

## Transmission Corporation of Andhra Pradesh Limited

February 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	500.00	CARE B+; Stable	Assigned
Long-term bank facilities	100.00	CARE B+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings of bank facilities of Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) are constrained by the significant counterparty credit risk, characterised by weak financial risk profiles of its main beneficiaries – power distribution companies (discoms) of Andhra Pradesh. While collection track record has been improving, the elongated receivable period constrains ratings. Large capex implementation risk and its impact on the company's leverage and coverage metrics also offset ratings. Ratings also note the pending bifurcation of assets between APTRANSCO and Transmission Corporation of Telangana Limited (TSTRANSCO).

However, ratings derive strength from its long-term revenue visibility and operation in a cost-plus return on equity (RoE) regulatory model, assuring stable cashflows. Ratings favourably factor the wide transmission network, operated at sustained high-system availability. Ratings also consider the improving total debt (TD)-to-gross cash accruals (GCA) in FY23 (FY refers to April 01 to March 31) as a result of reducing debt and improving profitability with Vidyut bonds completely repaid in FY23.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Credit profile of counterparties significantly improving, with average collection period reducing.
- TD/GCA reducing to 4x or below.

#### Negative factors

- Sustained delays in receiving collections from discoms, impacting the liquidity position.

### Analytical approach: Standalone

#### Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that APTRANSCO will continue to have an above normative system availability. CARE Ratings expects the company's financial risk profile to remain leveraged, with modest liquidity due to the high average collection period.

### Detailed description of the key rating drivers

#### Key weaknesses

##### Counterparty risk with relatively weak financial risk profile

APTRANSCO derives majority of its revenue from three state-owned discoms – Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCPL), Eastern Power Distribution Company of Andhra Pradesh Limited (APEPDCL), and Andhra Pradesh Central Power Distribution Corporation Limited (APCPDCL). Discoms have weak credit profiles due to inadequate tariff hikes over past few years with high dependence on state government subsidies and increasing debt levels. Hence, subdued financial positions of discoms render payment risk to APTRANSCO. However, the collection efficiency of APTRANSCO has considerably improved – from 50.41% in FY21 to 89.15% in FY22 and 98.88% in FY23. Sustaining reasonable collection efficiency will be important from the credit perspective.

##### Significant capex implementation risk

The company is targeting to incur capex of more than ₹2,500 crore in FY24 and ₹3,500 crore in FY25. CARE Ratings projects the capex to be financed with a debt-to-equity mix of 75% and 25%, respectively. Tying-up debt on time and implementing the same will be crucial.

##### Pending bifurcation of assets between APTRANSCO and TSTRANSCO

Since the bifurcation of Andhra Pradesh, there have been numerous unresolved issues between Telangana and Andhra Pradesh, particularly related to investments, employees, public debt, remittances, loans and advances, and reserve funds, among others. Although assets were provisionally distributed between the two states, several issues are pending and asset distribution is yet to

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

be approved by the Central Government. Negative adjustments on this is likely to impact APTRANSCO's financial position, and hence, is a key monitorable.

### Moderate financial risk profile

While the company's profitability has improved in FY23, debt level has remained elevated, constraining the leverage profile. Due to sizeable projected capex, CARE Ratings expects APTRANSCO's coverage metrics to be at a marginal level.

### Key strengths

#### Regulated power transmission business with long-term revenue visibility

APTRANSCO files its annual revenue requirement (ARR) and tariff proposals to Andhra Pradesh Electricity Regulatory Commission (APERC) under the multi-year tariff framework, wherein APERC determines tariffs to be charged by APTRANSCO. Tariffs are determined basis cost-plus, involving a fixed RoE (15.50%). Revenue is also based on peak demand and not usage, thus assuring stable revenue. Hence, irrespective of demand, consumers are required to pay fixed tariffs to APTRANSCO. The company has submitted the business plan for the 5<sup>th</sup> (covering FY25-FY29) and 6<sup>th</sup> control period (covering FY30-FY34). Tariff order for the 5<sup>th</sup> control period is pending to be issued.

#### Sole transmission entity in Andhra Pradesh

APTRANSCO is a wholly owned subsidiary of the Government of Andhra Pradesh and is of strategic importance to the state. It is the sole transmission entity in the state, and hence, plays an important role in the Andhra Pradesh's economy, delivering power to the final consumer. APTRANSCO transmits power generated by power generating companies (gencos) (both owned by government and private) to discoms.

#### Satisfactory operational performance

System availability for APTRANSCO has been continuously more than 99% from FY19 to FY23, ensuring adequate recovery of transmission charges during the period.

#### Liquidity: Stretched

Projected GCA less internal accruals committed for the capex is marginal as against scheduled debt repayments for FY24 and FY25. The company current ratio is at unity for FY23. APTRANSCO has free cash and cash equivalents of ₹59.05 crore as on January 09, 2024.

### Applicable criteria

[Definition of Default](#)

[Financial Ratios – Non-financial Sector](#)

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

[Rating Outlook and Rating Watch](#)

[Infrastructure Sector Ratings](#)

[Power- Transmission](#)

### About the company and industry

#### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power – Transmission

APTRANSCO, incorporated on December 28, 1998, is a wholly owned subsidiary of the Government of Andhra Pradesh. It was formed by carving out the transmission functions of the erstwhile Andhra Pradesh State Electricity Board (APSEB), which came into existence in 1959 and was responsible for generating, transmitting, and distributing electricity. Under electricity sector reforms, the Government of Andhra Pradesh promulgated the Andhra Pradesh Electricity Reforms Act, 1998, and erstwhile APSEB was unbundled into one genco (APGENCO), one transco (APTRANSCO), and four discoms (APDISCOMs) as part of the reform process. APTRANSCO came into existence on February 01, 1999. From February 1999 to June 2005, APTRANSCO remained a single buyer in the state, purchasing power from gencos and selling it to discoms. Subsequently, in accordance with the Third Transfer Scheme notified by the Government of Andhra Pradesh, APTRANSCO ceased to do power trading and has retained powers of controlling system operations of power transmission. Hence, APTRANSCO handles power transmission from gencos to discoms in Andhra Pradesh, with monopoly in the said business.

Brief Financials (₹ crore) *	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	2,653.23	3,119.58	1830.13
PBILDT	1,438.69	1,914.82	1248.77
PAT	242.79	619.46	562.35
Overall gearing (times)	1.30	1.48	2.32
Interest coverage (times)	3.03	4.93	3.14

A: Audited; UA: Unaudited. Analytically adjusted as per CARE Ratings. \*The above results are the latest financial results available.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Please refer to Annexure-2

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

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	100.00	CARE B+; Stable
Fund-based - LT-Term loan*		-	-	NA	500.00	CARE B+; Stable

\*Proposed.

#### Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type <sup>^</sup>	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	100.00	CARE B+; Stable	1)CARE B+; Stable (19-Jul-23)	1)CARE B; Stable; ISSUER NOT COOPERATING* (15-Feb-23)	1)CARE B; Stable (01-Dec-21)	1)CARE BB+; Stable (11-Sep-20)
2	Fund-based - LT-Term loan	LT	500.00	CARE B+; Stable				

\*Issuer did not cooperate; Based on best available information; <sup>^</sup>Long term.

#### Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

#### Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple

#### Annexure-5: Lender details

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

**Note on complexity levels of rated instruments:** CARE Ratings 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](mailto:care@careedge.in) for any clarifications.

### Contact us

Media Contact	Analytical Contacts
<p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3404 E-mail: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a></p>	<p>Sabyasachi Majumdar Senior Director <b>CARE Ratings Limited</b> Phone: +91-120-445-2006 E-mail: <a href="mailto:Sabyasachi.majumdar@careedge.in">Sabyasachi.majumdar@careedge.in</a></p> <p>Agnimitra Kar Associate Director <b>CARE Ratings Limited</b> Phone: 91-120-4452019 E-mail: <a href="mailto:agnimitra.kar@careedge.in">agnimitra.kar@careedge.in</a></p> <p>Bhushan Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Bhushan.mahour@careedge.in">Bhushan.mahour@careedge.in</a></p>

### About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

### Disclaimer:

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