

## Rating Rationale

09 March 2022

### Andhra Pradesh Capital Region Development Authority (erstwhile Amaravati Metropolitan Region Development Authority)

**Brickwork Ratings reaffirms the ratings and revises the outlook for the NCD/Bonds of Rs. 2000.00 Crs of Andhra Pradesh Capital Region Development Authority (erstwhile Amaravati Metropolitan Region Development Authority)**

#### Particulars

Facilities/ Instrument**	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (09-Feb-2021)	Present
NCD/Bonds	2000.00	<b>2000.00</b>	<b>Long Term</b>	BWR A+ (CE) / Negative	<b>BWR A+ (CE) / Stable Reaffirmed and change in outlook from negative to stable</b>
<b>Total</b>	2000.00	<b>2000.00</b>	<b>Rupees Two Thousand Crores Only</b>		

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

\*\* Details of NCD/Bonds are provided in Annexure- I

Unsupported Rating: BWR BB / Stable ; Reaffirmed and change in outlook from Negative to Stable

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

#### RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) reaffirms the ratings for the Andhra Pradesh Capital Region Development Authority (APCRDA or the authority) considering factors such as the availability of a structured payment mechanism with a T minus structure, Debt Service Reserve Account (DSRA), and unconditional and irrevocable guarantee from the state Government of Andhra Pradesh (GoAP). In addition, the ratings factor in the strengths of support from the GoAP by way of grants to honour its debt obligations, final judgement by the high court of Andhra Pradesh directing the state government to build and develop Amaravati capital city and capital region, reviving the APCRDA Act, 2014, and the recommencement of the ongoing projects in the capital city from December 2021 onwards. However, the ratings assigned are constrained by losses incurred, financial closure yet to be achieved, increasing debt of the GoAP and the COVID-19 impact on state finances.

The outlook has been revised from Negative to Stable both at the standalone and CE levels and is on the basis of the receipt of the final judgement from the high court of the GoAP on 03 March 2022 to retain Amaravati as a capital city and to progress and finish the work on the capital city as per the agreed terms in the APCRDA Act. The GoAP withdrew its proposal for the trifurcation of capital cities in the state of Andhra Pradesh during December 2021.

The outlook has been kept as Stable, as the authority's performance is likely to remain consistent in the medium term with the resuming works, along with continued support from the GoAP in the form of grants for the development cost and the guarantee from the AP state government towards debt, ensuring the timely payment of debt obligations.

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:** The rated bonds of Rs. 2000.00 Crs have an irrevocable and unconditional guarantee from the GoAP for the timely repayment of debt obligations. Additionally, these bonds have a structured payment mechanism, including the T-Structure and availability of a DSRA for two quarters.

## KEY RATING DRIVERS

### Credit Strengths:-

- **Credit Enhancement:** The NCD issue of Rs. 2000 Crs has been given a BWR A+ (CE)/Stable rating on account of the structured payment mechanism, including an escrow account (bond servicing account), a DSRA that covers two quarterly coupon payments, and the unconditional and irrevocable guarantee for the servicing of interest and principal by the GoAP.
- **Continuous Support from the GoAP:** The authority is continuously being supported from the GoAP in the form of grants. For FY21, the authority has received grants from the GoAP to an extent of Rs. 826.99 Crs for meeting its debt obligations and other commitments. During the current financial year, the authority has received grants to an extent of Rs. 865.46 Crs from the GoAP. BWR expects that timely support will be extended by the GoAP for meeting the debt obligations.
- **Final Judgement by the High Court of GoAP:** On 3 March 2022, the Andhra Pradesh High Court directed the state government to build and develop Amaravati capital city and capital region as agreed under the AP Capital Region Development Authority Act and Land Pooling Rules. It also ruled that the State Assembly has no 'legislative competence' to pass any resolution or law for the change of capital or bifurcating or trifurcating the capital city. With this, the court has effectively preempted any move by the state government to revive its 'three-capital' proposal.
- **Recommencement of Projects:** During December 2021, the state government withdrew the proposal for the trifurcation of capital cities in Andhra Pradesh. On 13 December 2021, the GoAP notified an act to repeal the APCRDA Repeal Act, 2020, and the Andhra Pradesh decentralisation and inclusive development of all regions act 2020. Accordingly, the APCRDA Act, 2014, has been revived. The authority also

recommenced its projects from December 2021 onwards. Currently, the authority is prioritising the works/projects aggregating to Rs. 13,500 Crs in different phases. For government housing complexes, the Date of Commencement of Commercial Operations (DCCO) has been extended upto 13 February 2023. In addition, the authority is prioritising works related to the trunk infrastructure and Land Pooling Scheme, for which a proposal is being submitted to the lenders for additional funds.

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

- **Average Financial Performance:** During FY21, the authority net losses have increased to Rs. 264.20 Crs from Rs. 215.15 Crs in FY20. The debt obligations are met from the funds/grants received from the GoAP. The authority has reported satisfactory debt protection metrics while adjusting with the cash flows. The total debt to equity ratio is at 1.43x as of 31 March 2021. The debt equity is expected to deteriorate in the medium term as the authority is planning to raise additional loans for the completion of the projects in the capital city. BWR expects that the authority will be supported by the GoAP in the form of grants and the guarantee for the loans availed.
- **Financial Closure:** The authority is yet to achieve financial closure and has to raise funds from various sources by way of grants and loans from the GoAP, banks and financial institutions and other agencies. Any delay in tying-up funds from various sources may delay the project execution.
- **Increasing debt of GoAP:** The state has a high level of outstanding debt of Rs. 3.55 lakh Crs as of FY21 (R.E.), which is expected to rise to Rs. 3.87 lakh Crs as of FY22 (B.E.). The outstanding guarantees of the state too witnessed a sharp rise from Rs. 9,665 Crs as of FY17 to Rs. 91,330 Crs as of FY21 (R.E.), which has resulted in higher contingent liabilities of the GoAP. The state continues to breach the fiscal indicators set by the Fiscal Responsibility and Budget Management (FRBM) Committee. The fiscal situation has continued to deteriorate.
- **COVID-19 Impact on State Finances:** The impact of COVID-19 will be felt on account of disruptions in the operations of the state's several revenue generating sectors, with likely reductions in the devolution of central taxes to Andhra Pradesh, resulting from the prolonged nationwide lockdown implemented to curb the spread of the virus in the country. However, the expected moderation in the state's budgeted revenues from tax collections, coupled with the requirement of additional spending, would pose a challenge for the state in adhering to the fiscal consolidation norms.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at the unsupported ratings, BWR has considered the standalone financials of the authority and the structured payment mechanism, including the interest servicing account and upfront DSRA comprising two half-yearly coupon dues. The CE rating derives credit enhancement from the unconditional and irrevocable guarantee from the GoAP.

#### **RATING SENSITIVITIES:**

Going forward, the authority's ability to 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:** The ratings can move upward if there is an improvement in Andhra Pradesh state's socioeconomic profile and fiscal parameters, and an upward revision in the credit rating of the guarantor (the GoAP). At the standalone level, if there is a timely completion of the ongoing capex without time and cost overrun and adequate funds to meet its debt obligations, the ratings can move upward.
- **Downward:** The ratings can move downward if there is any downward revision in the credit rating of the guarantor (the GoAP) and delay in the release of grants from the state government for meeting debt obligations. At the standalone level, if there is a delay in the tie-up of funds, the execution of the projects and deterioration of the financial performance can lead to a downward movement in the ratings.

#### **LIQUIDITY: ADEQUATE**

The principal repayment obligations of the authority for the rated bonds will commence from FY25 onwards. Currently, at the standalone level, APCRDA, the authority, is not generating adequate cash accruals to meet its debt obligations. However, as per the agreed terms between APCRDA and the GoAP, the state government is meeting the debt obligations. For FY21, the authority has received grants from the GoAP to an extent of Rs. 826.99 Crs. During FY22 i.e, upto 22 January 2022, the authority has received grants from the GoAP to an extent of Rs. 865.46 Crs. Apart from the rated bonds, the authority has availed term loans from banks and financial institutions. With respect to the financial institutions, the repayment has commenced, and on a yearly basis, Rs. 51.00 Crs is to be repaid in the next two years (FY23 and FY24). The repayment obligations with respect to the banks will be commenced from FY25 onwards. BWR expects that the adequate funds and timely support will be extended by the GoAP for meeting the debt obligations on time.

#### **ABOUT THE AUTHORITY**

The GoAP 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 for Andhra Pradesh and for managing and supervising urban services in the new capital area and for matters ancillary thereto.

On 13 December 2021, the GoAP notified an act to repeal the APCRDA Repeal Act, 2020, and the Andhra Pradesh decentralisation and inclusive development of all regions act 2020. Accordingly, the APCRDA Act, 2014, has been revived. All the assets and liabilities of any nature, whatsoever, transferred to the Amaravati Metropolitan Region Development Authority (AMRDA), shall revert and stand re-transferred to the revived APCRDA.

### KEY FINANCIAL INDICATORS - APCRDA

Key Parameters	Units	FY20-21	FY19-20
Result Type		Audited	Audited
Operating Revenue	Rs. Crs	45.07	76.91
EBITDA	Rs.Crs	15.66	8.20
Net profit	Rs. Crs	(264.20)	(215.15)
Tangible Net worth	Rs. Crs	3441.45	2879.46
Total Debt/Tangible Net worth	In Times	1.43	1.73
Current Ratio	In Times	16.43	15.64

### KEY FINANCIAL INDICATORS - STATE FINANCES

The state expects a revenue deficit of Rs. 5,000 Crs in 2021-22 (0.47% of GSDP). In 2020-21, the revenue deficit is estimated to be Rs 34,927 Crs as per revised estimates, as compared to the revenue deficit of Rs.18,434 Crs estimated at the budget stage. The fiscal deficit for 2021-22 is estimated to be Rs. 37,030 Crs (3.49% of GSDP). In 2020-21, as per the revised estimates, the fiscal deficit is estimated to increase to 5.38% of the GSDP as compared to 4.78% of the GSDP estimated at the budget stage. The state has a high level of outstanding debt of Rs.3.01 lakh Crs (FY20), which is expected to rise to Rs.3.87 lakh Crs (FY22). The outstanding guarantees of the state too witnessed a sharp rise from Rs.9,665 Crs in FY17 to Rs. 77,783 Crs in FY20, which has resulted in higher contingent liabilities for the GoAP. The state continues to breach the fiscal indicators set by the FRBM Committee

State Financials	Units	2020	2021	2022
Result Type		Actuals	R.E.	B.E.
Revenue Receipts	Rs. Crs	1,11,034	1,18,063	1,77,196
Revenue Expenditure	Rs. Crs	1,37,475	1,52,990	1,82,197
Capital Receipts	Rs. Crs	56,043	58,867	50,576
Capital Expenditure	Rs. Crs	36,224	32,478	47,583
Revenue Surplus/GSDP	Rs. Crs	(2.72)	(3.46)	(0.47)
Fiscal Deficit/GSDP	Rs. Crs	(4.08)	(5.38)	(3.49)
Debt+Guarantees/GSDP	Rs. Crs	39.01	44.27	45.06

R.E. Revised Estimates

B.E. Budget Estimates

**NON COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: NIL**

**Rating History for the previous three years (Including withdrawal and suspended)**

S.No	Instrument /Facility	Current Rating (2022)			Chronology of Rating History for the past 3 years (Rating assigned and press release date) along with outlook/watch, if applicable		
		Type (Long Term/ Short Term)	Amount (Rs. Crs)	Rating	Date(s) & Rating(s) assigned in 2021	Date(s) & Rating(s) assigned in 2020	Date(s) & Rating(s) assigned in 2019
1	NCD/Bonds	Long Term	2000.00	BWR A+ (CE)/ Stable	BWR A+ (CE)/ Negative (09-Feb-2021)	BWR A+ (CE)/Negative (07-Feb-2020)	BWR A+ (CE)/ Negative (31-Dec-2019) BWR A+ (SO)/ Stable (16-Aug-2019)
2	BLR Fund Based Proposed Term Loans	Long Term	--	--	--	Rating Withdrawn (07-Feb-2020)	BWR A (CE)/ Negative (31-Dec-2019) BWR A (SO)/ Stable (16-Aug-2019)
<b>Total</b>			<b>2000.00</b>	<b>Rupees Two Thousand Crores Only</b>			

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple**

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).

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**Hyperlink/Reference to applicable Criteria**

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



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**Annexure-I  
Instrument Details**

Instrument	Issue Date	Amount (Rs. Crs)	Coupon Rate	Maturity Date	ISIN Particulars
NCDs/Bonds	16 Aug 2018	400.00	10.32%	16 Aug 2024	INE01E708016
NCDs/Bonds	16 Aug 2018	400.00	10.32%	16 Aug 2025	INE01E708024
NCDs/Bonds	16 Aug 2018	400.00	10.32%	16 Aug 2026	INE01E708032
NCDs/Bonds	16 Aug 2018	400.00	10.32%	16 Aug 2027	INE01E708040
NCDs/Bonds	16 Aug 2018	400.00	10.32%	16 Aug 2028	INE01E708057
<b>Total</b>		<b>2000.00</b>			

**Total Rupees Two Thousand Crores Only**



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