

June 30, 2020

Transmission Corporation of Andhra Pradesh Limited: Rating reaffirmed; rating withdrawn for matured bond programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bond Programme	589.70	589.70	[ICRA]D; Reaffirmed
Bond Programme	385.30	Nil	[ICRA]D; Reaffirmed and simultaneously withdrawn
Total	975.00	589.70	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the non-adherence to the timelines prescribed in the structured payment mechanism for servicing of Vidyut Bonds by Transmission Corporation of Andhra Pradesh Limited (AP TRANSCO), with respect to key features such as deposit of payments prior to the due date, leading to delays in debt servicing. While the liabilities with respect to these Vidyut Bonds were provisionally allocated to the two successor entities of AP TRANSCO, i.e. Transmission Corporation of Telangana Limited (TS TRANSCO) and AP TRANSCO (for residual Andhra Pradesh), post bifurcation of the state of Andhra Pradesh in June 2014, the entities have not been adhering to the terms of the bond payment structure, leading to delays in servicing of the bonds in certain instances. Further, ICRA takes note of the delay in finalisation of assets and liabilities bifurcation between AP TRANSCO and TS TRANSCO, and the susceptibility to further disputes regarding the exact liabilities that are to be discharged by each entity.

Key rating drivers and their description

Credit strengths

State-owned transmission utility - AP TRANSCO is the state government owned transmission utility of Andhra Pradesh with monopoly over power transmission operations in the state.

Regulated operations - The operations of AP TRANSCO are regulated and are guided by Multi Year Tariff (MYT) principles approved by the State Electricity Regulatory Commission (SERC).

Credit challenges

Delays in servicing of Vidyut Bonds - The AP Transco Vidyut Bonds are serviced by Andhra Pradesh and Telangana based on provisional bifurcation of bonds. There were delays due to non-adherence to the structured payment mechanism, mainly with respect to deposit of payments prior to the due date.

Delay in finalisation of assets and liabilities apportionment between AP TRANSCO and TS TRANSCO - Post bifurcation of Andhra Pradesh in 2014, the assets and liabilities were bifurcated based on the AP Reorganisation Act, 2014. However, the finalisation of assets and liabilities apportionment among various entities in the two states remains pending, thereby delaying the servicing of obligations under Vidyut Bonds raised by APTRANSCO.

Liquidity position: Poor

The servicing of AP Transco Vidyut Bonds takes place via budgetary support from the Governments of Andhra Pradesh and Telangana. However, there has been a delay in servicing of the debt obligations as the division of liabilities between the two states is yet to be finalised, which consequently delayed the receipt of funds for servicing of these bonds.

Rating sensitivities

Positive triggers – ICRA could upgrade the long-term rating if the company demonstrates timely payment of debt servicing as per the payment structure agreed with the bond holders.

Negative triggers – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on Default Recognition
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

AP Transco was incorporated in 1998, after the first transfer scheme of State Electricity Reform Act for unbundling of erstwhile Andhra Pradesh State Electricity Board into two entities, Andhra Pradesh Power Transmission Corporation Limited and Andhra Pradesh Power Generation Corporation Limited (APGENCO). As per the Electricity Act, 2003, “Transcos” are not allowed to trade in power, thus necessitating separation of trading and transmission functions. Currently, AP Transco is involved in transmission and state load dispatch-center activities. Post bifurcation of Andhra Pradesh in June 2014, the entity was bifurcated into two entities, namely TS Transco and AP Transco (for residual Andhra Pradesh).

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1502.1	1693.4
PAT (Rs. crore)	37.4	69.6
OPBDIT/OI (%)	61.6%	56.9%
RoCE (%)	8.4%	5.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	3.4
Total Debt/OPBDIT (times)	5.3	8.3
Interest Coverage (times)	2.9	2.6
DSCR	1.8	1.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years:

		Current Rating (FY2021)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating in FY2021 30-Jun-2020	Date & Rating in FY2020 30-May-2019	Date & Rating in FY2019 02-Apr-2018	Date & Rating in FY2018 28-Jul-2017
1	Bonds	Long Term	589.70	423.00	[ICRA]D	[ICRA]D	[ICRA]D
2	Bonds	Long Term	385.30*	Nil	[ICRA]D (withdrawn)	[ICRA]D	[ICRA]D

Amount in Rs. Crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE947F09016	AP Transco Vidyut Bond Series I / 2006	July 2006	8.70%	September 2016	40.5	[ICRA]D (withdrawn)
INE947F09024	AP Transco Vidyut Bond Series I / 2006	July 2006	8.95%	September 2021	159.5	[ICRA]D
INE947F09032 & INE947F09040	AP Transco Vidyut Bond Series II / 2006	June 2007	8.59%-8.69%	February 2017 - February 2022	300.0	[ICRA]D
INE947F09057	AP Transco Vidyut Bond Series I / 2007	March 2008	8.60%	March 2018	125.0	[ICRA]D
INE947F09065	AP Transco Vidyut Bond Series I / 2008	March 2009	8.55%	March 2024	344.80	[ICRA]D (withdrawn)
INE947F09073	AP Transco Vidyut Bond Series I / 2008	March 2009	8.65%	March 2024	5.20	[ICRA]D

Source: AP Transco

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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