

## Amended Rating Rationale

### Andhra Pradesh Capital Region Development Authority (APCRDA)

22 Jun 2018

Brickwork Ratings assigns the ratings for the Proposed Non-Convertible Debentures Issue of ₹2000.00 Crores of Andhra Pradesh Capital Region Development Authority ('APCRDA' or The Authority')

#### Particulars

Instrument	Facility	Amount (₹ Crores)	Tenure	Rating*
Proposed NCD	Fund Based	2000.00	Long Term	<b>Prov BWR AA- (SO)</b> Pronounced as Provisional BWR Double A Minus (Structured Obligation) <b>(Outlook: Stable)</b>
<b>Total</b>		2000.00	<b>₹ Two Thousand Crores Only</b>	

Note:

- Structured Obligation is assigned due to the structured payment mechanism for the proposed NCD issue of ₹2000.00 Crores and Guarantee from Government of Andhra Pradesh.
- Provisional Rating will be affirmed once the State Government Guarantee/Documentation for proposed NCDs of Rs.2000.00 Crores is provided/executed.

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

#### 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 upto FY23, 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, authority members of APCRDA, 90% of land procurement being already completed under Land Pooling Scheme, collaborations /MOUs for infrastructure development and 1260 acres already being allotted to 54 Institutions enabling economic and demographic development in the capital city. The rating 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. BWR has noted that the guarantee issued is within the overall limit prescribed for GoAP.

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 ensuring adequate availability of funds for the development which includes additional grants from GoAP, GOI and other financing options from various organizations and attracting adequate institutions and investors to the city and revenue buoyancy and the fiscal position of Andhra Pradesh will remain key rating sensitivities.

## Description of Key Rating Drivers

### Credit Strengths:

- **Authority members of APCRDA:** Honorable Chief Minister of Andhra Pradesh acts as chairman of APCRDA and Honorable Minister of Municipal Administration and Urban Development (MA & UD) acts as Vice Chairman of the advisory committee members of APCRDA. Other members of the Committee include Chief Secretary, GoAP, Special Chief Secretary(s), Principal Secretary (Energy/Infrastructure and Urban development and Municipal Commissioners of Vijayawada and Guntur with other members. Inclusion of all the major stakeholders is expected to ensure better coordination and timely implementation.
- **Financial and operational support from GoI and GoAP:** 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. 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.
- **Credit Enhancement:** The proposed NCD issue of ₹2000.00 Crores has been given an 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).
- **Progress of the Land Pooling Scheme (LPS):** Government of Andhra Pradesh has already procured ~90% of the demarcated land for development of capital city- Amaravati from the farmers.
- **Collaborations/Memorandums of Understanding :** Government of Andhra Pradesh (GoAP) has entered into collaborations/entered into MoUs with various institutions for development of various aspects of the Capital City. A Singapore Consortium has formed a project SPV, Amaravati Development Partner (ADP) with Amaravati Development Corporation (ADC) which will develop land of 1690 Acres as a Start up city.
- **Land allotment to Institutions:** Out of the total saleable area of approximately 9534 Acres, 1,260 Acres of land has been allotted to 54 Institutions/departments till 31 March 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 master plan as per schedule 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

### Draft Terms of Proposed NCD Issue of ₹ 2000.00 Crores:

- Unsecured, rated, listed, redeemable, taxable Non- Convertible Debentures in the nature of bonds
- Tenor of the loan is 10 years.
- **Repayment Schedule:** STRIP Structure with 5 STRIPS – A, B, C, D & E with maturity ranging from 6 years to 10 years. Principal repayment to happen quarterly, from 6th year onwards in 20 equal quarterly instalments.
- **Structured Payment Mechanism:**
  - The issuer will be required to open a designated Escrow Account – APCRDA Bond Servicing account for the benefit and charged to debenture trustee. APCRDA undertakes to transfer 1.5 times the amount of debt servicing requirement for the ensuing quarter at the start of each quarter to APCRDA Bonds Servicing Account. The transfer to APCRDA Bond Servicing Account shall be strictly in line with the waterfall mechanism.
  - **Waterfall Mechanism:**
    - Firstly towards transfer to designated escrow account for bond servicing amount equivalent to 1.5X of debt servicing due for particular quarter
    - Secondly towards other debt servicing or transfer to any other account relevant to servicing of other debt after which the money will be drawn for other expenses.
  - The debenture trustee should independently monitor the adequacy of collection (interest and principal) in APCRDA Bond Servicing account on T-15 th day and intimate the issuer in case of any shortfall. If the shortfall is not made good by T-7 th day, the Debenture Trustee shall utilize funds from DSRA account to meet the shortfall.
  - Timelines of Structured Payment mechanism is provided in Annexure
- **Debt service reserve account:**
  - Issuer to create and fund DSRA account upfront. The DSRA would be in the form of Cash or invested in the form of an FD in the favour of Debenture trustee.
  - An amount equivalent to total debt servicing obligation of the outstanding bonds for the next 2 quarters to be maintained by the issuer in the DSRA account on rolling basis. In case there is a shortfall in DSRA account due to utilization of funds, issuer undertakes to restore DSRA account within 5 days.

- **Government Guarantee:**

The debentures would have further collateral support by way of Unconditional & Irrevocable guarantee for principal and Interest as a continuing obligation by the Government of Andhra Pradesh. If the DSRA is not replenished to the requisite extent by T+120th day from the date of T Date by Authority or by GoAP, then trustee shall invoke the state government guarantee for the entire principal and interest outstanding. “T” Date refers to the date when DSRA has been utilised for servicing of debt obligation.

### **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 (APCRDA)** 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 implementation and revenues show sustained improvement. The rating outlook may be revised to 'Negative' if the implementation is delayed, state fiscal position undergoes a drastic change, 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 53,748 Acres of Land has been allocated for development of Capital City- Amaravati.

- **Land Pooling Scheme:** Government of Andhra Pradesh (GoAP) has brought up an innovative Land Pooling Scheme for procuring the land from farmers/landlords. ~90% (33,036 Acres) procured from farmers of the land has already procured by GoAP under Land Pooling Scheme (LPS). As per the LPS, farmers/landlords have been allotted/will be allotted proportionate residential and Commercial plots. LPS also has committed annuity payments for a period of ten years with 10% adjustment per year towards inflation.
- **Theme Cities:** APCRDA has planned to develop capital city as 9 theme cities(Sub Cities); which have been defined as the pillars of the new capital city. The 9 sub cities identified as Tourism, Sports, Media, Justice, Electronics, Health, Knowledge, Government and Finance Cities.
- **Current status of Capex:** Andhra Pradesh temporary Legislative assembly and some administrative buildings have been completed as on date. As on 31 March 2018, APCRDA has completed capex of ₹ 829.46 Crores comprising of capital region capex of ₹ 135.06 Crores and

Capital city Capex of ₹ 694.40 Crores. Currently, the construction of government offices/staff housing and complexes are being assigned to EPC Contractors. APCRDA is also taking up other infrastructure development .

### APCRDA Financial Performance

As per FY17, audited financials, total development charges and fees collected were at ₹ 124.53 Crores as against ₹ 50.40 Crores in FY16. Authority has reported Excess income over expenditure of ₹ 44.85 Crores in FY17 as against ₹ 10.80 Crores in FY16. Authority has reported Equity and Reserves at ₹ 1621.62 Crores as against ₹ 1205.69 Crores. As per FY18 provisional financials, Authority has reported total development charges and fees at ₹ 124.00 Crores. Equity and Reserves of the Authority 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	2017	2016	2015
1	Proposed NCD Fund Based	Long Term	2000.00	Prov BWR AA- (SO) Pronounced as Provisional BWR Double A Minus (Structured Obligation) (Outlook: Stable)	-	-	-
<b>Total</b>			<b>2000.00</b>	<b>₹ Two Thousand Crores Only</b>			

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

### Hyperlink/Reference to applicable Criteria

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

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### For print and digital media

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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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

### About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been 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 Nationalized 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, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

#### **DISCLAIMER**

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**Annexure**  
**Timelines to be followed for structured payment mechanism**

<b>Trigger Date</b>	<b>Action</b>
(T-15 <sup>th</sup> ) day	The debenture trustee should independently monitor the adequacy of collection (interest and principal) in <b>APCRDA Bond Servicing account on T-15<sup>th</sup> day and intimate the issuer in case of any shortfall.</b>
(T-7 <sup>th</sup> Day)	If the shortfall is not made good <b>by T-7<sup>th</sup> day, the Debenture Trustee shall utilize funds from DSRA account</b> to meet the shortfall.
T <sup>^</sup>	Debt Servicing date
(T + 5 Days) <sup>^</sup>	In case there is a shortfall in DSRA account due to utilization of funds, <b>issuer undertakes to restore DSRA account within 5 working days.</b>
(T + 10) <sup>th</sup> day <sup>^</sup>	In case Issuer fails to replenish the DSRA, trustees to inform the GOAP in writing regarding the shortfall in DSRA account so that necessary arrangements shall be made for replenishment of DSRA by the issuer or GoAP.
(T + 15) <sup>th</sup> day <sup>^</sup>	The DSRA to be replenished by APCRDA/GoAP to the tune defined in above mentioned structured payment mechanism
(T + 30) <sup>th</sup> day <sup>^</sup>	If the DSRA is not replenished to the requisite extent by T+30 <sup>th</sup> day, the Trustees shall send soft notice to GoAP intimating that Government shall be invoked, if Government fails to replenish the DSRA
(T + 75) <sup>th</sup> day <sup>^</sup>	The debenture trustee should independently monitor the adequacy of collection (interest and principal) in <b>APCRDA Bond Servicing account on T1-15<sup>th</sup> (I.e. 15 days prior to next debt servicing date) day and intimate the issuer in case of any shortfall.</b>
(T + 83) <sup>th</sup> day <sup>^</sup>	If the shortfall is not made good <b>by T1-7<sup>th</sup> day, the Debenture Trustee shall utilize funds from DSRA account</b> to meet the shortfall.
(T + 90) <sup>th</sup> day <sup>^</sup>	<ol style="list-style-type: none"> <li>1. Debt Servicing</li> <li>2. Trustee shall send notice to GoAP to replenish full DSRA of two quarter with in 30 days</li> </ol>
(T + 120) <sup>th</sup> day <sup>^</sup>	Final Notice by trustees to GoAP of invocation of Government Guarantee
(T + 130) <sup>th</sup> day <sup>^</sup>	Last date by which GOAP shall transfer requisite funds in the Designated ESCROW Account as per the Notice of Invocation served by the Trustees.

<sup>^</sup>In the event of the mentioned day not being a business day as per the convention followed in the Mumbai city and Vijayawada city, it would be taken to indicate the last business day prior to the mentioned day and interest would be paid