

Press Release

Andhra Pradesh Capital Region Development Authority (APCRDA)

September 01, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	2000.00	ACUITE BBB+ CE Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	2000.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded its long term rating to **ACUITE BBB+ (CE)** (read as ACUITE triple B plus (Credit Enhancement)) from **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 outlook remains stable.

The downgrade in the rating has been primarily on account of non-adherence to the stipulated transaction structure. As per the T structure, GoAP had to ensure that the bond servicing account had adequate funds equivalent to 1.5 times of the upcoming debt service obligation and in case if the same is not done by T-7 days, funds have to be transferred from the existing DSRA by the trustee. Acuite has noted that the bond servicing account was not funded as per the terms before the previous interest due date and the trustee had to tap into the DSRA to partially service the interest. This resulted in a shortfall in the DSRA which is to be maintained at a level equivalent to next 2 quarters of debt servicing obligation. While the DSRA has been subsequently replenished as per the feedback of the trustee, Acuite understands that the bond servicing account is yet to be replenished. The rating action has also been driven by the deterioration in the liquidity position of APCRDA brought about by the lack of timely support from GoAP.

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.

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.
Unsupported Rating: **Acuite BB (Downgraded from ACUITE BBB)**

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 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 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 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 remain a key rating sensitivity factor.

Weaknesses

High linkages with the vulnerable 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. High developmental expenditure is required for execution of these mega plans which has been funded largely through long term investments and borrowings from various domestic and international investors. Besides the participation of the private sector through Public-Private Partnership (PPP), the State Government is 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 APCRDA will have a significant dependence on grants from State and Central Government. Timely support from the State Government or any long term equity tie up for timely completion of the projects will remain a key monitorable. The rating factors in support from the State Government to APCRDA in a timely manner.

As per Andhra Pradesh State budget, the revenue receipts is estimated at Rs. 1,91,262 Cr. for FY2022-23 (Budget Estimates) as against Rs.1,55,234 Cr. for FY2021-22 (Revised Estimates). The revenue deficit is estimated at Rs. 17,036 Cr. for FY2022-23 (BE) which is 1.27% of the GSDP as against 1.63% of GSDP for FY2021-22 (RE). The gross fiscal deficit to gross state domestic product (GFD to GSDP) is estimated at 3.64 per cent in FY2022-23 (BE) as against 3.49 per cent in FY2021-22 (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 discipline while facilitating higher GSDP growth after the disruptive impact of the prolonged Covid pandemic will be a key determinant of GoAP's credit profile, going forward.

Assessment of Adequacy of Credit Enhancement

Not applicable

ESG Factors Relevant for Rating

Not applicable

Rating Sensitivities

- Credit Profile of GoAP
- Adherence to the stipulated transaction structure

Material covenants

None

Liquidity Position: Weak

The liquidity of APCRDA is dependent on timely receipt of grants from GoAP and disbursements from lenders. Liquidity cushion has been intrinsically built into the transaction structure through DSRA and the BSA. However, the standalone liquidity position of APCRDA currently remains stretched due to a lack of timely infusion of funds from GoAP.

Outlook: Stable

Acuité believes that APCRDA will maintain a 'Stable' outlook over the medium term on the back of support from GoAP. The outlook may be revised to 'Positive' in case of an improvement in GoAP's fiscal position 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 or any further deviation from the stipulated transaction structure.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	39.35	31.38
PAT	Rs. Cr.	(203.95)	(298.22)
PAT Margin	(%)	(518.29)	(950.34)
Total Debt/Tangible Net Worth	Times	1.23	1.47
PBDIT/Interest	Times	0.10	0.00

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

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
14 Jan 2022	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	400.00	ACUITE A+ (CE) Stable (Reaffirmed)
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 2018	Proposed Bond	Long Term	2000.00	ACUITE AA- (CE) Stable (Assigned)

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 BBB+ CE Stable Downgraded (from ACUITE A+ CE)
Not Applicable	INE01E708024	Non-Convertible Debentures (NCD)	16-08-2018	10.32	16-08-2025	400.00	ACUITE BBB+ CE Stable Downgraded (from ACUITE A+ CE)
Not Applicable	INE01E708032	Non-Convertible Debentures (NCD)	16-08-2018	10.32	16-08-2026	400.00	ACUITE BBB+ CE Stable Downgraded (from ACUITE A+ CE)
Not Applicable	INE01E708040	Non-Convertible Debentures (NCD)	16-08-2018	10.32	16-08-2027	400.00	ACUITE BBB+ CE Stable Downgraded (from ACUITE A+ CE)
Not Applicable	INE01E708057	Non-Convertible Debentures (NCD)	16-08-2018	10.32	16-08-2028	400.00	ACUITE BBB+ CE Stable Downgraded (from ACUITE A+ CE)

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About Acuité Ratings & Research

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