

RATING RATIONALE

12 Mar 2020

Andhra Pradesh Power Finance Corporation Limited

Brickwork Ratings assigns BWR A (CE) (Stable) rating for the Bank Loan Facilities of ₹ 9,741.33 Crores of Andhra Pradesh Power Finance Corporation Ltd [hereafter referred to as “APPFCL” or the “Corporation”]

Particulars

Facility/ Instrument**	Amount (₹ Cr)	Tenure	Rating*
Fund based	9,741.33	Long Term	BWR A (CE) Stable
Total	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 definition of the ratings

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

Note:

- 1) CE rating is based on the credit enhancement in the form of “Unconditional & Irrevocable guarantee” of Government of Andhra Pradesh (GoAP) for timely debt servicing.
- 2) Standalone rating of APPFCL is BWR BB+ (Stable)

RATING ACTION / OUTLOOK

The rating assignment factors, inter alia, the financial profile of Govt of Andhra Pradesh (GoAP), strategic importance of the corporation in revival of power sector, adequate liquidity and credit enhancement in the form of “Unconditional & Irrevocable” guarantee of GoAP. However, the rating is constrained by increasing debt of GoAP, breach of FRBM norms and timely compliance of SEBI regulations by APPFCL.

Rating Outlook: *Stable*

BWR believes the **Andhra Pradesh Power Finance Corporation Ltd.’s and Government of Andhra Pradesh’s** risk profile will be maintained over the medium term. The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Financial Profile of GoAP:** The total revenue receipts for 2019-20 are estimated to be Rs 1,78,697 crore, an increase of 55.8% over the revised estimate of 2018-19. Of this, Rs 82,793 crore will be raised by the state through its own resources, and Rs 95,905 crore will be devolved by the centre in the form of grants and the state's share in central taxes. In 2018-19, own tax revenue is expected to be Rs 58,125 crore, which is 11.3% lower than the budgeted estimate. In 2019-20, grants-in-aid of Rs 61,072 crore are expected from the centre. This is an increase of 213.9% over the revised estimate of 2018-19. Andhra Pradesh is estimated to generate Rs 7,355 (0.48% of GSDP) crore through non-tax sources in 2019-20 which is below 5% of total receipts is lowest compared to other states.

The total expenditure on key sectors under Revenue, Capital and Loans and Advances along with the share in 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 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 timely debt servicing.

Credit Risks:

- **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.

- **Breach of FRBM Norms:** The State continues to breach the fiscal indicators set by FRBM Committee. Post bifurcation of State, Fiscal deficit ballooned to percent in 2016-17 in tandem with outstanding debt and liabilities, which reached a level of 27.87 percent of GSDP by 2016-17. The fiscal situation continued to deteriorate in the subsequent financial years.
- **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.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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

RATING SENSITIVITIES

Positive: Upward revision in the credit rating of the guarantor (Govt of Andhra Pradesh)

Negative: Downward revision in the credit rating of the guarantor (Govt of Andhra Pradesh)

LIQUIDITY POSITION: Adequate

Corporation has adequate liquidity with no cumulative mismatches as per the short term dynamic liquidity profile as on 31 Dec 2019.

COMPANY PROFILE:

Andhra Pradesh Power Finance Corporation Limited (APPFCL) was incorporated as a Government Company under the Companies Act, 1956 on 12th July 2000 and 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.

KEY FINANCIAL INDICATORS - Issuer (in INR Cr)

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Interest income	Rs in Crs	293.50	214.82
PAT	Rs in Crs	(0.03)	0.04
Tangible Networkth	Rs in Crs	16.89	16.92
Total Debt	Rs in Crs	2,325.80	2,325.70
Cash & Cash Equivalents	Rs in Crs	0.09	28.76

FINANCIAL INDICATORS – CREDIT ENHANCEMENT PROVIDER

Key Parameters	Units	2018	2019
		Actuals	Revised Estimates
Total Receipts	Rs in Crs	179,176	153,207
States Own Tax Revenue	Rs in Crs	49,813	58,049
Total Expenditure	Rs in Crs	192,566	162,119
Revenue Deficit	Rs in Crs	16,152	11,655
Fiscal Deficit	Rs in Crs	32,373	33,619
Debt Outstanding	Rs in Crs	227,820	252,020
Fiscal Deficit/GSDP	%	4.00	3.68
Committed expenses/Own tax revenue	%	116.72	105.29
Debt+Guarantees/GSDP	%	28.14	27.55

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: Nil

RATING HISTORY

Instrument / Facilities	Current Rating (Mar 2020)			Rating History			
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	9 Jan 2020	13 Aug 2019	30 Jan 2019	2018
Fund Based - Term Loans	Long Term	9,741.33	BWR A (CE) Stable	-	-	-	-
Proposed Bonds	Long Term	5000	-	Withdrawn	Provisional BWR A+ (SO) Stable	Provisional BWR AA-(SO) Stable	-
Total		9,741.33	INR Nine Thousand Seven Hundred Forty One Crores and Thirty Three Only				

COMPLEXITY LEVELS OF THE INSTRUMENTS: 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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Andhra Pradesh Power Finance Corporation Ltd

**ANNEXURE I
Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Andhra Bank	Term Loan	1,500	-	1,500
2	Canara Bank	Term Loan	2,000	-	2,000
3	State Bank of India	Term Loan	1,500	-	1,500
TOTAL Sanctioned					5,000
Total Proposed					4,741.33
Total amount rated					9,741.33

Total Rupees Nine Thousand Seven Hundred Crores only.

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