



Press Release

ANDHRA PRADESH INDUSTRIAL INFRASTRUCTURE CORPORATION LIMITED

October 16, 2023

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	475.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	475.00	-	-

Rating Rationale

Acuite has assigned a long term rating of **ACUITE BBB (read as Acuite triple B)** on the Rs. 475 Cr. Proposed long term bank facilities of ANDHRA PRADESH INDUSTRIAL INFRASTRUCTURE CORPORATION LIMITED (APIIC). The Outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned factors in the consistent revenue growth for over last three years in the water supply segment of APIIC majorly driven by growing demand of water from various industries in the APSEZ catchment area. The number of companies to whom APIIC has catered have increased steadily over the years from 119 in FY2021 to 137 in FY2022 and 165 in FY2023. Further, the revenues from supply of water increased to Rs. 119 Cr in FY2023(Provisional.) from Rs. 58 Cr. in FY2022 and Rs. 39 Cr. in FY2021. However, the overall revenues of the company witnessed deterioration from around 264 Rs. Cr. in FY2021 to Rs.250 Cr. in FY2022 and Rs. 204 Cr. in FY2023 majorly on account of decline in revenues from other segments and changes in the revenue reporting policies. The rating also considers 100% holding of GoAP and its implicit support towards the existing debt of APIIC. GoAP has extended guarantee on the Rs. 2000 Cr. loans availed by APIIC and has been making budgetary provisions every year towards the repayment of the same.

APIIC is planning to avail loan to the tune of Rs. 475 Cr. and the funds will be utilized towards the development of its other infrastructure projects and expansion of its existing water supply infrastructure facilities. It plans to meet the debt obligations for the same through securitisation of its water revenues. Timely repayment of the obligations without any delays will remain critical to the rating. However, the current cashflows from the water segment are adequate to meet the obligations marked by average DSCR of over 1.20 times over the tenure of the loan. Further, the rating derives comfort from the undertaking to be submitted by the company that in the event of inadequacy of the water revenues to meet the obligations additional revenue streams of the company shall be routed to the Escrow account of the lender to ensure timely repayments. Nevertheless, APIIC holds a benefit of being a 100% GoAP undertaking but the credit profile of GoAP will remain the key to the credit quality of APIIC.

About the Company

Hyderabad based Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC) was incorporated in 1973. It is a wholly owned undertaking of Government of Andhra Pradesh (GoAP). It is formed with an objective of providing industrial infrastructure through the

development of industrial areas and the Corporation has so far developed more than 300 industrial parks spreading over an extent of about 1,21,655 acres (including allotted area). The Corporation commissioned a water project called Atchutapuram Water Supply project with an objective of supplying water services to various industries around the catchment area in April 2006, and commenced operations in August 2007. The water supplied

by Atchutapuram project is sourced from Yeluru Canal located in Eluru district. Besides, the Corporation is also developing sector focussed parks which includes apparel park/food processing parks/leather parks, SEZs etc. Further, it has executed works covering Referral Hospitals, Navodaya Schools Polytechnic Buildings Court Complex, Building and Hostel for Indian Institute of Information Technology. Mr. Mettu Govinda Reddy is the Chairman of the organization while Mr. Pravin Kumar is the Vice Chairman & Managing Director.

Standalone (Unsupported) Rating

Not Applicable

Analytical Approach

Acuite has considered standalone financial and business risk profile of APIIC and has factored in support extended by GoAP (through guarantees extended towards existing debt of APIIC and being a 100 percent owned company) to arrive at the rating.

Key Rating Drivers

Strengths

Fully owned by GoAP and key water supplier within the industrial area.

APIIC is a wholly owned undertaking of GoAP and the government has extended support to the corporation in the form of grants and guarantees. GoAP has extended guarantees towards the existing debt of APIIC of around Rs. 2000 Cr. and makes budgetary provisions every year for repayment of the same. Based in Hyderabad, APIIC was incorporated in September 1973 with an objective of providing strong industrial infrastructure within the state of Andhra Pradesh through the development of industrial areas. The Corporation has so far developed more than 300 industrial parks spreading over an extent of about 1,21,655 acres. Besides, the Corporation is also developing sector focussed parks like apparel park, food processing parks, leather parks, Special Economic Zones etc. APIIC has to its credit execution works covering Referral Hospitals, Navodaya Schools Polytechnic Buildings Court Complex, Building and Hostel for Indian Institute of Information Technology.

The Corporation is the Nodal agency for government sponsored schemes like growth centres, export promotion industrial parks, and integrated infrastructure development centres. One of APIIC's key projects includes the Atchutapuram Water Supply project which commenced operations in August 2007. The Corporation has been supplying water from this project to the nearby industries for over 16 years and enjoys a monopoly position as there is no competing source for water infrastructure in the area. Also, the cost paid by the industrial consumers to APIIC is nominal vis a vis the cost that would be incurred in procuring water of similar scale on a daily basis on their own which mitigates the demand risk for APIIC. Further, the board of the corporation comprise of civil servants appointed by GoAP. The Chairman of APIIC is Sri. Mettu Govind Reddy while the Vice Chairman & MD is Sri. Pravin Kumar who is an IAS. The support from GoAP enhances the financial flexibility of APIIC to fund the project from various financial institutions.

Acuite believes that support from GoAP and absence of any competing source of water infrastructure within the catchment area will continue to prove beneficial for APIIC.

Stable growth in the water revenue segment over the last few years

APIIC commissioned the Atchutapuram water infrastructure project in August 2007 with an aim of providing water supply to the industries nearby the APSEZ area. It has been serving the industries within the APSEZ area for over 16 years and the industrial consumers have been growing steadily from 119 in FY 2021 to 137 in FY 2022 to 165 in FY 2023. Further, in FY2022 the GoAP has made tariff revisions which have been revised from Rs. 60 per KL to Rs. 120 per KL. This has resulted in significant improvement in the revenues from water segment which stood at around Rs. 119 Cr. in FY2023(Provisional) against Rs. 58 Cr. in FY2022 and Rs. 39 Cr. in FY2021. The project has a capacity on a daily basis to supply upto 60 MLD (Million Litres daily) water while currently it is supplying only around 25.8 MLD hence it has a potential to cater to the demand of additional industries. APIIC has entered into agreements with all the consumers for supply of the required volume of water per day and in the case of an event when the daily

consumed volume on an average is higher than the daily contracted volume, an additional charge of Rs 180 per KL is levied on the incremental volume consumed. Also, going forward the nearby industries are expected to grow further given the favourable industrial zone.

Dedicated Escrow account along with creation of upfront DSRA.

APIIC proposes to raise a term loan of around Rs 475 Cr. which shall be utilised towards development of other infrastructure projects of APIIC and expansion of capacity at the existing water supply infrastructure facilities. For this, it has planned to securitize the revenue stream from industrial supply of water in and around Atchutapuram area and repay the loan through the same. As per the terms the lender would have first charge over the cash flows of the said water supply project and shall be dedicatedly escrowed to the lender. Further, in case of shortfall in cashflows from the water revenues, APIIC will have to merge its cashflows from other segments (i.e. land & other operating revenues) to the meet the debt obligations. Further, DSRA equivalent to one quarter debt service obligations shall be created upfront within a definitive time frame of 3 months from the date of first tranche of disbursement. In the event of DSRA account being utilized for servicing of debt due to non-adequacy of cash flows, then APIIC shall ensure replenishment of the equivalent amount within 10 working days. However, the current cashflows are adequate to repay the debt as per the planned repayment schedule marked by DSCR of over 1.20 times over the entire loan tenure.

Acuité believes the escrow payment mechanism along with upfront DSRA allows for protection against inadequacy of the funds on the due date and any significant change in the same would be a key rating sensitivity.

Weaknesses

Cashflows susceptible towards timely collection of receivables

APIIC proposes to securitize its cashflows towards the repayment of the loan. However, these remain susceptible to receiving timely payments from the debtors. Any delay in the receivables may result in the revenue shortfall and in turn delay in the repayment of obligations. However, invoicing is done on monthly basis and average debtor days for last three years have remained at 66 days ended as on March 31, 2023. Any delay in the collections will remain sensitive to the rating.

Linkages to fiscal position of State of AP

The current state of Andhra Pradesh was created in 2014-15 following the bifurcation of the original state into the former and Telengana. The reorganisation led to the conversion of the state into an economy where the share of agriculture was significant. GSDP has witnessed a significant growth in FY2023 of around 11% than FY2022. However, the fiscal position of the state has remained under strain with a major shortfall in revenue receipts in FY2023 as compared to the budgeted figures, leading to a revenue deficit of 1.63% of GSDP. The fiscal deficit was, however, lower at 3.18% of GSDP than the BE of 3.49%, on account of higher-than-expected nominal GSDP. For FY24, the government has pegged the fiscal deficit higher at 3.8% (BE). APIIC is a 100% GoAP undertaking, and the government has extended support to APIIC through yearly budgetary provisions for debt repayments any adverse changes in the fiscal indicators of GoAP due to factors such as prolonged slowdown in industrial activities or socio-economic challenges faced by AP can have a significant impact on APIIC and will be a key monitoring factor.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Timely repayment of debt without any delays
- Timely collection of receivables
- Any deterioration in GoAP's fiscal position
- Any non-adherence to the stipulated payment mechanism

All Covenants

Not Applicable.

Liquidity Position

Adequate

Acuité expects APIIC's liquidity position to remain adequate given the adequate cashflows for repayment of debt. Further, the lender holds a first charge on the water revenues of APIIC that would be utilized towards debt repayments along with creation of upfront DSRA equivalent to one quarter of the debt servicing obligation minimising the risk. APIIC has also received support from GoAP towards its existing debt. Further, with current level of revenues the projected cashflows ensure a minimum DSCR of 1.20 times throughout the tenure of the loan.

Outlook: Stable

APIIC is expected to maintain a 'Stable' outlook as it is the sole water supplier in the APSEZ area of state of AP. The outlook may be revised to 'Positive' in case of higher-than-expected cash flow generation from water supply and healthy profitability in the entity. The outlook may be revised to 'Negative' in case of any adverse change in the payment mechanism or delays in receiving collections from debtors impacting the liquidity of APIIC.

Other Factors affecting Rating

Not Applicable.

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	204.77	250.65
PAT	Rs. Cr.	21.86	23.90
PAT Margin	(%)	10.68	9.54
Total Debt/Tangible Net Worth	Times	3.46	3.93
PBDIT/Interest	Times	0.00	0.00

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

Not Applicable.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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 :

None

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	475.00	ACUITE BBB Stable Assigned

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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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