

Press Release

ANDHRA PRADESH CAPITAL REGION DEVELOPMENT AUTHORITY (APCRDA)

January 14, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Shc F
Non Convertible Debentures (NCD)	2000.00	ACUITE A+ CE Stable Reaffirmed	
Total	2000.00	-	-

Rating Rationale

Acuite has reaffirmed its 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). Acuite has also resolved the 'Watch with Negative Implications' and has assigned a 'Stable' outlook.

The rating reaffirmation factors continued funding support and the availability of the unconditional and irrevocable guarantee from the Government of Andhra Pradesh (GoAP). APCRDA has received grants from GoAP to the tune of Rs. 3094 Cr. as on 31 March 2021 as against Rs. 2267 Cr. as on 31 March 2020. Acuite believes that APCRDA will continue to receive timely financial support from its parent (GoAP), given the moral obligations arising from the guarantees provided by GoAP. The credit profile of GoAP will remain the key to the credit quality of APCRDA.

The resolution of 'Watch with Negative Implications' is reflective of significant reduction in uncertainty around the revenue generation plans of APCRDA as the state government has withdrawn the earlier proposed changes in the plans for the capital region. Hence, there is no further uncertainty on the roles and activities of APCRDA which is revived w.e.f 13.12.2021 by Andhra Pradesh State Legislature. Acuite also notes that the construction activities have resumed from December 2021 and GoAP has issued a fresh guarantee for raising bank loan of Rs 3000 Cr for prioritised LPS and Trunk Infrastructure . However, the debt-tie up is yet to be completed.

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 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

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 including the availability 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. 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 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. 1,77,196 Cr. for FY2021-22 (Budget Estimates) as against Rs.1,18,063 Cr. for FY2020-21 (Revised Estimates). The revenue deficit is estimated at Rs. 5,000 Cr. for FY2021-22 (BE) as against Rs.34,927 for FY2020-21 (RE). The gross fiscal deficit to gross state domestic product (GFD to GSDP) is estimated at 3.49 per cent in FY2021-22 (BE) as against 5.38 per cent in FY2020-21 (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 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.

Rating Sensitivities

- Credit Profile of GoAP

Material covenants

None

Liquidity Position: Adequate

The liquidity of APCRDA 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.

Outlook: Stable

Acuité believes that APCRDA will maintain a 'Stable' outlook over the medium term on the back of support of GoAP. The outlook may be revised to 'Positive' in case of the sustained industrial growth and reduction in state's indebtedness or in case APCRDA is able to generate cash surpluses. Conversely, the outlook may be revised to 'Negative' in case of any significant deterioration in the financial health of GoAP .

Assessment of Adequacy of Credit Enhancement

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	31.38	102.93
PAT	Rs. Cr.	(298.22)	(215.15)
PAT Margin	(%)	(950.34)	(209.02)
Total Debt/Tangible Net Worth	Times	1.47	1.73
PBDIT/Interest	Times	0.00	0.20

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Jan 2021	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) (Ratings Under Watch)
31 Jan 2020	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Negative (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Negative (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Negative (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Negative (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Negative (Ratings Under Watch)
21 Nov 2019	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Negative (Downgraded from ACUITE AA- (CE))
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Negative (Downgraded from ACUITE AA- (CE))
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Negative (Downgraded from ACUITE AA- (CE))
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Negative (Downgraded from ACUITE AA- (CE))
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Negative (Downgraded from ACUITE AA- (CE))
19 Aug 2019	Non Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) (Ratings Under Watch)
	Non Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) (Ratings Under Watch)
26 Jun 2019	Non Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	400.00	ACUITE AA- (CE) Stable (Reaffirmed)
29 Jun 2018	Proposed Bond	Long Term	2000.00	ACUITE AA- (CE) Stable (Reaffirmed)
31 May		Long		

2018	Proposed Bond	Term	2000.00	ACUITE AA- (CE) Stable (Assigned)
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Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	INE01E708016	Non-Convertible Debentures (NCD)	16-08-2018	10.32	16-08-2024	400.00	ACUITE A+ CE Stable Reaffirmed
Not Applicable	INE01E708024	Non-Convertible Debentures (NCD)	16-08-2018	10.32	16-08-2025	400.00	ACUITE A+ CE Stable Reaffirmed
Not Applicable	INE01E708032	Non-Convertible Debentures (NCD)	16-08-2018	10.32	16-08-2026	400.00	ACUITE A+ CE Stable Reaffirmed
Not Applicable	INE01E708040	Non-Convertible Debentures (NCD)	16-08-2018	10.32	16-08-2027	400.00	ACUITE A+ CE Stable Reaffirmed
Not Applicable	INE01E708057	Non-Convertible Debentures (NCD)	16-08-2018	10.32	16-08-2028	400.00	ACUITE A+ CE Stable Reaffirmed

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About Acuité Ratings & Research

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