

Rating Rationale

Andhra Pradesh Capital Region Development Authority

16 Aug 2019

Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹10000.00 Crores and NCD issue of Rs. 2000.00 Crores of Andhra Pradesh Capital Region Development Authority ('APCRDA' or 'the Authority')

Particulars

| Instrument/ Facility | Amount (₹ Crs) | | Tenure | Rating* | |
|---|----------------|---------------|--|---|--|
| | Previous | Present | | Previous (Dec 2018) | Present |
| BLR Fund based Proposed Term Loans | 10,000 | 10,000 | Long Term | BWR A+ (SO)^ (Pronounced as BWR Single A Plus, Structured Obligation) (Outlook: Stable) | BWR A (SO)^ (Pronounced as BWR Single A Structured Obligation) Outlook: Stable (Downgradation) |
| NCD | 2,000 | 2,000 | Short Term | BWR AA- (SO)# (Pronounced as BWR Double A Minus) Structured Obligation Outlook: Stable | BWR A+ (SO)# (Pronounced as BWR Single A Plus) Structured Obligation Outlook: Stable (Downgradation) |
| Total | 12,000 | 12,000 | INR Twelve Thousand Crores Only | | |

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Instrument details provided in Annexure-I

^Structured Obligation is assigned based on the proposed unconditional and irrevocable guarantee from State Government of Andhra Pradesh.

#Structured Obligation is assigned due to the structured payment mechanism for the NCD issue of ₹2000.00 Crores and unconditional and irrevocable Guarantee from State Government of Andhra Pradesh (GoAP).

Note: The said Bank Loan rating has been assigned on the basis of the terms and conditions assumed in the draft term sheet including, repayment over 15 years with a moratorium of 3 years and irrevocable and unconditional guarantee to be furnished by the Government of Andhra Pradesh

Ratings: Downgraded

Rationale/Description of Key Rating Drivers/Rating sensitivities:

The ratings downgrade takes into account the cancellation of the loan from the World Bank and Asian Infrastructure Investment Bank (AIIB), implementation risks for the development of the city, any delay in availability or tie ups of funds for the development of the capital city shall impact the cash flows of the Company. Further the change in the political scenario in the State has introduced some uncertainty with respect to the funding, scope and timelines for the capital region development.

However, these ratings are offset by the credit enhancement available for the NCD issue and Bank Loan Facilities, adherence to the terms of the NCDs so far, progress of the project, reputed stakeholders and 90% of the land being already procured through land pooling scheme.

Going forward, the ability of APCRDA to ensure timely tie up of funds for the development of the capital city by way of additional grants from GoAP, Government of India (GoI)/other financing options from various multilateral/other institutions and review the scope and timelines for the development of the capital region to ensure adequate cash flows and ensure the key elements of the structured payment mechanism are maintained that are key rating sensitivities. Further the revenue and fiscal profile and revenue and expenditure patterns of the Andhra Pradesh state will remain key rating monitorables.

Key Rating Drivers:

- **Credit Enhancement:** The Bank Loans of Rs.10,000 Crores are proposed to be guaranteed by the State Government of Andhra Pradesh as per Government Order GO No: Ms. No 332 dated 15 Oct 2018. The NCD issue of ₹2000 Crores has been given as BWR A+ (SO) (structured obligation) rating on account of the structured payment mechanism including an escrow account (bond servicing account), Debt servicing reserve account (DSRA) and the guarantee for servicing of interest and principal by Government of Andhra Pradesh (GoAP).
- **Cancellation of Loans from WorldBank/AIIB:** According to press release from World Bank dated July 21, 2019, “On July 15, the Government of India (GoI) withdrew its request to the World Bank for financing the proposed Amaravati Sustainable Infrastructure and Institutional Development Project. As the new government sets its development priorities, we stand ready to provide whatever support the state and the Government of India might request”. Further media reports have stated that World Bank has cancelled/dropped its \$300mn its funding for the development of Amaravati. Another media report on July 23, 2019 has stated that Asian Infrastructure Investment Bank (AIIB) has also cancelled/dropped proposed plan of \$200 million funding. The authority needs to arrange alternate funding. While the authority has submitted that alternate funding would be arranged from other multilateral institutions, the same is expected to take time and therefore the projected timelines and cashflow levels may undergo change.



- **Project execution risks :** APCRDA's development of Amaravati faces implementation risk as the infrastructure and institutional development is yet to be completed . Timely execution of the projects as per schedule is key to the success of the development of the city.
- **Financing arrangement:** APCRDA has to ensure the raising of funds from various sources by way of grants and loans from the GoAP, GoI, multilateral institutions and other agencies. Any delay in tying up of funds from various sources , may delay the project execution. The authority may have to review the timelines and cash flows to ensure adequate cash flows as originally projected are achieved.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes the **Andhra Pradesh Capital Region Development Authority** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case if there is an improvement in funding arrangement and execution the projects which leads to an increase in the cash flows in the company. The rating outlook may be revised to 'Negative' if there in slow down in the progress of the capital city project and delay in tie up of the funding arrangements.

About the Authority

The Government of Andhra Pradesh enacted the 'AP Capital Region Development Act 2014' and has formed AP Capital Region Development Authority (APCRDA) 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 region development area, undertaking the construction of the new capital for the state of Andhra Pradesh and for managing and supervising urban services in the new capital area and for matters ancillary thereto. Under the provisions of APCRDA Act, the Government has notified an area of 217.23 Sq Km in Thullur, Tadepalli and Mangalagiri Mandals as the Capital City area and the capital city has been named as Amaravati. Capital Region of Andhra Pradesh will be spread across an area of 8,603 Sq.Km. Approximately 53,637 Acres of Land has been allocated for the development of Capital City- Amaravati

Rating History for the last three years

| S.No | Instrument /Facility | Current Rating (2019) | | | Rating History | | | |
|------------------------|----------------------------|------------------------------|----------------|--|---|--|------|------|
| | | Type (Long Term/ Short Term) | Amount (₹ Crs) | Rating | Dec 2018 | Aug 2018 | 2017 | 2016 |
| 1 | BLR: Fund Based | Long Term | 10,000 | BWR A (SO)^ (Pronounced as BWR Single A Structured Obligation) Outlook: Stable (Downgradation) | BWR A+ (SO) (Pronounced as BWR Single A Plus) Structured Obligation Outlook: Stable | -- | -- | -- |
| 2 | NCD | Long Term | 2,000 | BWR A+ (SO)# (Pronounced as BWR Single A Plus) Structured Obligation Outlook: Stable (Downgradation) | BWR AA- SO (Pronounced as BWR Double A Minus) Structured Obligation Outlook: Stable Reaffirmation | Affirmation of BWR AA- (SO) (Pronounced as BWR Double A Minus) Structured Obligation Outlook: Stable | -- | -- |
| Total (BLR+NCD) | | | 12,000 | ₹ Twelve Thousand Crores Only | | | | |

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#Structured Obligation is assigned due to the structured payment mechanism for the NCD issue of ₹2000.00 Crores and unconditional and irrevocable Guarantee from State Government of Andhra Pradesh.

Note: The said Bank Loan rating has been assigned on the basis of the terms and conditions assumed in the draft term sheet including, repayment over 15 years with a moratorium of 3 years and irrevocable and unconditional guarantee to be furnished by the Government of Andhra Pradesh

Status of non-cooperation with previous CRA (if applicable)-Reason and comments : NA

Any other information: NA

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Ratings based on Government Support](#)
- [Structured Obligation \(SO\) Instruments](#)

For any other criteria obtain [hyperlinks](#) from website



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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.



Annexure-I
Instrument Details

| Instrument | Issue Date | Issue Size | Coupon | Maturity Date | ISIN Particulars | Rating |
|-------------------|-------------------|-------------------|-------------------------------------|----------------------|-------------------------|---|
| NCD/Bonds | 16 Aug 2018 | 400.00 | 10.32% | 16 Aug 2024 | INE01E708016 | BWR A+ (SO)# (Pronounced as BWR Single A Plus) Structured Obligation (Outlook: Stable) (Downgradation) |
| NCD/Bonds | 16 Aug 2018 | 400.00 | 10.32% | 16 Aug 2025 | INE01E708024 | |
| NCD/Bonds | 16 Aug 2018 | 400.00 | 10.32% | 16 Aug 2026 | INE01E708032 | |
| NCD/Bonds | 16 Aug 2018 | 400.00 | 10.32% | 16 Aug 2027 | INE01E708040 | |
| NCD/Bonds | 16 Aug 2018 | 400.00 | 10.32% | 16 Aug 2028 | INE01E708057 | |
| Total | | 2000.00 | INR Two Thousand Crores Only | | | |

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