

## Rating Rationale

### Brickwork Ratings assigns 'BWR A' for the Long term Bank Loan Facilities of ₹ 9553.07 Cr of Andhra Pradesh Power Generation Corporation Ltd.

Brickwork Ratings (BWR) has assigned **Rating<sup>1</sup>** for Bank Loan Facilities of Andhra Pradesh Power Generation Corporation Ltd. ('APGENCO' or 'the Corporation') as under.

Facility	Tenure		Limits (₹ Cr)	Rating
Term Loan	Long Term	Outstanding Amount	3007.26	BWR A  Outlook: Stable
		Undrawn Amount	720.16	
		Additional Amount Proposed	5075.65	
Cash Credit		Existing	750.00	
<b>Total</b>			<b>9553.07</b>	
<b>(INR Nine Thousand Five Hundred Fifty Three Crores and Seven Lakhs only)</b>				

APGENCO is a wholly owned Corporation of the Government of Andhra Pradesh. The rating assigned to the Bank loan facilities of APGENCO has, inter alia, factored total installed Power Generation capacity (including Thermal Power and Hydel Power) of ~8925 MW, proposed capacity addition of ~3210 MW over next two years, long term PPA with AP Distribution Companies, long term FSA with Singareni Collieries Company Ltd. and Mahanadi Coalfields Ltd. for coal supply and the financial and managerial support from the Govt. of AP in terms of equity funding for its future capacity addition plans. The rating is however constrained by declining trend in Hydel Power Generation, high debt level, moderate profit margins, huge debt requirement to fulfil future Capex plans and risk associated with on time completion of projects under development.

BWR has essentially relied upon the audited financial results of APGENCO up to FY12, provisional results for FY13, and clarifications/information provided by the Company.

### Background

Andhra Pradesh State Electricity Board (APSEB) came into existence in 1959. It was started with objective of maintaining the power sector efficiently and economically simultaneously ensuring demand meets the supply. The imbalance of the revenues against the cost of production, no significant reduction in technical losses and energy thefts, high cost purchases from IPPs, other SEB's gradually worsened the financial position of APSEB.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Rating

A high level committee was set up in Jan, 1995 to look into the working of the APSEB and then remedies were suggested for improvement. Govt. of AP, considering the recommendations made by a high level committee had embarked upon the AP Electricity Reforms Act in 1998.

Thus, APSEB was unbundled into Andhra Pradesh Power Generation Corporation (APGENCO) & Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) on 1<sup>st</sup> Feb, 1999. APTRANSCO was further unbundled w.e.f. 01.04.2000 into "Transmission Corporation" and four "Distribution Companies" (DISCOMS).

APGENCO was incorporated as a company under the provisions of Companies Act, on 29<sup>th</sup> Dec, 1998. APGENCO commenced its business operations effective from 1<sup>st</sup> Feb, 1999. The objectives of APGENCO include acquire, establish, construct and operate power generating stations. Govt. of AP holds 100% equity in APGENCO. The Installed generation Capacity of APGENCO as on 31<sup>st</sup> Mar 2013, is at 8924.9 MW comprising of 5092.5 MW Thermal, 3829.4 MW Hydel and 3 MW renewable energy sources.

APGENCO is the third largest utility among all power generating utilities in the country next to NTPC (40674 MW) and MAHAGENCO (11732 MW). APGENCO constitutes 54.5% of Total AP state installed capacity (16389 MW). The AP state stands 4<sup>th</sup> with 7.3% share in all India installed capacity of 223344 MW as of March 31, 2013. APGENCO is contributing ~ 46% of energy to the AP state grid requirement. Total Capacity addition during XI Plan was 2374 MW. APGENCO has taken up 19 new projects with a combined capacity of 18,852 MW benefiting from XII Plan.

### **Operating Performance**

<i>Power Generation</i>	<i>Installed Capacity (MW)</i>	<i>Power Generated during 2012-13 (MU)</i>	<i>Power Generated during 2011-12 (MU)</i>
Thermal Power	5092.50	37934.00	35971.00
Hydro Power	3829.36	3225.00	5890.46
Solar Power	1.00	1.70	1.40
Wind Power	2.00	-	-

The Thermal power stations have achieved an overall plant load factor (PLF) of 85.00% for FY2013. Highest daily Thermal Power Generation of 119.8 MU (~98% PLF) achieved on 20-Mar-2012. Kothagudem Stage-VI (500 MW) and Kakatiya Stage-I (500 MW) Thermal Power plants have achieved highest PLF of 93.09% and 91.07% respectively during 2012-13. Thermal power stations availability factor was 92.4% in FY13. APGENCO's Rayalaseema plant has achieved PLF of 90.6% during Apr'13 to Jun'13.

Hydro power stations availability factor was 92.4% in FY13. However, Hydro power generation has decreased due to lack of Hydrology during FY13. Hydrology decreased primarily into APGENCO's Srisaillam RBPH, Srisaillam LBPH and Nagarjuna Sagar Hydro generation plants. APGENCO is also providing O&M services to AMRP Lift Irrigation Scheme of Irrigation Department, Govt. of AP.

### **Current and proposed projects**

APGENCO has 3210 MW capacity expansion plans for next two years. 1600 MW capacity addition is expected by Dec'13, 600 MW by Mar'14 and another 600 MW by Dec'14.

<i><b>Name of the Project</b></i>	<i><b>Project Type</b></i>	<i><b>Capacity (MW)</b></i>	<i><b>Scheduled Commissioning</b></i>
KTPP II	Thermal	1x600	Apr'14
RTPP IV	Thermal	1x600	Dec'14
Krishna Patnam (SPV)	Thermal	2x800	Oct'13 & Dec'13
NSTPD	Hydel	2x25	Jul'14 & Aug'14
Lower Jurala	Hydel	6x40	Jun'13 to Feb'15
Pulichintala	Hydel	4x30	Jun'14 to Jun'15
<b>Total</b>		<b>3210</b>	

The above projects have already tied up funding with Banks/financial institutions. Apart from these projects APGENCO is having planned projects with additional capacity of 3060 MW. These projects are in its initial stages of planning and expected to come up by FY15 onwards.

### **Fuel Supply**

APGENCO has long term FSA of ~179 Lac MT for supply of coal with Singareni Collieries Company Ltd. (SCCL) and Mahanadi Coalfields Ltd. (MCL). In FY13, APGENCO has purchased ~289 Lac MT of Coal. However, short fall of ~93 Lac Tonnes is also provided by SCCL and MCL with the help of concerned committees from Finance ministry, Coal ministries and State Govt. through auction and balance is from Imported Coal of ~17 Lac Tonnes in FY13. As part of the backward integration, APGENCO has taken up development of captive mines blocks at Tadicherla in AP.

### **Financial Performance**

APGENCO's operating income has increased during last three years to ₹ 13321 Cr in FY13 (Provisional) from ₹ 8918 Crs in FY11. Also PAT has increased to ₹ 440 Cr in FY13 from ₹ 313 Cr in FY11.

As per provisional results for FY13, the Corporation's operating revenue has witnessed a growth of ~17% to ₹ 13321 Crs in FY13 from ₹ 11438 Crs in FY12. However, PAT has increased by 9% to ₹ 440 Crs in FY13 from ₹ 402 Crs in FY12 mainly due to high operating and interest cost. Long-term borrowing stood at ₹ 10147 Crs in FY13 from ₹ 10149 Crs in FY12 (excluding current portion of long term debt of ₹ 1107 Crs in FY13 from ₹ 1318 Crs in FY12). On the other hand Short-term borrowings have increased slightly to ₹ 465 Crs in FY13 from ₹ 151 Crs in FY12. Interest cost increased slightly to ₹ 1722 Crs in FY13 from ₹ 1649 Crs in FY12. DE ratio stood at 3.74 in FY13, after considering Employee related fund of ₹ 3252 Crs as debt, which is payable till FY33. Its DE ratio is further expected to increase after proposed borrowings of ₹ 5075 Crs. Net profit margin declined slightly to 3.30% in FY13 from 3.63% in FY12. Tangible Net-worth stood at ₹ 4002 Crs in FY13 as compared to ₹ 3562 Crs in FY12.

On a Consolidated basis, the Corporation's operating revenue has increased to ₹ 11397 Crs in FY12 from ₹ 8876 Crs in FY11. PAT has increased to ₹ 414 Crs in FY12 from ₹ 310 Crs in FY11. Long-term borrowing stood at ₹ 15073 Crs in FY12 from ₹ 12233 Crs in FY11 (excluding current portion of long term debt of ₹ 1715 Crs in FY12 from ₹ 1469 Crs in FY11).

### **Andhra Pradesh Economy**

Andhra Pradesh (AP) is the fourth largest state with an area of 274.4 lakh hectares, accounting for 8.4 % of India's territory and ranks fifth in terms of population. The state's population as per Census 2011 was about 84.7 million. The GSDP of Andhra Pradesh at constant (2004-05) prices for the year 2011-12 is estimated at ₹ 405,046 Crs as against ₹ 375,664 Crs for 2010-11, reflecting a growth rate of 7.8%, mainly driven by the services sector that recorded a growth of 9.8%. During 2012-13, GSDP stood at ₹ 425469 Crs. Agriculture sector growth have declined by 1.54% due to adverse seasonal conditions and deficit in rainfall which impacted the productivity of major crops while the Industry sector has grown by 7.3% during FY12. The share of agriculture, industry and services sector in state's GSDP stood at 19.2%, 25.7% and 55.1% respectively. The state's IT exports turnover during 2010-11 was ₹ 35,022 Crs. Andhra Pradesh accounts for about 15% of Country's IT exports, the proposed bifurcation of the State into Telangana and Andhra Pradesh might impact the investment climate and economy of Andhra Pradesh.

### **Rating Outlook**

APGENCO has a total installed Power Generation capacity of ~8925 MW (including Thermal Power: 5093 MW and Hydel Power: 3829 MW) and capacity addition of ~3210 MW over next two years. Implementation of the additional capacity on time would be crucial for the APGENCO's performance. It is having long term FSA with Singareni Collieries Company Ltd. and Mahanadi Coalfields Ltd. for coal supply; however its additional capacity would require further coal supply, which is yet to be tied up. APGENCO's Hydel Power Generation has shown declining performance over the past three years mainly due to low hydrology.

APGENCO has a huge debt requirement to fulfil future Capex plans, which is in its initial stages of planning.

Funding these projects and equity funding from the Govt. for its future capacity addition plans would be crucial for the APGENCO performance. Further, the proposed bifurcation of Andhra Pradesh into Telangana and Andhra Pradesh may have implications on APGENCO as the location of the power plants fall in both the States and this may impact the Company in terms of funding and performance.

<a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone</b>	<b>Media Contact</b>
<b>1-860-425-2742</b>	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

**Disclaimer:** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.