

**ANDHRA PRADESH CAPITAL REGION DEVELOPMENT AUTHORITY**

**Brickwork Ratings reaffirms the rating for NCD/Bonds of Rs. 2000.00 Crs. of Andhra Pradesh Capital Region Development Authority**

**Particulars**

<b>Instrument**</b>	<b>Previous Amount (Rs. Crs.)</b>	<b>Present Amount (Rs. Crs.)</b>	<b>Tenure</b>	<b>Previous Rating (09 Sep 2022)</b>	<b>Present Rating*</b>
NCD / Bonds	2000.00	<b>2000.00</b>	Long Term	BWR BBB+ (CE)/Stable Downgrade	<b>BWR BBB+ (CE)/Stable Reaffirmation</b>
<b>Total</b>	2000.00	<b>2000.00</b>	<b>Rupees Two Thousand Crores Only</b>		

The ratings with the symbol CE unconditional, irrevocable, and legally enforceable guarantee from the Government of Andhra Pradesh (GoAP) for the timely payment of debt obligations. Additionally, these bonds have a structured payment mechanism, including a defined payment mechanism with the maintenance of a Bond Servicing Account (BSA) and the availability of a Debt Service Reserve Account (DSRA) for two quarters.

<b>Unsupported rating</b>	<b>BWR C</b>
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**Note:** Unsupported rating does not factor in the explicit credit enhancement.

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*\* Details of the Bonds are provided in Annexure-I

**RATING ACTION / OUTLOOK**

The reaffirmation of the Bonds’ ratings of Andhra Pradesh Capital Region Development Authority (APCRDA or the Authority) continues to derive comfort from the availability of GoAP’s unconditional, irrevocable, and legally enforceable guarantee for timely servicing of its debt obligations, its continuous support by way of grants, and availability of structured payment mechanisms ensuring entailing maintenance of Debt Service Reserve Account (DSRA) and Bond Servicing Account (BSA).

The ratings also draw comfort from the Authority’s strategic importance to the GoAP. BWR also notes that on 10 Feb 2023, APCRDA entered into a lease agreement with GAD (Accommodation) Department of GoAP according to which a monthly rental amount of Rs. 6.31 Crs. out of total completed units of 3201 units shall be paid to the lessor (APCRDA) which is expected to support the cash flow of the Authority. The ratings are, however, constrained on account of shortfall in BSA and DSRA as per terms of issue primarily resulting from enhanced requisite balances to be maintained due to the scheduled commencement of quarterly repayment of the Bonds from 16 Nov 2023. The ratings also factor in the Authority’s average financial profile reflective from significant net losses.

The outlook has been maintained as Stable based on the availability of the guarantee from GoAP for APCRDA's debt servicing and sufficient DSRA balance as on date to service the debt obligations falling due on 16 Nov 2023. GoAP is expected to continue supporting the Authority by way of grants for timely debt servicing. The outlook may be changed to Negative in case of sustained delay in BSA / DSRA replenishment by GoAP and a deterioration in the guarantee provider's risk profile.

### **ADEQUACY OF CREDIT ENHANCEMENT STRUCTURE**

BWR has assessed the attributes of availability of an unconditional, irrevocable, and legally enforceable guarantee for principal and interest as a continuing obligation by GoAP. In case the Authority or GoAP fails to replenish DSRA within 120 days of the first interest payment date then the trustee shall invoke the guarantee of GoAP for the entire principal outstanding and the interest due thereon.

### **KEY COVENANTS OF THE INSTRUMENT RATED**

- Backed by an unconditional, irrevocable, and legally enforceable guarantee from the GoAP.
- Maintenance of BSA and DSRA as part of the structured payment mechanism to ensure timely payment of Bonds' coupon and principal as and when due.
- DSRA to be maintained in the form of cash or fixed deposits equivalent to two quarters of principal and interest on a rolling basis.
- BSA to be funded at the start of each quarter equivalent to 1.5 times the debt servicing amount of the ensuing quarter from the "Designated Revenue" of the Authority
- Structured payment mechanism of T-15 days under which the debenture trustee (DT) shall intimate the issuer in case of any shortfall in BSA on the T-15<sup>th</sup> day.
- If the shortfall is not made good by the T-7<sup>th</sup> day, the DT shall utilise the funds from the DSRA to meet the shortfall.
- In case the Authority or GoAP fails to replenish DSRA within 120 days from the date of the shortfall date, then the trustee shall invoke the state government guarantee for the entire principal outstanding and the interest due thereon.
- The rated bonds have quarterly interest and repayment.

### **KEY RATING DRIVERS**

#### **Credit Strengths:-**

- **Guarantee and support by GoAP:** The GoAP has given an unconditional, irrevocable, and legally enforceable guarantee for the BWR-rated Bonds. GoAP continuously supports the Authority with grants through budgetary allocations for debt servicing and other operational expenses like land pooling schemes. In FY24, GoAP has already sanctioned the grant of Rs. 500 Crs. (previous year, similar amount) for the Authority. The Authority has requested for an additional grant of Rs.570 Crs. for FY24 due to the need to replenish the enhanced BSA/DSRA balance requirements and other debt servicing obligations.
- **Availability of a well-defined Structured Payment Mechanism:** The rated bond series has a well-defined, trustee-monitored structured payment mechanism which ensures timely transfers to the designated accounts of the respective accounts. The structured payment mechanism has ensured the availability of funds for scheduled payments on due dates. Under the mechanism, APCRDA is expected to transfer funds

at the start of a quarter from its Designated Revenue account to BSA equivalent to 1.5 times of debt servicing due for the ensuing quarter in accordance with the waterfall mechanism provided in the terms of the issue. The debenture trustee shall independently monitor the adequacy of collection (interest and principal) in BSA on T-15<sup>th</sup> day and intimate the issuer in case of any shortfall. If the shortfall is not made good by T-7<sup>th</sup> day, the debenture trustee shall utilise funds from the DSRA to meet the shortfall. In case there is a shortfall in DSRA due to utilisation of funds, the issuer undertakes to replenish the DSRA within 5 days. An amount equivalent to the total debt servicing obligation of the outstanding Bonds for the next 2 quarters to be maintained by the issuer in the DSRA on a rolling basis.

#### **Credit Risks:-**

- **APCRDA's average financial and operational performance:** APCRDA continues to report net losses primarily due to a high level of annual interest payment obligations. The Authority has a limited source of revenue, primarily coming from development charges and fees. The net cash accruals are insufficient for debt servicing which is primarily funded through GoAP grants.

BWR notes the acceptance 13 Feb 2023 as the deemed date of commencement of commercial operations (DCCO) as per extant RBI guideline by consortium of lenders (Bank of Baroda, Indian Bank, and Union Bank of India). The balance of the consortium-funded ongoing projects has to be completed by February 2024. The consortium is yet to disburse ~Rs. 105 Crs. of the sanctioned limit for completion of the remaining projects.

- **Timely Support from GoAP:**

Notwithstanding the well-defined Structured Payment Mechanism, there have been instances of non-adherence of the same due to delay in receipt of the GoAP's support. Presently, the Authority's BSA and DSRA balances are falling short of the stipulated requirements as per the terms of the issue. BWR notes that APCRDA has requested additional budgetary allocation primarily to meet its debt service obligations. Although the Authority has raised its requests with the concerned in GoAP, timely receipt of such funds remains a key rating monitorable on the strength of the credit enhancement.

#### **ANALYTICAL APPROACH - Credit Enhancement**

For arriving at the unsupported ratings, BWR has considered the standalone financials of the Authority. The CE rating derives credit enhancement from the unconditional, irrevocable, and legally enforceable guarantee from the GoAP.

#### **RATING SENSITIVITIES:**

Going forward, the Authority's ability to receive timely support from GoAP as per the agreed timelines, review the scope and timelines for developing the capital region to ensure adequate cash flows and to ensure the key elements of the structured payment mechanism are maintained will be key rating sensitivities. Furthermore, the revenue and fiscal profile, along with Andhra Pradesh state's revenue and expenditure pattern are key rating monitorables.

**Upward:**

- Improvement in Andhra Pradesh state’s socio-economic profile and fiscal parameters and an upward revision in the credit rating of the guarantor (the GoAP).
- At the standalone level, timely completion of the ongoing capex without time and cost overrun and availability of adequate funds to meet debt obligations in a timely manner along with a demonstrated satisfactory track record of adherence to the Structured Payment Mechanism as per the terms of the issue

**Downward:**

- The ratings can move downward if there is any downward revision in the credit rating of the guarantor (the GoAP)
- Delay in the release of grants from the state government for meeting debt obligations resulting in a sustained non-adherence to the defined structured Payment Mechanism of the issue

**LIQUIDITY INDICATORS - Stretched**

The principal repayment obligations of Rs.200 Crs are due in FY24. Currently, the Authority’s BSA and DSRA balances are falling short of the stipulated requirements as per the terms of the issue. As of 03 Oct 2023, Bonds’ servicing obligation for the balance of FY24 is at ~Rs. 328 Crs. (principal repayment of Rs. 200 Crs. and coupon payment of ~Rs. 128 Crs.) against the BSA balance of ~Rs. 28 Crs. and DSRA balance of ~Rs. 207 Crs. Currently, the Authority is not generating adequate cash accruals to meet its debt obligations. Hence, the timely servicing of upcoming payments on 16 Nov 2023 and 16 Feb 2024 depends on timely budgetary allocation and release of funds by GoAP. Apart from the rated Bonds, the Authority has also availed the term loans from banks and financial institutions The annual repayment obligations to the tune of Rs.50-57 Crs in FY24 and FY25, respectively, are due from financial institutions while the Bank-repayment obligations shall commence from FY26 onwards. BWR notes that, for FY24, the Authority has been sanctioned grants of Rs. 500 Crs. from the GoAP and it has requested additional budgetary allocation of Rs. 570 Crs., primarily to meet its debt service obligations. BWR expects that adequate funds and support shall be extended by the GoAP to meet the debt obligations timely and remains a key rating monitorable.

**ABOUT THE AUTHORITY**

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Public Services	Development Authority

AP Capital Region Development Authority (APCRDA) was formed under the AP Capital Region Development Act, 2014. APCRDA has been constituted for the purposes of planning, coordination, execution, supervision, financing, funding and for promoting and securing the planned development of the capital region development area, undertaking the construction of the new capital for Andhra Pradesh and for managing and supervising urban services in the new capital area and for matters ancillary thereto.

**KEY FINANCIAL INDICATORS - ISSUER: Standalone**

Key Parameters	Unit	FY21	FY22	FY23	H1FY24
		Audited	Audited	Provisional	Unaudited
Total Operating Income	Rs. Crs.	45.07	165.39	59.12	NA
EBITDA	Rs. Crs.	15.66	-5.15	8.56	NA
PAT	Rs. Crs.	-264.20	-226.07	-208.01	NA
TNW	Rs. Crs.	3441.45	4146.74	6394.55	NA
Total Borrowings	Rs. Crs.	4928.79	4970.59	3286.44	NA
D:E	Times	1.43	1.20	0.51	NA

**Note:** All figures and ratios have been adjusted as per BWR standards.

NA = Not Available.

**FINANCIAL PERFORMANCE OF GoAP**

For the state of Andhra Pradesh, FY22 actual total receipts were at Rs. 205,946 Crs. against FY22 revised estimates (RE) of Rs. 209,759 Crs. and FY21 actuals of Rs.175,635 Crs. FY22 actual total expenditure was at Rs. 191,594 Crs. against FY22 RE of Rs. 208,107 Crs. and FY21 actuals of Rs. 187,102 Crs. Revenue deficit contracted from Rs. 35,540 Crs. in FY21 (Actuals) to Rs. 8,611 Crs. in FY22 (Actuals). The revenue deficit in 2023-24 is estimated to be 1.5% of GSDP (Rs 22,317 crore), lower than the revised estimates for 2022-23 (2.2% of GSDP). The fiscal deficit contracted from Rs. 55,167 Crs. to Rs. 25,013 Crs. and the primary deficit contracted from Rs. 35,150 Crs. to Rs. 2,847 Crs. over the same period. The fiscal deficit for 2023-24 is targeted at 3.8% of GSDP (Rs 54,588 crore) as against FY23 RE of 3.6% of GSDP. Own Tax Revenue/GSDP ratio improved marginally from 5.82% in FY21 (Actuals) to 5.88% in FY22 (Actuals). Total Revenue/GSDP ratio also improved marginally from 11.87% to 12.47% over the same period.

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY):**

Nil

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]**

Instrument	Current Rating (Oct 2023)		Rating History									
	Bonds	Tenure	Amount (Rs. Crs.)	Rating	2023		2022		2021		2020	
					Date	Rating	Date	Rating	Date	Rating	Date	Rating
NCD / Bonds	Long Term	2000.00	BWR BBB+ (CE)/ Stable Reaffirmation	NA	NA	09 Mar 2022	BWR A+ (CE)/ Stable Reaffirmation and Change in Outlook	09 Feb 2021	BWR A+ (CE)/ Negative Reaffirmation	07 Feb 2020	BWR A+ (CE)/ Negative Reaffirmation	
						09 Sep 2022	BWR BBB+ (CE)/Stable Downgrade					
Proposed Term Loans		-	NA	NA	NA	NA	NA	NA	NA	07 Feb 2020	Withdrawn	
<b>Total</b>		<b>2000.00</b>	<b>Rupees Two Thousand Crores Only</b>									

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Complex**

For more information, visit

<https://www.brickworkratings.com/download/ComplexityLevels.pdf>

**Hyperlink/Reference To Applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Credit Enhancement](#)
- [Rating Based on Government Support](#)

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**ANDHRA PRADESH CAPITAL REGION DEVELOPMENT AUTHORITY  
ANNEXURE I - DETAILS OF RATED INSTRUMENTS**

Name of the Issue	ISIN Particulars	Amount (Rs. Crs.)	Coupon Rate	Issue Date	Maturity Date
NCD / Bonds	INE01E708016	400.00	10.32%	16 Aug 2018	16 Aug 2024
	INE01E708024	400.00	10.32%	16 Aug 2018	16 Aug 2025
	INE01E708032	400.00	10.32%	16 Aug 2018	16 Aug 2026
	INE01E708040	400.00	10.32%	16 Aug 2018	16 Aug 2027
	INE01E708057	400.00	10.32%	16 Aug 2018	16 Aug 2028
	Total	2000.00	<b>Rupees Two Thousand Crores Only</b>		

**Note:** The rated bonds are listed on BSE.

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