

December 18, 2020

Hyderabad Metropolitan Development Authority: Rating reaffirmed; removed from 'Issuer Not Cooperating' category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	Nil	Nil	[ICRA]A (Stable); reaffirmed and removed from Issuer not Cooperating category

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account the Hyderabad Metropolitan Development Authority's (HMDA's) strategic importance to the Government of Telangana State (GoTS) for its status as the nodal agency for planning, regulating, developing and coordinating a comprehensive development of Hyderabad Metropolitan Region (HMR) and HMDA's strong operational as well as financial linkages with the GoTS, which has an adequate credit profile. Despite a moderate deterioration in the state government's fiscal health at present due to the delays in recovery of revenues during the pandemic, ICRA continues to factor in HMDA's long track record in execution of projects of a diverse nature and its consistent track record of generating adjusted net profits¹ in the last five years without any financial support from the GoTS. The rating is supported by HMDA's comfortable capital structure as well as healthy debt coverage metrics with a gearing (Total Debt/Tangible Net Worth) of 0.15 times as on March 31, 2020 and an adjusted interest cover of 5.7 times for FY2020. Further, HMDA's revenues from land and building regularisation schemes (LRS & BRS) are likely to increase in the medium term, given the large number of illegal and unapproved layouts under its jurisdiction. ICRA expects the recently launched LR scheme to generate decent demand, in line with the interest generated in earlier such schemes.

The rating is, however, constrained by the highly volatile nature of HMDA's revenues, the entity's high dependence upon the GoTS for key revenue-related decisions like revision in rate structures, and inconsistencies in its financial statements indicating a significant scope for improvement in the current accounting practices being followed. The rating also takes into consideration the large advances extended to Hyderabad Growth Corridor Limited (HGCL)², of which only a certain portion of the liabilities are being transferred by the GoTS with the remaining are being undertaken from HMDA's own funds.

ICRA notes that HMDA has delayed a number of capital projects during the current year, on account of the pandemic related disruptions and the lack of staff. The large number of upcoming projects of more than Rs. 1,400-crore, which HMDA is planning to undertake in the medium term, is likely to be funded from its large bank balances or through long term borrowings. Although, ICRA notes that HMDA's plan to fund a majority of this capex through long-term borrowings may impact the debt protection metrics to some extent. Further, any significant increase in advances to HGCL without any reimbursement from the GoTS, with transfer of additional funding responsibility on HMDA for projects of other Government entities by the GoTS would be key sensitivities.

¹ As per HMDA's accounting policy, 85% of development charges are transferred to balance sheet under a separate fund named 'Metropolitan development Fund' and balance 15% is reported as revenue in its income and expenditure account. ICRA for its analysis has considered the entire income as revenue

² Hyderabad Growth Corridor Limited (HGCL) executed the outer ring road (ORR) project. HMDA holds 74% equity in HGCL
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Key rating drivers and their description

Credit strengths

Strategic importance to GoTS: HMDA is the apex agency with strategic importance to the GoTS for planning, regulating, developing and coordinating the overall urban development functions in the entire Hyderabad Metropolitan Region (HMR). HMDA provides infrastructure facilities like construction of flyover, widening roads, maintenance of lakes, parks and greenery and has executed large projects like – Elevated Express Highway Corridor, Outer Ring Road (through HGCL), etc. in HMR region.

Strong linkages with the state government: HMDA has strong legal, operational and financial linkages with the GoTS, which has an adequate credit profile, notwithstanding the deterioration in its fiscal health due to the pandemic. However, HMDA has not shown any financial dependence on the GoTS during the past many years having its own revenue sources, which are adequate to meet regular expenditure. Moreover, HMDA funds the gap in payments released by the GoTS for annuity payments related to ORR project as against the committed amounts.

High development charges results in positive cash flows and a comfortable capital structure: HMDA has consistently maintained a strong overall cash flow position on account of regular inflow from collection of development charges (85% of which is earmarked for carrying out various projects envisaged by the GoTS under the Metropolitan Development Fund in the balance sheet) and relatively low expenditure. Moreover, the adjusted operating income, with the fact that the entire development charges remained high at Rs. 482.41 crore in FY2020, resulted in an operating profit of Rs. 209.18 crore during the same period. Moreover, healthy surpluses and limited debt have supported HMDA in maintaining a comfortable financial risk profile, as reflected by a gearing of 0.15 times as on March 31, 2020 and adjusted OPBDITA / interest of 5.7 times for FY2020.

Expected increase in revenues from the recently launched regularisation schemes: The revenues from land regularisation and building regularisation schemes launched in October 2020 are likely to result in higher LRS/BRS revenues in the medium term. The earlier scheme generated a revenue of ~Rs. 1,950-crore over a period of 3-4 years. HMDA derives a major part of its revenues from developmental charges linked to a change in the character of land or development of land and building. Based on the past trends, a large number of regularisation applications are expected in the recently launched scheme, which will have a favourable impact on the collection of development charges as well.

Credit challenges

Volatility in HMDA's Revenues: HMDA's revenues from the development charges are exposed to volatility associated to the real estate market scenario and revenues from one-time land regularisation and building regularisation schemes (LRS & BRS) that are notified by the GoTS to regularise the unapproved and unauthorised layouts and buildings. The scheme was launched again in October 2020 and the prior experience of HMDA during the last such exercise had generated a positive response although the collections were mostly received towards the end of the scheme validity dates resulting in increased volatility in revenues while the scheme was operational.

Dependence upon the GoTS for key revenue decisions: HMDA is dependent on the GoTS for revision in rate structures for various fees and charges. The last revision in development charges on land and buildings took place in August 2016 and no further revision has taken place for the last four years. The LRS/BRS, which generates significant revenues for HMDA and strengthens its liquidity position, are also announced by the GoTS.

Large advances to HGCL: HMDA has extended significant support to HGCL to fund the mismatch between committed funds from the GoTS and actual payments being made to the annuity players in the ORR project. Against HGCL's total annual demand of Rs. ~450 crores from the GoTS, it has received only ~Rs. 150-crore annually over the last few years,

and the balance has been funded by HMDA. As on March 31, 2020, the total advances extended by HMDA to HGCL remained at Rs. 1,287.39-crore.

Significant capex plans: HMDA has proposed a number of large projects with an estimated cost of more than Rs. 1,400-crore likely to be executed over the next two to three years. The proposed capex could be funded by the existing large metropolitan development fund or partially through a fresh long-term borrowing programme as witnessed in the past, which could impact its debt protection metrics to a certain extent. However, HMDA is expected to initially utilise the available earmarked funds for capex followed by need based borrowing as it needs to take prior approval from the state government to avail any debt from any financial institutions.

Liquidity position: Strong

The liquidity position of the entity has remained strong during the past years. As on March 31, 2020, the entity had cash and bank balances worth Rs. 1,558.14 crore and fixed deposits of Rs. 52.28 crore. The annual repayment obligations towards loans are less than Rs. 100-crore per annum.

Rating sensitivities

Positive trigger - ICRA could upgrade the rating if there is a substantial growth in HMDA's revenues, reduction in volatility and timely transfer of complete annuity payments by the state government, which would further strengthen HMDA's liquidity position.

Negative trigger - The rating may be downgraded if there is a significant increase in advances to HGCL without any reimbursement from the GoTS, or in case of a transfer of additional funding responsibility on HMDA for projects of other Government entities by the GoTS, which would weaken its liquidity position. Alternately, a downgrade is likely if there is any significant debt-funded capital expenditure that would impact HMDA's capital structure and debt protection metrics.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for State Governments
Parent/Group Support	The assigned rating factors in the importance that HMDA holds for the GoTS as the nodal agency for infrastructure planning and development within Hyderabad Metropolitan Region (HMR) and its strong operational as well as financial linkages with the GoTS
Consolidation / Standalone	The rating is based on standalone financial profile of the entity

About the entity

HMDA was set up by the state government of the un-bifurcated state of Andhra Pradesh in August 2008 under the Hyderabad Metropolitan Development Authority Act, 2008. The erstwhile entities, Hyderabad Urban Development Authority (HUDA), Hyderabad Airport Development Authority (HADA), Cyberabad Development Authority (CDA) and Buddha Poornima Project Authority (BPPA) were dissolved by the state government, and the assets and liabilities of the dissolved entities were transferred to HMDA, which became operational from August 25, 2008. The jurisdictional area (Hyderabad Metropolitan Region, HMR) of around 7,257 square kilometres (sq. km.), covering seven districts, 70 mandals, 1032 villages.

HMDA is administered by the Municipal Administration and Urban Development (MAUD) department of the GoTS as per the provisions of the Act. HMDA is governed by its metropolitan development authority, members of which are nominated by the GoTS. The Chief Minister of the state heads the authority as a Chairman and Minister for MAUD department is the Vice Chairman. The regular operations of HMDA are supervised by the Metropolitan Commissioner, who is also member-convener of the authority.

In FY2020 (Provisional), the entity reported a net loss of Rs. 130.94 crore on an operating income of Rs. 125.42 crore, as compared to a net loss of Rs. 138.27 crore on an operating income of Rs. 123.70 crore in the previous year.

Key financial indicators

	FY2018	FY2019	FY2020*
Operating Income (Rs. crore)	107.21	123.70	125.42
Net Profit (Rs. crore)	-93.87	-138.27	-130.94
Net Profit (%)	-87.55%	-111.77%	-104.40%
RoCE (%)			
Total Debt/ TNW (times)	0.24	0.21	0.15
Total Debt/ OPBDITA (times)	-11.60	-4.71	-3.92
OPBDITA/Interest (times)	-1.27	-3.25	-4.03

Actuals as per HMDA's financial statements (unadjusted), Source: Annual reports and ICRA research; * Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last 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		Date & Rating in	
					Dec 18, 2020	Aug 28, 2020	FY2020	FY2019
								FY2018
1	Issue Rating	Long Term	Nil	NA	[ICRA]A (Stable)	[ICRA]A (Stable); ISSUER NOT COOPERATING	NA	[ICRA]A (Stable)
							--	Dec 13, 2018
								-

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
NA	Issuer Rating	NA	NA	NA	NIL	[ICRA]A (Stable)

Source: Hyderabad Metropolitan Development Authority

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