



RATING RATIONALE

7 Feb 2020

Andhra Pradesh Capital Region Development Authority

Brickwork Ratings withdraws the ratings for the proposed Bank Loan Facilities of Rs.10,000 Crs and reaffirms the ratings for the O/s Non Convertible Debentures of Rs. 2,000 Crs of Andhra Pradesh Capital Region Development Authority.

Particulars:

Instruments / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (31-Dec-2019)	Present
Fund Based Proposed Term Loans	10,000	10,000	Long Term	BWR A (CE) @ / Negative	Rating Withdrawn^
Total	10,000	10,000	Rupees Ten Thousand Crores Only		

^Ratings withdrawn on account of proposed loans have not been raised for more than a year.

@Credit Enhancement (CE) was assigned based on the proposed unconditional and irrevocable guarantee from the State Government of AP (GoAP)

Other O/s ratings

Instruments / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (31-Dec-2019)	Present
NCD/Bonds	2,000	2,000	Long Term	BWR A+ (CE)# / Negative	BWR A+ (CE)# / Negative Reaffirmed
Total	2,000	2,000	Rupees Two Thousand Crores Only		

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

Unsupported Rating: BWR BB+/ Negative

#Credit Enhancement (CE) was assigned based on the unconditional and irrevocable guarantee from State Government of AP (GoAP)

** Details of Bank Loan facilities and NCD/Bonds are provided in Annexure- I and II

RATING ACTION / OUTLOOK

The rating reaffirmation takes into account the availability of the Structured payment mechanism with T-structure, DSRA and unconditional and irrevocable guarantee from the Government of Andhra Pradesh (GoAP) for the Bonds issue along with support from the State and Central by way of grants. However, the ratings are constrained by the operating and net losses incurred in FY19 on provisional basis, ongoing changes with respect to the location and implementation of the setting up of the capital city consequent to the change in the Government post elections, in the state of Andhra Pradesh leading to uncertainty in the cash flows of the Company, deterioration of the Andhra Pradesh state finances with modest growth of revenue and capital expenditure, deteriorated fiscal balances, increase in committed expenses, high level of debt outstanding and guarantees and modest growth in demographic and socio infrastructure of the state.

The unsupported rating has been downgraded consequent to the recent announcement regarding proposed trifurcation of the capital leading to a reduction in the strategic importance of APCRDA and delay in the finalisation of the project development profile of the Capital city.

The outlook has been placed at negative on account of political changes leading to several changes associated with the development of the capital city of Andhra Pradesh and uncertainty regarding the project development in the capital city.

KEY RATING DRIVERS

Credit Strengths

- **Credit Enhancement:** The NCD issue of ₹2000 Crores has been given as BWR A+ (CE) rating on account of the structured payment mechanism including an escrow account (bond servicing account), Debt Servicing Reserve Account (DSRA) and the unconditional and irrevocable guarantee for servicing of interest and principal by Government of Andhra Pradesh (GoAP)
- **Support from the State and Central by way of grants:** As per FY19 provisional financials, the Authority has received grants from state and Central to an extent of ₹1000.05 Crores.

Credit Risks:

- **Operating and net losses incurred in FY19:** On a provisional basis, authority has reported operating and net losses in FY19 on account of increase in the development expenses.
- **Uncertainty pertaining to the scope and location of the project due to political changes in the state of Andhra Pradesh-** The government of Andhra Pradesh has announced the decentralisation of AP's capital (between Amaravati, Visakhapatnam and Kurnool) and is also planning to change the name from AP Capital Regional Development Authority (APCRDA) to Amaravati Metropolitan Development Authority (AMDA)
- **State Finances:** The rating is constrained by the modest growth of revenue and capital expenditure, deteriorated fiscal balances, high level of debt outstanding and guarantees, modest demographic trends and socioeconomic profile of the state.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at the unsupported ratings, BWR has considered the standalone financials of the authority, structured payment mechanism including Interest servicing account, upfront DSRA comprising 2 half yearly coupon dues. The CE rating derives credit enhancement from the unconditional and irrevocable guarantee from the State Government of AP (GoAP). BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Going forward, the ability of APCRDA to 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 will be key rating sensitivities. Further the revenue and fiscal profile and revenue and expenditure patterns of the Andhra Pradesh state will remain key rating monitorables.

- **Positive:** Improvement in the socio economic profile and fiscal parameters of the State.
- **Negative:** Delay in reviewing the scope of the project leading to uncertainty in cash flows of the authority, lack of support from the State and Centre in the form of grants, deterioration in the state fiscal position and increase in the state debt levels.

LIQUIDITY INDICATORS - Adequate

The principal repayment obligations of the authority have not yet commenced as on date. The authority has received grant from GoAP and GoI to the extent of ₹1000.05 Crores as on 31 March 2019. The total outstanding borrowings as on 31 March 2019 on a provisional basis were reported at Rs. 4639.57 Crores. These loans has irrevocable and unconditional guarantee from state government of Andhra Pradesh for timely repayment of interest and principal obligations

AUTHORITY'S PROFILE

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. The 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

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY18	FY19
Result Type		Audited	Provisional
Operating Income	Rs. Crs	124.62	137.92
Operating Profit	Rs. Crs	38.90	(67.09)
Net Profit	Rs. Crs	25.14	(105.84)
Tangible Net worth	Rs. Crs	1615.79	2920.19
Total Debt/ Tangible Net worth	Times	0.56	1.59

STATE FINANCES

The state's revenue receipts have been growing at a CAGR of 4.81% over the last 5 years. Own tax revenue is 51.00% of the overall revenue receipts. The revenue expenditure has increased at a CAGR of 1.92% where developmental expenditure growth is at 1.9% and non-developmental expenditure growth is at 6.61% indicating the State's expenditure has shown a higher growth in non-developmental expenditure. The State has budgeted Revenue Deficit of 1779 Crs (0.17% of the GSDP) in FY20(BE). The fiscal deficit is targeted at Rs 35,261 crore (3.44% of GSDP) and Primary Deficit is budgeted at Rs 18,017 Crs (1.75% of GSDP). The deficit levels are more than the prescribed limits by the finance commission. The liabilities of Andhra Pradesh are estimated at 29.86% of the GSDP as per BE 19-20.

State Financials	Units	2018	2019	2020
Result Type		Actuals	R.E.	B.E.
Revenue Receipts	Rs Crs	105,062	114,684	178,697
Revenue Expenditure	Rs Crs	121,214	126,339	180,476
Capital Receipts	Rs Crs	74,114	38,523	47,521
Capital Expenditure	Rs Crs	71,352	35,780	47,499
Revenue Surplus/GSDP	%	(2.00)	(1.27)	(0.17)
Fiscal Deficit/GSDP	%	(4.00)	(3.68)	(3.44)
Debt+Guarantees/GSDP	%	32.77	38.86	38.13

R.E. Revised Estimates B.E. Budget Estimates

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : The rated bonds of Rs.2000.00 Crores has irrevocable and unconditional guarantee from Government of Andhra Pradesh (GoAP) for timely repayment of debt obligations. Also, these bonds have Structured payment mechanism including the T-Structure and availability of DSRA for 2 Quarters.

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY : Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS

Instrument / Facilities	Current Rating (2020)			Rating History		
	Tenure (Long Term/ Short Term)	Amount (Rs. Crs.)	Rating	2019	2018	2017
NCD/Bonds	Long Term	2000	BWR A+ (CE)/ Negative Reaffirmed	BWR A+ (CE)/ Negative (31-Dec-2019) BWR A+ (SO)/ Stable (16-Aug-2019)	BWR AA- (SO)/ Stable (10-Dec-2018) Affirmation of BWR AA- (SO)/Stable (31-Aug-2018) Provisional BWR AA- (SO) (30-May-2018))	--
BLR Fund Based Proposed Term Loans	Long Term	10,000	Rating Withdrawn	BWR A (CE)/ Negative (31-Dec-2019) BWR A (SO)/ Stable (16-Aug-2019)	BWR A+ (SO)/ Stable (10-Dec-2018)	--
Total		12,000	Rupees Twelve Thousand Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

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

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**ANDHRA PRADESH CAPITAL REGION DEVELOPMENT AUTHORITY
ANNEXURE I**

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	Un-tied Portion	Term Loans (Proposed)	10,000	--	10,000
Total			10,000	--	10,000

Total Rupees Ten Thousand Crores Only

ANNEXURE II

Instrument Details of NCD/Bonds rated by BWR

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+ (CE) / Negative Reaffirmed
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				

Total Rupees Two Thousand Crores Only

#Credit Enhancement is assigned due to the unconditional and irrevocable Guarantee from the State Government of Andhra Pradesh.

**For print and digital media**

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