



**Rating Rationale**

**Andhra Pradesh Power Finance Corporation Limited**

**13 Aug 2019**

**Brickwork Ratings revises the ratings to BWR A+ (SO) (Stable) from Provisional BWR “AA-” (SO) (Stable) 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 (Rs in Crs)		Tenor	Rating*	
	Previous	Present		Previous (July 2018)	Present
<b>Proposed Unsecured Redeemable Taxable Non Convertible Bonds</b>	<b>5000</b>	<b>5000</b>	<b>Upto 10 years</b>	<b>Provisional BWR AA- (SO) (Pronounced as Provisional BWR Double A Minus) (Structured Obligation) (Outlook:Stable)</b>	<b>Provisional BWR A+ (SO)* (Pronounced as Provisional BWR A Plus) (Structured Obligation) (Outlook:Stable)</b>
<b>Total</b>	<b>5000</b>	<b>5000</b>	<b>INR Five Thousand Crores Only</b>		

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

\*Structured Obligation is based on unconditional & irrevocable corporate guarantee of Govt of Andhra Pradesh

**Rationale/Description of Key Rating Drivers/Rating sensitivities:**

BWR has essentially relied upon the audited financials of upto FY18, provisional financials for FY19, publicly available information and information/clarifications provided by the APPFCL.

The rating revision factors the revision in the terms of the proposed bonds issue whereby the company has decided to do away with additional security in the form of DSRA equivalent to 2 quarters of debt obligation (interest+principal) offered in the earlier term sheet shared with us in January 2019.

The rating continues to derive comfort from the fiscal profile of Govt of Andhra Pradesh (GoAP), strategic importance of the company in power sector and credit enhancement in the form of “Unconditional & Irrevocable” guarantee of GoAP. However, the rating is constrained by financial profile of APPFCL and increasing debt of GoAP.



## Description of Key Rating Drivers

### Credit Strengths:

- **Growth in Economy:** The growth in GSDP of Andhra Pradesh has been increasing from 7% in 2013-14 to 11.2% in 2017-18. The services sector, with a share of 44%, in the GSDP grew by 9.1% in 2017-18 over the previous year. Agriculture, which contributes to 34% of the GSDP grew by 17.8% in 2017-18. Industries, with a share of 22%, grew by 8.5% in 2017-18. The per capita income of Andhra Pradesh in 2017-18 (at current prices) is Rs 1,42,054. This is more than the average national per capita income of Rs 1,12,764 in 2017-18. States own tax collections has increased from Rs 49,813 Crs in FY18 to Rs 58,049 Crs in FY19 and share in central taxes has also increased from Rs 28,675 Crs in FY18 to Rs 32,787 Crs in FY19. Tax buoyancy has marginally increased from 6.15x in FY18 to 6.35x in FY19. At the same time, total expenditure of the state has decreased from Rs 1,92,566 Crs in FY18 to Rs 1,62,119 Crs in FY19
- **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 with an inherent “T-15” structure.

### Credit Concerns:

- **Increasing debt of GoAP:** The state has a high level of outstanding debt of Rs.2.52 lakh crores (FY19) that is expected to rise to Rs.3.00 lakh crore (FY20). 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.



### **Revised Structure of the Proposed 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 amounts. 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 requirements 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 with an inherent “T-15” structure.

### **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 the 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.

## 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 214.82 Crs for FY19 when compared to Rs 293.50 Crs for FY18.

**Fiscal Profile of Govt of Andhra Pradesh (GoAP):** Total receipts of the state has decreased from Rs 1,79,176 Crs in FY18 (Actuals) to Rs 1,53,207 Crs in FY19 (Revised Estimates). This was mainly due to decrease in capital receipts from Rs 74,114 Crs in FY18 to Rs 38,523 Crs in FY19. States own tax collections has increased from Rs 49,813 Crs in FY18 to Rs 58,049 Crs in FY19 and share in central taxes has also increased from Rs 28,675 Crs in FY18 to Rs 32,787 Crs in FY19. Tax buoyancy has marginally increased from 6.15x in FY18 to 6.35x in FY19.

At the same time, total expenditure of the state has decreased from Rs 1,92,566 Crs in FY18 to Rs 1,62,119 Crs in FY19 resulting in a Revenue deficit and Fiscal deficit of Rs 11,655 Crs and 33,619 Crs respectively when compared to Revenue and Fiscal deficit of Rs 16,152 Crs and Rs 32,373 Crs in FY18. Total debt outstanding for the state has also increased from Rs 2,27,820 Crs in FY18 to Rs 2,52,020 Crs in FY19. The state govt. has also extended support (equity and guarantees) to various weak PSU entities, this has resulted in a high Debt/guarantees as a percentage of GSDP of 27.55 %. Committed expenses as a percentage of own tax revenues remains high at 105.29% for FY19 with interest payments as a percentage of own tax revenues contributing to 24.64%.

## Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2019)			Rating History		
		Type (Long Term/ Short Term)	Amount (Rs in Crs)	Rating	Jan 2019	2018	2017
1	Proposed Unsecured Redeemable Taxable Non Convertible Bonds	Long Term	5000	Provisional BWR A+ (SO) (Pronounced as Provisional BWR A Plus)(Structured Obligation) (Outlook:Stable)	Provisional BWR AA- (SO) (Pronounced as Provisional BWR Double A Minus) (Structured Obligation) (Outlook:Stable)	-	-
	<b>Total</b>		<b>5000</b>	<b>₹ Five Thousand Crores Only</b>			



## 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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

## About Brickwork Ratings

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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.

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