

Ratings

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Rating Rationale

February 20, 2019 | Mumbai

Andhra Pradesh Power Finance Corporation Limited

'Provisional CRISIL A+(SO)/Stable' assigned to bond

Rating Action

Rs.5000 Crore Bond	Provisional CRISIL A+(SO)/Stable (Assigned)^
Rs.244.1 Crore Bond Series I/2004*	CRISIL D (Withdrawn)
Rs.597.2 Crore Bond Series I/2005*	CRISIL D (Reaffirmed)
Rs.1053.3 Crore Bond Series I/2010*	CRISIL D (Reaffirmed)
Rs.1000.00 Crore Bond Series II/2012*	CRISIL D (Reaffirmed)
Rs.898.3 Crore Bond Series I & II/2011*	CRISIL D (Reaffirmed)
Rs.314.1 Crore Bond Series I/2012*	CRISIL D (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

*Amount outstanding as on March 31, 2013

^A prefix of 'Provisional' indicates that the rating centrally factors in strength of specific structures, and will be supported by certain critical documentation by the issuer, without which the rating would either have been different or not assigned ab initio. This is in compliance with a directive issued by the Securities and Exchange Board of India (SEBI) on May 6, 2015.

Detailed Rationale

CRISIL has assigned its '**Provisional CRISIL A+(SO)/Stable**' rating to the proposed Rs 5000 crore bond issuance of Andhra Pradesh Power Finance Corporation Limited (APPFC). The provisional rating will be converted after receipt of executed documents, in line with the structure submitted to CRISIL.

CRISIL has reaffirmed its rating on the existing bonds (Bond Series I/2005, Bond Series I/2010, Bond Series I & II/2011, Bond Series I/2012, Bond Series II/2012) at CRISIL D as it continues to reflect instances of delay in meeting debt obligation. CRISIL has withdrawn its rating on Rs 244.10 Crore Bond Series I/2004 as it is fully redeemed. This is in line with CRISIL's withdrawal policy.

The rating on the proposed issuance of Rs 5000 crore reflects the strength of an unconditional and irrevocable guarantee provided by the bifurcated Government of Andhra Pradesh (GoAP), a trustee-administered escrow and payment mechanism for the bonds and adequate liquidity in the form of a debt service reserve account (DSRA) of two quarters of debt servicing. The rating also factors in the criticality of APPFC to the GoAP in financing the power sector in the state and budgetary allocation by the state towards servicing of the proposed bonds.

The ratings are supported by the good economic management of the state, with high industry friendliness, relatively healthy power sector and well-targeted productive outlays. These are partly offset by the moderate economic structure of the State with a small secondary sector and moderate State finances marked by high deficit and indebtedness levels (albeit impacted by the bifurcation of erstwhile unified AP) and periodic use of WMA limits.

The rating of the existing bonds of erstwhile APPFC reflects continued delays in debt servicing. Based on information received from the trustee, CRISIL understands that debt servicing for AP's share of liabilities has been timely in the past one year.

While APPFC has been making timely payment to investors for AP's share of liabilities, CRISIL highlights that the T structure (T-10) of crediting the bond servicing account prior to the due date has not been followed. However, CRISIL takes comfort in articulation by the GoAP that adequate measures would be taken to ensure timely payments towards servicing of APPFC bonds (both proposed and outstanding) as per schedule.

CRISIL had, on September 25, 2015, downgraded the rating on the bonds, which were guaranteed by the erstwhile Government of Andhra Pradesh (GoAP), to '**CRISIL D**' from 'CRISIL A(SO)', while removing the rating from 'Rating Watch with Developing implications'. The downgrade reflects delays in debt servicing by APPFC on account of disputes with Telangana State Power Finance Corporation relating to distribution of assets and liabilities. Due to this, interest payment on some of the rated bonds was not made in full on the due date. CRISIL understands that there is no dues outstanding for payment as on January 31, 2019.

Analytical Approach

The ratings for the proposed Rs 5,000cr bonds are based on the unconditional and irrevocable guarantee from the bifurcated GoAP, guaranteeing full repayment of the principal and payment of interest in a timely manner. The ratings also factored in the strength of a trustee-administered payment structure.

While the existing bonds are guaranteed by the erstwhile GoAP, the rating reflects continued delays in debt servicing and non-invocation of the guarantee by the trustee.

Key Rating Drivers & Detailed Description

Strengths:

* Presence of a comprehensive guarantee from GoAP along with a strong payment structure

The proposed issuance benefits from budgetary allocation by the GoAP in meeting interest and principal obligations. Additionally, it derives support from an unconditional and irrevocable guarantee from the bifurcated GoAP. The guarantee is also continuing and the liability of the guarantor shall not be revoked by an insolvency, liquidation etc. Furthermore, the structure benefits from credit enhancement provided by a well-defined T-structured guarantee trigger mechanism, an adequate liquidity buffer, and an independent trustee monitoring mechanism.

The rating is supported by presence of a 2-quarter upfront DSRA as a liquidity cushion, which lowers the risk of any delay in receipt of payment from the State Government. CRISIL believes that the presence of the adequate liquidity buffers and the trustee oversight mechanism strengthens the payment structure and provides adequate protection from any administrative delay.

*** Strong support from GoAP due to critical role of power sector**

The vidyut bonds issued by APPFC will be used to finance the operational requirements of the Andhra Pradesh power discoms. Power sector enjoys strong support from GoAP owing to its criticality in supporting the ecosystem of the state. Moreover, government supports the agriculture sector and promotes industrialisation by providing subsidized power.

APPFC has been formed to provide financial assistance to the power sector in the state. Hence CRISIL believes that strong support from the government would be extended to APPFC, when required.

*** Good economic management by Government of Andhra Pradesh**

The rating factors in the good economic management by GoAP. It has undertaken a number of reforms to increase its industry friendliness (it ranks amongst the highest in Ease of Doing Business). It also has relatively healthy power sector compared to other states necessitating lesser amount of funding support from the GoAP. Further, CRISIL believes that the government is targeting its expenditure well towards developmental objectives like education and irrigation, which are expected to have a positive effect on improving the social and economic indices of the state.

Weakness

*** State has a moderate economic structure**

Andhra Pradesh has a moderate economic structure marked by a lower-than-average share of secondary sector and higher share of primary sector in Gross State Domestic Product (GSDP). This tilt in economic structure has an adverse impact on the tax/GSDP ratio, as secondary and tertiary sector have a higher tax potential. Its socio-economic and human development indicators are moderate (e.g. literacy rate of 67% versus national average of 74%), necessitating higher social outlays. However, CRISIL believes that the economic structure should improve given the state's industry friendliness and investment in infrastructure. AP also has a fairly high per capita income, and has enjoyed fast GSDP growth driven by growth in the tertiary and primary sectors.

*** Moderate state finances marked by high deficits and indebtedness, impacted by bifurcation**

Although erstwhile unified GoAP benefited from revenue surpluses and moderate levels of deficits and indebtedness, residual GoAP's state finances have got impacted due to the state bifurcation in fiscal 2015 with debt apportioned in the population ratio of 58:42 between residual Andhra Pradesh and Telangana. Deficits are on an improving trend revenue deficit to GSDP is down from 2.4% in FY2017 to 2.0% in FY2018 and 0.3% in FY2019 (Revised Estimates) while fiscal deficit to GSDP is down from 4.4% (FY2017) to 4.0% (FY2018) and 3.2% (FY2019RE). However, the indebtedness remains high with total debt plus guarantee to GSDP at 32.9% in FY2018. CRISIL expects deficits to improve, although continued grants-in-aid by the Central Government would be crucial (22% of total FY2018 revenues). Aggregate debt as share of GSDP should trend down only slowly, given the state's large development needs. The state has moderate liquidity and accesses Ways and Means Advances to manage liquidity and lower interest costs.

*** Failure of designated payment structure:** The rating on the existing bonds factors in the failure of the payment structure and the inability of the trustee to ensure adherence to the trustee-administered structure (non-invocation of guarantee).

Liquidity

CRISIL believes that APPFC enjoys adequate liquidity primarily driven by the GoAP support as cashflows for debt servicing forms a part of the budgetary allocation. Additionally, APPFC will maintain a DSRA of 2 quarters on a rolling basis for the proposed bonds.

Outlook: Stable

CRISIL believes APPFC's proposed bonds will benefit from its strong payment structure and support from GoAP.

Upside scenario:

* Sustained improvement in state's deficit levels and its indebtedness

Downside scenario:

* Deterioration in GoAP's fiscal performance over the medium term.
* Narrowing of liquidity buffers or non-adherence to payment structure

About the Company

APPFC was set up to provide financial assistance to the power sector in Andhra Pradesh. In fiscal 2017 as well as fiscal 2016, there was no profit after tax while total income was Rs 215 Crore and Rs 217 crore, respectively.

Key Financial Indicators (reported numbers):

Particulars	Unit	2019 (RE)	2018 (Accounts)
Revenue Receipts	Rs. Cr.	1,56,364	1,05,062
Revenue Deficit	Rs. Cr.	2,494	16,152
Gross Fiscal Deficit	Rs. Cr	29,141	32,372
GFD/GSDP	%	3.2	4.0
Debt*/GSDP	%	34.4	34.2
RR/Interest	Times	9.91	7.59

*CRISIL Adjusted Debt

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Rating Assigned with Outlook

INE847E08CY9 INE847E08CZ6	Bond Series I/2005*	30-Mar-2005 04-Apr-2005	8.15%	29-Mar-2020 03-Apr-2020	597.20	CRISIL D
INE847E09011 INE847E09029	Bond Series I/2010*	15-Nov-2010	8.49% 8.74%	15-Nov-2020 15-Nov-2022	1053.30	CRISIL D
INE847E08DK6 INE847E08DJ8 INE847E08DL4 INE847E08DM2	Bond Series I & II/2011*	15-Dec-2011 30-Jan-2012	9.60% 9.10% 9.85% 9.97%	15-Dec-2023 15-Dec-2021 30-Jan-2022 30-Jan-2024	898.30	CRISIL D
INE847E08DN0 INE847E08DO8	Bond Series I/2012*	08-Jun-2012	9.50% 9.64%	08-Jun-2022 08-Jun-2024	314.10	CRISIL D
INE847E08DP5	Bond Series II/2012*	18-Jul-2012	9.75%	18-Jul-2022	1000.00	CRISIL D
NA	Bond**	NA	NA	NA	5000.00	Provisional CRISIL A+(SO)/Stable

*Amount outstanding as on March 31, 2013

**Yet to be placed

Annexure - Details of Rating Withdrawn

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)
INE847E08DD1 INE847E08DF6	Bond Series I/2004*	12-Feb-2005 22-Feb-2005	7.70%	11-Feb-2015 21-Feb-2015	244.10

*Amount outstanding as on March 31, 2013

Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Bond	LT	8862.90 31-03-13	CRISIL D] Provisional CRISIL A+ (SO)/Stable			30-11-18	CRISIL D	27-11-17	CRISIL D	21-11-16	CRISIL D	CRISIL D

All amounts are in Rs.Cr.

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating Criteria for State Governments](#)

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