RATING RATIONALE

8 Nov 2019

Andhra Pradesh Power Development Company Limited

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹1500Crs. of Andhra Pradesh Power Development Company Limited

Particulars:

Instruments / Facilities**	Amount (₹ Crs.)		Tenure	Rating*	
	Previous	Present		Previous (05-Sep-2018)	Present
Fund Based	1500.00	1500.00	**Long Term**	**BWR BB / Stable^**	**BWR BB / Stable Reaffirmed**
Total	**1500.00**	**1500.00**	**₹ One Thousand and Five Hundred Crores Only**		

Note: Apart from the above rated loans, the Company has also availed term loans, working capital loans from PFC, REC, financial institutions which were not rated by BWR. The total long term borrowings as on 31 March 2019 stood at ₹16743.74 Crs.

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank Loan facilities is provided in Annexure-I
^Ratings migrated to Ratings Not reviewed on 06-Sep-2019

RATING ACTION / OUTLOOK

The ratings reaffirmation takes into account the improved PLF performance in FY19 and Q1FY20 and reduction of the receivables position as on H1FY20. The ratings also factors the shareholders which include Andhra Pradesh Power Generation Corporation Limited (APGENCO), AP Discoms and the Government of Andhra Pradesh and the presence of senior bureaucrats on the Board of Directors. However, the ratings are constrained by the increased net losses in FY19, substantial deterioration of debt equity levels, weak coverage indicators and delay in the execution of the proposed capital expenditure for expansion of its generation capacity.

The outlook has been kept as Stable as the company's performance is likely to remain consistent in the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Parentage :** APPDCL is a subsidiary of Andhra Pradesh Power Generation Corporation Limited (APGENCO) (50.45% shareholding) which is rated at BWR A/A2+ (Outlook: Stable). The other shareholders include the AP and Telangana discoms, and Government of Andhra Pradesh
- **Experienced and qualified Board of Directors:** The Board of directors of APPDCL comprises of Mr. B Sreedhar acts as Chairman, who is also a Managing Director of APGENCO. The other board of directors of the Company are Mr. G Chandra Sekhar Raju, Mr. K Raja Bapaiah, Mr. G Raghuma Reddy and Mr. A Gopala Rao. All the directors have vast experience in the industry.
- **Improved PLF levels:** Company has reported improvement in the PLF levels during FY19 and Q1FY20 compared with FY18. The PLF has improved from 35.8% (Unit-I) and 34.28% (Unit-II) in FY18 to 46.63% (Unit-I) and 52.29% (Unit-II) in FY19. Company has reported PLF levels of 60.22% (Unit-I) and 63.70% (Unit-II) as on Q1FY20. Also, the total gross generation has improved from 4482 MU (Million Units) in FY18 to 6470 MU (Million Units) in FY19.
- **Reduction in O/s receivables:** During H1FY20, Rs.2000 crs of Outstanding receivables have been paid by the Discoms by way of additional borrowing by them. The O/s receivables has reduced to ₹1481.41 Crs as on 30 Sep 2019 from ₹3880.35 Crs as on 31 Mar 2019. On a whole Company has received payments ₹3850.94 Crs during H1FY20 from AP Discoms.

Credit Risks:

- **Increased Net losses:** During FY19, net losses of the Company has increased to ₹840.82 Crs as against net losses of ₹427.03 Crs as on FY18. The increase in net losses was mainly on account of revenue reversal of ₹572.62 Crs pertaining to previous years (FY14-FY18). Company has stated that the revenue from the sale of energy had been provisionally recognised for the period FY 2014-18 subject to determination of tariff order by Hon'ble APERC for the said project. Subsequently the revenue from the sale of energy of Rs 572.62 Crs pertaining to previous years (FY 2014-18), was reversed in the current financial year (FY 2018-19), based on the tariff order issued by the Hon'ble APERC.

- **Substantial deterioration of debt equity levels:** Company has reported deterioration of the debt equity levels as on FY9 due to increased net losses mainly on account of revenue reversal of previous years, increase in the additional borrowings for capital expenditure and delay in infusion of equity for the capital expenditure. However, it is expected to be brought down in the medium term by way of equity contribution of the capital expenditure.
- **Weak Coverage indicators:** Company has reported weak interest and debt service coverage indicators as on FY19. However, APPDCL proposes to avail additional short term or medium term loans to meet any temporary cash flow mismatches.
- **Delay in execution of the ongoing capex:** Company has rescheduled the commencement of operations of ongoing thermal unit of 800MW from June 2019 to June 2020.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financials of the company. 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 the Company to generate adequate cash flows, achieve the projected financials and PLF levels and Commencement of operations for the new unit (800MW) as per schedule i.e. by Jun 2020 will be the key rating sensitivities.

- **Positive:** Infusion of additional capital of ₹1,131.72 Crs from the shareholders as projected,, generating adequate cash flows from operations and substantial reduction in gearing levels
- **Negative:** Increase in the net losses and receivable levels, further reduction in tangible net worth and inordinate delays in tariff revision for the current year.

LIQUIDITY INDICATORS

Company has reported stretched liquidity position. There was a shortfall in the cash flows generated from operations during FY18 and FY19, However, due to additional funding and support from the shareholders, the company was able to meet its debt obligations timely. During H1FY20, Company has received Outstanding receivables of ₹3850.94 from AP DISCOM's. These cash flows are expected to improve the liquidity of the Company in the short term.

COMPANY's PROFILE

Andhra Pradesh Power Development Company Limited (APPDCL) was incorporated on 1 March 2006. APPDCL is a subsidiary of Andhra Pradesh Power Generation Corporation Limited (APGENCO). APPDCL is a Special Purpose Vehicle formed by Andhra Pradesh Power Generation Corporation Limited (APGENCO) to undertake development of Sri Damodaram Sanjeevaiah Thermal Power Station (SDSTPS) (2x800 MW). APPDCL has commissioned and commenced operations of its 1st stage of 2*800MW units on Feb 5, 2015 for unit-I (1*800MW) and for unit-II on 24 Aug 2015 (1*800MW).

As per GO Ms.No.25 (Energy (CC) Department), dated 29-5-2014 the Management of APPDCL will be in the hands of the residual State of Andhra Pradesh as the only project under construction is in the geographical area of the residual state of Andhra Pradesh and hence, as per the Andhra Pradesh Reorganisation Act, 2014 the Assets and Liabilities of SDSTPS of APPDCL has been retained by Andhra Pradesh(Residual)

Ongoing Capex of APPDCL is implementation of Stage-II - Sri Damodaram Sanjeevaiah Thermal Power Station of 800MW. As informed by the APPDCL, the revised date for commencement of commercial operations is June, 2020.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY18	FY19
Result Type		**Audited**	**Audited**
Operating Income	₹ Crores	2438.61	2674.45
Operating Profit	₹ Crores	923.18	363.18
Net Profit	₹ Crores	(427.03)	(840.82)
Tangible Net worth	₹ Crores	1369.88	529.30
Total Debt/ Tangible Net worth	Times	11.98	39.68
Current Ratio	Times	1.82	1.16

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : The terms of sanction include standard covenants normally stipulated for bank loan facilities for availing the working capital loans.

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY :

On account of inadequate information and lack of management cooperation, CRISIL has migrated the rating on bank facility of APPDCL to 'CRISIL B-/Stable Issuer Not Cooperating' as on 30-Jul- 2018 and further it was reaffirmed at 'CRISIL B-/Stable Issuer Not Cooperating' as on 30-Oct-2019.

RATING HISTORY FOR THE PREVIOUS THREE YEARS

Instrument / Facilities	**Current Rating**			**Rating History**		
	Tenure (Long Term/ Short Term)	Amount (₹ Crs.)	Rating	05-Sep-2018	2017	2016
Fund Based	Long Term	1500.00	**BWR BB /** Stable	**BWR BB /** Stable	--	--
Total		**1500.00**	**₹ One Thousand and Five Hundred Crores Only**			

Note: Ratings migrated to Ratings Not reviewed on 06-Sep-2019

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**
- **Short Term Debt**
- **Infrastructure Sector**

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ANDHRA PRADESH POWER DEVELOPMENT COMPANY LIMITED

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Crs.)	Short Term (₹ Crs.)	Total (₹ Crs.)
1	State Bank of India	Cash Credit	500.00	--	**500.00**
2	Andhra Bank	Cash Credit	400.00	--	**400.00**
3	Un-tied Portion	Cash Credit	600.00	--	**600.00**
Total			**1500.00**	**--**	**1500.00**

Total ₹ One Thousand and Five Hundred Crores Only

Note: Apart from the above rated loans, the Company has also availed term loans, working capital loans from PFC, REC, financial institutions which were not rated by BWR. The total long term borrowings as on 31 March 2019 stood at ₹16743.74 Crs.

About Brickwork Ratings: Brickwork Ratings Private limited (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empanelled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empanelled 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 Private Limited (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