

Hyderabad Metropolitan Development Authority

December 17, 2018

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	Nil	[ICRA]A(Stable)assigned

*Instrument details are provided in Annexure-1

Rationale

The assigned rating reflects Hyderabad Metropolitan Development Authority's (HMDA) strategic importance 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, which has an adequate credit profile. The rating also factors in the track record of HMDA in execution of projects of a diverse nature and its consistent track record of generating adjusted revenue surplus¹. in the last five years without any financial transfers from the GoTS. The rating is supported by HMDA's comfortable capital structure as well as healthy debt coverage metrics with a gearing (Total Debt/Tangible Net Worth) of 0.31 times as on March 31,2018 and adjusted revenue surplus/interest of 28 times for FY2018. Further, HMDA's revenues from layout permission charges are likely to increase in the medium term, given the large undeveloped area in its jurisdiction. The rating is, however, constrained by the volatility in HMDA's revenues, the entity's high dependence upon the GoTS for key revenue-related decisions like revision in rate structures, and inconsistency in its financial statements indicating a significant scope for improvement in the current accounting practices being followed. The rating also takes into consideration the large advances extended to Hyderabad Growth Corridor Limited (HGCL)². ICRA notes that the large number of upcoming projects of more than Rs. 2000 crore, which HMDA is planning to undertake in the medium term, could impact the overall business risk profile of the entity.

Outlook: Stable

ICRA believes that HMDA will continue to benefit from its strategic importance to the GoTS and its strong legal, operational and financial linkages with the state government, which has an adequate credit profile. The outlook may be revised to positive if there is substantial growth in revenues resulting in consistent improvement in the revenue surplus position and further strengthening of liquidity position. Conversely, the outlook may be revised to negative if there is further increase in advances to HGCL, additional funding responsibility on HMDA for projects of other government entities, which would weaken its liquidity position. Additionally, any significant debt funded capital expenditure would adversely impact HMDA's capital structure and debt protection metrics.

Key rating drivers

Credit strengths

Strategic importance to the GoTS: HMDA is the apex agency with strategic importance to the GoTS for planning, regulating, developing and coordinating the overall urban development functions in the entire Hyderabad Metropolitan Region (HMR). HMDA provides infrastructure facilities like construction of flyover, widening roads, maintenance of lakes,

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

² Hyderabad Growth Corridor Limited (HGCL) executed the outer ring road (ORR) project. HMDA holds 74% equity in HGCL

parks and greenery and has executed large projects like – Elevated Express Highway Corridor, Outer Ring Road (through HGCL), etc. in HMR region.

Strong linkages with the GoTS: HMDA has strong legal, operational and financial linkages with the GoTS, which has an adequate credit profile. However, HMDA has no dependence on the GoTS to meet its regular expenditure as it has own revenue sources, which are adequate to meet regular expenditure. GoTS supports HMDA for annuity payments related to ORR project.

Consistent revenue surplus position and comfortable capital structure: HMDA has maintained its revenue surplus position consistently on account of regular income from various charges / fees and relatively low expenditure. Moreover, the adjusted revenue receipts have increased at a CAGR of 81.6% to Rs. 1499.30 crore in FY2018 from Rs. 250.28 crore in FY2015 primarily due to a significant rise in income from development charges to Rs. 1443.64 crore in FY2018 from Rs. 208.15 crore in FY2015. Additionally, healthy surpluses and limited debt have supported HMDA in maintaining a comfortable financial risk profile as reflected by gearing of 0.31 times as on March 31, 2018 and adjusted revenue surplus / interest of 28 times for FY2018.

Expected increase in revenues from layout permissions: The revenues from layout permission charges are likely to increase in the medium term with large undeveloped area in its jurisdiction. HMDA derives a major part of its revenues from developmental charges linked to a change in the character of land or development of land and building.

Credit challenges

Volatility in HMDA's Revenues: HMDA's revenues from development charges are exposed to volatility associated to the real estate market scenario and revenues from land regularisation and building regularisation schemes (LRS & BRS) that are one-time schemes notified by the GoTS to regularise the unapproved and illegal layouts and buildings. The scheme was started in November 2015 and HMDA has received significant revenues of ~Rs. 1000 crore from this scheme in the last three years. However, the certainty of income from such scheme remains a concern.

Dependence upon the GoTS for key revenue decisions: HMDA is dependent on GoTS for revision in rate structures. The last revision in development charges on land and buildings was done in August 2016.

Large advances to HGCL: HMDA has extended significant support to HGCL to fund the mismatch between committed grants from the GoTS and payments by HGCL to contractors. Against HGCL's total demand of Rs. 2700.49 crore from the GoTS, it has received only Rs. 1938.54 crore, and the balance is yet to be released by the state government. The total shortfall of ~Rs. 762 crores have been funded by HMDA, as advances. As on March 31, 2018, the advances extended from HMDA to HGCL remained at Rs. 1132.6 crore.

Significant capex plans: HMDA has proposed a number of large projects with an estimated cost of more than Rs. 2000 crore likely to be executed over next two to three years. The proposed capex could be funded by fresh long-term debt as witnessed in the past and deteriorate the capital structure and debt protection metrics.

Liquidity position

The liquidity position of the entity has remained comfortable during the past years. As on March 31, 2018, the entity had cash and bank balances worth Rs. 561.12 crore and fixed deposits of Rs. 57.03 crore.

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 Hyderabad Metropolitan Region (HMR) and its strong operational as well as financial linkages with the GoTS
Consolidation / Standalone	The ratings are based on standalone financial profile of the entity

About the entity

HMDA was set up by the state government of the un-bifurcated state 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 jurisdictional area (Hyderabad Metropolitan Region, HMR) of around 7,257 square kilometres (sq. km.), covering seven districts, 70 mandals, 1032 villages.

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

In FY2018, the entity reported a net surplus of Rs. 53.25 crore on a revenue income (RI) of Rs. 272.20 crore, as compared to a net deficit of Rs. 67.64 crore on an RI of Rs. 98.25 crore in the previous year.

Key financial indicators

	FY2016	FY2017	FY2018*
Revenue Income (Rs. crore)	91.33	98.25	272.20
Net Surplus (Rs. crore)	-72.04	-67.64	53.25
Revenue Surplus/ Revenue Income (%)	-2%	-19%	32%
RoCE (%)	-0.05%	-0.34%	3.01%
Total Debt/ TNW (times)	0.55	0.48	0.31
Total Debt/ Revenue Surplus (times)	-553.44	-53.87	10.84
Revenue Surplus/Interest (times)	-0.03	-0.33	1.81

*Actuals as per HMDA's financial statements (unadjusted), Source: Annual reports and ICRA research; * Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Dec 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
1 Issuer Rating	Long Term	Nil	NA	[ICRA]A (Stable)	NA	NA	NA	

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	Issuer Rating	NA	NA	NA	NIL	[ICRA]A(Stable)

Source: Hyderabad Metropolitan Development Authority

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