

February 19, 2021

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
Bonds programme	4,053.30	4,053.30	[ICRA]D; reaffirmed
Total	4,053.30	4,053.30	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the rating for Andhra Pradesh Power Finance Corporation Limited's (APPFCL) non-convertible debenture (NCD) programme at [ICRA]D considers the delays in the servicing of the rated bonds because 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. 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 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 the NCDs – The rated bond programme is unconditionally and irrevocably guaranteed by the GoAP. There have been delays in the interest and principal servicing of the rated bonds because of the ongoing dispute between TSPFC and APPFCL regarding the distribution of assets and liabilities following the bifurcation of the erstwhile state of AP in June 2014. Till the final resolution of the ongoing dispute, the timely servicing of the instrument is likely to remain uncertain.

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

Modest financial risk profile – APPFCL's earnings profile is characterised by nominal net profits; it reported a net profit of Rs. 3.4 crore in FY2020 (net profit of Rs. 0.04 crore in FY2019 and a loss of Rs. 0.03 crore in FY2018). The company's cash flows are dependent on the transfers from the GoAP for meeting its operational requirements and for debt servicing. As of March 2020, APPFCL's borrowings stood at Rs. 11,087 crore in the form of debentures guaranteed by GoAP and term loans from banks, while its net worth stood at Rs. 309.4 crore. The company's exposure is fully towards the state power distribution and generation companies via the GoAP managed pooled accounts.

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 delay by TSPFC in servicing the same. Hence, the liquidity profile of the rated instrument is 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. 3.41 crore in FY2020 on a loan book of Rs. 11,094.5 crore as on March 31, 2020.

Key financial indicators (audited)

Andhra Pradesh Power Finance Corporation Limited	FY2019	FY2020
Total income (Rs. crore)	215.2	707.0
Profit after tax (Rs. crore)	0.04	3.4
Net worth (Rs. crore)	16.9	309.4
Loan book (Rs. crore)	2,260.1	11,094.5
Total assets (Rs. crore)	2,408.1	11,493.7
Return on assets (%)	0.002%	0.05%
Return on net worth (%)	0.2%	2.1%
Gearing (times)	139.1	35.8
Gross NPA (%)	NA	NA
Net NPA (%)	NA	NA
Solvency (Net stage 3/Net worth)	NA	NA
CRAR (%)	NA	NA

Source: Company, ICRA research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 19, 2021	Jan 24, 2020	Nov 23, 2018	Oct 09, 2017
1	Bonds Programme	Long Term	4,053.30	4,053.30	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE847E09011	NCD programme	Nov 15, 2010	8.49%	Nov 15, 2020	42.0	[ICRA]D
INE847E09029	NCD programme	Nov 15, 2010	8.74%	Nov 15, 2022	1,011.3	[ICRA]D
INE847E08DK6	NCD programme	Dec 15, 2011	9.60%	Dec 15, 2023	149.2	[ICRA]D
INE847E08DJ8	NCD programme	Dec 15, 2011	9.10%	Dec 15, 2021	5.0	[ICRA]D
INE847E08DM2	NCD programme	Jan 30, 2012	9.97%	Jan 30, 2024	586.9	[ICRA]D
INE847E08DL4	NCD programme	Jan 30, 2012	9.85%	Jan 30, 2022	157.2	[ICRA]D
INE847E08DO8	NCD programme	Jun 08, 2012	9.64%	Jun 08, 2024	249.4	[ICRA]D
INE847E08DN0	NCD programme	Jun 08, 2012	9.50%	Jun 08, 2022	64.7	[ICRA]D
INE847E08DQ3	NCD programme	Nov 09, 2012	9.75%	Nov 09, 2022	1,787.6	[ICRA]D

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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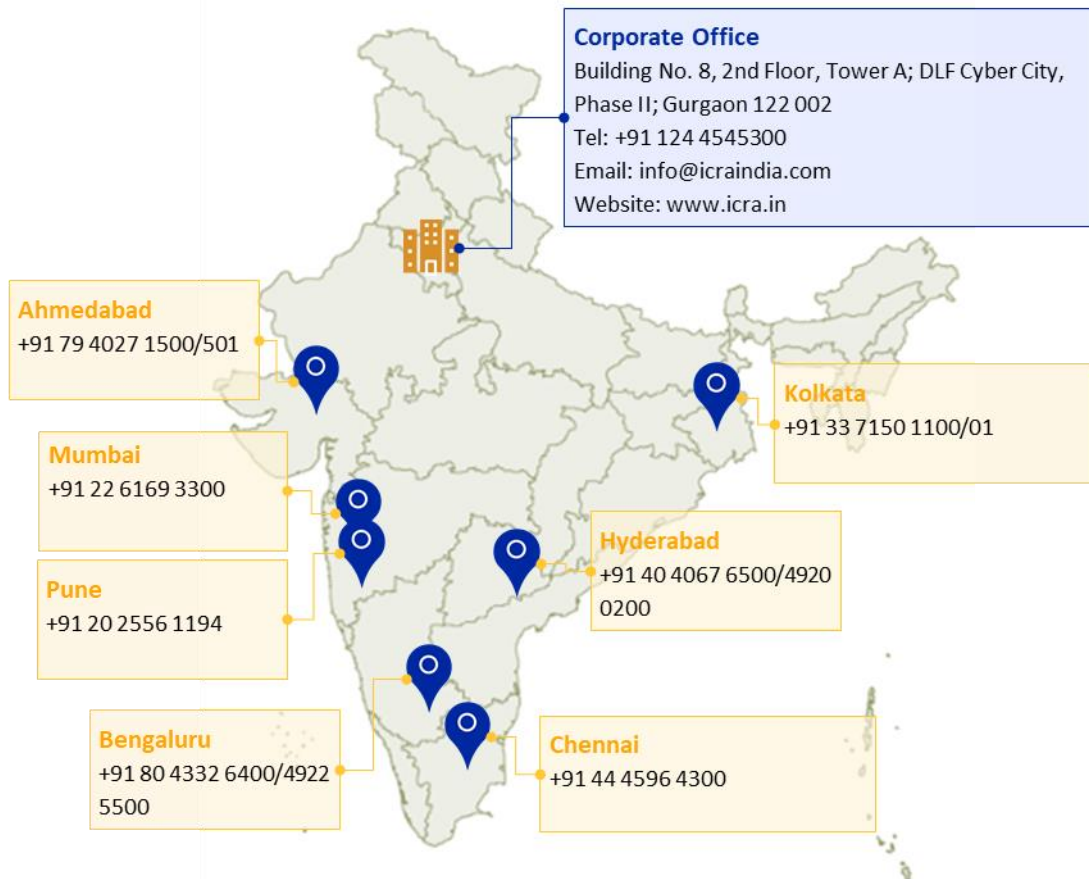
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