

## Press Release

### Telangana State Water Resources Infrastructure Development Corporation Limited

February 02, 2021

#### Rating Assigned



<b>Total Facilities Rated*</b>	Rs. 17,000.00 Cr.
<b>Long Term Rating</b>	ACUITE A+ (CE <sup>^</sup> ) / Outlook: Stable (Assigned)

\* Refer Annexure for details

<sup>^</sup>credit enhancement (CE) based in the form of an unconditional and irrevocable government guarantee extended by the Government of Telangana (GoT).

#### Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE A+ (CE)**' (read as **ACUITE A plus (Credit Enhancement)**) on the Rs.17, 000 Cr facilities of Telangana State Water Resources Infrastructure Development Corporation Limited (TSWRIDCL). The outlook is '**Stable**'.

Telangana State Water Resources Infrastructure Development Corporation Limited (TSWRIDCL) was incorporated on April 26, 2018 by Government of Telangana (GOT). TSWRIDCL was established to undertake irrigation projects. The projects under consideration can be divided into three parts based on its coverage area and connectivity. The three sub projects are identified as Flood Flow Canal, Devadula-Tupakulagudem and Sita Rama Lift Irrigation Project. The three projects together will be handling around 200 Thousand Million Cubic feet (TMC) of water annually to serve Ac. 11.18 Lakh new Ayacuts and stabilize around Ac. 10.47 Lakh other than supplying 10 TMC of water for industrial use.

#### Analytical Approach

To arrive at the rating, Acuite has considered the standalone business and financial risk profiles of TSWRIDCL and notched up the rating by factoring in Credit Enhancement and the CE rating is based on the credit profile of the government of Telangana (GoT). Additionally, the government of Telangana has given an unconditional and irrevocable guarantee for the timely payment of both principal and interest of the rated debt.

#### Standalone (Unsupported) Rating:

ACUITE BBB-/ Stable

#### Key Rating Drivers

#### Strengths

- **Strategic and economic importance of the ongoing project for Government of Telangana (GoT)**

TSWRIDCL 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 provide 200 TMC of water annually to serve Ac. 11.18 Lakh new Ayacuts and stabilize around Ac. 10.47 Lakh other than supplying 10 TMC of water for industrial use. The project further enhances the Irrigation potential in the Telangana and upkeep of the existing projects to enhance the agriculture productivity per unit of water with increased water use efficiency. All the available water resources for the benefit of Agricultural sector, Industrial Sector and also providing drinking water for overall development of Telangana State. The project additionally 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.

TSWRIDCL divided the entire project into three parts based on its coverage area and connectivity. The three sub projects are identified as Flood Flow Canal, Devadula-Tupakulagudem and Sita Rama Lift Irrigation Project. The total project cost estimated at Rs. 42,815.47 Cr which is proposed to be funded by an equity/grant of Rs. 25,475.60 Cr from GoT and debt of Rs. 17,000 Cr from commercial banks and FIs. The project is expected to commence commercial operations from April 01, 2022 for Flood Flow Canal &

Devadula-Tupakulagudem Projects and April 01, 2023 for Sita Rama Lift irrigation Project. The Telangana Government has awarded the project for execution to reputed companies like Megha Engineering & Infrastructures Limited (MEIL), BVSR Constructions Private Limited, Navayuga Engineering Company Limited (NECL) amongst others. The project is being undertaken by GoT and therefore likely to pose implementation challenges like land acquisition, timely execution, any cost overruns. However, these risks are mitigated by strong government support. Acuite rating is also based on expectations of strong explicit government support for the project through an unconditional and irrevocable state government guarantee.

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

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. TSWRIDCL, 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).

- **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 last 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 Cr 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 Cr (1.9 Per cent). Due to 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 Cr, which is 0.41 per cent of the Gross State Domestic Product (GSDP). Fiscal deficit is targeted at Rs 33,191 Cr (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 Cr, which is an increase of 25.1 per cent over revised estimates of 2019-20. Albeit, 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 original Project Cost of the 3 projects being undertaken by TSWRIDCL is Rs. 41761.24 Cr which was proposed to be funded by equity/grant of Rs. 24,761.24 Cr from GoT and debt of Rs. 17,000 Cr from commercial banks and Financial Institutions (FIs). The project was scheduled to start its operation from April 2020 for Flood Flow Canal & Devadula-Tupakulagudem Projects and Sita Rama Lift irrigation Project from

April 2021. Nonetheless, the projects are behind the estimated schedule due to delay in financial closure and other clearances leading to delay in the project implementation. The revised date for commencement of commercial operations (DCCO) of the project is now April 2022 for the Flood Flow Canal and Devadula-Tupakulagudem projects; April 2023 for Sita Rama Lift Irrigation Project. Based on the revised schedule, the project cost estimated at Rs. 42,815.47 Cr which is proposed to be funded by an equity/grant of Rs. 25,475.60 Cr from GoT and debt of Rs. 17,000 Cr from commercial banks and Fls.

As on March 31, 2020, the total capital expenditure incurred by the Company towards the Project was Rs. 26,882.08 Cr (63 percent) funded by Rs. 9,555.62 Cr of debt from commercial banks and Fls and Rs. 17,326.46 Cr of equity/grant from GoT. For the project status as on October 31, 2020, the total capital expenditure incurred by the Company towards the Project was Rs. 27,827.82 Cr (65 percent) funded by Rs. 17,395.30 Cr of equity/grant from GoT and Rs. 10,432.52 Cr of debt from commercial banks and Fls.

Flood Flow Canal project cost is estimated at Rs. 11,487.73 Cr which is proposed to be funded by an equity/grant of Rs. 6,987.73 Cr from GoT and debt of Rs. 4,500 Cr from commercial banks and Fls. As on March 31, 2020, the total capital expenditure incurred by the Company towards the Project was Rs. 9,098.38 Cr (79 percent) funded by Rs. 6,480.80 Cr of equity/grant from GoT and Rs. 2,617.58 Cr of debt from commercial banks and Fls. Physical progress is at 79 percent as on March 31, 2020

Devadula-Tupakulagudem project cost is estimated at Rs. 16,891.26 Cr which is proposed to be funded by an equity/grant of Rs. 12,324.57 Cr from GoT and debt of Rs. 4,566.69 Cr from commercial banks and Fls. As on March 31, 2020, the total capital expenditure incurred by the Company towards the Project was Rs. 13,055.61 Cr (77 percent) funded by and Rs. 9,749.48 Cr of equity/grant from GoT and Rs. 3,306.13 Cr of debt from commercial banks and Fls. Physical progress is at 77 percent as on March 31, 2020

Sita Rama Lift Irrigation Project cost is estimated at Rs. 14,436.48 Cr which is proposed to be funded by an equity/grant of Rs. 6,503.17 Cr from GoT and debt of Rs. 7,933.31 Cr from commercial banks and Fls. As on March 31, 2020, the total capital expenditure incurred by the Company towards the Project was Rs. 4,728.09 Cr (33 percent) funded by and Rs. 1,096.18 Cr of equity/grant from GoT and Rs. 3,631.91 Cr of debt from commercial banks and Fls. Physical progress is at 40 percent as on March 31, 2020

Howbeit, the high moral obligation to support the entity is reflected in the availability of an unconditional and irrevocable guarantee from GoT to its lenders. Acuite believes that ability of the company to execute the project as per revised timelines will be a key rating sensitivity.

#### **Liquidity position: Adequate**

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

#### **Rating Sensitivities**

- Credit profile of Telangana Government and timely support to TSWRIDCL
- 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 3.50% 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.

#### **Assessment of Adequacy of Credit Enhancement**

Not Applicable

#### **Outlook: Stable**

Acuite believes that the outlook on TSWRIDCL will remain 'Stable' on account of strategic importance of implementation of irrigation projects and achievement of social objectives of the state, strong support from GoT and state government will maintain its healthy economic management and financial risk profile over the medium term. The outlook may be revised to 'Positive' in case the company is able to achieve the DCCO as per revised timelines set by TSWRIDCL.

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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	-	-
PAT	Rs. Cr.	-0.31	-0.08
PAT Margin	(%)	-	-
Total Debt/Tangible Net Worth	Times	22.32	11.70
PBDIT/Interest	Times	-206.54	-

#### 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	July 2018	Not Applicable	March 2035	10001.61	ACUITE A+ (CE <sup>^</sup> )/ Stable (Assigned)
Term loan	July 2018	Not Applicable	March 2035	1700.00	ACUITE A+ (CE <sup>^</sup> )/ Stable (Assigned)
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	5298.39	ACUITE A+ (CE <sup>^</sup> )/ Stable (Assigned)

<sup>^</sup>credit enhancement based on the form of an unconditional and irrevocable government guarantee extended by the Government of Telangana (GoT).

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