

Machilipatnam Urban Development Authority

September 26, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Unallocated	1,385	Provisional [ICRA]A (SO) (Stable) assigned
Total	1,385	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of Provisional [ICRA]A (SO) (pronounced Provisional ICRA A Structured Obligation) to the proposed Rs. 1385-crore¹ unallocated limits of Machilipatnam Urban Development Authority (MUDA)². The outlook on the long-term rating is Stable. The letters SO in parenthesis suffixed to the rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. The rating for the proposed term loan of Rs. 1,385 crore is provisional as of now (as denoted by the prefix 'Provisional' before the rating symbol) and is subject to the fulfilment and review of all pending actions/ documentation, pertaining to the facility rated by ICRA. The final rating may differ from the provisional rating in case the completed actions/ documentation are not in line with ICRA's expectations.

Rationale

The Provisional [ICRA]A(SO) (Stable) rating derives credit strength from the unconditional and irrevocable guarantee to be extended by the Government of Andhra Pradesh (GoAP) to the rated instrument over its entire tenure, and a structured payment mechanism, which includes an escrow account to be monitored by a lender's agent. As a result, the rating assigned to the proposed term loan reflects the credit profile of the GoAP as well as the integrity of and expected adherence to the structured payment mechanism by MUDA, which is raising the term loan on the strength of the Government guarantee.

Outlook: Stable

The outlook may be revised if there is a change in the outlook of the guarantor, Government of Andhra Pradesh.

Key rating drivers

Credit strengths

Guarantee from the GoAP – The proposed term loans of MUDA would be backed by an unconditional and irrevocable guarantee from the GoAP.

Presence of a structured payment mechanism – The guarantee from the GoAP would cover all the obligations of MUDA on the rated facility. The payment mechanism is designed to ensure timely payment of the obligations on the rated facility including a mechanism of guarantee invocation by the lender's agent prior to due date in case of a shortfall.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Links to applicable criteria:

[Rating Methodology for State Government Finances](#)

[Approach for rating debt instruments backed by third-party explicit support](#)

About the entity:

Machilipatnam Urban Development Authority (MUDA) was constituted as an Urban Development Authority on March 13, 2017 under the Andhra Pradesh Metropolitan Region and Urban Development Authorities Act, 2016 (Act), after the former authority Machilipatnam Area Development Authority (MADA) ceased to exist. MUDA is responsible for planning and development of the Machilipatnam Urban Region (MUR), which includes Machilipatnam Municipality and surrounding 29 villages, covering an area of 426 sq. km. in Machilipatnam Mandal and one village in Pedana Mandal of Krishna district. The city (Machilipatnam) is located on the coast line of Bay of Bengal and at a distance of around 70 km from Vijayawada. Machilipatnam port is one of the key upcoming projects in Andhra Pradesh and MUDA is responsible for development of the same. MUDA is administered by the Municipal Administration and Urban Development Department of the GoAP as per the provisions of the Act. The overall functions of MUDA are governed by an authority, members of which are appointed by the GoAP. The Vice Chairman, as the Chief Executive Officer of MUDA, manages the regular operations.

About the Guarantor (Government of Andhra Pradesh)

Andhra Pradesh (AP) is richly endowed with a wide variety of minerals and oil and gas reserves, and has a diversified industrial base, including various technology and bio-technology intensive sectors. The per-capita income in the state at Rs. 1,22,376.3 (base year FY2012; current prices³) was higher than the national average (Rs. 1,03,869.6) in FY2017.

The GoAP's revenue receipts⁴ are augmented by considerable Central transfers (Central tax devolution and grants from the Centre), which have comprised nearly half of the total revenue receipts of the state since bifurcation in 2014. The state government's revenue expenditure⁵ profile is characterised by a substantial welfare spending along with modest committed expenditure (salaries, pensions and interest payments). Notably, the GoAP had constituted the Eleventh Pay Revision Commission for its employees on May 28, 2018 and the Commission is expected to submit its report by the next year. Capital expenditure in the state, which averaged at around 2% of the gross state domestic product (GSDP) in FY2016 and FY2017, is dominated by the irrigation sector.

After recording sustained revenue deficits since FY2015, the BE for FY2019 expect a turnaround in the revenue account of the GoAP to a surplus of Rs. 5,119.4 crore. Partly reflecting the same, the GoAP's Medium-Term Fiscal Policy Statement projected the fiscal deficit to be below the cap of 3.0% of GSDP in FY2019 BE, for the first time since FY2015.

The leverage levels (debt⁶+guarantees) of AP are estimated by ICRA to be moderate at around 25% of GSDP in FY2017.

³ Source: Central Statistical Organisation (CSO).

⁴ Adjusted for sale of land, debt relief from Government of India and double entries of interest on loans of departmental commercial undertakings.

⁵ Adjusted for double entries of interest on loans of departmental commercial undertakings.

⁶ Includes internal debt; loans from the Centre; provident fund etc.

Going forward, ICRA will note the buoyancy of the Goods and Services Tax collections, impending pay revision impact and any additional welfare spending on various fiscal indicators and the overall credit profile of the state government.

Key financial indicators (audited): The entity was incorporated recently (in March 2017); hence, audited financials are not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				September 2018	-	-	-
1 Unallocated	Long Term	1385.0	-	Provisional [ICRA]A (SO) (Stable)	-	-	-

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	Unallocated	NA	NA	-	1385.0	Provisional [ICRA]A (SO) (Stable)

Source: MUDA

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