

May 06, 2024

Hyderabad Metropolitan Development Authority: Rating upgraded and removed from Issuer Non-Cooperating Category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Proposed	2000.00	2000.00	[ICRA]BBB (Stable); Upgraded from [ICRA]BB+ (Stable) ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category
Total	2000.00	2000.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has upgraded the rating assigned to the bank limits of Hyderabad Metropolitan Development Authority (HMDA) and removed the same from the 'ISSUER NOT COOPERATING' category based on adequate information received from the client for carrying out a detailed credit assessment.

The assigned rating is based on the strategic importance of Hyderabad Metropolitan Development Authority (HMDA) 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. ICRA continues to factor in HMDA's long track record of executing diverse projects and its consistent track record of generating healthy net profits¹ (adjusted) over the last five years. The rating derives comfort from HMDA's comfortable capital structure as well as healthy debt coverage metrics with a gearing (Total Debt/Tangible Net Worth) of 0.3 times as on March 31, 2023 and an adjusted interest coverage of 54.2 times for FY2023.

The rating is, however, constrained by the moderate credit profile of the state government owing to its high leverage level and stretched liquidity. ICRA takes note of the entity's dependency on the GoTS for key revenue-related decisions like revision in rate structures, the highly volatile nature of HMDA's revenues and frequent changes in its past financial statements, indicating a significant scope for improvement in the current accounting practices being followed. HMDA would be undertaking various infrastructure development projects in the medium term, which would be partially funded through fresh long-term borrowings. Consequently, as per ICRA's estimates, fresh borrowings will result in moderation in HMDA's debt protection metrics in the medium term. Based on directions of the state government, HMDA extends advances to various state government entities/departments without any reimbursement from the GoTS. Also, there have been instances related to transfer of additional funding responsibility on HMDA for projects of other Government entities without any revenue consideration or reimbursements. Any unanticipated increase in such outflows by HMDA resulting in a pressure on its financial risk profile would remain a key rating sensitivity.

The Stable outlook reflects ICRA's belief that HMDA will continue to benefit from its strategic importance to the GoTS and its strong linkages with the state government. Additionally, HMDA's large revenue base, though volatile, would continue to support its healthy accruals and debt coverage metrics.

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

Key rating drivers and their description

Credit strengths

Strategic importance and strong linkages with the GoTS – HMDA has strong legal, operational and financial linkages with the GoTS, reflected by the composition of its authority, which is headed by the Chief Minister (Telangana). In the past, HMDA has funded the gap in committed grants from the GoTS for annuity payments related to the Outer Ring Road (ORR) project (which is transferred to the GoTS) and has also extended advances to the state government.

HMDA is the apex agency with strategic importance to the GoTS for planning, regulating, developing and coordinating the overall urban development functions in HMR. HMDA provides infrastructure facilities like construction of flyover, widening of roads, maintenance of lakes, parks and greenery and has executed large projects like Elevated Express Highway Corridor, ORR (through HGCL), etc, in the HMR region. Additionally, HMDA is responsible for developing layouts within HMR.

HMDA relies on the state government for funding various projects and accordingly gets Budget/grants for the same. However, HMDA does not have any financial dependence on the GoTS to meet its regular expenditure as it has own revenue sources, which are adequate to meet its regular expenditure including debt servicing requirements.

Healthy financial risk profile, supported by large revenue base and comfortable debt coverage metrics – HMDA has consistently maintained a strong overall cash flow position on account of regular inflow from collection of development charges (85% of which has been earmarked for carrying out various projects envisaged by the GoTS under the Metropolitan Development Fund in the balance sheet) and relatively lower expenditure. Moreover, the adjusted operating income, considering the entire development charges, remained healthy at Rs. 2,078.5 crore as on March 31, 2023, resulting in an operating profit of Rs. 1,040.5 crore during the same period. ICRA notes that healthy surpluses and limited debt have supported HMDA in maintaining a comfortable financial risk profile, as reflected by an adjusted gearing of 0.3 times as on March 31, 2023, and adjusted OPBDITA/interest of 54.2 times for FY2023. Going forward, HMDA's borrowings are expected to increase for the Missing Link Roads project but leverage and coverage metrics are likely to remain comfortable.

Credit challenges

Moderate credit profile of state government – Healthy capital spending and revenue deficits in some years led to fiscal deficit of GoTS relative to its gross state domestic product (GSDP), exceeding the permissible limit from FY2016 to FY2022. However, the GoTS' fiscal deficit as a proportion of GSDP narrowed to 2.5% in FY2023, within the borrowing limit. The leverage level of the state government (as indicated by its debt and guarantees) worsened considerably to 39.4% of GSDP in FY2023 from 31.1% of GSDP in FY2020. This was primarily led by a considerable 5.7 percentage points increase in the guarantees extended by the GoTS to 15.2% of GSDP as on March 31, 2023, mainly led by irrigation, power, and civil supplies sector.

Dependence on GoTS for key revenue decisions; volatility in HMDA's revenues – HMDA depends on the GoTS for revision in rate structures. The last revision in development charges on land and buildings was done in August 2016 and no further revision has taken place since the last eight years. The regularisation scheme related to land and building, which generates significant revenues for HMDA and strengthens its liquidity position, are also announced by the GoTS.

HMDA's revenues from development charges are exposed to volatility associated in the real estate market. Additionally, one-time regularisation schemes related to land and building that are notified by the GoTS to regularise unapproved and unauthorised layouts and buildings result in revenue volatility for HMDA.

Regular capex plans to be funded by fresh debt – ICRA expects that HMDA to undertake various large infrastructure projects which are likely to be executed over the next two to three years. The expected capex, if funded by fresh long-term borrowing programme, could impact its debt protection metrics to a certain extent. Additionally, HMDA's participation in unanticipated projects within HMR, without any incremental revenue, funding of which could be from own accruals and cash balances, would result in an adverse impact on its liquidity.

Liquidity position: Stretched

HMDA's free cash availability remains limited as majority of the balances are earmarked towards specific projects/layouts being undertaken by HMDA, leaving limited buffer for any urgent requirement. Further, considering the moderate financial risk profile of the state government and in the recent years, there has been an increase in advances from HMDA to the GoTS, which has reduced HMDA's balances. Considering the moderate financial risk profile of the state government and a pressure on its liquidity, such advances as well as additional large expenditure responsibilities would increase in future. Consequently, the liquidity of HMDA is stretched. Moreover, while the repayment obligation towards existing loans is not significant at Rs. 60.8 crore in FY2025, it is likely to increase in the coming years because of the proposed fresh term loans for the Missing Link Roads project and other projects.

Rating sensitivities

Positive factors – The rating could be upgraded if there is an improvement in the credit profile of the state government.

Negative factors – The rating may be downgraded if there is a significant increase in advances to other state government entities, or additional funding responsibility passed on to HMDA for projects of other government entities without any revenue support, which would weaken its liquidity position, or if there is any significant debt-funded capital expenditure that would impact HMDA's debt protection metrics. The rating could also be downgraded if there is a deterioration in the credit profile of the state government.

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 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 government of un-bifurcated 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 jurisdiction (HMR) of around 7,257 square kilometre (sq. km.), covers seven districts, 70 mandals and 1,032 villages.

HMDA is administered by the Municipal Administration and Urban Development (MAUD) department of the GoTS as per the provisions of the relevant Act. HMDA is governed by its metropolitan development authority (MDA), 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-convenor of the authority.

Key financial indicators (audited)

	FY2022	FY2023
Operating income (Rs. crore)	242.9	589.2
PAT (Rs. crore)	-254.1	-365.7
OPBDIT/OI	-119.7%	-76.2%
PAT/OI	-104.6%	-62.1%
Total outside liabilities/Tangible net worth (times)	0.3	0.6
Total debt/OPBDIT (times)	-1.6	-4.2
Interest coverage (times)	-12.4	-23.4

Actuals as per HMDA's financial statements, PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore

Source: Entity; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount outstanding (Rs. crore)	Date and Rating in FY2025	Date and Rating in		
						FY2024	FY2023	FY2022
						May 6, 2024	Mar 20, 2024	Dec 21, 2022
1	Fund-based – Proposed	Long-term	2000.0	NA	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB (Stable)	-
2	Issuer rating	Long-term	Nil	-		-	-	[ICRA]A (Stable); Withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Proposed	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based – Proposed	NA	NA	NA	2000.0	[ICRA]BBB (Stable)

Source: HMDA

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-II: List of entities considered for consolidated analysis: Not Applicable

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