not replenished to the requisite extent within 135 days of the shortfall by issuer or by GoAP, then the Trustees shall invoke the GoAP Guarantee by sending a Notice of Invocation to GoAP, the debenture trustee shall invoke the GoAP's Guarantee for the shortfall amount^

The adherence to the structured payment mechanism will be a key rating sensitivity factor for ACUITE.

- **Pivotal role of APCRDA in development of the new state capital**

The erstwhile state of Andhra Pradesh was bifurcated into the successor states of Andhra Pradesh (AP) and Telangana in June 2014 vide the Andhra Pradesh Reorganization Act, 2014 Act of the Indian Parliament. It was decided that both the states of Telangana and Andhra Pradesh would share the Capital of Hyderabad as Capital City for a maximum period of 10 years, during which Andhra Pradesh would identify and develop its own capital city. GoAP had identified Amaravati as its new capital. The state government has a vision to be one of the top three performing states of India by 2022 and a preferred global investment destination. The timely and planned development of its capital city is critical for establishing the investment attraction ability of Andhra Pradesh. The role of Andhra Pradesh Capital Region Development Authority (APCRDA), therefore in the context of development of Amaravati is significant.

Andhra Pradesh Capital Region Development Authority (APCRDA) was formed in 2014 under 'AP Capital Region Development Act 2014' and is a statutory body under GoAP. The objectives of APCRDA are planning, coordination, execution, and financing for the development of Amaravati. Amaravati is located in the district of Guntur with an area of ~217 sq. km. and is strategically located near two major urban centers viz. Vijayawada and Guntur. GoAP plans to make Amaravati a state of the art, modern, efficient, sustainable and environment friendly city.

One of the primary role of APCRDA's is to pool land from individual owners under Land Pooling Scheme (LPS). The total land available under LPS is around 33,000 acres which has been fully acquired by APCRDA. The unique features of LPS include a guaranteed return to the original landowners of about 20% of developed land for residential use and up to 10% for commercial use within the city, besides annuity payment for 10 years with a provision of yearly increase based on the extent of land handed over under LPS. The other benefits for land owners include waiver of agricultural loans, interest free loans for self-employment, pension to landless laborers, increased wage labor under Employment Guarantee program, free education / medical facilities, etc. The funding for such land acquisition and further development will primarily accrue from sale of developed lands, borrowings from financial institutions and multi-lateral agencies as well as grants from GoAP and GoI.

ACUITE believes that APCRDA will be the primary vehicle for the implementation of GoAP's plans and programmes for the capital city. Therefore, APCRDA will be a strategically important entity for GoAP particularly in the early phase of development of the city. Given such strategic importance and also APCRDA's status as a statutory body, the expectations of timely support

from GoAP are very high.

- **Improving socio-economic profile of Andhra Pradesh**

Andhra Pradesh is the 8 th largest state in India (which includes 13 districts) with a geographical area of 160,205 sq. km. The percentage of urban population to the total population in the State is 29.47 percent. The literacy rate of the state stood at 67.35 percent (based on last census, 2011). The state has a healthy mix of economic activity in industry, agriculture and services.

The Gross State Domestic Product (GSDP) of the state at constant (2011-12) Prices for the year 2017-18 is estimated at Rs. 6,07,388 Cr.(prev: Rs.5,46,104 Cr. for 2016-17 (First Revised Estimate)) indicating a growth of 11.22 percent as compared to India's GDP growth of 6.6 percent for FY2017-18 (Advance Estimate). The Per Capita Income (NSDP) of Andhra Pradesh at current prices increased to Rs.1,42,054 from Rs.1,22,664 in 2016-17 registering a growth of 14.87 percent. The sectoral growth rates of GVA of Andhra Pradesh for 2017-18 at constant (2011-12) prices are Agriculture: 17.76 per cent, Industry: 8.49 per cent and Services sector: 9.11 per cent. The total debt as a percentage of GSDP (at constant (2011-12) Prices) stood at 28.40 as on 2017-18 (revised estimates) (prev: 28.79). The fiscal deficit to GSDP (at constant (2011-12) Prices) stood at 4.54 as on 2017-18 (revised estimate) (prev: 5.66).

Government of Andhra Pradesh (GoAP) has demonstrated an ability to attract investment from wide range of industries. The region has a well balanced mix of industries like food and agro, Iron and steel, shipbuilding, textile among others. Andhra Pradesh currently has 29 operational Special Economic Zones (SEZs) in the state across diversified sectors including textiles and apparel, food processing, footwear and leather products, multi-product, pharma, and IT. The region also provides significant opportunities for setting up mining nature of business since the state offers mineral resources such as asbestos, mica, manganese, barite, high grade coal and low grade iron ore. Andhra Pradesh has established itself as logistics hub which includes the presence of Visakhapatnam port which connects South East Asian countries.

Apart from industrial activity, agriculture is the most important sector of Andhra Pradesh's economy. Around 70 percent of the population works in agriculture and the state is one of the India's main rice producing areas and is also known as Rice Bowl of India. The GoAP has been attracting various MSME's under New MSME Policy 2015-2020, industries under Industries Investment Promotion Policy 2015-2020.

ACUITE believes the initiatives being taken by the Government of Andhra Pradesh to boost the economic activities within the state will in-turn benefit the state to generate healthy revenue in terms of taxes. Further, ACUITE is of the opinion that with leadership qualities and steps taken by GoAP to promote investments in the state, it will be able to attract more investments from domestic and international investors and generate employment opportunities in the state which should contribute towards higher per capita income and higher Gross State Domestic Product (GSDP) in the medium to long term.

Weaknesses

- **Credit profile linked with balancing of growth and fiscal discipline of Andhra Pradesh**

The positioning of Andhra Pradesh as an attractive major destination for various local and international investors will require significant investments in infrastructure development in Amaravati – the proposed people's capital of the state. The high developmental expenditure is required for execution of these mega plans which will be funded largely through long term investments and borrowings from various domestic and international investors. Andhra Pradesh has already signed 734 Memoranda of Understanding (MoU) involving an amount of Rs.4.39 lakh Cr. at the Sunrise AP Summit held in February 2018. The state has announced a range of policies such as Textile and Apparel Policy, Biotechnology policy, Retail Trade Policy, IT policy, Aerospace & Defense Manufacturing policy. Besides the participation of the private sector through Public-Private Partnership (PPP), the State Government and the Central Government are expected to support these development plans through various fiscal

sops, equity contributions, soft loans and issuance of guarantees in favor of the lenders to these projects.

The socio economic benefits from this developmental expenditure, in terms of better quality of life and higher revenues are expected to accrue gradually, whereas the capital expenditure plans are mostly front ended. Further, the fiscal flexibility of GoAP is relatively limited given the high fiscal deficit of 4.54 per cent of the state's GSDP as on 2017-18 (RE) albeit it has improved from 5.66 per cent for the previous year. The ability of Andhra Pradesh to maintain the trade-off between growth and fiscal discipline will be a key determinant of its future credit profile. The debt burden of Andhra Pradesh state has increased to Rs. 225,234 Cr. (28.40% of GSDP) from Rs. 201,314 Cr. (28.79% of GSDP) during 2016-17. The state's revenue deficit for 2017-18 (RE) is at 0.66% of GSDP (previous year 3.15%). With the general elections expected in FY20, the state's ability to curb its expenditure programmes is limited thereby precluding the possibility of any significant improvement in fiscal metrics. The influence of adverse macro-economic factors such as cutbacks in capex plans by corporates, and hardening of interest rates may impinge on the investment flows into the state in the near term thereby increasing the pressure on the Government to step up its expenditure plans.

ACUITE believes that Andhra Pradesh's blue print for growth and development within the next 5-10 years are steps in the right direction. The timely and efficient implementation of these plans against the backdrop of a competitive macroeconomic environment, and the balancing of the growth objectives vis a vis fiscal targets will be crucial determinants of the state's credit profile over the medium to long term.

Analytical Approach

ACUITE has considered the standalone business and financial risk profiles of APCRDA and has factored in support extended by GoAP (through an unconditional and irrevocable guarantee) as well as the presence of the Structured Payment Mechanism while arriving at the rating.

Outlook: Stable

ACUITE believes APCRDA will maintain a stable outlook given the healthy economy of the state of Andhra Pradesh and the economic prospects of the new capital city, Amravati. The outlook may be revised to 'Positive' in case APCRDA is able to generate and sustain cash surpluses or in case of any improvement in the credit profile of GoAP. Conversely, the outlook may be revised to 'Negative' in case of any unexpected deterioration in the financial health of GoAP.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	391.55	124.61	50.71
EBITDA	Rs. Cr.	308.54	40.78	(2.73)
PAT	Rs. Cr.	319.57	44.85	10.80
EBITDA Margin	(%)	78.80	32.73	(5.39)
PAT Margin	(%)	81.62	35.99	21.30
ROCE	(%)	14.23	2.95	1.24
Total Debt/Tangible Net Worth	Times	0.52	0.12	0.00
PBDIT/Interest	Times	NA	NA	NA
Total Debt/PBDIT	Times	2.80	4.13	0.02
Gross Current Assets (Days)	Days	NA	NA	NA

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Transaction structure:

Date	Particulars
T-90	Advance crediting of the bond servicing account, of 1.5x the upcoming debt servicing obligation (Interest + Principal (whenever applicable))
T-15	Trustee to monitor the adequacy of collection (interest and principal) in APCRDA bond servicing account on T-15th day and intimates the issuer/ GoAP in case of any shortfall.
T-7	If the shortfall is not made good by T-7th day, the Debenture Trustee shall utilize funds from DSRA account to meet the shortfall.
T	Debt Servicing date, when payments are made to the investors
T+5	In case there is a continued shortfall in DSRA account due to utilization of funds, issuer/GoAP undertakes to restore DSRA account within 5 working days.
T+10	In case Issuer fails to replenish the DSRA, trustees to inform the GoAP in writing regarding the shortfall in DSRA account so that necessary arrangements shall be made for replenishment of DSRA by the issuer or GoAP.
T+15	The DSRA to be replenished by APCRDA/GoAP
T+30	If the DSRA is not replenished to the requisite extent by T+30th day, the Trustees shall send soft notice to GoAP intimating that Guarantee shall be invoked, if Government fails to replenish the DSRA
T+75	The debenture trustee should independently monitor the adequacy of collection (interest and principal) in APCRDA Bond Servicing account on T2-15 (i.e. 15 days prior to next debt servicing date) day and intimate the issuer in case of any shortfall.
T+83	If the shortfall is not made good by T+83 day, the Debenture Trustee shall utilize funds from DSRA account to meet the shortfall.
T+90	<ol style="list-style-type: none"> 1. Debt Servicing 2. Trustee shall send notice to GoAP to replenish full DSRA of two quarters within 30 days
T+120	Invocation of GoAP guarantee by trustee for redemption of outstanding principal and interest
T+130	Last date by which GoAP shall transfer requisite funds in the designated escrow account as per the notice of invocation served by the trustees.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- State Government Support - <http://acuite.in/view-rating-criteria-26.htm>
- Service Entities - <http://acuite.in/view-rating-criteria-8.htm>
- Securitized Transactions - <http://acuite.in/view-rating-criteria-29.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
31-May-18	Proposed Bond	Long Term	2000.00	ACUITE AA – (SO) / Stable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bond	Not Applicable	Not Applicable	Not Applicable	2000.00	ACUITE AA- (SO) / Stable (Reaffirmed)

Contacts

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