

Press Release

Andhra Pradesh Capital Region Development Authority

January 15, 2021



Rating Reaffirmed

Total Instruments Rated*	Rs.2000.00 Cr.
Long Term Rating	ACUITE A+ (CE) (Reaffirmed; Watch with Negative Implications)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE A+ (CE)**' (**read as ACUITE A plus (Credit Enhancement)**) on the Rs.2000.00 Cr. Non-Convertible Debentures of Andhra Pradesh Capital Region Development Authority (APCRDA). The rating continues to remain on 'Watch with Negative Implications'.

The rating reaffirmation on APCRDA is based on continuing funding support and the availability of an unconditional and irrevocable guarantee from the Government of Andhra Pradesh (GoAP). APCRDA has received grants from GoAP to the tune of Rs. 2267 Cr. as on 31 March 2020 (Prov.) as against Rs.1972 Cr. as on 31 March 2019. While there is a significant uncertainty on the implementation of the existing projects of the authority and the operational cash flows are not adequate for servicing its borrowings, funds have been made available from the state government on a timely basis. Acuité believes that APCRDA will continue to receive timely financial support from its parent (GoAP), given the moral obligations arising from the guarantees provided by the latter. The credit profile of GoAP will remain the key to the credit quality of GoAP.

The rating, however, continues to remain on watch with Negative Implications due to the continuing uncertainty on the roles and activities of APCRDA subsequent to the decision of the state government to make changes in the plans for the capital region. The proposed bill with regard to the revisions in the original infrastructure plan and the formation of an alternative entity is yet to be cleared in the state legislature. The revised plans may have a significant impact on the existing and future project implementation and thereby, the revenue generation plans of APCRDA.

Acuité notes that the construction work in the notified region has been largely on hold in CY2020 partly also due to the outbreak of the Covid-19 pandemic. APCRDA has also requested the banking consortium for an extension of DCCO by another 6 months which is already over and above the 1 year extension that has been granted earlier. Acuité is in discussion with the management of APCRDA to assess the impact of such prolonged uncertainties on APCRDA's future cash flows.

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 an area of ~217 sq. km. and is strategically located within 30 minutes of driving distance of two major urban centres viz. Vijayawada and Guntur.

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 a 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.

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. Acuité 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 revenue receipts is estimated at Rs. 1,78,697 Cr. for FY2019-20 (Budget Estimates) as against Rs.1,14,684 Cr. for FY2018-19 (Revised Estimates). The revenue deficit is estimated at Rs. 1,779 Cr. for FY2019-20 (BE) Rs.11,655 for FY2018-19 (RE). The gross fiscal deficit to gross state domestic product (GFD to GSDP) is estimated at 4.78 per cent in FY2019-20 (BE) as against 4.1 per cent in FY2018-19 (RE). 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 particularly due to the Covid-19 pandemic may 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.

Liquidity position: Adequate

Currently, the cash flows of APCRDA has been impacted due to the halt of project construction work and the outbreak of COVID – 19. However, the liquidity is supported by timely receipt of grants from GoAP for servicing the debt. Further, the liquidity cushion is also available from the DSRA along with the stipulated structure.

Rating Sensitivities

- Credit Profile of GoAP

Material Covenants

- No major covenants

Assessment of Adequacy of Credit Enhancement

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	102.93	138.02
PAT	Rs. Cr.	(215.15)	(105.85)
PAT Margin	(%)	(209.02)	(76.69)
Total Debt/Tangible Net Worth	Times	1.73	1.59
PBDIT/Interest	Times	0.20	0.02

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-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
31-Jan-20	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) (Rating Watch with Negative Implications)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) (Rating Watch with Negative Implications)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) (Rating Watch with Negative Implications)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) (Rating Watch with Negative Implications)
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) (Rating Watch with Negative Implications)
21-Nov-19	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) / Negative
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) / Negative
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) / Negative
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) / Negative
	Unsecured Redeemable Non-Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) / Negative

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) (Reaffirmed; Rating Watch with Negative Implications)
INE01E708024	Unsecured Redeemable Non-Convertible Debentures	16-Aug-18	10.32%	16-Aug-25	400.00	ACUITE A+ (CE) (Reaffirmed; Rating Watch with Negative Implications)
INE01E708032	Unsecured Redeemable Non-Convertible Debentures	16-Aug-18	10.32%	16-Aug-26	400.00	ACUITE A+ (CE) (Reaffirmed; Rating Watch with Negative Implications)
INE01E708040	Unsecured Redeemable Non-Convertible Debentures	16-Aug-18	10.32%	16-Aug-27	400.00	ACUITE A+ (CE) (Reaffirmed; Rating Watch with Negative Implications)
INE01E708057	Unsecured Redeemable Non-Convertible Debentures	16-Aug-18	10.32%	16-Aug-28	400.00	ACUITE A+ (CE) (Reaffirmed; Rating Watch with Negative Implications)

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About Acuité Ratings & Research:

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