

February 10, 2023

Andhra Pradesh Power Finance Corporation Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bond programme	4,053.30	4,053.30	[ICRA]D; reaffirmed
Total	4,053.30	4,053.30	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the rating of Andhra Pradesh Power Finance Corporation Limited's (APPFCL) reflects the continuing delays in the servicing of its debt obligations under various bond programmes outstanding. ICRA takes notes of the dispute between Telangana State Power Finance Corporation (TSPFC) and APPFCL regarding the distribution of assets and liabilities, following the bifurcation of the erstwhile state of Andhra Pradesh (AP) in June 2014, which is the key reason for the continuing delays in debt servicing. APPFCL and TSPFC have been jointly servicing these bonds till now based on the current bifurcation of the liabilities between the two entities. The timely servicing of the instrument is likely to remain uncertain till the final resolution of the ongoing dispute between the two states. ICRA also notes that despite the delays, the Trustee to the bondholders has not invoked the guarantee extended by the erstwhile Government of Andhra Pradesh (GoAP) towards the rated debt as per the terms of the structured payment mechanism.

Key rating drivers and their description

Credit strengths

NA

Credit challenges

Past delays in debt servicing of bonds – The rated bond programme is unconditionally and irrevocably guaranteed by the erstwhile GoAP. There have been continued delays in the servicing of the rated bonds, including the most recent obligations due on January 01, 2023, because of the non-receipt of funds from TSPFC. Considering the ongoing dispute between TSPFC and APPFCL regarding the distribution of assets and liabilities following the bifurcation of the state of AP in June 2014, the timely servicing of the instrument is likely to remain uncertain till the final resolution of the ongoing dispute.

Guarantee not yet invoked for bond programme – Despite the delays, the Trustee to the bondholders has not invoked the guarantee extended by the erstwhile GoAP towards the rated debt as per the terms of the structured payment mechanism. SBI Cap Trustee Company Limited is the Trustee for the instrument from March 2017.

Modest financial risk profile – As of September 2022, APPFCL's borrowings stood at Rs. 17,875.5 crore in the form of bonds guaranteed by the erstwhile GoAP, term loans from banks and inter-corporate deposits, while its net worth stood at Rs. 634.9 crore, translating to a gearing of 27.4 times. The exposures are fully towards the state power distribution and generation companies. APPFCL's capital-to-risk weighted assets ratio (CRAR) is supported by the guarantees extended by the erstwhile GoAP for the majority of its exposures. According to the company, its CRAR was 15% as of March 31, 2022, which was compliant with the regulatory capital requirement applicable for Government-owned non-banking financial companies (NBFCs).

APPFCL's earnings profile improved moderately with a net profit of Rs. 97.3 crore (return on average total assets of 1.1%; provisional and annualised) in H1 FY2023 and Rs. 149.6 crore (0.9%) in FY2022 from Rs. 36.18 crore (0.3%) in FY2021 as it

started charging a margin on its onward lending. However, the company's cash flows are dependent on transfers from the GoAP for meeting its operational requirements and for debt servicing.

Liquidity position: Poor

The servicing of the rated bonds is dependent on timely remittances from APPFCL and TSPFC for their portion of the bonds. ICRA notes that there have been instances of delays, largely by TSPFC in servicing its share. The liquidity profile of the rated instrument is, therefore, assessed as poor.

Rating sensitivities

Positive factors – The rating could be upgraded on the resolution of the ongoing dispute between the GoAP and the Government of Telangana regarding the distribution of assets and liabilities and a track record of regular payment of interest and principal.

Negative factors – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Policy on Default Recognition
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

APPFCL was incorporated in July 2000 by the GoAP with the main objective of providing debt and equity funding to enterprises engaged in the power sector in the state. It is registered as a non-banking financial company with the Reserve Bank of India. APPFCL reported a profit after tax (PAT) of Rs. 97.3 crore (provisional) in H1 FY2023 on a loan book of Rs. 17,875.5 crore as on September 30, 2022.

Key financial indicators

Andhra Pradesh Power Finance Corporation Limited	FY2021	FY2022	H1 FY2023*
Total income	1,279.0	1,583.2	830.0
Profit after tax	36.2	149.6	97.3
Net worth	388.0	537.6	634.9
Loan book	16,303.5	18,349.8	17,875.5
Total assets	16,503.0	18,612.5	18,174.2
Return on assets	0.3%	0.9%	1.1%
Return on net worth	10.4%	32.3%	33.2%
Gross gearing (times)	41.3	33.4	27.4
Gross NPA	NA	NA	NA
Net NPA	NA	NA	NA
Solvency (Net stage 3/Net worth)	NA	NA	NA
CRAR	10.5%^	15%	-

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

^ As assessed by RBI

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Feb 10, 2023	Feb 16, 2022	Feb 19, 2021	Jan 24, 2020	
1	Bond programme	Long term	4,053.30	4,053.30	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bond programme	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE847E09011	Bond programme	Nov 15, 2010	8.49%	Nov 15, 2020	42.0	[ICRA]D
INE847E09029	Bond programme	Nov 15, 2010	8.74%	Nov 15, 2022	1,011.3	[ICRA]D
INE847E08DK6	Bond programme	Dec 15, 2011	9.60%	Dec 15, 2023	149.2	[ICRA]D
INE847E08DJ8	Bond programme	Dec 15, 2011	9.10%	Dec 15, 2021	5.0	[ICRA]D
INE847E08DM2	Bond programme	Jan 30, 2012	9.97%	Jan 30, 2024	586.9	[ICRA]D
INE847E08DL4	Bond programme	Jan 30, 2012	9.85%	Jan 30, 2022	157.2	[ICRA]D
INE847E08DO8	Bond programme	Jun 08, 2012	9.64%	Jun 08, 2024	249.4	[ICRA]D
INE847E08DN0	Bond programme	Jun 08, 2012	9.50%	Jun 08, 2022	64.7	[ICRA]D
INE847E08DQ3	Bond programme	Nov 09, 2012	9.75%	Nov 09, 2022	1,787.6	[ICRA]D

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Ramya G
+91 44 4596 4309
ramya.g@icraindia.com

Krishan Kumar Saini
+91 124 4545 442
krishan.saini@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.