



Rating Rationale

Andhra Pradesh Power Finance Corporation Limited

30 Jan 2019

Brickwork Ratings assigns Provisional BWR “AA-” (SO) (Stable) ratings for the Proposed Unsecured Redeemable Taxable Non-Convertible Bonds Issue of ₹. 5000 Crores of Andhra Pradesh Power Finance Corporation Limited (Hereafter referred to as “APPFCL” or the “Company”)

Particulars

| Instrument | Amount | Tenor | Rating* |
|---|--------|---------------|--|
| Proposed Unsecured Redeemable Taxable Non Convertible Bonds | 5000 | Upto 10 years | #Provisional BWR AA- (SO)** (Pronounced as BWR Double A Minus) (Structured Obligation) (Outlook:Stable) |

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

**Structured Obligation is based on unconditional & irrevocable corporate guarantee of Govt of Andhra Pradesh, T-15 structure and DSRA

Provisional rating will be affirmed post receipt of executed government guarantee and debenture trust deed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials of upto FY18, publicly available information and information/clarifications provided by the APPFCL.

The rating assignment factors, inter alia, financial profile of Govt of Andhra Pradesh (GoAP), strategic importance of the company in power sector, credit enhancement in the form of “Unconditional & Irrevocable” guarantee of GoAP, structure payment mechanism in the form of “T-15” structure and DSRA equivalent to 2 quarters debt obligations. However, the rating is constrained by financial profile of APPFCL and increasing debt of GoAP.

Description of Key Rating Drivers

Credit Strengths:

- **GoAP's Financial Profile:** The economy of Andhra Pradesh has witnessed an average growth rate of 11% during FY16-18, led by services sector of the economy. The services sector has been growing at a relatively stable rate of 10% in the last 3 fiscals and the agricultural sector has registered a noteworthy improvement in the last two fiscal years (16% growth during FY17-18 compared with the 8% growth in FY16 and 4% in FY15). The state's revenue receipts have seen a notable improvement in FY18 having grown by 25% (y-o-y) compared with the 12% growth recorded in the previous year.
- **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 a period of 5 years from the Centre. The Central Government has also committed to fund the Polavaram Irrigation Project. Along with this, an amount of Rs.1050 crore has been disbursed as special package for backward areas and a further amount of Rs.1050 crore would be paid in the coming years. The state has received Rs.1500 crore from the Centre for creation of capital city - Amaravati.
- **Credit Enhancement:** The proposed issue will have credit enhancement in the form of "Unconditional & Irrevocable" guarantee of Govt of Andhra Pradesh (GoAP) for the principal & interest payment through budgetary grants. The bonds will be additionally secured by an amount equivalent to 2 quarters debt obligation (Principal+Interest) to be maintained in a "Debt Service Reserve Account" with an inherent "T-15" structure to replenish the account.

Credit Concerns:

- **Increasing debt of GoAP:** The state has high level of outstanding debt of Rs.2.25 lakh crore (FY18) that is expected to rise to Rs.2.49 lakh crore (FY19). The outstanding guarantees of the state too witnessed a sharp rise from Rs 9665 crore in FY17 to Rs.35,964 crore in FY18 which has resulted in higher committed expenses of GoAP. However the overall debt is well within the prescribed FRBM norms.
- **Compliance with revised regulations:** As per extant notification of RBI dated 31st May 2018 withdrawing exemptions granted to government owned NBFCs w.r.t. to regulatory & statutory provisions applicable to NBFCs and has given timelines that by Mar 2022 Govt 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.



Proposed Structure of the Bonds issue:

- APPFCL is proposing to issue “Unsecured Redeemable Taxable Non Convertible Bonds” of Rs 5000 Crs with a tenor of upto 10 years under 7 different Sub-Series namely ‘A’, ‘B’, ‘C’, ‘D’, ‘E’, ‘F’ and ‘G’ with tenure sequentially ranging from 4 years to 10 years, redeemable in quarterly instalments.
- The bonds will be redeemed in equal quarterly amount. Each of the Sub-Series would be redeemable in 4 equal quarterly instalments of 3.6% of the aggregate issue size, with redemption of Sub-Series ‘A’ commencing from the end of 13th quarter, Sub-Series ‘B’ commencing from the end of 17th quarter and so on.
- The proceeds of the issue will be used to meet funding requirement of power sector of Andhra Pradesh Government.
- The proposed issue will have credit enhancement in the form of “Unconditional & Irrevocable” guarantee of Govt of Andhra Pradesh (GoAP) for the principal & interest payment. The bonds will be additionally secured by an amount equivalent to 2 quarters debt obligation (Principal+Interest) to be maintained in a “Debt Service Reserve Account” with a inherent “T-15” structure to replenish the account.

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 **Govt of Andhra Pradesh’s** Financial profile (guarantor for the said issue) 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 revenue receipts or the fiscal position of the state show sustained improvement. The rating outlook may be revised to 'Negative' if the revenue receipts or the fiscal position of the state go down lower than expected figures.

About the Company

Andhra Pradesh Power Finance Corporation Limited (APPFCL) was incorporated as a Government Company under Companies Act, 1956 on 12th July 2000 and has commenced business on 13th July 2000. APPFCL has also obtained registration from Reserve Bank of India as a Non-Banking Company on



25-8-2000. The object of the company is to support/augment the resources for financing the Power Sector Reforms in the State of Andhra Pradesh.

On June 02, 2014, the state of 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 May 30, 2014, issued prior to bifurcation by the GoAP.

About the Guarantor: Govt of Andhra Pradesh

- The state of Andhra Pradesh being a new one has had support from the Centre in creation of a new capital city along with various compensations. The state has received Rs.1500 crore from the Centre for creation of capital city - Amaravati. The creation of new capital city in the State is expected to generate employment opportunities and will result in higher capital outlay which would further necessitate growth in the state.
- As per 14th Finance Commission, the state is entitled to receive support in the form of revenue deficit grants to the tune of Rs.22113 crore for a period of 5 years from the Centre. The Central Government has also committed to fund the Polavaram Irrigation Project. Along with this, an amount of Rs.1050 crore has been disbursed as special package for backward areas and a further amount of Rs.1050 crore would be paid in the coming years.
- The economy of Andhra Pradesh has witnessed an average growth rate of 11% during FY16-18, led by services sector of the economy. The services sector has been growing at a relatively stable rate of 10% in the last 3 fiscals and the agricultural sector has registered a noteworthy improvement in the last two fiscal years (16% growth during FY17-18 compared with the 8% growth in FY16 and 4% in FY15).
- The performance of industrial sector, however, has been prone to fluctuations with growth ranging from 7% to 13% during FY15-18. The state of Andhra Pradesh ranks no. 1 in the World Bank Ease of Doing Business ranking.
- The state's revenue receipts have seen a notable improvement in FY18 having grown by 25% (y-o-y) compared with the 12% growth recorded in the previous year. The growth in revenue receipts in FY18 can be ascribed to the higher growth in tax revenues viz. both states' own tax revenues and tax allocations from the Centre as well as higher allocation from the Central Government by way of grants. The state's revenue receipts are projected to grow by 26% in FY19.
- Even though low expenditure is incurred towards capital outlays (an average of around 11% of the total expenditure), It is budgeted to rise significantly by 51% to Rs.22,875 crore in FY18

compared with Rs.15,181 crore in FY17 . The expenditure is largely incurred towards irrigation, flood control and water, supply, sanitation and urban development. Together they accounted 60% of the state’s capital outlay.

- The state has high level of outstanding debt of Rs.2.25 lakh crore (FY18) that is expected to rise to Rs.2.49 lakh crore (FY19). The outstanding guarantees of the state too witnessed a sharp rise from Rs.9665 crore in FY17 to Rs.35964 crore in FY18. The state participated in the UDAY scheme for improving the health of its DISCOMs and issued UDAY bonds amounting to Rs.8526 crore during FY17.
- Deficits are on an improving trend 'revenue deficit to GSDP is down from 2.43% in FY 2017 (Accounts) to 0.5% in FY2018 (Revised estimates) while fiscal deficit to GSDP is down from 4.4% to 3.43%. Debt to GSDP (with uday bonds) stood at 28.34% 2018 RE and at 28.96% 2019 BE. Debt to GSDP (without Uday Bonds Debt) stood at 27.31% 2018 RE and 28.01% 2019 BE.
- However, unresolved issues among the two states particularly related to the status of investments, employees, public debt, remittances, loans and advances, reserve funds etc. remains to be an area of concern. In addition to this, irregular transfer of funds by Centre and high level of debt further pressurizes the state finances.

Company Financial Performance

APPFCL operates as a borrowing entity of GoAP. It raises funds on behalf of GoAP and lends it to DISCOMs and in turn receives from GoAP an amount equivalent to interest liability. APPFCL reported total income from operations of Rs 293.50 Crs for FY18 when compared to Rs 214.98 Crs for FY17.

Rating History for the last three years

| S.No | Instrument /Facility | Current Rating (2019) | | | Rating History | | |
|------|--|------------------------------|----------------|---|----------------|------|------|
| | | Type (Long Term/ Short Term) | Amount (₹ Crs) | Rating | 2018 | 2017 | 2016 |
| 1 | Proposed Unsecured Redeemable Taxable Non Convertible Bonds | Long Term | 5000 | Provisional BWR AA-(SO) (Stable) | - | - | - |
| | Total | | 5000 | ₹ Five Thousand Crores Only | | | |



Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks & FIs](#)
- [Rating based on Government Support](#)

For any other criteria obtain hyperlinks from website

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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

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