

Rating Rationale

October 07, 2022 | Mumbai

Transmission Corporation of Andhra Pradesh Limited

Rating on Bond Series I/2008 (Option B) upgraded to 'CRISIL C'

Rating Action

Rs.2 Crore Bond Series I/2008 (Option B) [^] (Reduced from Rs.5.2 Crore)	CRISIL C (Upgraded from 'CRISIL D')
Rs.159.5 Crore 8.95% Bond Series I/2006 (Option B) [*]	CRISIL D (Reaffirmed)
Rs.133.3 Crore 8.69% Bond Series II/2006 (Option B) [*]	CRISIL D (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

[^]Amount outstanding as on September 30, 2022

^{*}Amount outstanding as on March 31, 2019

Detailed Rationale

CRISIL Ratings has upgraded its rating on Rs 2.0 crore Bond - Series I/2008 (Option B) of Transmission Corporation of Andhra Pradesh Ltd (APTRANSCO) to '**CRISIL C**' from 'CRISIL D'. CRISIL Ratings has reaffirmed its 'CRISIL D' rating on the Rs 159.20 crore bond Series I/2006 (Option B) and Rs 133.30 crore bond Series II/2006 (Option B) of APTRANSCO.

CRISIL Ratings has also withdrawn its rating on the Rs. 3.2 crore Bond Series I/2008 (Option B) as the same was a partial prepayment of principal on these bonds. The withdrawal is in line with CRISIL Rating's withdrawal policy.

The upgrade factors in the track record of timely payment of term loan instalments for the latest instalment, partial prepayment of principal amount of Rs 3.2 crore, supported by strong position of APTRANSCO and high revenue visibility because of regulated tariff. These strengths are constrained by modest financial risk profile marked by high financial leverage, rise in the receivable position from Andhra Pradesh distribution companies (discoms), non-completion of liability bifurcation, lack of invocation of government guarantee by the trustee, and non-adherence to the guaranteed T-structure.

The bond series (ISINs: INE947F09024 and INE947F09040) are being serviced through fund allocations from Transmission Corporation of Telangana Ltd (TSTRANSCO) to APTRANSCO, albeit with a delay.

Analytical Approach

CRISIL Ratings has considered the standalone business and financials risk profiles of APTRANSCO.

Key Rating Drivers & Detailed Description

Strengths:

Monopoly in intra-state power transmission business in Andhra Pradesh

APTRANSCO enjoys a natural monopoly and transmits power from both public and private generators to power distribution utilities in Andhra Pradesh. This is likely to continue in the long term, as the economies of power transmission do not favour multiple networks in the same area. Also, as the designated state transmission utility, it plans and coordinates the wheeling of power and plays a crucial role in the state's economy because the entire power available in the state flows through its network. The Andhra Pradesh government should extend extensive support to APTRANSCO when required, given the crucial role it plays in supplying and managing operations of electricity in the state.

Full recovery of cost under regulated tariff structure

APTRANSCO operates under a well-developed regulatory framework. The line availability of APTRANSCO is on 99.97% an average against the regulatory benchmark of 99.50% for recovery of entire fixed costs. The tariff is determined by Andhra Pradesh Electricity Regulatory Commission (APERC) and enables APTRANSCO to recover expenses and allows for return on capital employed based on network availability, provided it meets the stipulated operating norms of APERC. Also, APTRANSCO receives stable cash flow as revenue is based on contracted demand by the customers and not the actual flow of power.

Weakness:

Instances of delays in debt servicing

The Bond series I/2008 (Option B) is being serviced by APTRANSCO using proceeds from the Andhra Pradesh government. However, due to non-receipt of funds from the state government for interest payment due on October 1, 2021, and due to internal procedural delays, the payment was delayed and was subsequently done on October 05, 2021. However, APTRANSCO was servicing this bond in a timely manner before it defaulted and has since serviced the bond without any additional defaults. For Bond series I/2006 (Option B) and Bond series II/2006 (Option B), the debt obligation is serviced by TSTRANSCO using funds from the Telangana government. Once funds are received from them, TSTRANSCO

transfers the funds to APTRANSCO for servicing debt obligation. However, there have been continued instances of delays in servicing of interest and principal on these bonds.

Continued lack of finality over division of liabilities

While the assets and liabilities have been provisionally split between APTRANSCO and TSTRANSCO and are met by the respective transmission companies, the bifurcation is yet to be finalised by the central government. Disputes persist over bifurcation of assets and liabilities between the Andhra Pradesh and Telangana governments over different state-owned entities. This will continue to impact debt servicing for the rated bonds.

Failure of designated payment structure

The ratings also factor in the failure of the payment structure in the past and the inability of the trustee to ensure adherence to the trustee-administered structure (non-invocation of guarantee). The timeline for funding the escrow account before the due date is also not being adhered to by APTRANSCO.

Modest financial risk profile

APTRANSCO's financial risk profile remains modest on account of high gearing, weakening debt coverage metrics and pending receivables from Andhra Pradesh discoms. Adjusted gearing increased to 1.91 times as on March 31, 2021, from 1.51 times as on March 31, 2020. Further, interest coverage remains constrained and stood at 2.42 times in fiscal 2021 as against 2.16 times in fiscal 2020 and 2.45 times in fiscal 2019. Receivables rose to 254 days as on March 31, 2021, from 185 days as on March 31, 2020 and 96 days on March 31, 2019, due to increase in payments outstanding from the state discoms.

Liquidity: Poor

Although APTRANSCO has adequate liquidity due to healthy cash accrual further highlighted by partial prepayment of principal of Rs 3.2 crore (thereby reducing the outstanding value of the Bond series I/2008 [Option B] to Rs 2.0 crore), servicing of the rated bonds are dependent on receipt of funds from Andhra Pradesh and Telangana state governments, which have witnessed multiple delays in payment for their respective bond series.

Rating Sensitivity Factors

Upward Factors

- Conclusion of bifurcation of liabilities between APTRANSCO and TSTRANSCO, with no adverse impact
- Track record of adherence to the T-10 structure pertaining to the rated bonds

Downward Factors

- Further delays in realisations from state discoms or government beyond 180 days on sustained basis
- Large, debt-funded capital expenditure

About the Company

APTRANSCO was incorporated in 1999 as a part of the first phase of the power sector reforms in Andhra Pradesh. Till 2005, it was the only buyer in erstwhile Andhra Pradesh and purchased power from public and private power generators and sold to state discoms in accordance with the power purchase agreement. Subsequently, in accordance with the third transfer scheme notified by the Government of Andhra Pradesh, APTRANSCO ceased power trading activities and retained powers of controlling system operations of transmission. APTRANSCO is designated as a state utility in Andhra Pradesh after the bifurcation of the state.

Key Financial Indicators (APTRANSCO – CRISIL Ratings-adjusted numbers)

Particulars	Unit	2021	2020
Revenue	Rs crore	2,546	2,021
Profit After Tax (PAT)	Rs crore	148	47
PAT Margin	%	5.76	2.28
Adjusted debt/adjusted networkth	Times	1.91	1.51
Interest coverage	Times	2.42	2.16

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
INE947F09024	Bond -8.95% Series I/2006 (Option B)*	09-Sep-06	8.95%	09-Sep-21	159.50	Complex	CRISIL D
INE947F09040	Bond -8.69% Series II/2006 (Option B)*	15-Feb-07	8.69%	30% - 15-Feb-2020; 30% - 15-Feb-2021 40% - 15-Feb-2022	133.30	Complex	CRISIL D

INE947F09073	Bond - Series I/2008 (Option B)^	07-Mar-09	8.65%	07-Mar-24	2.0	Complex	CRISIL C
--------------	----------------------------------	-----------	-------	-----------	-----	---------	----------

^Amount outstanding as on September 30, 2022

*Amount outstanding as on March 31, 2019

Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of initial allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level
INE947F09073	Bond - Series I/2008 (Option B)^	07-Mar-09	8.65%	07-Mar-24	3.20	Complex

^Amount outstanding as on September 30, 2022

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT		--		--		--		--		--	Withdrawn
Bond	LT	294.8	CRISIL D,CRISIL C		--	08-10-21	CRISIL D	31-12-20	CRISIL D,CRISIL BB+/Stable	27-12-19	CRISIL BB+/Stable,CRISIL D	Withdrawn
			--		--		--		--	07-09-19	CRISIL BB+/Stable,CRISIL D	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
The Infrastructure Sector Its Unique Rating Drivers

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com	Anuj Sethi Senior Director CRISIL Ratings Limited B:+91 44 6656 3100 anuj.sethi@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com	Aditya Jhaver Director CRISIL Ratings Limited B:+91 22 3342 3000 aditya.jhaver@crisil.com	For Analytical queries: ratingsinvestordesk@crisil.com
Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Mohini Chatterjee Senior Rating Analyst CRISIL Ratings Limited B:+91 22 3342 3000 mohini.chatterjee@crisil.com	

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We may use your contact information, such as your name, address and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, completeness or adequacy of the report, and no CRISIL

Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, www.crisilratings.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about ratings by CRISIL Ratings are available here: www.crisilratings.com.

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, www.crisilratings.com. For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at crisilratingdesk@crisil.com, or at (0091) 1800 267 1301.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CRISIL Ratings.

All rights reserved @ CRISIL Ratings Limited. CRISIL Ratings is a wholly owned subsidiary of CRISIL Limited.

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: <https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html>