Rating Rationale

Andhra Pradesh Power Development Company Limited

5 Sep 2018

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 1500.00 Crores of Andhra Pradesh Power Development Company Limited ('APPDCL or The Company')

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	**1500.00**	**Long Term**	**BWR BB** (Pronounced as BWR Double B) **Outlook: Stable**
Total	**1500.00**	**INR Fifteen Hundred Crores Only**	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Details of Bank loan Facilities is provided in Annexure-I

Ratings Assigned

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon audited financials upto FY17, provisional financials of FY18, publicly available information, information/clarifications provided by the Company's management.

The rating assigned derives its strengths from its ownership including Andhra Pradesh Power Generation Corporation Limited (APGENCO), AP Discoms and the Government of Andhra Pradesh, presence of senior bureaucrats on the Board of Directors, favorable EBITDA levels, satisfactory conduct of the account from bankers and improvement in PLF levels in 4m FY19. However, the ratings are constrained by continuous net losses , high debt equity levels, high receivables position, weak coverage indicators, and regulatory risk for offtake and pricing.

Going forward ability of APPDCL to improve its PLF levels increasing its scale of operations and profitability, ensure timely and adequate cash cash flows and to bring down its receivables will remain key rating sensitivities.

Description of 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 Telanagana discoms, and Government of Andhra Pradesh
- **Experienced and qualified Board of Directors:** The Board of directors of APPDCL comprises of Mr. K Vijayanand, IAS acts as Chairman, who is also Managing Director of APGENCO. The other directors of the Company are Mr. G Adinarayana, Mr. M P Sunder Singh, Mr. H Y Dora, Mr. G Raghuma Reddy and Mr. A Gopala Rao. All the directors have vast experience in the industry.
- **Favorable EBITDA levels:** APPDCL has reported EBIDTA of ₹ 1387.11 Crores in FY17 as compared to ₹ 861.47 Crores in FY16 respectively. On a provisional basis, APPDCL reported EBIDTA of ₹ 923.17 Crores in FY18.
- **Improvement in PLF Levels:** APERC vide its order on Tariff for Retail Sale of Electricity during FY2018-19 dated March 27, 2018 has given approval for higher Energy Despatch (MU) for FY18-19 to APPDCL, enabling them to operate at higher PLF when compared with FY18. The APPDCL operated at average PLF of 54.02% in 4mFY19 (April 1, 2018 to July 31, 2018) which indicates, the revenues and profitability are expected to improve in FY19.

Credit Risks:

- **High debt equity :** On account of term loans from PFC/REC, APPDCL has reported high debt equity levels, which is also expected to deteriorate in medium term on account of net losses incurred in FY18 and ongoing capex of 800MW
- **High receivable position**: APPDCL reported trade receivables of ₹1708.70 Crores as on FY16 to ₹ 2543.79 Crores as on FY17. As informed by APPDCL, the receivables position is expected to come down in medium term.
- **Weak coverage indicators:** Due to nascent stage of operations and operations being at low PLF levels company has reported net losses which resulted in weak coverage indicators. However, APPDCL proposes to avail additional short term or medium term loans to meet any temporary cash flow mismatches.

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 Power Development Company Limited** 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 Company

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 will be retained by Andhra Pradesh(Residual).

The PLF of the thermal units is at 35.8 % (Unit:1) and 34.28% (Unit-II) for FY18 as against 59.55% (Unit 1) and 63.13% (Unit-II) in FY17. From Apr 2018 to July 2018 average PLF reported for both the units was at 54.02%.

Ongoing Capex of APPDCL is implementation of Stage-II - Sri Damodaram Sanjeevaiah Thermal Power Station of 800MW. As informed by the APPDCL, commercial operations are expected to commence in June 2019.

Company Financial Performance

As per FY17 audited financials, operations of the company improved to ₹ 4266.72 Crores from ₹ 2303.07 Crores in FY16. Operating margins of the Company reported at 32.51% in FY17. Company had reported net losses in last two years as the operations have begun only from February 5, 2015 and the company required some time to stabilise its operations. High debt equity reported in FY17 of 6.52X. It is expected to further deteriorate in FY18 on account of expected net losses Crores in FY18 and ongoing capex of 800MW.

As per FY18 provisional financials, APPDCL has achieved a revenue of ₹ 2438.61 Crores and estimated net loss of ₹ 427.04 Crores in FY18 as APERC had approved low PLF levels in the tariff order for 2017-18.

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	**Fund Based**	Long Term	1500.00	**BWR BB** (Pronounced as BWR Double B) **Outlook: Stable**	--	--	--
	Total		**1500.00**	**₹ Fifteen Hundred Crores Only**			

Status of non-cooperation with previous CRA (if applicable)- 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 as on July 30, 2018

Any other information: NA

Key Financial Indicators

Key Parameters	Units	2016	2017
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	2303.07	4266.72
EBITDA	₹ Cr	861.47	1387.11
PAT	₹ Cr	(288.91)	(11.81)
Tangible Net worth	₹ Cr	1809.17	1796.66
Total Debt/Tangible Net worth	Times	5.88	6.52
Current Ratio	Times	0.66	0.75

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies

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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 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. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 11,99,663 Cr. In addition, BWR has rated over 6819 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹48,803 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

DISCLAIMER

Annexure-I
Bank Loan Facilities

Name of the Bank	Fund Based	Tenure	Amount (₹ Crs)
State Bank of India	Cash Credit	Long Term	500.00
Andhra Bank	Cash Credit		400.00
Proposed Loans: Working Capital			600.00
Total			**1500.00**

Note: Apart from above said loans, company also availed term loans and letter of Credit from PFC/REC and State Bank of India.