

Andhra Pradesh State Fibernet Limited (Revised)

April 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	181.47	Provisional CARE A- (CE); Negative [Provisional Single A Minus (Credit Enhancement); Outlook: Negative]	Assigned
Total Bank Facilities	181.47 (Rs. One Hundred Eighty-One Crore and Forty-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Un Supported Rating	CARE BB-(Double B Minus) [Assigned]
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Note : Unsupported Rating does not factor in the explicit credit enhancement

Rating in the absence of the pending steps/ documents	Same as Unsupported Rating
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Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The ratings assigned to the bank facilities of Andhra Pradesh State Fibernet Limited (APSFL) are based on the proposed credit enhancement in the form of unconditional and irrevocable Corporate Guarantee to be extended by Government of Andhra Pradesh.

The final rating of such facilities is subject to execution of the guarantee documents to the satisfaction of CARE.

Detailed Rationale & Key Rating Drivers of Government of Andhra Pradesh (Guarantor)

The state's economy contracted by 3% in FY21 owing to the Covid-19 pandemic shock. Prior to that the state was witnessing favorable economic growth with the GSDP averaging an annual growth of 8% during FY14-20.

The state's finances have been pressured over the years and it has been unable to adhere to the fiscal consolidation norms of the Finance Commission (i.e., maintaining a zero-revenue deficit, GFD/GSDP at less than 3% and Debt/GSDP within the 25% limit). The pandemic further strained the state's finances in FY21 (as per the revised estimates)- the revenue deficit and fiscal deficit widened to multi year highs and indebtedness increased. The state has been facing liquidity shortfalls and has been availing financial accommodation from the RBI.

The state has a moderate amount of self-reliance with nearly half of its revenues being derived from its own source revenues.

Andhra Pradesh is ranked first in ease of doing business and 7th in the NITI Aayog India Innovation Index (2020) and is perceived to have economic potential.

Key Rating Drivers of Andhra Pradesh state Fibernet Limited

The unsupported rating of APSFL continues to be constrained by moderate scale of operations and net losses reported during review period, unfavorable capital structure with stressed debt coverage indicators, project implementation risk and weak liquidity position requiring persistent support from the AP govt. However, the rating derives strength from strong parentage and financial support extended by Govt. of Andhra Pradesh and significant market coverage.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Moderate self-reliance
- High rank in ease of doing business
- Maintenance of GRF & CSF

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Economic & Fiscal stress due to Covid-19 pandemic
- Rising debt levels

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

- Increasing Guarantees
- Unresolved issues pertaining to bifurcations of the state

Outlook: Negative The outlook is negative on account of the state's economy and finances have been adversely impacted by the disruptions caused by the pandemic. The outlook can be revised to stable if the state's economy is expected to witness a rebound in FY22 which would in turn improve its finances.

Detailed description of the key rating drivers-GoAP

Key Rating Strengths

Maintenance of GRF and CSF

The state has a Guarantee redemption fund with a corpus of Rs 735 crores and a consolidated sinking fund (for amortization of its debt) which has a corpus of Rs 8097 crores as the end of March 2021.

Ranks 1st in ease of doing business

Andhra Pradesh has been ranked no. 1 in Ease of Doing Business amongst all States (2019) and ranked no.7 in terms of NITI Aayog India Innovation Index (2020)

Moderate Self-Reliance

The state has a moderate amount of self-reliance with around 51% of the revenues being derived from its own source revenues in FY21(RE).

Key rating weaknesses

Contraction in economic growth

The state's economy contracted by 3% in FY21 owing to the economic shock due to the pandemic. In terms of sectoral growth in FY21, barring the agriculture sector, the other key sectors of the state's economy saw a sharp drop in output and growth. The agriculture sector (33% share) showed resilience amidst the pandemic turmoil and grew by 4% while Industry (27% share) contracted by 3% and services (41% share) by 7%.

Non-adherence to fiscal consolidation targets

The state's finances have been pressured over the years and it has been unable to adhere to the fiscal consolidation norms of the Finance Commission (i.e., maintaining a zero-revenue deficit, GFD/GSDP at less than 3% and Debt/GSDP within the 25% limit). The state's revenue deficit widened to Rs. 0.35 lakh crore in FY21 (RE), Rs. 8,486 crore or 32% increase over FY20, fiscal deficit has risen to 5.5% of GSDP (over the flexible limit due to pandemic of 5%) and debt as a percentage of GSDP is estimated to be 35%.

Rising debt levels

The state's debt burden has been consistently rising. As per the revised estimates the state's outstanding debt stood at Rs. 3,55,874 crore in FY21, 18% higher than Rs. 3,01,802 crores in the previous year.

Increasing Guarantees

The outstanding guarantees extended by the state represent an increasing trend. In FY21 (RE) they have risen to Rs. 91330 crores, 17% higher than the previous year (Rs. 77,783 crores in FY20).

Unresolved issues pertaining to bifurcations of the state

Issues among the two states (Andhra Pradesh and Telangana) particularly related to the status of capital along with loans and advances are yet to be resolved even after eight years of bifurcation of the two states.

Shortfalls in Liquidity Management

The state has been facing shortfalls in its liquidity management and has been availing SDF, WMA and overdraft facilities from the RBI on a monthly basis. As of Oct'21, the state has availed an average SDF amount of Rs. 604 crore (30 days), average WMA of Rs. 1757 crores (28 days) and Rs. 1,321 crore (14 days) under the overdraft facility.

Liquidity: Adequate The state has been facing shortfalls in its liquidity management and has been availing SDF, WMA and overdraft facilities from the RBI on a monthly basis. As of Oct,'21, the state has availed an average SDF amount of Rs. 604 crore (30 days), average WMA of Rs. 1757 crores (28 days) and Rs. 1,321 crore (14 days) under the overdraft facility.

Analytical approach: Credit Enhancement.

The rating is based on credit enhancement in the form of proposed unconditional and irrevocable corporate guarantee extended by Govt. of Andhra Pradesh (GoAP) for the rated bank facilities of the company

Applicable Criteria

[Policy on default recognition](#)

[Assignment of Provisional Rating](#)

[Factoring Linkages Government Support](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Credit Enhanced Debt](#)

[Rating Outlook and Credit Watch](#)

[Service Sector Companies](#)

[State Governments](#)

Validity of the Provisional Rating:

The provisional rating shall be converted into a final rating after receipt of the above-mentioned transaction documents duly executed/ completion of the above-mentioned steps within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings Ltd.'s Policy on Assignment of Provisional Ratings.

Risks associated with provisional nature of credit rating:

When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings Ltd., the final rating is assigned by CARE Ratings Ltd. In absence of receipt of documents/ completion of steps or where such documents deviate significantly from that considered by CARE Ratings Ltd., the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

About the company

Andhra Pradesh State Fibernet Limited (APSFL), incorporated on 12th October 2015 is a government of Andhra Pradesh owned entity. APSFL provides various services related to digital inclusiveness and bridge urban-rural divide by providing affordable, high-speed broadband connectivity to households, deepening the reach of internet in the rural areas. Network infrastructure was laid out for providing triple play services (IPTV, Internet, Telephony) to households and Govt/Private Enterprises through IP MPLS (Internet Protocol Multi-Protocol Label Switching) & GPON (Gigabit Passive Optic Network) technologies.

Brief Financials (Rs. crore)	31-03-2020 (UA)	31-03-2021 (UA)	9MFY22(Prov.)
Total operating income	126.49	215.73	NA
PBILD	-35.24	76.75	NA
PAT	-140.87	-34.07	NA
Overall gearing (times)	7.05	11.18	NA
Interest coverage (times)	-0.71	1.61	NA

UA: Audited; Prov: Provisional;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-*	181.47	Provisional CARE A- (CE); Negative
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	CARE BB-

*Proposed

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	181.47	Provisional CARE A- (CE); Negative				
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BB-				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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