



Press Release
ANDHRA PRADESH INDUSTRIAL INFRASTRUCTURE CORPORATION LIMITED
January 13, 2025
Rating Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|----------------------------------|-------------------|
| Bank Loan Ratings | 475.00 | ACUITE BBB Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 475.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed its long-term rating at '**ACUITE BBB**' (read as **ACUITE triple Bo**)n the Rs. 475 Cr. for the bank facilities of Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC). The Outlook is '**Stable**'.

Rationale for Rating

The rating reaffirmation factors in the 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 137 in FY2022, 165 in FY2023 and 187 in FY2024. 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. The rating is however constrained due to delay in project execution, susceptibility of cash flows to the timely collections and linkages to fiscal position of State of AP.

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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered standalone financial and business risk profile of APIIC and has factored in benefits arising being a 100 percent owned company by GoAP 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 benefits 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.

Acuité believes that the benefits corporation getting 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 137 in FY 2022 to 165 in FY 2023 and 187 in FY 2024. Further, in FY 2022 the GoAP has made tariff revisions which have been revised from Rs. 60 per KL to Rs. 120 per KL, and currently there are no revision in the tariff rates. There has been an improvement in the revenues from water segment which stood at around Rs. 122.83 crores in FY 2024 (Prov.) as against Rs. 119.37 crore in FY 2023 and Rs. 58 crore in FY 2022. 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 has raised a term loan of Rs 475 Cr. which will 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 to securitized 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 (SBI) is having 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 3 months of (Principal + Interest) is maintained and currently has an adequate balance in the account. 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 above unity 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

Delay in commissioning additional capacity in Atchutapuram water infrastructure project

The corporation is anticipating delay of around 18 months in commissioning the expansion of Atchutapuram water infrastructure project due to onsite issues, accordingly the term loan drawdown and repayment schedule will be revised. The project is expected to complete by September 2026. The delay in project is likely to result in cost overruns thus the corporation is exposed to project execution and project implementation risk to an extent.

Acuite believes that the ability of the corporation to execute the project on a timely basis without major cost overruns will remain as a key rating monitorable.

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 74 days ended as on March 31, 2024 (Prov.) Any delay in the collections will remain sensitive to the rating.

Linkages of 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 FY2024 of around 10.44% than FY2023. However, the fiscal position of the state has remained under strain with a major shortfall in revenue receipts in FY2024 as compared to the budgeted figures. The fiscal deficit was, however, lower at 3.30% of GSDP on account of higher-than-expected nominal GSDP. For FY24, the government has pegged the fiscal deficit higher at 3.98% (BE). APIIC is a 100% GoAP undertaking, and the government has extended support to APIICS 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.

Rating Sensitivities

- Timely completion of project
- 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

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

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 24 (Provisional) | FY 23 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 451.76 | 415.87 |
| PAT | Rs. Cr. | 26.03 | 31.01 |
| PAT Margin | (%) | 5.76 | 7.46 |
| Total Debt/Tangible Net Worth | Times | 2.82 | 3.41 |
| PBDIT/Interest | Times | 1.24 | 1.39 |

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>
- 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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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 |
|-------------|--------------------------------|-----------|-----------------|--------------------------------|
| 16 Oct 2023 | Proposed Long Term Loan | Long Term | 475.00 | ACUITE BBB Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Complexity Level | Rating |
|----------------------|----------------------|-------------------|-------------------------|----------------------|----------------------|--------------------------|-------------------------|----------------------------------|
| State Bank of India | Not avl. / Not appl. | Term Loan | 03 Dec 2023 | Not avl. / Not appl. | 03 Dec 2038 | 475.00 | Simple | ACUITE BBB Stable Reaffirmed |

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About Acuité Ratings & Research

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