



RATING RATIONALE

27 October 2021

Andhra Pradesh Power Finance Corporation Limited

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs.9741.33 Crs. of Andhra Pradesh Power Finance Corporation Limited

Particulars

Facility**	Previous Amount (₹ Cr)	Present Amount (₹ Cr)	Tenure	Previous Rating (Oct 2020)	Present Rating*
Fund based - Term Loans	9,741.33	9,741.33	Long Term	BWR A (CE) Stable	BWR A (CE) Stable
Total	9,741.33	9,741.33	INR Nine Thousand Seven Hundred Forty One Crores and Thirty Three Lakhs only		

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

** Details of Bank facilities is provided in Annexure-I

Ratings with the CE symbol are based on Credit Enhancement in the form of an unconditional and irrevocable guarantee from the Government of Andhra Pradesh for timely debt servicing. The unsupported rating of Andhra Pradesh Power Finance Corporation Limited as assessed by BWR without considering the Credit Enhancement is BWR BB+ (Stable).

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the BWR A (CE)/Stable rating for the bank loan facilities of Andhra Pradesh Power Finance Corporation Limited (APPFCL or the company), as tabulated above.

The rating reaffirmation factors in the financial profile of the Government of Andhra Pradesh (GoAP), strategic importance of the corporation in the revival of the power sector and credit enhancement in the form of an unconditional and irrevocable guarantee from the GoAP. However, the rating is constrained by the GoAP's increasing debt, breach of FRBM norms and timely compliance of SEBI regulations.

The outlook continues to be Stable as BWR believes that the credit risk profile of APPFCL and the GoAP will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

KEY RATING DRIVERS

Credit Strengths:-

- **Financial Profile of GoAP:** The total receipts for 2020-21 are estimated to be Rs 1,18,063 Crs, recording an increase of 6.34% over the actual of 2019-20. Of this, Rs 60,688 crore

will be raised by the state through its own resources, and Rs 84,866 crore will be devolved by the centre in the form of grants and the state's share in central taxes. In 2020-21, own tax revenue is expected to be Rs 57,378 crore, which is 0.42% lower than the actual for 2019-20. In 2020-21, expected grants-in-aid from the centre is Rs 32,934 crore, which is a 50.55% increase over the actual of 2019-20. Andhra Pradesh is estimated to generate Rs 3310 Crs (0.33% of GSDP) through non-tax sources in 2020-21, which is below 5% of the total receipts, the lowest among other states.

The total expenditure on key sectors under revenue, capital and loans and advances, along with the share in the total expenditure, is depicted. The state has allocated 9.7% of its total budget towards agriculture and allied activities, which is significantly higher than the average allocation by other states (6.5%). The state has allocated 3.1% of its expenditure on energy, which is significantly lower than the average expenditure (5.2%) by other states. The expenditure on roads and bridges is 1.6% of its total expenditure, which is significantly lower than the average expenditure by other states (4.3%).

- **Financial Support from Central Government:** As per 14th Finance Commission, the state is entitled to receive support in the form of revenue deficit grants to the tune of Rs 22,113 crores for 5 years, from the centre. The central government has also committed to fund the Polavaram Irrigation Project. Along with this, Rs.1050 Crs has been disbursed as a special package for backward areas and another Rs.1050 crore would be paid in the coming years. The state has received Rs.1500 crore from the centre for the creation of the capital city Amaravati.
- **Credit Enhancement:** The bank loan facilities are backed by the credit enhancement in the form of an unconditional and irrevocable guarantee from the GoAP for timely debt servicing.

Credit Risks:

- **Increasing Debt of GoAP:** The state has a high level of outstanding debt of Rs.3.55 lakh crs (as per revised estimates for FY21), which is expected to rise to Rs.3.87 lakh crore (as per budget estimates for FY22). The outstanding guarantees of the state too witnessed a sharp rise from Rs 9665 crore in FY17 to Rs.91,330 crore in FY21, which has resulted in higher committed expenses of the GoAP.
- **Breach of FRBM Norms:** The state continues to breach the fiscal indicators set by the FRBM Committee. Post the bifurcation of the state, the fiscal deficit as a percentage of the GSDP continues to be above the 3% limit set by the committee. The fiscal situation is expected to deteriorate in the subsequent financial years.
- **Compliance with Revised Regulations:** As per the extant notification of the RBI dated 31 May 2018, withdrawing exemptions have been granted to government-owned NBFCs with regards to the regulatory and statutory provisions applicable to NBFCs and RBI has given timelines that by March 2022, government-owned NBFCs should fall in line with other NBFCs and meet all applicable norms. Timely compliance of these provisions will be a key rating sensitivity. To ensure that it timely complies with these regulations, the GoAP has infused capital of Rs 292 Crs in FY20, which has increased the CRAR to 12%, which



meets the minimum CRAR requirements as on 31 March 2020. As on 31 March 2021, the CRAR stood at 13.83%.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the credit enhancement provided by the GoAP, fiscal position of the GoAP and standalone financial profile of APPFCL and has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

The credit enhancement is provided by the state Government of Andhra Pradesh, which provides an unconditional and irrevocable guarantee for the rated debt obligations of the corporation.

Positive: Upward revision in the credit rating of the guarantor (GoAP)

Negative: Downward revision in the credit rating of the guarantor (GoAP)

LIQUIDITY INDICATORS: ADEQUATE

The corporation has adequate liquidity. It has liquid assets of Rs. 104 Crs in the form of fixed deposits and cash/bank balance as of 31 March 2021. There are no negative cumulative mismatches found in 1 year to 5-year bucket, as shared by the corporation. Given the corporation's collection efficiency, underlying receivables, and support from the government in the form of grants is adequate to meet its debt obligations over the next one year.

COMPANY PROFILE

Andhra Pradesh Power Finance Corporation Limited (APPFCL) was incorporated as a government company under the Companies Act, 1956, on 12 July 2000 and commenced business on 13 July 2000. APPFCL also obtained registration from the RBI as a non-banking company on 25 August 2000. The objective of the company is to support/augment the resources for financing the Power Sector Reforms in Andhra Pradesh.

On 02 June 2014, Andhra Pradesh was bifurcated into the successor states of Telangana and residuary AP. As per section 53 of the AP Reorganisation Act 2014, a separate Telangana Power Finance Corporation Limited (TPFCL) was created for Telangana, and the existing APPFCL continued for the residuary AP. The outstanding bonds of APPFCL were allocated between Telangana and residuary AP in the ratio of 59.54% and 40.46%, respectively, vide a government order dated 30 May 2014, issued prior to bifurcation by the GoAP.



KEY FINANCIAL INDICATORS

KEY FINANCIAL INDICATORS – ISSUER- Andhra Pradesh Power Finance Limited

Key Parameters	Units	FY20	FY21
Result Type		Audited	Audited
Interest income	Rs in Crs	687.64	1278.98
PAT	Rs in Crs	3.42	36.18
Tangible Networth	Rs in Crs	309.40	387.98
Total Debt	Rs in Crs	11045.10	15932.48
Cash & Cash Equivalents	Rs in Crs	256.00	30.21

KEY FINANCIAL INDICATORS – CREDIT ENHANCEMENT PROVIDER - Govt of Andhra Pradesh

Key Parameters	Units	2020	2021
		Actuals	Estimates
Total Receipts	Rs in Crs	1,11,016	1,18,063
States Own Tax Revenue	Rs in Crs	57,618	57,378
Total Expenditure	Rs in Crs	1,73,698	1,85,468
Revenue Deficit	Rs in Crs	26,441	34,927
Fiscal Deficit	Rs in Crs	39,684	54,369
Debt Outstanding	Rs in Crs	3,01,802	3,55,875
Fiscal Deficit/GSDP	%	(4.08)	(5.38)
Committed expenses/Own tax revenue	%	126.41	126.30
Debt + Guarantees/GSDP	%	39.01	44.27

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

RATING HISTORY FOR THE PREVIOUS THREE YEARS[including withdrawal & suspended]

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (Year T-2021)			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 Outstanding (Rs. Crs)	Rating	Date(s)& Rating(S) assigned in year T-1 (2020)	Date(s) & Rating(s) assigned in Year T-2 (2019)	Dates(s) & Rating assigned in in Year T-3 (2018)
1	Fund Based Term Loan	Long Term	9741.33	BWR A CE (Stable) (Reaffirmed)	BWR A CE (Stable) (27-Oct-20) (Reaffirmed) BWR A CE (Stable) (20-Mar-20) (Assigned)	-	-
2	Proposed Bonds	Long Term	-	-	Withdrawn (9-Jan-20)	Provisional BWR A+ (SO) (Stable) (13-Aug-19) (Downgraded) Provisional BWR AA-(SO) (Stable) (30-Jan-19) (Assigned)	-
	Total		9741.33				

COMPLEXITY LEVELS OF THE INSTRUMENTS

Bank Loan : Simple

For more information, visit

www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks and Financial Institutions](#)
- [Credit Enhancement](#)

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ANNEXURE I

Andhra Pradesh Power Finance Corporation Limited

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank/Lender	Type of Facilities	Long Term (Rs.Crs)	Short Term (Rs. Crs)	Total (Rs.Crs)
1	State Bank of India	Term Loan	1,500	-	1,500
2	Union Bank of India (Andhra Bank)	Term Loan	1,500	-	1,500
3	Canara Bank	Term Loan	2,000	-	2,000
4	Bank of India	Term Loan	3,000	-	3,000
5	Bank of Baroda	Term Loan	750	-	750
6	Indian Overseas Bank	Term Loan	500	-	500
TOTAL Sanctioned					9250
Total Proposed					491.33
Total amount rated					9,741.33

Rupees Nine Thousand Seven Hundred Forty One Crores and Thirty Three lakhs Only /-

ANNEXURE II

INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS: NA

ANNEXURE III

List of entities consolidated: NA



For print and digital media

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