

Press Release

Kaleshwaram Irrigation Project Corporation Limited

August 17, 2021



Rating Reaffirmed

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

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

The rating reaffirmation continues to reflect the unconditional and irrevocable guarantee, healthy economic management, healthy financial risk profile, and a strong tertiary sector of from the Government of Telangana. These strengths are partially offset by its large capital outlay towards irrigation projects, project execution risk to the company achieving 70 percent of the project progress as of March 31, 2021 and expecting to achieve COD in April 2022. The ability of the company to complete the project in a timely manner and within the budgeted costs would remain important from the credit perspective.

About the company

Kaleshwaram Irrigation Project Corporation Ltd (KIPCL) was incorporated on August 05, 2016 by the Government of Telangana (GoT) as a 100 percent owned entity to implement the Project. 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 creating potential to irrigate 18.25 lakh acres of land and stabilize the existing reservoirs which can further irrigate 18.83 lakh acres ayaicut. The project is further sub-divided to provide 169 thousand million cubic feet (TMC) Irrigation Water Supply, 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

- **Presence of unconditional and irrevocable guarantee provided by Government of Telangana (GoT)**

All rated term-loans are backed by the GoTs, indicating adequate budgetary allocations. The borrowings to fund the projects will be supported by the unconditional and irrevocable corporate guarantee by the GoT guaranteeing the repayment of principal and interest. KIPCL, being its 100 percent owned company, shall also guarantee the funding of cost escalation including the additional IDC on account of the extension in date for commencement of commercial operations (DCCO) and cost-overrun, (if any).

- **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 will convey water to different command areas through 21 pump houses covering the Project area under the 13 districts in Telangana. The seven links are represented as (Link-1 :From Medigadda Barrage on Godavari River to Sri Padam Yellampally Project, Link-2 :From Sri Padam Yellampally Project to Mid Manair Reservoir, Link-3: From Mid Manair Reservoir to Upper Manair Reservoir, Link-4: From Mid Manair Reservoir to Konda Pochamma Reservoir, Link-5: From Anicut to Chityala, Link-6: From Sri Komaravelli Mallana Sagar to Singur Reservoir, Link-7: From SRSP Foreshore to Nizam Sagar Canals and to Dilwapur and Hangarga village for Nirmal and Mudhole Constituency; From Sri Komaravelli Mallana Sagar to Bhoompally Reservoir). 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 Government of Telangana (GoT) for the first time and therefore likely to pose implementation challenges like land acquisition which is around 75 per cent acquired till March 2021. The overall physical progress is about 72 percent and the financial progress at stood at 70 percent till March 2021. 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 financial and socio-economic profile of Telangana:**

The Government of Telangana (GoT) is maintaining healthy financial discipline, superior tax collection, and healthy liquidity management. It has revenue surplus through a combination of good tax efforts and prudent expenditure. The state is self-reliant in terms of revenue with its own tax and non-tax revenue forming around 70 percent of the revenue receipts.

The Gross State Domestic Product of Telangana for 2020-21 is estimated to be close to Rs 11,05,136 Cr this is 14 percent higher than the revised estimate for 2019-20. Total receipts for 2020-21 are estimated to be Rs 1,43,202 Cr, and an increase of 29 percent as compared to the revised estimate of 2019-20. Total expenditure for 2020-21 is estimated to be Rs 1,82,914 Cr, and a 28.7 increase over the revised estimate of 2019-20. Revenue surplus for 2020-21 is targeted at Rs 4,482 Cr and fiscal deficit is targeted at Rs 33,191 Cr (3.0 percent of GSDP).

Government of Telangana (GoT) has a healthy economic structure of the state government supported by the robust tertiary sector accounts for 61 percent of the GSDP, against the all-India average of 55 percent. It is supported by Hyderabad's position as the country's information technology hub, and is the main driver of economic growth for Telangana. The state has grown at a healthy nominal GSDP CAGR (compound annual growth rate) of 11.10 percent during fiscals 2016-21, compared to India's 7.5 percent over the same period. The gross fiscal deficit (GFD) has consistently remained below prudential limits.

The State borrowings are mainly used to fund capital outlays, except in fiscal 2021 when revenue deficit funding was required; however, debt remains moderate. Telangana's capital outlay for 2020-21 is estimated to be Rs 22,061 Cr, which is 67.6 percent higher than the revised estimate of 2019-20.

With revenue in deficits and high capital outlays, lower devolutions from the centre and subdued state GST collections amid Covid-19 gross fiscal deficit as a percentage of Gross State Domestic Product (GSDP) increased to 3.00 percent in fiscal 2021 from 2.30 percent in 2020. However, with recovery in GSDP and improvement in tax buoyancies, reduction of indebtedness will support the Government of Telangana (GoT) is expected to generate revenue surplus, though subdued, over the medium term.

At the end of 2020-21, government guarantees are estimated to be Rs 1,05,007 Cr (10.70 percent of GSDP as per revised estimates). The state has estimated a revenue surplus of Rs. 6,743 Cr (0.58 percent of the GSDP) in 2021-22. In comparison, the state had observed a revenue deficit of Rs 6,254 Cr in 2019-20 (0.65 percent of GSDP). The outstanding liabilities of the state are estimated to increase from 20.25 percent of GSDP in 2018-19 to 24.84 percent of GSDP in 2021-22. 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. Telangana's state finances could be under pressure in FY22 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 Government of Telangana (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 March 2020. The physical progress project is around 61 percent completed as on March 2020 and 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 Government of Telangana (GoT) and debt of Rs. 46,377.42 Cr from commercial banks and FIs. As on March 31, 2021, the total capital expenditure incurred by the Company towards the Project was Rs. 72,978.10 Cr (~70 percent) funded by Rs. 46,149.34 Cr (45 percent) of debt from commercial banks and FIs and Rs. 26,828.76 Cr (25 percent) of equity/grant from Government of Telangana (GoT). The physical progress project is around 72 percent completed as on March 2021 as per the progress report of Project Management Consultant (KPMG). Further, the high moral obligation to support the entity is reflected in the availability of an unconditional and irrevocable guarantee from Government of Telangana (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
- Improvement in socio-economic indicators of the state
- Sustained revenue surplus, coupled with fiscal deficit below 3.00 percent of GSDP
- Adherence to DCCO as per the revised timelines without further time and cost overruns
- Revision in 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 to its lenders.

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 Government of Telangana (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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	-	-
PAT	Rs. Cr.	(1.73)	(1.17)
PAT Margin	(%)	-	-
Total Debt/Tangible Net Worth	Times	7.25	7.08
PBDIT/Interest	Times	(86.20)	-

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

None

Any other information

None

Assessment of Adequacy of Credit Enhancement

The guarantee provided by GoT is unconditional, irrevocable, and covers the entire rated amount to ensure timely payment of the interest and principal obligations and make a budgetary allocation on an annual basis for timely and full repayment of principal and interest with respect to the servicing of the loans during the entire tenure.

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-May-2020	Term loan	Long Term	4,657.95	ACUITE A+ (CE [^])/ Stable (Assigned)
	Term loan	Long Term	14,093.43	ACUITE A+ (CE [^])/ Stable (Assigned)
	Proposed Facility	Long Term	0.62	ACUITE A+ (CE [^])/ Stable (Assigned)

*Annexure – Details of instruments rated

Lenders Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
REC Limited	Term loan	13-07-2019	10.90	31-03-2034	4,657.95	ACUITE A+ (CE [^])/ Stable (Reaffirmed)
REC Limited	Term loan	13-07-2019	10.90	31-03-2034	14,093.43	ACUITE A+ (CE [^])/ Stable (Reaffirmed)

Proposed Facility	Not Applicable	Not Applicable	Not Applicable	0.62	ACUITE A+ (CE^)/ Stable (Reaffirmed)
-------------------	----------------	----------------	----------------	------	--

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

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research 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 8,674 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 Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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 Acuité, Acuité's ratings scale and its definitions.