

October 21, 2024

Agra Development Authority: [ICRA]BBB (Stable); Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term proposed term loan	500.00	[ICRA] BBB (Stable); Assigned
Total	500.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating is based on Agra Development Authority's (ADA) long track record of executing diverse projects and consistent adequate accruals¹ (adjusted) over the last five years. The rating also derives support from ADA's comfortable capital structure and debt coverage metrics, which are likely to sustain at range-bound levels in the near to medium term. The rating also factors in the strategic importance of Agra Development Authority (ADA) to the Government of Uttar Pradesh (GoUP) for its status as the nodal agency for planning, regulating, developing and coordinating a comprehensive development of the Development Area (DA) in and around Agra and the authority's strong operational linkage with the GoUP.

The rating is, however, constrained by the moderate credit profile of the state government owing to weak socio-economic indicators, modest self reliance and high leverage as a proportion of GSDP (Gross State Domestic Product). ICRA takes note of the authority's financial linkages with the GoUP and its dependency on the GoUP for key revenue-related decisions like revision in rate structures, the highly volatile nature of ADA's revenues as well as expenditures and a significant scope for improvement in the current accounting practices being followed. ADA 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 ADA's debt protection metrics in the medium term, though is expected to remain within range-bound levels.

Based on directions of the state government, ADA undertakes various large projects within its jurisdiction, part of which has to be funded by ADA from its own accruals. Such debt-funded capex by ADA or transfer of additional funding responsibility on ADA for projects of other Government entities without any revenue consideration or reimbursements, which materially impacts the debt protection metrics would remain a key rating sensitivity.

The Stable outlook reflects ICRA's belief that ADA will continue to benefit from its strategic importance to the GoUP and its strong linkages with the state government. Additionally, ADA's growing revenue base, though volatile, would continue to support its steady cash accruals and comfortable debt coverage metrics as well as liquidity.

Key rating drivers and their description

Credit strengths

Satisfactory financial risk profile: ADA has a long track record of executing diverse projects and consistently maintaining positive cash flow position, on account of regular inflow from collection of development charges (part of which has been earmarked for carrying out various projects under the infrastructure fund in the balance sheet) and relatively lower expenditure. Moreover, the adjusted operating income, considering the entire development charges, remained healthy at Rs.

¹ As per ADA's accounting policy, a fixed % of certain incomes are transferred to the balance sheet under a separate fund named 'Infrastructure Fund' and the balance is reported as revenue in its income and expenditure account. ICRA, for its analysis, has considered the entire income as revenue in its adjusted financial. Further, FY2024 provisional financials have been adjusted to tune of Rs. 276 crore of land purchase cost being capitalized as an asset instead of been expenses out.

212 crore (unadjusted Rs. 180 crore) for FY2024, leading to adjusted operating profit of Rs. 99 crore (unadjusted Rs. 67 crore) during the same period. ICRA notes that healthy surpluses and limited debt have supported ADA in maintaining a comfortable financial risk profile, as reflected in an adjusted gearing of (total debt to TNW) of 0.7 times as of March 31, 2024, and adjusted OPBDITA/interest of 104 times for FY2024. Going forward, ADA's borrowings are expected to increase for the ongoing project, but leverage and coverage metrics are likely to remain comfortable.

Strategic importance and strong linkages with the GoUP: ADA has strong legal, operational and financial linkages with the GoUP, evident from the composition of its authority, which is headed by the Divisional Commissioner, Agra Division and all the members being senior state government officials. While the entity adequately covers its regular expenses, a majority of its projects are funded (partially/fully) by the state government.

ADA is the apex agency with strategic importance to the GoUP for planning, regulating, developing and coordinating the overall urban development functions in the Development Area of Agra, which is important to the state government for being an international tourist destination and high potential of being an economic hub given its strategic location. ADA provides infrastructure facilities like construction of flyover, widening of roads, maintenance of lakes, parks and greenery and has executed large projects like inner ring road project, and various housing schemes.

Credit challenges

Dependence on the GoUP for key revenue decisions; volatility in ADA's revenues: ADA depends on the GoUP for revision in rate structures. Further, ADA's revenues from development charges as well as sale of plots are exposed to volatility associated in the real estate market in the development area. Consequently, meeting large commitments in a year with low revenue could become a challenge for the entity in future, which could be mitigated to an extent with adequate liquidity position.

Further, the assigned rating is strongly linked to the credit profile of the state government, which is moderate owing to weak socio-economic indicators, modest self-reliance and high leverage as a proportion of GSDP (Gross State Domestic Product). UP's per-capita income at Rs. 83,636 in FY2023, was the second lowest among the 33 states/UTs of India. Moreover, the state's performance on various socio-economic indicators, including the literacy rate (69.7% in 2011), urbanisation (22.3% in 2011) and infant mortality rate (38 per 1,000 persons live birth in 2020) was unfavourable, compared to the respective national averages (74.0%, 31.2% and 28 per 1,000 persons). The share of the GoUP's own revenues (State's Own Tax Revenue and State's own Non-Tax Revenue - SOTR and SONTR) in its revenue spending averaged ~51% during FY2020-24 PA, lower than many other states. Additionally, the state's per capita SOTR at Rs. 7,418 in FY2023 was relatively weaker than several state governments, reflecting the weak performance of the state on various socio-economic indicators. While GoUP's leverage as a proportion of GSDP declined mildly to 34.9% in FY2023 from 35.1% in FY2020, it was higher than some of the peer states.

Near to medium-term capex plans to impact debt protection metrics: ICRA expects ADA 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, would impact its debt protection metrics to a certain extent. Additionally, ADA's participation in more-than-expected capex within Agra, without any incremental revenue, funding of which could be from own accruals, cash balances and fresh loans, would result in an adverse impact on its liquidity. ICRA notes that ADA is undertaking an integrated township project at the villages of Kakua and Bhadai at a total cost of around Rs. 1,600 crore, a part of which would be funded from fresh term loans of Rs. 500 crore. Consequently, ADA's debt protection metrics may undergo some moderation in the medium term, however, should improve with the estimated income from the project, and would remain a key rating monitorable. Further, any major cost overrun or a delay in completion of the project could result in cost escalation, which would require incremental funding.

Liquidity position: Adequate

The liquidity position of the entity has remained comfortable during the past years in the absence of any major capex in the recent years. As of March 31, 2024, the authority had large cash and investments of Rs. 433 crore. However, free cash available out of the same stands at ~Rs. 204 crore and the balance amount has been earmarked towards specific projects of ADA. Moreover, the liquidity of the state government is adequate, as the GoUP has not availed the Ways and Means Advances and/or the Overdraft facilities from the Reserve Bank of India during FY2020-25 (till April 2024) and has large revenue surpluses. ADA's repayment obligation towards existing loans is nil in FY2025, which is likely to increase in the future because

of the proposed fresh term loans for the project. The liquidity of the entity remains exposed to risks associated with sudden large expenditure undertaken in the future, majorly funded by its large balances and fresh debt.

Rating sensitivities

Positive factors – ICRA could upgrade the rating, if there is an improvement in the credit profile of the state government, while ADA maintains a satisfactory financial risk profile and comfortable liquidity position on a sustained basis.

Negative factors – The rating may be downgraded, if there is a significant decline in the authority's own revenues and cash accruals resulting in weakening of debt coverage metrics and liquidity, on a sustained basis. The rating would also be under pressure if there are substantial advances to other state government entities, or additional funding responsibility on ADA for projects of other Government entities without any revenue support, which would weaken its liquidity position. Further, any significant debt-funded capital expenditure that would impact ADA's capital structure and debt protection metrics materially on a sustained basis would also be a credit negative. 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 ADA holds for the GoUP as a statutory body for preparation and control of master plan, acquisition of land, providing social and physical infrastructure including affordable houses in Agra, along with its strong operational as well as financial linkages with the GoUP.
Consolidation/Standalone	The rating is based on standalone financial profile of the entity

About the company

Agra Development Authority (ADA) is a statutory body constituted in September 1974 by the Government of Uttar Pradesh for the development of Agra under the Uttar Pradesh Urban Planning and Development Act 1973. At the time of its inception, around 144 revenue-making areas were covered and at present around 169 are covered in Agra, having a total area of 620 square kilometre. It also supports the Archaeological Survey of India (ASI) in taking care of historical monuments like Taj Mahal, Agra Fort, Fatehpur Sikri, Akbar Tomb, etc. The main objective of ADA is preparation and control of master plan, acquisition of land, providing social and physical infrastructure including affordable houses in Agra.

ADA has strong legal, operational and financial linkages with the GoUP, reflected in the composition of its authority, which is headed by the Divisional Commissioner, Agra Division. ADA is administered by the Housing and Urban Planning Department (HUPD), GoUP, as per the provisions of the relevant act. ADA is governed by its authority, members of which are nominated by the state government. The Divisional Commissioner of Agra heads the authority as a Chairman and other senior Government officials from various departments and agencies are nominated by the state government. The regular operations of HMDA are supervised by the Vice Chairperson, who is also a member of the authority.

Key financial indicators

ADA	FY2023 Audited	FY2024* Provisional
Operating income	177.6	180.0
PAT	35.4	69.5
OPBDIT/OI	48.7%	37.0%
PAT/OI	19.9%	38.6%
Total outside liabilities/Tangible net worth (times)	2.6	2.7
Total debt/OPBDIT (times)	4.5	5.9
Interest coverage (times)	1.5	NM

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; NM: Not meaningful; All ratios as per ICRA's calculations; Amount in Rs. crore; * Provisional numbers with ICRA adjustment; Further, FY2024 provisional financials have been adjusted to tune of Rs. 276 crore of land purchase cost being capitalized as an asset instead of been expenses out.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Oct 21, 2024	Date	Rating	Date	Rating	Date	Rating
Proposed term loan	Long term	500	[ICRA] BBB (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Proposed term loan	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
NA	Proposed term loan	NA	NA	NA	500.00	[ICRA] BBB (Stable)

Source: Company

[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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Branches



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