

September 29, 2020

Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Proposed Term Loan	632.97	[ICRA]BB+ (Stable); assigned
Long-term - Unallocated Limits	5367.03	[ICRA]BB+ (Stable); assigned
Total	6000.00	

Rationale

The assigned rating draws comfort from the strategic importance of Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited (APUFIDC) to the Government of Andhra Pradesh (GoAP). APUFIDC, being the state level nodal agency for various urban infrastructure development schemes of the state and Central Government, provides financial, technical and administrative assistance to the urban local bodies (ULBs) in the state. APUFIDC is administered by the Municipal Administration and Urban Development (MAUD) department of the GoAP and plays a critical role in the transfer of funds between the state government and the ULBs.

The rating, however, is constraint by the APUFIDC's complete dependence on the GoAP to meet its regular expenditures as it does not have any revenue source of its own. The proposed loan that the entity plans to avail on behalf of the 15 beneficiary UBLs would be serviced from the property tax and assigned revenues of the respective ULBs. However, the detailed terms of the proposed debt servicing mechanism have not been finalised. The assigned rating is also affected by the APUFIDC's dependence on the beneficiary ULBs for timely servicing of the proposed loans. ICRA notes that the GoAP, through a Government order, has extended a Government guarantee to assist the APUFIDC in obtaining long-term loans to fund the funding gap. However, since the order is not in line with ICRA's approach for rating debt instruments backed by third party explicit support, it does not provide significant comfort to the assigned rating, though it emphasises the importance of the APUFIDC to the GoAP.

Key rating drivers and their description

Credit strengths

Strategic importance of APUFIDC to the state: The APUFIDC is administered by the MAUD (GoAP) and plays a critical role in the transfer of funds between the ULBs and the state government, especially for important civic projects of water supply, sewerage and storm water drains. The corporation also acts as the Mission Directorate for the critical urban missions/schemes such as Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and the Smart Cities Mission. The APUFIDC's status as the nodal agency for financial and technical assistance to the ULBs in the state and reimbursement of its fixed expenses by the state government, reflects its strategic importance to the state government.

Credit weaknesses

APUFIDC's dependence on the state government – The APUFIDC does not have any source of revenue and is completely dependent on the state government to meet its regular expenditures, including salaries to employees.

Dependence on property tax and assigned revenues of the beneficiary ULBs for timely repayment – The APUFIDC has been entrusted by the GoAP to approach banks for obtaining loans for gap funding critical projects like water supply, sewerage and storm water drains under the AMRUT scheme for 15 ULBs in the state. As per the Government order, the amount borrowed will constitute the first charge against any arrear amount received under the Finance Commission grants. The APUFIDC's dependence on property tax collections and assigned revenues of the ULBs to meet its repayment obligations will remain significantly high as per the proposed debt-servicing mechanism.

Liquidity position: Adequate

The entity does not have any scheduled annual debt repayments during FY2021 and FY2022. The proposed loan, if finalised, would be repaid completely from the property tax collections and assigned revenues of the beneficiary ULBs. The repayment towards the proposed loan would be around Rs. 65 crore per annum against an expected total pool balance of more than Rs. 300-crore, consisting of property tax collections and assigned revenues of the ULBs. Although the APUFIDC does not have any revenues of its own, on an average it maintains a healthy cash & bank balance of funds earmarked towards various projects and schemes, including the AMRUT. As on March 31, 2020 it recorded cash & bank balance of Rs. 618.1 crore.

Rating sensitivities

Positive trigger - ICRA could upgrade the rating if the APUFIDC is able to receive a guarantee from the state government as per ICRA's policy and/or a confirmation on the credit enhancement features related to the proposed debt-servicing mechanism.

Negative trigger - ICRA could downgrade the rating if there is a deterioration in the credit quality of the state government and any weakening in the linkages with the state government.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for State Governments Impact of parent or group support on an issuers credit rating
Parent/Group Support	Parent: Government of Andhra Pradesh The assigned rating factors in the credit quality of the GoAP, which has strong linkages (administrative as well as financial) with APUFIDC.
Consolidation / Standalone	Standalone

About the Parent: Government of Andhra Pradesh

The Government of Andhra Pradesh's (GoAP's) revenue expenditure has consistently exceeded its revenue receipts during FY2016 to FY2019, leading to sustained revenue deficit during these years. The latter worsened from Rs. 7,306 crore (1.2% of Gross State Domestic Product or GSDP¹) in FY2016 to Rs. 16,206 crore (2.0% of GSDP) in FY2018 before easing somewhat to Rs. 13,955 crore (1.6% of GSDP) in FY2019. However, the revised estimates (RE) for FY2020 indicate that the GoAP's revenue deficit worsened sharply to Rs. 26,720 crore (2.7% of GSDP) in that year. The state government's fiscal deficit in each of these years (3.7% in FY2016, 3.3% in FY2017, 4.1% each in FY2018 and FY2019, and 4.2% in FY2020 RE) was higher than the threshold of 3.0% of GSDP recommended by the Fourteenth Finance Commission

¹ Source for GSDP of GoAP for FY2016 to FY2020 is Central Statistical Organization

(14th FC) for the period from FY2016 to FY2020. In its budget estimate (BE) for FY2021, the GoAP's revenue deficit was expected to narrow considerably to Rs. 18,496 crore from Rs. 26,720 crore in FY2020 RE, partly benefitting from the inclusion of Rs. 5,897 crore of revenue deficit grant recommended by the Fifteenth Finance Commission (15th FC) for the current fiscal.

However, the consumption of several discretionary items is expected to have been adversely impacted in the ongoing fiscal on account of the Covid-19 pandemic. This is expected to lead to the GoAP's revenue receipts, both own and Central transfers, being sharply lower than the budgeted one in FY2021, in ICRA's view. With a contraction likely in the state own tax revenues or SOTR, overall revenue receipts as well as nominal GSDP in FY2021, the GoAP's level of leverage relative to each of these three metrics is expected to deteriorate in the ongoing fiscal, which would worsen its fiscal profile.

Credit strengths

High revenue receipts supported by Central transfers: Despite easing from 13.3% in FY2019 to 11.4% in FY2020 RE, the GoAP's performance on revenue receipts as a proportion to GSDP was favourable compared to several other states. The GoAP's revenue receipts are augmented by substantial Central transfers (share in Central taxes and grants from the Centre), which accounted for a considerable ~45% of its revenue receipts during FY2019-FY2020 RE.

Strategic geographical location: Andhra benefits from its strategic geographical location on the south-east coast of India with the second longest coastline (approx. 972 km) among the Indian states, along which it has 14 minor ports and one major port. This provides the potential for port-led growth in the state.

Credit challenges

Unfavourable fiscal balances: The GoAP's revenue deficit ranged from 1.2-2.0% of GSDP from FY2016 to FY2019 and is expected to have increased sharply to 2.7% of GSDP in FY2020 RE, despite large Central transfers. Additionally, the GoAP's fiscal deficit breached the 14th FC-recommended cap of 3.0% of GSDP during FY2016 to FY2020 RE.

Worsening leverage levels: The guarantees extended by the GoAP rose multi-fold to Rs. 54,252 crore in FY2019 from Rs. 9,665 crore in FY2017. Additionally, the debt outstanding of the GoAP increased by a substantial 29.9% to Rs. 2,10,161 crore in FY2019 from Rs. 1,61,755 crore in FY2017. Accordingly, the leverage, as a proportion of the SOTR of the GoAP deteriorated to 4.6x in FY2019 from 3.9x in FY2017. Moreover, as a proportion of GSDP, the GoAP's leverage deteriorated to 30.6% in FY2019 from 25.0% in FY2017. The GoAP's performance on such indicators is unfavourable compared to several other states.

Relatively weak socio-economic indicators: The state's performance on literacy (67.7% in 2011) and urbanisation (29.5% in 2011) was unfavourable compared to the respective national averages (74.0% and 31.2%).

High relative dependence on agriculture: While the share of agriculture in AP's GSVA (at constant prices) is nearly double the national average (30.7% vs. national average of 14.6% in FY2019) and there is substantial dependence on this sector for livelihoods², the state's irrigation coverage (35.1% in 2015) is weaker than the national average (48.8%). The dependence of a major proportion of the population on the agricultural sector, which tends to be relatively less

² As per the Socio-Economic Survey of FY2019, published by the state government, agriculture was the main source of livelihood of 60.0% of the population of AP in 2017

remunerative compared to the industry and the services sectors, has contributed to Andhra's per capita income as well as the GoAP's per capita SOTR (Rs. 11,318 in FY2019) being lower than several other states.

About the company

The Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited (APUFIDC) was incorporated in January 1993 by the Government of Andhra Pradesh (GoAP) under the Companies Act 1956. The company provides financial, technical, and administrative assistance to the urban local bodies (ULBs) within the state and channelises funds between the ULBs and the Government of Andhra Pradesh (GoAP). It acts as the state level nodal agency for various Central and state government schemes such as the AMRUT and the Smart Cities Mission. The company is governed by the Board of Directors (BoD), members to which are appointed by the GoAP. The Managing Director (MD), appointed by the GoAP is the executive head, who is supported by the department heads. The APUFIDC has an employee strength of around 40 as on March 31, 2020.

Key financial indicators

	FY2018	FY2019	FY2020
Operating Income [^] (Rs. crore)	-	-	-
OPBDITA	-	-	-
PAT (Rs. crore)	-	-	-
OPBDIT/ OI (%)	-	-	-
RoCE (%)	-	-	-
Total Debt/ TNW (times)	-	-	-
Total Debt/ OPBDIT (times)	-	-	-
Interest Coverage (times)	-	-	-
NWC/ OI (%)	-	-	-

Source: APUFIDC data, ICRA research;

[^]Note – APUFIDC does not have any source of revenues at present and its fixed expenses are being met from grants under various state and central government schemes.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding	Date & Rating	Date (month/year) & Rating in		
			In Rs. crore		Sep 29, 2020	FY2020	FY2019	FY2018
1	Proposed Term Loans	Long-term	632.97	-	[ICRA]BB+ (Stable)	-	-	-
2	Unallocated Limits	Long Term	5367.03	-	[ICRA]BB+ (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	Proposed Term Loans	NA	NA	NA	632.97	[ICRA]BB+ (Stable)
NA	Unallocated Limits	NA	NA	NA	5367.03	[ICRA]BB+ (Stable)

Source: APUFIDC

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