

Press Release

Andhra Pradesh Capital Region Development Authority

November 21, 2019

Rating Downgrade



Instrument Rated*	Rs. 2000.00 Cr.
Long Term Rating	ACUITE A+ (CE) / Outlook: Negative (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE A+ (CE)**' (read as **ACUITE A plus (Credit Enhancement)**) from '**ACUITE AA- (CE)**' (read as **ACUITE double A minus (Credit Enhancement)**) on the Rs.2000.00 crore Unsecured Non-Convertible Debentures of ANDHRA PRADESH CAPITAL REGION DEVELOPMENT AUTHORITY (APCRDA). The outlook is '**Negative**'.

Acuité, vide its press release dated August 19, 2019, had placed the long term rating of '**ACUITE AA- (CE)**' on 'Rating watch with Negative implications' in response to the withdrawal by certain lenders and its likely impact in the pace of development of Amaravati Project. However, Acuité has received certain clarifications with regards to the same and hence Acuité is now downgrading the long term rating to '**ACUITE A+ (CE)**' from '**ACUITE AA- (CE)**' and the outlook is '**Negative**'.

Reason for Downgrade

The rating downgrade is on account of Acuité belief that APCRDA will face headwinds in initial stage of implementation on account of the changes in the overall operating environment and adverse development such as withdrawal from key lenders to the project. APCRDA has also recognised these challenges and have approached its domestic lenders for extension of moratorium by one year. The uncertainty emanating from changes from the political dispensation of the state will also continue to add the challenges faced by APCRDA. The rating also factors in support from Government of Andhra Pradesh (GoAP) on an ongoing basis hence the credit profile of GoAP is central to this rating. In this regard, Acuité observes that, GoAP's key fiscal indicators like Debt to GSDP and Gross Fiscal Deficit to GSDP are already above the threshold levels. Any significant changes in the fiscal profile of GoAP will be a key monitorable.

About the Authority

The erstwhile state of Andhra Pradesh was bifurcated in to 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.

Standalone (Unsupported) Rating

ACUITE BBB

Analytical Approach

Acuité 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 along with presence of Debt Service Reserve Account (DSRA) while arriving at the rating.

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 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.

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

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

The erstwhile state of Andhra Pradesh was bifurcated in to 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 has 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 Amravati 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.

APCRDA's model is based on pooling 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 Gol.

Acuite believes that the continued support from GoAP to Amaravati Project will continue to underpin the rating on the APCRDA instruments. The continued support from the State and Central Government to the initiative of building a new capital city at Amaravati will be crucial from a rating standpoint. In the unlikely event of any reconsideration by GoAP regarding the said project, the strategic importance of APCRDA to the State will be impacted.

Weaknesses

• Credit profile linked to fiscal profile 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. However, post new government, the state has witnessed a slowdown in the pace of construction coupled with withdrawal of funds from reputed lender and termination of pact with Singapore consortium. 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. Acuite believes with withdrawal of funds and termination of pact with foreign agencies, APCRDA will have to rely on grants from State and Central Government. Timely support from State and Central Government or any long term equity tie up of timely completion of project will remain key monitorable.

The rating factors in support from the State Government implying continued ability of the State to support the Amaravati Project. As per Andhra Pradesh State budget, the fiscal deficit stood at Rs.35261 crore for FY2019-20 (Budget Estimate) as against Rs.33619 crore for FY2018-19 (Revised Estimates) and revenue deficit at Rs.1778.5 crore for FY2019-20 (Budget Estimate) as against Rs.11654.9 crore FY2018-19 (Revised Estimates). The total outside liabilities to GSDP stood at 27% as in FY2019-20 (BE) as against 28.2% in FY2018-19 (RE). The gross fiscal deficit to gross state domestic product (GFD to GSDP) at 3.26 per cent in FY2019-20 (BE) and Debt to GSDP stood at 27% for FY2019-20 (BE), way above than fiscal responsibility and budget management (FRBM) norms of 3.0% and 25% respectively. The influence of adverse macro-economic factors such as cutbacks in capex plans by corporates, and improved sops by other States may impinge on the investment flows into the State. Any further slippages in the key fiscal parameters could impact the credit profile of the State.

Andhra Pradesh's ability to attain an improvement in its fiscal parameters also depends on its revenue generation which in turn is linked to its own revenues as well as devolution from Centre. Any further slowdown in investment flows and sluggishness in economic activity will affect its fiscal parameters. The ability to maintain fiscal indicators within prudent levels while maintaining the growth will be key determinants of the GoAP's credit profile.

Rating Sensitivity

- Adherence of Structured Payment Mechanism
- Credit Profile of GoAP

Material Covenant

None

Liquidity: Adequate

APCRDA has adequate liquidity marked by presence of two quarter DSRA in form of Fixed Deposits and healthy cash and bank balance (including Fixed Deposits) of Rs.583 crore as on September 15, 2019 as against its annual debt servicing requirement of around Rs 500 crore.

Outlook: Negative

Acuite believes that the slowdown in the pace of implementation and withdrawal of leading lenders from the various projects will have a significant bearing on the credit profile of APCRDA. The stance of the current government in respect of the APCRDA project will be a key driver of its ability to raise funding for the project. The rating might be downgraded in case of occurrence of events which may further impede implementation of the project or add to the funding challenges. The fiscal profile of GoAP will also be a key monitorable in this regard. The outlook may be revised to 'Stable' incase of significant improvement in cash flows from the project vis-à-vis Acuite expectations while attaining financial participation from lenders and investors. The evidence of continued support of GoAP to this project will be critical in this regard.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	126.23	124.61	50.71
PAT	Rs. Cr.	25.14	44.85	10.80
PAT Margin	(%)	19.92	35.99	21.30
Total Debt/Tangible Net Worth	Times	0.56	0.12	0.00

Government of Andhra Pradesh (GoAP) Financial Indicators

	Unit	FY2018-19 (RE)	FY2017-18 (Actuals)
Total Receipts	Rs. Cr.	156,007	105,113
Total Expenditure	Rs. Cr.	162,134	146,944
Revenue Deficit	Rs. Cr.	11,655	16,152
Fiscal Deficit	Rs. Cr.	33,619	32,373
Debt/GSDP	%	27.80	28.20

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"> Debt Servicing 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>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Credit Enhancement - <http://acuite.in/view-rating-criteria-49.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
19-Aug-19	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) (Rating Watch with Negative Implications)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) (Rating Watch with Negative Implications)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) (Rating Watch with Negative Implications)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) (Rating Watch with Negative Implications)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) (Rating Watch with Negative Implications)
26-Jun-19	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) / Stable (Reaffirmed)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) / Stable (Reaffirmed)
29-June-18	Proposed Bond	Long Term	2000.00	ACUITE AA- (CE) / Stable (Reaffirmed)
31-May-18	Proposed Bond	Long Term	2000.00	ACUITE AA- (CE) / Stable (Assigned)

***Annexure – Details of instruments rated**

ISIN	Name of Facility	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
INE01E708016	Unsecured Redeemable Non-Convertible Debentures	16-Aug-18	10.32%	16-Aug-24	400.00	ACUITE A+ (CE) / Negative (Downgrade)
INE01E708024	Unsecured Redeemable Non-Convertible Debentures	16-Aug-18	10.32%	16-Aug-25	400.00	ACUITE A+ (CE) / Negative (Downgrade)
INE01E708032	Unsecured Redeemable Non-Convertible Debentures	16-Aug-18	10.32%	16-Aug-26	400.00	ACUITE A+ (CE) / Negative (Downgrade)
INE01E708032	Unsecured Redeemable Non-Convertible Debentures	16-Aug-18	10.32%	16-Aug-27	400.00	ACUITE A+ (CE) / Negative (Downgrade)
INE01E708057	Unsecured Redeemable Non-Convertible Debentures	16-Aug-18	10.32%	16-Aug-28	400.00	ACUITE A+ (CE) / Negative (Downgrade)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuute.in</p> <p>Kashish Shah Senior Analyst - Rating Operations Tel: 022-49294042 kashish.shah@acuute.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294021 varsha.bist@acuute.in</p>

About Acuite Ratings & Research: Acuite Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.