

Press Release

Kaleshwaram Irrigation Project Corporation Limited

May 22, 2020



Rating Assigned

Total Facilities Rated*	Rs.18,752.00 Cr.
Long Term Rating	ACUITE A+ (CE [^]) / Outlook: Stable

* Refer Annexure for details

[^]credit enhancement (CE) based on the form of an unconditional and irrevocable government guarantee extended by the Government of Telangana (GoT).

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A+ (CE)**' (**read as ACUITE A plus (Credit Enhancement)**) on the Rs.18, 752 Cr facilities of Kaleshwaram Irrigation Project Corporation Limited (KIPCL). The outlook is '**Stable**'.

Kaleshwaram Irrigation Project Corporation Ltd (KIPCL) was incorporated on August 05, 2016 by the Government of Telangana (GoT). It is a special purpose vehicle (SPV) created to construct the Kaleshwaram lift irrigation project, it is one of the world's largest lift irrigation project undertaken by Telangana state. The project envisages to create potential to irrigate 18.25 lakh acres of land and stabilizing the existing reservoirs which can further irrigate 18.83 lakh acres ayacut. The project is further sub-divided to provide 10 thousand million cubic feet (TMC) of drinking water to the villages en-route, 30 TMC of drinking water to twin cities of Hyderabad & Secunderabad and 16 TMC of water for Industrial use. The entire project has been divided into seven links each of which will convey water to different command areas through 21 pump houses covering the Project area under the 13 districts in Telangana.

Analytical Approach

To arrive at the rating, Acuité has considered the standalone business and financial risk profiles of KIPCL and notched up the rating by factoring in Credit Enhancement in the form of Guarantee extended by Telangana State Government for the rated facilities.

Standalone (Unsupported) Rating:

ACUITE BBB-/ Stable

Key Rating Drivers

Strengths

• Strategic and economic importance of the ongoing project for Government of Telangana (GoT).

KIPCL is a special purpose vehicle (SPV) created by the Government of Telangana (GoT) with an objective to develop the drought prone upland and backward areas of Telangana State by providing water for irrigation, drinking and industrial requirements. The project is expected to divert 2 thousand million cubic feet (TMC) of water every day for 90 days making it to 180 TMC and taking the future in perspective, the project however is built to carry 3 TMC of water every day.

This project is unique because Telangana will harness water by constructing a barrage at Medigadda (downstream of the confluence of Godavari and Pranhitha rivers) and reverse pump the water into the main Godavari river and divert it through lifts and pumps into reservoirs, water tunnels, etc. The project aims to water for irrigation in the parched areas of Telangana, by drawing nearly 225 thousand million cubic feet (TMC) of water from the Godavari river basin. The entire project has been divided into seven links each of which convey water to different command areas through 21 pump houses covering the Project area under the 13 districts in Telangana. The water stored by the construction of 3 barrages at Laxmi (Medigadda), Saraswathi (Annaram), and Parvathi (Sundilla) will be supplied through the water conveyance system and combination of gravity canal (1531km), tunnel (203Km) and pressure mains (98Km), 15 new reservoirs with a storage capacity of 141 (TMC) and envisages a maximum power demand of 4959 MW.

The project further supports the 'Mission Kakatiya' and 'Mission Bhagiratha' schemes designed to provide drinking water to many villages while improving the capacities for farmers to sow two crops. The Telangana Government has awarded the project for execution to reputed companies like L&T Limited (L&T), Megha Engineering & Infrastructures Limited (MEIL), NCC Ltd, Navayuga Engineering Company Limited (NECL) amongst others. The project is expected to commence commercial operations from April 01, 2022.

A project of such magnitude is being undertaken by GoT for the first time and therefore likely to pose implementation challenges like land acquisition which is around 61 per cent acquired till Dec 2019. However, this risk is mitigated by strong government support and its status as the flagship program of GoT that will enhance the long-term economic growth in Telangana. Acuité rating is also based on expectations of strong explicit government support for the project through an unconditional and irrevocable state government guarantee.

- **Healthy socio-economic profile of Telangana:**

GoT is maintaining healthy fiscal discipline, superior tax collection, and healthy liquidity management. The budgeted gross fiscal deficit has consistently remained below 3.50 per cent of the gross state domestic product (GSDP) for several years. The growth rate of Telangana's GSDP (at constant prices) has increased from 9.4 per cent in 2016-17 to 10.5 per cent in 2018-19. The own tax collection record has also been solid at 7.4-8.8 per cent of the GSDP over the three fiscals through 2019. This implies that growth in tax collections is expected to be higher than the growth in the economy. The State's performance in terms of social indicators such as infant/maternal mortality rate, average life expectancy at birth and per-capita income is better than the national averages.

The Telangana's economy has seen robust growth in recent years, growing at an average 10 per cent during FY17-FY19. For FY20, the state's economic growth as per the advance estimates is pegged at 8.2 per cent despite the hostile economic environment. The state economic, backed by primary and tertiary sector has been expanding at a CAGR of around 9 per cent y-o-y from FY12-FY19. At a CAGR of 16.00 per cent, tertiary has been the fastest growing sector in the state between 2011-12 and 2018-19. In 2018-19, the tertiary sector contributed 63.68 per cent of the state's GSDP at current prices. It was followed by the secondary sector (18.98 per cent) and primary sector (17.34 per cent).

The deficit and debt coverage indicators are healthy. The state has consistently maintained a revenue surplus. Further, it is self-reliant in revenue sources, with own tax revenue plus own non-tax revenue at around 65 per cent of revenue receipts. Total receipts (excluding borrowings) for 2020-21 are estimated to be Rs 1,43,202 crores, an increase of 29 per cent as compared to the revised estimate of 2019-20. In 2019-20, as per the revised figures, total receipts (excluding borrowings) are estimated to fall short of the budgeted estimate by Rs 2,172 crore (1.9 Per cent). Due to a healthy growth in tax revenue, the state is able to maintain a revenue surplus in past four years. For 2020-21, the state targets surplus revenue of Rs 4,482 crore, which is 0.41 per cent of the Gross State Domestic Product (GSDP). Fiscal deficit is targeted at Rs 33,191 crore (3.0 per cent of GSDP). The per capita GSDP of Telangana in 2018-19 (at constant prices) was Rs 1,61,669, which is 9.4 per cent higher than that in 2017-18.

Revenue expenditure is expected to increase due to implementation of the pay commission and the income support scheme (Rythu Bandhu) and farm loan waiver. Revenue expenditure for 2020-21 is proposed to be Rs 1,38,670 crores, which is an increase of 25.1 per cent over revised estimates of 2019-20.

However, the spending by the State towards capital asset creation averages around 17 per cent of total expenditure during FY15 to FY19. The State continues to avail both the Ways and Means Advances (WMA) and overdraft facility from the RBI, which indicates that the liquidity position of the state has been stretched from time to time. The Key Issues among the two states (Andhra Pradesh and Telangana) particularly related to the status of capital, loans and advances, deposits, are yet to be resolved even after 4 years of bifurcation of the two states. Telangana's state finances could be pressured in FY21 owing to the disruption caused by the Corona virus pandemic.

Weaknesses

- **Exposure to project implementation risk, including time and cost overruns**

The Government of Telangana (GoT) launched the Kaleshwaram lift Irrigation Project in 2016 which aims to develop the drought prone upland and backward areas of Telangana State by providing irrigation and drinking water facilities and industrial water requirements. The original Project Cost (including margin money for working capital) is Rs. 89,517.02 Cr which was proposed to be funded by equity/grant of Rs. 43,139.60 Cr from GoT and debt of Rs. 46,377.42 Cr from commercial banks and Financial Institutions (FIs).

The Scheduled Commercial Operations Date (SCOD) of the Project April 2020.

As on March 31, 2020, the total capital expenditure incurred by the Company towards the Project was Rs. 63,541.70 Cr (including IDC) funded by Rs. 39,640.04 Cr of debt from commercial banks and FIs and Rs. 23,901.66 Cr of equity/grant from GoT. The physical progress project is around 61 percent completed as on March 2020 as per the progress report of Project Management Consultant (KPMG). Considering the status of several pending works and their dependencies on other links/packages, KIPCL has requested Commercial Banks and FI's to extend the DCCO till March 31 2022 which is prudential with norms, which is yet to be approved by its Lenders.

Based on the revised time and cost overruns the project cost is revised and estimated at Rs. 1,05,790.72 Cr which is proposed to be funded by an equity/grant of Rs. 59,413.30 Cr from GoT and debt of Rs. 46,377.42 Cr from commercial banks and FIs. Further, the high moral obligation to support the entity is reflected in the availability of an unconditional and irrevocable guarantee from GoT to its lenders. Acuité believes that ability of the company to execute the project as per revised timelines will be a key rating sensitivity.

Liquidity position: Adequate

The KIPCL's project is yet to commence operations. KIPCL is expected to be supported by the Government of Telangana (GoT) in the form of Grants and/or loans from commercial Banks and FIs. Further, its liquidity position is supported by strong operational and financial support from the Government of Telangana.

Rating Sensitivities

- Credit profile of Telangana Government and timely support to KIPCL
- Improvement in the operational metrics and financial risk profile
- Adherence to DCCO as per the revised timelines without further time and cost overruns
- Revision in the terms of sanction by the lenders as per revised DCCO
- Impact of the corona pandemic on the state's economy and finances

Material Covenants

Unconditional and irrevocable government guarantee extended by the Government of Telangana (GoT). For guaranteeing the repayment of Principal and Interest.

Outlook: Stable

Acuité believes that the outlook on KIPCL will remain 'Stable' on account of strong support from GoT driven by both strategic importance and moral obligation. The outlook may be revised to 'Positive' in case the company is able to achieve the DCCO as per revised timelines set by KIPCL. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in the fiscal risk profile of GoT impeding its ability for timely budgetary provisions by the state and any significant adverse impact on state finances or in the event of further time and cost overrun in project implementation.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	-	-
PAT	Rs. Cr.	1.09	3.72
PAT Margin	(%)	-	-
Total Debt/Tangible Net Worth	Times	5.26	4.30
PBDIT/Interest	Times	-	-

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in infrastructure Sector - <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)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loan	13-07-2019	Not Applicable	31-03-2034	4,657.95	ACUITE A+ (CE [^])/ Stable
Term loan	13-07-2019	Not Applicable	31-03-2034	14,093.43	ACUITE A+ (CE [^])/ Stable
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	0.62	ACUITE A+ (CE [^])/ Stable

[^]credit enhancement based on the form of an unconditional and irrevocable government guarantee extended by the Government of Telangana (GoT).

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