



Rating Rationale

Amaravati Metropolitan Region Development Authority (erstwhile Andhra Pradesh Capital Region Development Authority)

09 February 2021

Brickwork Ratings reaffirms ratings for the NCD/Bonds issue of Rs. 2000.00 Crs of Amaravati Metropolitan Region Development Authority (erstwhile Andhra Pradesh Capital Region Development Authority)

Particulars

Instruments / Facilities**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (07-Feb-2020)	Present
NCD/Bonds	2,000	2,000	Long Term	BWR A+ (CE) / Negative	BWR A+ (CE) / Negative Reaffirmed
Total	2,000	2,000	Rupees Two Thousand Crores Only		

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

Unsupported Rating: BWR BB / Negative

#Credit Enhancement (CE) was assigned based on the unconditional and irrevocable guarantee from the State Government of AP (GoAP)

** Details of NCD/Bonds are provided in Annexure- I

Rating Reaffirmed

The rating reaffirmation of Amaravati Metropolitan Region Development Authority (AMRDA or the authority), which was also erstwhile Andhra Pradesh Capital Region Development Authority (APCRDA), takes into account the availability of a structured payment mechanism with a T-structure, Debt Service Reserve Account (DSRA) and unconditional and irrevocable guarantee from the Government of Andhra Pradesh (GoAP) for the bonds issue, along with support from the state of Andhra Pradesh by way of grants. However, the ratings are constrained by continued net losses in FY19 and FY20 on a provisional basis, ongoing changes with respect to the location and details of the capital city being set-up in Andhra Pradesh leading to uncertainty in AMRDA's cash flows, judgement yet to be declared by the high court of Andhra Pradesh regarding the change of the capital city and APCRDA Repeal Act, 2020, and the state's increasing debt levels.

The unsupported rating has been downgraded on account of the deterioration in the financials and increase in net losses of the authority during FY20 (provisional basis).

The outlook has been placed at Negative on account of a deterioration in the authority's standalone financial performance and based on the uncertainty regarding the development of the capital city and judgment yet to be declared by the high court.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

- **Credit Enhancement:** The NCD issue of Rs. 2000 Crs has been given a BWR A+ (CE)/Negative rating on account of the structured payment mechanism including an escrow account (bond servicing account), a DSRA and the unconditional and irrevocable guarantee for the servicing of interest and principal by the GoAP.
- **Support from state and centre by way of grants:** As per FY19 provisional financials, the authority had received grants to an extent of Rs. 1000.05 Crs from the state and centre; in FY20 (provisional basis), the authority received grants from Andhra Pradesh to an extent of Rs. 295.28 Crs.

Credit Risks:

- **Net losses incurred in FY19 and FY20:** On a provisional basis, the authority reported net losses in FY19 and FY20. The net losses increased to Rs. 215.15 Crs in FY20 (provisional), as against 105.84 Crs in net losses in FY19 (provisional).
- **Uncertainty regarding scope of development and location of project in Andhra Pradesh:** On 31, July 2020, the APCRDA Repeal Act, 2020, came into force, and as per this, all the assets and liabilities of APCRDA, including the State Government guaranteed bonds, will be transferred to AMRDA. As per section 3 (C) of Act 27 of the GoAP, all the assets and liabilities, both current and contingent, bonds issued by the APCRDA with the guarantee of the government under Section 28(4) of the Principal Act shall stand transferred to and shall vest in AMRDA as constituted under Section 3(1)(b). The government shall continue to be the guarantor for all such loans availed by the APCRDA with a government guarantee. However, many petitions have been filed in the high court of Andhra Pradesh against the Act, and judgement for the same is yet to be declared. Additionally, the state government has decentralised the capital city Amaravati to three different locations in Andhra Pradesh; many petitions are still filed regarding the matter, and judgement for the same is yet to be announced.
- **Increasing debt of GoAP:** The state has a high level of outstanding debt of Rs. 3.02 lakh Crs (FY20), which is expected to rise to Rs. 3.48 lakh Crs (FY21). The outstanding guarantees of the state too witnessed a sharp rise from Rs. 9,665 Crs in FY17 to Rs. 67,171 Crs in FY20, which has resulted in higher contingent liabilities of the GoAP. The state continues to breach the fiscal indicators set by the Fiscal Responsibility and Budget Management (FRBM) Committee. The fiscal situation has continued to deteriorate.
- **COVID-19 impact on state finances:** The impact of COVID-19 will be felt on account of disruptions in the operations of the state's several revenue generating sectors, with

likely reductions in the devolution of central taxes to Andhra Pradesh resulting from the prolonged nationwide lockdown implemented to curb the spread of the virus in the country. However, the expected moderation in the state's budgeted revenues from tax collections, coupled with the requirement of additional spending, would pose a challenge for the state in adhering to fiscal consolidation norms.

- **State finances:** The rating is constrained by modest growth in revenue and capital expenditure, deteriorated fiscal balances, the high level of debt outstanding and guarantees, modest demographic trends and the socioeconomic profile of the state.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at the unsupported ratings, BWR has considered the standalone financials of the authority, structured payment mechanism including the interest servicing account and upfront DSRA comprising two half-yearly coupon dues. The CE rating derives credit enhancement from the unconditional and irrevocable guarantee from the GoAP. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Going forward, AMRDA's ability to review the scope and timelines for developing the capital region to ensure adequate cash flows and to ensure the key elements of the structured payment mechanism are maintained will be key rating sensitivities. Furthermore, the revenue and fiscal profile, along with Andhra Pradesh state's revenue and expenditure patterns will remain key rating monitorables.

- **Positive:** The ratings can move upward if there is an improvement in Andhra Pradesh state's socioeconomic profile and fiscal parameters and an upward revision in the credit rating of the guarantor (the GoAP).
- **Negative:** The ratings can move downward if there is any downward revision in the credit rating of the guarantor (the GoAP) and delay in the release of grants from the state government for meeting debt obligations.

LIQUIDITY INDICATORS - Adequate

The principal repayment obligations of the authority for the rated bonds will commence FY24 onwards. Currently, at the standalone performance of AMRDA, the authority is not generating adequate cash accruals to meet debt obligations. However, as per the agreed terms between AMRDA (erstwhile APCRDA) and the state government, the state government is meeting the debt obligations. The authority has received grants from the GoAP and Government of India (GoI) to the extent of Rs. 1000.05 Crs as on 31 March 2019 (provisional basis). Apart from the rated bonds, the authority has availed term loans from banks and financial institutions, which have also been guaranteed by the GoAP. The outstanding borrowings (apart from the rated bonds) as on 31 March 2020 on a provisional basis were reported at Rs. 2980.19 Crs. For current financial year FY21, the authority has received grants from the government to an extent of Rs. 560.62 Crs for meeting its debt obligations of the loans.

AUTHORITY'S PROFILE

The GoAP enacted the AP Capital Region Development Act, 2014, and has formed AP Capital Region Development Authority (APCRDA) for the purposes of planning, coordination, execution, supervision, financing, funding and for promoting and securing the planned development of the capital region development area,, undertaking the construction of the new capital for Andhra Pradesh and for managing and supervising urban services in the new capital area and for matters ancillary thereto.

On 31 July 2020, the APCRDA Repeal Act, 2020, came into force, as per which all the assets and liabilities of APCRDA, including the state government guaranteed bonds, will be transferred to AMRDA. As per section 3 (C) of Act 27 of the GoAP, all the assets and liabilities, both current and contingent, bonds issued by the APCRDA with a guarantee of the government under Section 28(4) of the Principal Act shall stand transferred to and shall vest in AMRDA, as constituted under Section 3(1)(b). The government shall continue to be the guarantor for all such loans availed by the APCRDA with a government guarantee. However, many petitions have been filed in the high court of Andhra Pradesh against the Act, and judgement regarding the same is yet to be declared.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY19	FY20
Result Type		Provisional	Provisional
Operating Income	Rs. Crs	137.92	76.91
Operating Profit	Rs. Crs	(67.09)	8.20
Net Profit	Rs. Crs	(105.84)	(215.15)
Tangible Net worth	Rs. Crs	2920.19	2879.46
Total Debt/ Tangible Net worth	Times	1.59	1.73

STATE FINANCES

State Financials	Units	2019	2020	2021
Result Type		Actuals	R.E.	B.E.
Revenue Receipts	Rs Crs	1,14,671	1,10,871	1,61,959
Revenue Expenditure	Rs Crs	1,28,569	1,37,518	1,80,393
Capital Receipts	Rs Crs	38,528	56,043	60,858
Capital Expenditure	Rs Crs	35,390	37,239	44,397
Revenue Surplus/GSDP	%	(1.51)	(2.47)	(1.82)
Fiscal Deficit/GSDP	%	(3.85)	(3.75)	(4.78)
Debt+Guarantees/GSDP	%	33.87	34.19	41.20

R.E. Revised Estimates B.E. Budget Estimates

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : The rated bonds of Rs.2000.00 Crores have an irrevocable and unconditional guarantee from the GoAP for the timely repayment of debt obligations. Additionally, these bonds have a structured payment mechanism, including the T-Structure and availability of DSRA for two quarters.

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

Rating History for the previous three years (including withdrawal and suspended)

Instrument / Facilities	Current Rating (2021)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
	Tenure (Long Term/ Short Term)	Amount (Rs. Crs.)	Rating	Date(s) & Rating(s) assigned in 2020	Date(s) & Rating(s) assigned in 2019	Date(s) & Rating(s) assigned in 2018
NCD/Bonds	Long Term	2000	BWR A+ (CE)/ Negative	BWR A+ (CE)/Negative (07-Feb-2020)	BWR A+ (CE)/ Negative (31-Dec-2019) BWR A+ (SO)/ Stable (16-Aug-2019)	BWR AA- (SO)/ Stable (10-Dec-2018) Affirmation of BWR AA- (SO)/Stable (31-Aug-2018) Provisional BWR AA- (SO) (30-May-2018)
BLR Fund Based Proposed Term Loans	Long Term	--	--	Rating Withdrawn (07-Feb-2020)	BWR A (CE)/ Negative (31-Dec-2019) BWR A (SO)/ Stable (16-Aug-2019)	BWR A+ (SO)/ Stable (10-Dec-2018)
Total		2,000	Rupees Two Thousand Crores Only			

Any other information - Nil



Annexure-I

Instrument Details of NCD/Bonds rated by BWR

Instrument	Issue Date	Issue Size	Coupon	Maturity Date	ISIN Particulars	Rating
NCD/Bonds	16 Aug 2018	400.00	10.32%	16 Aug 2024	INE01E708016	BWR A+ (CE) / Negative Reaffirmed
NCD/Bonds	16 Aug 2018	400.00	10.32%	16 Aug 2025	INE01E708024	
NCD/Bonds	16 Aug 2018	400.00	10.32%	16 Aug 2026	INE01E708032	
NCD/Bonds	16 Aug 2018	400.00	10.32%	16 Aug 2027	INE01E708040	
NCD/Bonds	16 Aug 2018	400.00	10.32%	16 Aug 2028	INE01E708057	
Total		2000.00				

Total Rupees Two Thousand Crores Only

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Credit Enhancement](#)
- [Ratings based on Government Support](#)

For any other criteria obtain [hyperlinks](#) from website

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