

## RATING RATIONALE

21-Jan-2020

### Andhra Pradesh Power Generation Corporation Ltd.

### Brickwork Ratings revises the ratings for Bank Loan Facilities Rs.4420.05 Crs. of Andhra Pradesh Power Generation Corporation Ltd.

#### Particulars:

Instruments / Facilities**	Amount (₹ Crs.)		Tenure	Rating*	
	Previous	Present		Previous (29-Mar- 2019)	Present
<b>Fund Based</b>	2825.98	4120.05	<b>Long Term</b>	<b>BWR A /Stable</b>	<b>BWR BBB+ / Stable Downgrade</b>
<b>Non Fund Based</b>	300.00	300.00	<b>Short Term</b>	<b>BWR A2+</b>	<b>BWR A2 Downgrade</b>
<b>Total</b>	<b>3125.98</b>	<b>4420.05</b>	<b>Rupees Four Thousand Four Hundred Forty Crores and Sixty Lakhs Only</b>		

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

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

Apart from the above mentioned loans, APGENCO has also availed loans from REC and PFC to an extent of ₹ 14087.40 Crores (O/s as on 31 Mar 2019). These loans were not included in the rating amount

#### RATING ACTION / OUTLOOK

The rating downgrade is on account of deterioration in the debt equity levels due to delay in equity capital infusion by Government of Andhra Pradesh (GoAP) for ongoing capex and additional borrowings availed for meeting its shortfall in the cash flows. Further, the ratings also factors the deteriorating receivables position and company incurring a net loss during FY19. It also noted that the auditor has stated that the Company is constrained to increase its borrowings to meet the gap between cash commitments on account of interest & repayment of term loans and cash generation. The ratings are also constrained by large ongoing capex which are primarily debt funded, decline in thermal Plant Load Factor (PLF) levels in FY19 and reduction in the net profit when compared with previous years.

However, the ratings takes comfort from strong parentage with the Company being wholly owned by GoAP, experienced management, satisfactory conduct of account with lenders and favorable operating margins.

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:

- **Wholly owned by GoAP:** APGENCO is being wholly owned by GoAP with adequate State Government support due to the strategic importance of the power sector
- **Experienced management:** Sri Srikant Nagulapalli, IAS is the Chairman and Mr. B Sreedhar, IAS is the Managing Director and of the APGENCO. There are 4 other directors in the Corporation. All the Board members are qualified and have vast experience.
- **Favorable operating margins:** Company is continuously reporting favorable operating profit margins in the last three years. Company has reported operating profit margin of 24.77% and 24.83% in FY18 and FY19 respectively.

### Credit Risks:

- **Increase debt levels leading to deteriorating total debt to equity:** During FY19, Company total debt has increased to Rs. 20602.17 Crs from Rs. 15787.11 Crs as on FY18. Increase in total debt levels due to delay in capital infusion by Government of Andhra Pradesh (GoAP) for ongoing capex and availing additional long term borrowings for meeting its shortfall in the cash flows. Total debt to equity of the Company has deteriorated to 4.97X as on FY19 from 3.81X as on FY18. It is further expected to deteriorate in the medium term due to availing the additional debt for the ongoing capex.
- **High receivable levels:** APGENCO continued to report high outstanding receivables levels in the last three years. The outstanding receivables reported at Rs. 8377.95 Crs and Rs. 9951.59 Crs as on FY18 and FY19 respectively. Out of which, Rs. 3441.78 Crs were receivables outstanding for more than six months from TSDISCOMs and Rs. 6674.03 Crs were receivables outstanding less than six months from APDISCOMs respectively. However, the Company has informed that during FY20, the receivables outstanding from APDISCOMs has reduced to ₹4084.84 Crs as on 07-Jan-2019.
- **Decline in thermal PLF levels:** During FY19, APGENCO's thermal PLF levels have declined to 58.67% from 71.59% in FY18. The company has reported during H1FY20 thermal PLF levels were at 66.43%.
- **Decline in net profit levels:** In FY19, Company has incurred a net loss before the other comprehensive income of ₹135.25 Crs as against a net profit before the other comprehensive income of Rs. 399.51Crs. The net loss was incurred on account of an increase in the interest and finance charges. However, on account of other comprehensive income in FY19, the company has reported net profit after other comprehensive income at ₹8.99 Crs as against ₹183.36 Crs in FY18 respectively due to which the networth has not deteriorated .



- **Weak debt service coverage indicator:** Company is continuously reporting weak debt service coverage indicators in the last two years. However, the Company has informed that for meeting the shortfall in the debt obligations, APGENCO is availing the short term loans either from banks and Financial institutions.

## **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 APGENCO to generate adequate cash flow for timely repayment of its debt obligations, timely realization of receivables from APDSICOMs and TSDISCOMs, timely infusion of equity/grants by the State Government for the ongoing projects, timely implementation of ongoing projects without cost overrun will remain the key rating sensitivities.

- **Positive:** Substantial improvement in revenues and profit, increase in the thermal PLF levels i.e. above 70%, generating adequate cash accruals for meeting the debt obligations, reduction of the debt equity level i.e. <2.5X and receivable levels, support from GoAP in the form of Grants/capital infusion
- **Negative:** Reduction in the profits, increase in the term debt of the company, decline in the PLF levels i.e. below 55%, deterioration of the debt equity to >5X, delay in receivables from the TSDISCOMs and APDISCOMs leading to increase in the receivable position

**LIQUIDITY INDICATORS - Poor** - APGENCO is not generating adequate cash accruals for repaying its debt obligations. During FY19, Company has generated only ₹574.50 Crores against the current repayment obligations of ₹1309.85 Crores. However, the Company has been increasing the borrowings for meeting these shortfalls. The working capital utilization is around 91% during the period Oct 2018 to Oct 2019. Company has reported cash balance of ₹9.03 Crs as on 31 March 2019 as against ₹65.32 Crs as on 31 March 2018.

## **COMPANY'S PROFILE**

Andhra Pradesh Power Generation Corporation Limited (APGENCO) formed after unbundling erstwhile AP State Electricity Board (APSEB) into APTRANSCO and APGENCO under the AP Electricity Reforms Act, 1998 on 01.02.1999. As per AP Re-organisation Act, 2014 a separate state generating Corporation has created with effect from June 2, 2014 for the state of Telangana. APGENCO was bifurcated into APGENCO (Residuary) and Telangana Generation Corporation Limited (TSGENCO). The power projects located in the state of Telangana has been transferred

to TSGENCO with effect from. June 2, 2014. The projects located in the residual AP remained with APGENCO.

APGENCO has installed capacity of 5613.026MW comprising of thermal-3410MW, Hydel-1797.60MW and Solar -405.426 MW. During FY19, total units generated from Thermal and Hydel stood at 20433.48 MU as against 20335.00 MU in FY18

#### KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY18	FY19
Result Type		Audited	Audited
Operating Income	₹ Crores	8378.58	9735.39
Operating Profit	₹ Crores	2075.26	2416.08
Net Profit after other comprehensive income	₹ Crores	183.36	8.99
Tangible Net worth	₹ Crores	4138.75	4148.60
Total Debt/ Tangible Net worth	Times	3.81	4.97
Current Ratio	Times	1.96	1.59

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED :** The terms of sanction include standard covenants normally stipulated for bank loan facilities

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY :** Nil

#### RATING HISTORY FOR THE PREVIOUS THREE YEARS

Instrument / Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Crs.)	Rating	29-Mar-2019	23-Jan-2018	23-Jan-2017
Fund Based	Long Term	4120.05	<b>BWR A-/ Stable</b>	<b>BWR A/ Stable</b>	<b>BWR A/ Stable</b>	Ratings Migrated to RNR
Non Fund Based	Short Term	300.00	<b>BWR A2+</b>	<b>BWR A2+</b>	<b>BWR A2+</b>	--
<b>Total</b>		<b>4420.05</b>	<b>Rupees Four thousand and four hundred and twenty crores and five lakhs only</b>			



## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)
- [Infrastructure Sector](#)
- [Ratings based on Government Support](#)

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## ANDHRA PRADESH POWER GENERATION CORPORATION LTD. ANNEXURE I

### Details of Bank Loan Facilities rated by BWR - Rs. Crs

Name of the Bank/Lender	Fund Based			Non Fund Based		Total Limits
	Cash Credit	Project Term Loans (31-Dec-2019)	Term Loans (Pledge of DISCOM Power Bonds) (31-Dec-2019)	Bank Guarantee	Letter of Credit	
State Bank of India	500.00		820.00*	125.00	75.00	1720.00
Union Bank of India	750.00			100.00		1100.00
Andhra Bank	500.00					500.00
Tamilnad Mercantile Bank	100.00		1.55			101.55
Bank of Maharashtra	200.00					200.00

Punjab National Bank	200.00					200.00
Syndicate Bank	200.00					300.00
Vijaya Bank	200.00	19.87				219.87
Indian Bank			40.00			40.00
Karnataka Bank		0.63				0.63
Karur Vysya Bank		37.34				37.34
Punjab & Sind Bank		0.66				0.66
Un-tied Portion (Proposed)	550.00					550.00
<b>Total</b>	<b>3200.00</b>	<b>58.50</b>	<b>861.55</b>	<b>225.00</b>	<b>75.00</b>	<b>4420.05</b>

**Rupees Four Thousand and Four Hundred and Twenty Crores and Five Lakhs**

Note: Apart from the above mentioned loans, APGENCO has also availed loans from REC and PFC to an extent of ₹ 14087.40 Crores (O/s as on 31 Mar 2019). These loans were not included in the rating amount.

**For print and digital media**

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