

Press Release

Telangana State Water Resources Infrastructure Development Corporation Limited
August 03, 2023
Rating Reaffirmed



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

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 rating reaffirmation continues to reflect the strength of unconditional and irrevocable guarantee provided by the Government of Telangana (GoT) and strong economic management and financial risk profile 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 droughtprone 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 FIs. The Flood Flow Canal Project and the Devadula Thupakulagudem Project commenced commercial operations with critical components from March, 2022. The third project, the Sitarama Lift Irrigation Project, commenced commercial operations with critical components from March, 2023.

Analytical Approach

To arrive at the rating, Acuite 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.

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 cost-overrun, (if any).

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

GoT is maintaining healthy fiscal discipline, superior tax collection, and healthy liquidity management. . The FY24 budget proposals of government of Telangana revolve around a nominal GSDP growth of 6.7% as against the FY23 nominal GSDP growth of 13.04% percent. The Telangana's economy has seen robust growth in recent years, in 2022-23, Telangana's GSDP (at constant prices) is estimated to grow at 7.4%, which is less than growth of 10.9% in 2021-22. In 2022-23, national GDP is estimated to grow by 7%. By consistently outperforming the country, the state's share in national GDP increased from 4.1% in 2014-15 to 4.8% in 2022-23, despite its share in the national population remaining constant at 2.9% throughout this period. In 2022-23, the agriculture sector is estimated to grow at 3.4%, higher than in 2021- 22 (in real terms). However, both services and manufacturing sectors are estimated to grow at a lower rate in 2022-23 as compared to 2021-22. In 2022-23, agriculture, manufacturing, and services sectors are estimated to contribute 21%, 17%, and 63% of the economy, respectively (at current prices) the manufacturing and services sectors of Telangana are estimated to grow at 12.2% and 11.6%, respectively.

In 2023-24, the state is estimated to observe a revenue surplus of Rs 4,882 Cr, which is 0.3% of GSDP. In comparison, in 2022-23, the state is expected to observe a revenue surplus of 0.2% of GSDP as per the revised estimates. A revenue surplus implies that the government does not need to borrow to finance those expenses which do not increase its assets or reduces its liabilities. Total expenditure (excluding debt repayment) in 2023-24 is targeted at Rs 2,77,690 crore. This is an increase of 23% over the revised estimate of 2022-23. This expenditure is proposed to be met through receipts (excluding borrowings) of Rs 2,39,455 crore and net borrowings of Rs 46,318 crore. Fiscal deficit for 2023-24 is estimated to be 2.7% of GSDP (Rs 38,235 crore). In 2022-23, the state has estimated a

fiscal deficit of 3.2% of GSDP, lower than the limit of 4% of GSDP permitted by the central government for that year (of which 0.5% of GSDP becomes available upon undertaking power sector reforms). In 2023-24, capital outlay is estimated to increase by 39% over 2022-23 revised estimates. Sectors with high increases include (i) irrigation and flood control (28%), (ii) education (85%), and transport (15%).

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. The per capita income of Telangana in 2022-23 (at current prices) is estimated at Rs 3.17 lakh, an increase of 15.1% over the per capita income of 2021-22 Rs 2.75 lakh. State's total own tax revenue is estimated to be Rs 1,31,029 crore in 2023-24, an increase of 18% over the revised estimate of 2022-23. Own tax revenue as a percentage of GSDP is estimated at 9.3% in 2023-24. For 2022-23, the state had estimated this ratio at 8.3%. 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

Weaknesses

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

The Project Cost 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. 26,708.23 Cr (56.56 %) from GoT and debt of Rs. 20,514.67 Cr (43.44%) from commercial banks and Financial Institutions (FIs). As on June 30, 2023, the total capital expenditure incurred by the Company towards the Project was Rs. 36607.21 Cr (~78 percent) funded by Rs. 14,219.69 Cr of debt from commercial banks and FIs and Rs. 22,387.52 Cr of equity/grant from GoT. The physical progress project is around 78 percent completed as on June 2023. Flood Flow Canal project cost is estimated at Rs. 12624.17 Cr which is to be funded by an equity/grant of Rs. 7459.4 Cr from GoT and debt of Rs. 5164.80 Cr from commercial banks and FIs. As on June 30, 2023, the total capital expenditure incurred by the Company towards the Project was Rs. 11,275.51 Cr (~89 percent) funded by Rs. 7,459.4 Cr of equity/grant from GoT and Rs. 3707.87 Cr of debt from commercial banks and FIs. Physical progress is at ~89 percent as on June 30, 2023. All major elements of the project have been completed and the project commenced commercial operations with critical components in March, 2022. Devadula-Tupakulagudem project cost is estimated at Rs. 18,245.90 Cr which is proposed to be funded by an equity/grant of Rs. 10,858.21 Cr from GoT and debt of Rs. 7387.72 Cr from commercial banks and FIs. As on June 30, 2023, the total capital expenditure incurred by the Company towards the Project was Rs. 16,704.48 Cr (~92 percent) funded by Rs. 11,530.80 Cr (Which includes the interest during construction for the delay in DCCO of Rs. 583.43Cr) of equity/grant from GoT and Rs. 5173.68 Cr of debt from commercial banks and FIs. Physical progress is at ~92 percent as on June 30, 2023. All major elements of the project have been completed and DCCO of the Project commenced on March, 2022. Sita Rama Lift Irrigation project cost is estimated at Rs. 16,352.78 Cr which is proposed to be funded by an equity/grant of Rs. 8390.30 Cr from GoT and debt of Rs. 7962.15 Cr from commercial banks and FIs. As on June 30, 2023, the total capital expenditure incurred by the Company towards the Project was Rs. 8627.22 Cr (~53 percent) funded by Rs. 3289.08 Cr (Which includes the interest during construction for the delay in DCCO of Rs. 583.43Cr) of equity/grant from GoT and Rs. 5338.20 Cr of debt from commercial banks and FIs. Physical progress is at ~53 percent as on June 30, 2023. All major elements of the project have been completed and DCCO of the Project commenced on March, 2023. Acuité believes that ability of the company to execute the project as per revised timelines in entirety 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 GSD

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 projects have commenced operations, however, the projects are yet to be completed entirely. The company as on June 2023, TSWRIDCL has incurred ~70.51% of the total project cost and balance is expected to be completed over the medium term.. 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.

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 complete the projects as per revised timelines . 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

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(509.17)	(0.64)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	38.95	18.33
PBDIT/Interest	Times	0.00	(4686.02)

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>
- 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 May 2022	Term Loan	Long Term	1700.00	ACUITE A+ Stable (Reaffirmed)
	Term Loan	Long Term	10001.60	ACUITE A+ Stable (Reaffirmed)
	Term Loan	Long Term	1000.00	ACUITE A+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	4298.39	ACUITE A+ Stable (Reaffirmed)
02 Feb 2021	Term Loan	Long Term	1700.00	ACUITE A+ (CE) Stable (Assigned)
	Proposed Bank Facility	Long Term	5298.39	ACUITE A+ (CE) Stable (Assigned)
	Term Loan	Long Term	10001.60	ACUITE A+ (CE) Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	783.72	ACUITE A+ Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1000.00	ACUITE A+ Stable Reaffirmed
Rural Electrification Corporation Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13516.28	ACUITE A+ Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	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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