

February 16, 2022

Andhra Pradesh Power Finance Corporation Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bond programme	4,053.30	4,053.30	[ICRA]D; reaffirmed
Total	4,053.30	4,053.30	

*Instrument details are provided in Annexure-1

Rationale

The rating action for Andhra Pradesh Power Finance Corporation Limited's (APPFCL) bond programme factors in the recent delay in principal servicing, which was due as on January 30, 2022. ICRA notes that while there were delays in servicing till April 2021, servicing of these bonds was on-time between July 2021 and December 2021.

ICRA takes notes of the dispute between Telangana State Power Finance Corporation (TSPFC) and APPFCL regarding the distribution of assets and liabilities, following the bifurcation of the erstwhile state of Andhra Pradesh (AP) in June 2014. APPFCL and TSPFC have been jointly servicing these bonds till now based on their current bifurcation of the liabilities between the two entities. The timely servicing of the instrument is likely to remain uncertain till the final resolution of the ongoing dispute between the two states. ICRA also notes that despite the delays, the Trustee to the bondholders has not invoked the guarantee extended by the Government of Andhra Pradesh (GoAP) towards the rated debt as per the terms of the structured payment mechanism.

Key rating drivers and their description

Credit strengths

NA

Credit challenges

Past delays in debt servicing of bonds – The rated bond programme is unconditionally and irrevocably guaranteed by the GoAP. There was a delay in debt servicing of the rated bonds due as on January 30, 2022 because of a delay in receipt of funds from TSPFC. The debt servicing was timely during July 2021 to December 2021. However, there have been delays in the past (April 2021 and before) in interest and principal servicing of the rated bonds primarily due to delay in receipt of TSPFC's share. Considering the ongoing dispute between TSPFC and APPFCL regarding the distribution of assets and liabilities following the bifurcation of the erstwhile state of AP in June 2014, timely servicing of the instrument is likely to remain uncertain, till the final resolution of the ongoing dispute.

Guarantee not yet invoked for bond programme – Despite the delays, the Trustee to the bondholders has not invoked the guarantee extended by the GoAP towards the rated debt as per the terms of the structured payment mechanism. SBI Cap Trustee Company Limited is the Trustee for the instrument from March 2017.

Modest financial risk profile – As of September 2021, APPFCL's borrowings stood at Rs. 17,504.01 crore in the form of guaranteed bonds by GoAP and term loans from banks and other inter-corporate deposits, while its net worth stood at Rs. 531.86 crore, translating into a gearing of 32.9 times. The company's exposures are fully towards the state power distribution and generation companies. APPFCL's capital adequate ratio (CRAR) is supported by the guarantees extended by GoAP for

majority of its exposures. As on March 31, 2021, APPFCL's CRAR, as per the Reserve Bank of India's (RBI) assessment, was 10.5%, which was below the regulatory capital requirement (13%) applicable for Government-owned non-banking financial company (NBFCs). The regulatory CRAR requirement would go up to 15% by March 2022. The company plans to comply with the CRAR requirement for FY2022 through external capital infusion, along with accretion of own profits. APPFCL's earnings profile had improved with a net profit of Rs. 104.71 crore (return on average total assets at 1.6%; provisional and annualised) in H1 FY2022 from Rs. 36.18 crore (0.3%) in FY2021 (Rs.3.42 crore in FY2020) as it commenced charging a margin on its onward lending. However, the company's cash flows are dependent on the transfers from the GoAP for meeting its operational requirements and for debt servicing.

Liquidity position: Poor

The servicing of the rated bonds is dependent on timely remittances from APPFCL and TSPFC for their portion of the bonds. ICRA notes that there have been instances of delays, largely by TSPFC in servicing its share. The liquidity profile of the rated instrument is therefore assessed as poor.

Rating sensitivities

Positive factors – The rating could be upgraded on the resolution of the ongoing dispute between the GoAP and the Government of Telangana regarding the distribution of assets and liabilities. Further, a track record of regular payment of interest and principal may also trigger a rating upgrade.

Negative factors – Not Applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies Policy on default recognition
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

APPFCL was incorporated in July 2000 by the GoAP with the main objective of providing debt and equity funding to enterprises involved in the power sector in the state. It is registered as a non-banking financial company with the Reserve Bank of India. APPFCL reported a profit after tax (PAT) of Rs. 139.9 crore (provisional) in H1 FY2022 on a loan book of Rs. 17,945.7 crore as on September 30, 2021.

Key financial indicators (audited)

Andhra Pradesh Power Finance Corporation Limited	FY2020	FY2021	H1 FY2022*
Total income (Rs. crore)	707.0	1,279.0	850.5
Profit after tax (Rs. crore)	3.4	36.2	139.9
Net worth (Rs. crore)	309.4	388.0	531.9
Loan book (Rs. crore)	11,052.6	16,303.5	17,945.7
Total assets (Rs. crore)	11,451.8	16,503.0	18,142.7
Return on assets (%)	0.1%	0.3%	1.6%
Return on net worth (%)	2.1%	10.4%	60.9%
Gross gearing (times)	35.7	41.1	32.9
Gross NPA (%)	NA	NA	NA
Net NPA (%)	NA	NA	NA
Solvency (Net stage 3/Net Worth)	NA	NA	NA
CRAR (%) (RBI assessed)	11.2%	10.5%	-

Source: Company, ICRA Research; * Provisional numbers. All ratios as per ICRA calculations

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 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Feb 16, 2022	Feb 19, 2021	Jan 24, 2020	Nov 23, 2018	
1	Bond programme	Long-Term	4,053.30	4,053.30	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bond programme	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

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE847E09011	Bond programme	Nov 15, 2010	8.49%	Nov 15, 2020	42.0	[ICRA]D
INE847E09029	Bond programme	Nov 15, 2010	8.74%	Nov 15, 2022	1,011.3	[ICRA]D
INE847E08DK6	Bond programme	Dec 15, 2011	9.60%	Dec 15, 2023	149.2	[ICRA]D
INE847E08DJ8	Bond programme	Dec 15, 2011	9.10%	Dec 15, 2021	5.0	[ICRA]D
INE847E08DM2	Bond programme	Jan 30, 2012	9.97%	Jan 30, 2024	586.9	[ICRA]D
INE847E08DL4	Bond programme	Jan 30, 2012	9.85%	Jan 30, 2022	157.2	[ICRA]D
INE847E08DO8	Bond programme	Jun 08, 2012	9.64%	Jun 08, 2024	249.4	[ICRA]D
INE847E08DN0	Bond programme	Jun 08, 2012	9.50%	Jun 08, 2022	64.7	[ICRA]D
INE847E08DQ3	Bond programme	Nov 09, 2012	9.75%	Nov 09, 2022	1,787.6	[ICRA]D

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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