

Press Release
**Telangana State Water Resources Infrastructure
 Development Corporation Limited**



May 20, 2022

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17000.00	ACUITE A+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	17000.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

The ratings reaffirmed, continue to reflect the strength of unconditional and irrevocable guarantee provided by the Government of Telangana and strong economic management and financial risk profile of of GoT. These strengths are partially offset by large capital outlay towards irrigation projects and time and cost overruns or a sustained deterioration in the GoT's revenues leading to sizeable revenue deficits, and/or a rise in leverage levels, going forward.

About the Company

The Government of Telangana (GoT) has incorporated a Special Purpose Vehicle (SPV) named Telangana State Water Resources Infrastructure Development Corporation Limited (TSWRIDCL or "the Company", or "the Corporation") on April 26, 2018. TSWRIDCL is 100% owned by the state government and runs irrigation projects aimed at developing drought-prone uplands and backward areas of Telangana. The irrigation projects undertaken by TSWRIDCL consist of Indiramma Flood Flow Canal Project (FFC), J.Chokka Rao Devadula Lift Irrigation Scheme and Thupakulagudem Barrage (DT or Devadula Thupakulagudem) and Sita Rama Lift Irrigation Project (SR or SRLI). All three projects together will handle around 200 TMC of water annually to serve 11.18 lakh acres of new ayacut and stabilise around 10.47 lakh acres, other than supplying 10 TMC of water for industrial use and 8 TMC for domestic purposes. The total project costs of three projects are estimated at Rs. 47,222.88 Cr which is proposed to be funded by an equity/grant of Rs. 26708.21 Cr from GoT and debt of Rs. 20514.67 Cr from commercial banks and Fls. The Flood Flow Canal Project and the Devadula Thupakulagudem Project commenced operations in accordance with the revised Date of Commencement of Commercial Operations (DCCO) of April 1, 2022. The third project, the Sitarama Lift Irrigation Project, has a DCCO scheduled for April 1, 2023.

Analytical Approach

To arrive at the rating, Acuité has considered the standalone business and financial risk profiles of TSWRIDCL and Acuite has also factored in the financial support from government of Telangana (GoT) by the way of unconditional and irrevocable guarantee for the timely payment of both principal and interest of the rated debt. The analytical approach has been revised from a Credit Enhancement (CE) to a standalone rating with a notch up based on Support from GoT. This is done to bring the analytical approach in line with Acuité's revised rating criteria w.r.t. credit enhancements.

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 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. Acuité rating is also based on expectations of strong explicit government support for the project through an unconditional and irrevocable state government guarantee.

Presence of Government Guarantee

The GoT has provided an unconditional, irreversible and irrevocable guarantee for both principal and interest payments of the term loans until repayment. 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 FY23 budget proposals of government of Telangana revolve around a nominal GSDP growth of 13.04% as against the FY22 nominal GSDP growth of 19.07% (FY21: 0.35%; FY20: 11.45%). Although the economy is expected to return to normalcy by FY23, yet a nominal GSDP growth of 13.04%. The Telangana's economy has seen robust growth in recent years, Telangana's GSDP (at constant prices) is estimated to grow at 11.2% in 2021-22. In comparison, national GDP is estimated to grow at 8.9% in 2021-22. In 2021-22, the manufacturing and services sectors of Telangana are estimated to grow at 12.2% and 11.6%, respectively. 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. In 2021-22, the Per Capita Income (PCI) at current prices (AE) in Telangana is Rs.2.8 lakh, which is Rs. 1.3 lakh higher than the National Per Capita Income in 2021-22 (SAE) (Rs.1.5 lakh). GoT's revenue and

total expenditure declined 10.42% yoy and 9.36% yoy, respectively. Receipts (excluding borrowings) for 2022-23 are estimated to be Rs 1, 93,089 Cr, an increase of 24% over the revised estimates of 2021-22 (Rs 1, 56,177 Cr). In 2021-22, receipts (excluding borrowings) are estimated to be 11.36% lower than the budget estimate (Rs 1,76,177 Cr). Due to healthy growth in tax revenue, the state is able to maintain a revenue surplus in past four years. Revenue surplus for 2022-23 is estimated to be 0.29% of the GSDP (Rs 3,755 Cr). In 2021-22, the state is estimated to observe a revenue surplus of 0.38% of GSDP, lower than the budget estimate of 0.58% of GSDP. In 2022-23, total own tax revenue of the state is estimated to be Rs 1, 08,212 Cr, an increase of 16% over the revised estimate of 2021-22. State's own tax revenue as a percentage of GSDP is estimated to increase from 6.8% of GSDP in 2020-21 (as per actuals) to 8.2% of GSDP in 2022-23 (as per budget estimate). 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.

Expenditure (excluding debt repayment) in 2022-23 is estimated to be Rs 2, 45,257 Cr, a 22% increase over the revised estimates of 2021-22 (Rs 2, 00,943 Cr). In addition, debt of Rs 11,702 Cr will be repaid by the state in 2022-23. In 2021-22, expenditure (excluding debt repayment) is estimated to be 9% lower than the budget estimate. Capital outlay in 2022-23 is estimated to be Rs 29,728 Cr, which is an increase of 15% over the revised estimate of 2021-22. Capex growth in FY21 was a major casualty in many states due to the COVID-19 pandemic. Along with the FY23 budget, the state has also provided a truncated fiscal plan for FY24-FY25. According to this plan, the fiscal deficit is pegged to decline to 3.5% of GSDP in FY24 and FY25. The debt is expected to stabilise at 25.0% of GSDP in FY24 and FY25. The debt to GSDP ratio as per the FY22 (RE) is 24.69%. Although FY23 budgeted debt to GSDP ratio is 25.29%, maintaining it at 25% of GSDP over the next two years will not be a challenge for the government of Telangana.

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 DevadulaTupakulagudem projects; April 2023 for Sita Rama Lift Irrigation Project.

Based on the revised schedule, the project cost are revised and estimated the Project Costs of the 3 projects being undertaken by TSWRIDCL is Rs. 47,222.88 Cr which was proposed to be funded by equity/grant of Rs. 26,708.21 Cr (56.56 %) from GoT and debt of Rs. 20,514.67 Cr (43.44%) from commercial banks and Financial Institutions (FIs). As on March 31, 2022, the total capital expenditure incurred by the Company towards the Project was Rs. 33295.70 Cr (~71 percent) funded by Rs. 13762.19 Cr of debt from commercial banks and FIs and Rs. 19,533.51 Cr of equity/grant from GoT.

Flood Flow Canal project cost is estimated at Rs. 18245.93 Cr which is to be funded by an equity/grant of Rs. 10,448.38 Cr from GoT and debt of Rs. 5164.80 Cr from commercial banks and FIs. As on March 31, 2022, the total capital expenditure incurred by the Company towards the Project was Rs. 10628.1 Cr (~85 percent) funded by Rs. 6,943.59 Cr of equity/grant from GoT and Rs. 3684.51 Cr of debt from commercial banks and FIs. Physical progress is at ~85 percent as on March 31, 2022. All major elements of the project have been completed and should be fully operational by the second half of 2023.

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. 5160.99 Cr from

commercial banks and FIs. As on March 31, 2022, the total capital expenditure incurred by the Company towards the Project was Rs. 15609.37 Cr (~86 percent) funded by and Rs. 10448.38 Cr of equity/grant from GoT and Rs. 5160.99 Cr of debt from commercial banks and FIs. Physical progress is at 81 percent as on March 31, 2022. All major elements of the project have been completed and should be fully operational by the second half of 2023.

Sita Rama Lift Irrigation Project cost is estimated at Rs. 16352.78 Cr which is proposed to be funded by an equity/grant of Rs. 8,390.63 Cr from GoT and debt of Rs. 7962.15 Cr from commercial banks and FIs. As on March 31, 2022, the total capital expenditure incurred by the Company towards the Project was Rs. 7058.23 Cr (~43 percent) funded by and Rs. 2,141.54 Cr of equity/grant from GoT and Rs. 4916.99 Cr of debt from commercial banks and FIs. Physical progress is at ~45 percent as on March 31, 2022. However, 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.

ESG Factors Relevant for Rating

Not Applicable

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 for Sanctioned debt for the project.

Liquidity position: Adequate

The TSWRIDCL's project is yet to commence full project 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 FIs. Further, its liquidity position is supported by the continuous support from the strong operational and financial support from the Government of Telangana.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(0.64)	(0.09)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	18.33	22.31
PBDIT/Interest	Times	(4686.02)	(62.22)

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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>

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
02 Feb 2021	Term Loan	Long Term	10001.60	ACUITE A+ (CE) Stable (Assigned)
	Term Loan	Long Term	1700.00	ACUITE A+ (CE) Stable (Assigned)
	Proposed Bank Facility	Long Term	5298.39	ACUITE A+ (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	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	4298.39	ACUITE A+ Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	24-09-2021	8.95	31-05-2035	1000.00	ACUITE A+ Stable Reaffirmed
Rural Electrification Corporation Ltd.	Not Applicable	Term Loan	27-07-2018	9.25	31-03-2034	10001.61	ACUITE A+ Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	17-07-2018	Not available	31-05-2035	1700.00	ACUITE A+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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