

Rating Rationale

Andhra Pradesh Capital Region Development Authority

10 Dec 2018

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹ 10,000 Crores and reaffirms ratings for the NCD issue of ₹ 2,000 Crores of Andhra Pradesh Capital Region Development Authority ('APCRDA' or 'Authority')

Particulars

| Facility | Amount (₹ Crs) | Tenure | Rating* |
|--------------------------------------|-------------------|-------------------------------------|---|
| Fund Based Proposed Term Loans | 10,000 | Long Term | BWR A+ (SO)[^] (Pronounced as BWR Single A Plus, Structured Obligation) (Outlook: Stable) |
| Total | 10,000 | INR Ten Thousand Crores Only | |

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

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

Note : The said 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

Other O/s Ratings

| Instrument | Previous Amount (₹ Crs) | Present Amount (₹ Crs) | Tenure | Rating History Aug 2018 | Rating Recommendation |
|--------------|-------------------------------|------------------------------|-------------------------------------|--|---|
| NCD/Bonds | 2,000 | 2,000 | Long Term | Affirmation of BWR AA- (SO) (Pronounced as BWR Double A Minus) Structured Obligation Outlook: Stable | Reaffirmation of BWR AA- (SO)# (Pronounced as BWR Double A Minus) Structured Obligation Outlook: Stable |
| Total | 2,000 | 2,000 | INR Two Thousand Crores Only | | |

#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.

Instrument details provided in Annexure-I

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY17, provisional financials of FY18, projected cash flows of the project, publicly available information and information/clarifications provided by APCRDA's management.

The ratings assigned takes into account the priority accorded to the development of Amaravati as a capital city by GoAP, strong financial and operational support from Government of Andhra Pradesh and Government of India, the capability of APCRDA authority members, Collaborations/MOUs for infrastructure development, cardinal significance attributed to APCRDA by the GOAP in developing the capital city of AMARAVTI-the People's capital, the primary cash flows of APCRDA, generated through land monetization which would be used to prioritize debt servicing, and 1391.67 acres already being allotted to 85 Institutions enabling economic and demographic development in the capital city.

The ratings is further strengthened due to the credit enhancement from the structured payment mechanism and the guarantee provided for payment of principal and interest by the Government of Andhra Pradesh for the NCD Issues of Rs. 2000.00 Crores. The credit enhancement the Bank Loans of Rs.10,000 Crores is derived from the proposed irrevocable and unconditional Guarantee by the State Government of Andhra Pradesh (GoAP) as per Government Order GO No: Ms. No 332 dated 15 Oct 2018.

The ratings assigned are constrained by the implementation risks for the development of the city as the infrastructure development is at a nascent stage, timely implementation of the various projects undertaken, timely availability of funds for the development of capital city, additional fiscal burden on the State finances due to the provisions under UDAY and increasing revenue and fiscal deficits as per revised estimates for 2017-18 of Andhra Pradesh State Government .

Going forward, ability of APCRDA to develop the infrastructure as per the master plan as scheduled, land utility adequate availability of funds for the development which includes additional grants from GoAP, Government of India (GoI) and other financing options from various organizations and in attracting adequate institutions and investors to the city and revenue buoyancy, increase in the guarantees issued by the State Government of Andhra Pradesh and the fiscal position of Andhra Pradesh will remain key rating sensitivities.

Description of Key Rating Drivers

- **Authority members of APCRDA:** Honorable Chief Minister of Andhra Pradesh acts as chairman and Honorable Minister of Municipal Administration and Urban Development (MA & UD) acts as Vice Chairman of APCRDA. Other members of the Committee include Chief Secretary, GoAP, Special Chief Secretary(s), Principal Secretary (Energy/Infrastructure and Urban development) and professional experts from the industry & academicians from various fields is expected to ensure better coordination and timely implementation.
- **Financial and operational support from GoI and GoAP:** A total amount of Rs.1743.29 crs has been infused in APCRDA by way of grants from GoAP/other state and central government institutions as on FY18. As on 31 March 2018, grants from Government of India (GoI) stood at

Rs.500.00 Crores As per APCRDA's management, during May 2018, additional grant of ₹1000 Crores has been received from Government of India.

- **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 ₹2000.00 Crores has been given as BWR AA- (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).
- **Land allotment to Institutions:** Out of the total saleable area of approximately 9534 Acres, 1391.6 Acres of land has been allotted to 85 Institutions/departments till 31 October 2018 for development. Establishment of the institutions in the city will enable economic and commercial development of the city and attract other tertiary businesses and settlements into the city.

Credit Risks:

- **Project execution risks :** APCRDA's development of Amaravati faces implementation risk as the infrastructure and institutional development is at a nascent stage. Timely execution of the projects as per schedule plan is key to the success of the development of the city.
- **Financing arrangement:** APCRDA has to ensure 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 the various sources, may delay the project execution.
- **State Finances:** The fiscal position of Andhra Pradesh has shown improvement since the bifurcation of the States in 2014. However there have been revenue deficits in 2017 Actuals as well as 2018 revised estimates. However the budget estimates for 2018-19 show a revenue surplus and consequent improvement in fiscal position. In 2018-19, the outstanding liabilities of the state for the last two fiscal year is ~28% of the GSDP due to additional burdens on the State finances from UDAY and other schemes.

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 the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

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 development of Capital City- Amaravati.

Project Details:

APCRDA has revised its estimated cost for development of Capital Region including Capital city to Rs. 52,882 Crores (Rs.58,000 Crores in May 2018) for the next five years. As of now, APCRDA is planned capex for Tier I- Trunk Infrastructure and Tier-II LPS infrastructure with project cost of Rs. 12,500 Crores in the next three years. This cost is proposed to be sourced through GoAP equity of Rs.2,500 Crores and Rs.10,000 Crs will be by way of term debt from banks and Commercial Institutions. The estimated implementation time is considered as 36 months and the projects are in the initial phase of implementation. APCRDA has appointed IDBI Capital Markets & Securities Limited for preparing the Financial Appraisal report.

Apart from the above project cost of Rs. 12,500 Crores, APCRDA is also implementing Amaravathi Housing Project for the employee housing. The project includes construction of 3,840 Residential Apartments for Legislature Members, All India Services AIS Officers, Gazetted Officers Type I & II, Class IV & Non-Gazetted Employees of the State Government working in Legislature, Legal, Secretariat, HoDs in Capital region. The estimated project cost of Rs.2575.01 Crores is proposed to be sourced from equity contribution of Rs. 515.01 Crores and Term loan from banks of Rs. 2060.00 Crores. This term debt of Rs. 2060.00 Crores is not included in the rating amount. The expected completion date of project (Amaravati Housing Project) is April 2019. As on date, 60% of the project is completed.

Financial Performance

As per FY18 provisional financials, Company has reported total development charges and fees at ₹ 124.00 Crores. Equity and Reserves of the Company stood at ₹ 1743.29 Crores as on 31 March 2018. APCRDA has availed ₹ 908.00 Crores debt as on 31 March 2018

State Government Finances:

- Andhra Pradesh State has a literacy rate of 67% and population density of 304 /Sq.Km. The growth rate in GSDP of Andhra Pradesh has been increasing from 7% in 2013-14 to 11.2% in 2017-18. Total receipts (excluding borrowings) for 2018-19 have increased by 25.4% as compared to the revised estimates of 2017-18. Revenue surplus for the current financial year is targeted at 0.6% of the GSDP which indicate higher revenue receipts over expenditure.
- The fiscal deficit to GSDP of the state is budgeted to improve to 2.78% from 3.43% in 2018 revised estimates which is within the 3% limit prescribed by the 14th Finance Commission.
- Out of the total expenditure, state has spent three fourth of its expenditure on Social Services and Economic Services on account of increase in allocation to the departments of education, municipal administration. Urban development, health, medical and family welfare have witnessed the highest increase in allocations over the previous year. The State has allocated ₹14,705 crore for rural development which is 6.7% of its expenditure.

Rating History for the last three years

| S.No | Instrument /Facility | Current Rating (2018) | | | Rating History | | | |
|------------------------|----------------------------|------------------------------|----------------|---|---|------|------|------|
| | | Type (Long Term/ Short Term) | Amount (₹ Crs) | Rating | Aug 2018 | 2017 | 2016 | 2015 |
| 1 | BLR: Fund Based | Long Term | 10,000 | BWR A+ (SO) (Pronounced as BWR Single A Plus) Structured Obligation Outlook: Stable | -- | -- | -- | -- |
| 2 | NCD | Long Term | 2,000 | 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 | | | | |

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

Any other information: NA

Key Financial Indicators

| Key Parameters | Units | 2016 | 2017 |
|-------------------------------|-------|----------------|----------------|
| Result Type | | Audited | Audited |
| Development Charges and Fees | ₹ Cr | 50.40 | 124.53 |
| EBITDA | ₹ Cr | (3.05) | 40.70 |
| PAT | ₹ Cr | 10.80 | 44.85 |
| Equity and Reserves | ₹ Cr | 1205.69 | 1621.63 |
| Total Debt/Tangible Net worth | Times | 0.01 | 0.13 |

**Instrument Details
Annexure-I**

| Instrument | Issue Date | Issue Size | Coupon | Maturity Date | ISIN Particulars | Rating |
|--------------|-------------|----------------|-------------------------------------|---------------|------------------|--|
| NCD/Bonds | 16 Aug 2018 | 400.00 | 10.32% | 16 Aug 2024 | INE01E708016 | Reaffirmation of BWR AA- (SO) (Pronounced as BWR Double A Minus) Structured Obligation Outlook: Stable |
| 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 | | | |

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Ratings based on Government Support](#)

| Analytical Contacts | Media |
|--|---|
| Vipula Sharma Deputy General Manager-Ratings | media@brickworkratings.com |
| analyst@brickworkratings.com | Relationship Contact bd@brickworkratings.com |
| Phone: 1-860-425-2742 | |

For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

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.