

June 11, 2021

## Transmission Corporation of Andhra Pradesh Limited: Rating reaffirmed

### 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
<b>Total</b>	<b>589.70</b>	<b>589.70</b>	

\*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), which led to delays in debt servicing. While the liabilities with respect to these Vidyut Bonds have been provisionally allocated between 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 are not 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 bifurcation of assets and liabilities between AP TRANSCO and TS TRANSCO, because of which further disputes with respect to exact liabilities that are to be discharged by each of the entities cannot be ruled out.

### Key rating drivers and their description

#### Credit strengths

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

**Regulated operations** – The operations of AP TRANSCO are regulated in nature 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 being serviced by Andhra Pradesh and Telangana based on provisional bifurcation of bonds. There were delays witnessed 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 apportionment of assets and liabilities between AP TRANSCO and TS TRANSCO** – Post bifurcation of the state of Andhra Pradesh in 2014, the assets and liabilities were bifurcated based on the AP Reorganisation Act, 2014. However, the finalisation of apportionment of assets and liabilities between various entities in the two states remains pending. This has resulted in delays in servicing the obligations under Vidyut Bonds raised by AP TRANSCO.

#### Liquidity position: Poor

The servicing of AP Transco Vidyut Bonds takes place via budgetary support from the Government of Andhra Pradesh and Telangana. However, there has been a delay in servicing of the debt obligations, given the pending completion of the division of liabilities between the two states and the consequent delay in receiving funds for servicing of these bonds.

## Rating sensitivities

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

**Negative factors** – Not applicable.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Policy on default recognition</a>
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, subsequent to 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. At present, AP Transco is involved in transmission and state load dispatch-centre activities. Post bifurcation of Andhra Pradesh in June 2014, the entity has been bifurcated into two entities, namely TS Transco and AP Transco (for residual Andhra Pradesh).

## Key financial indicators (audited)

NSL Standalone	FY2018	FY2019 <sup>^</sup>
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

*\*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year); <sup>^</sup>FY2020 audited results are not available.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					June-11-2021	June-30-2020	May-30-2019	Apr-02-2018
1	Bonds	Long Term	589.70	423.00	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Bonds	Very 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, is available on ICRA's website: [www.icra.in](http://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
INE947F09024	AP Transco Vidyut Bond Series I / 2006	July 2006	8.95%	September 2021	159.5	[ICRA]D
INE947F09032	AP Transco Vidyut Bond Series II / 2006	June 2007	8.59%	February 2017	166.7	[ICRA]D
INE947F09040	AP Transco Vidyut Bond Series II / 2006	June 2007	8.69%	February 2022	133.3	[ICRA]D
INE947F09057	AP Transco Vidyut Bond Series I / 2007	March 2008	8.60%	March 2018	125.0	[ICRA]D
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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