

## Rating Rationale

June 22, 2023 | Mumbai

### Andhra Pradesh State Financial Corporation

Rating Reaffirmed

#### Rating Action

<b>Rs.41.6 Crore (Reduced from Rs.83.2 Crore) Bond</b>	<b>CRISIL B+/Stable (Reaffirmed)</b>
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*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL B+/Stable' rating on the bonds issued by the Andhra Pradesh State Financial Corporation (APSFC) that are guaranteed by the erstwhile unified Government of Andhra Pradesh.

CRISIL Ratings has **withdrawn** its rating on bonds of Rs 41.6 crore (See annexure: details of rating withdrawn for details) as the bond have been partially repaid as per schedule. The rating action is in line with the withdrawal policy of CRISIL Ratings.

APSFC has been adhering to the T-structure and has serviced the rated bonds within the due date, as confirmed by the trustee. The funds for bond servicing are managed at the respective Andhra Pradesh and Telangana divisions in a centralised manner, and is overseen by APSFC. Furthermore, both divisions are aware of their share of cash flow generating assets and liabilities and have been servicing the debt accordingly. As per the management, both divisions can utilise each other's funds from respective pooled accounts if required, with an approval from the board, on which they have a joint representation. While clarity on bifurcation of assets and liabilities is still pending, it is not going to impact cash flow significantly.

The rating factors in standalone credit risk profile of APSFC, which is supported by adequate capital position, but constrained by modest asset quality, and limited diversity in exposure.

#### Analytical Approach

The rating is based on APSFC's standalone assessment and has been arrived at after combining its business and financial risk profiles. While the erstwhile unified Government of Andhra Pradesh has extended an unconditional and irrevocable guarantee on full principal and interest payment with a trustee-administered payment structure, this has not been factored into the rating, given that liabilities of respective states are being funded mostly through their own cash flow.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- Adequate capital position**

Capital position is supported by steady cash accrual. Networth stood at Rs 1,451 crore as on March 31, 2023 (Rs 1,289 crore as on March 31, 2022). Gearing was comfortable at 0.03 times as on March 31, 2023. Capital adequacy ratio stood at 66.6% as on March 31, 2023. The capital position should remain adequate, considering the current and planned scale of operations.

##### Weaknesses:

- Modest, albeit improving, asset quality**

Asset quality continues to be modest -- gross non-performing assets ratio (GNPAs) weakened to 16.1% as on March 31, 2023 as against 11.7% as at the end of previous fiscal owing to the adoption of revised IRAC and NPA provisioning norms of the RBI as per November 2021 circular. In absolute terms, GNPAs stood at Rs 197 crore as on March 31, 2023 (Rs 133 crore as on March 31, 2022) and the write-offs for fiscal 2023 amounted to Rs 68 crore (Rs 83 crore for fiscal 2022). Furthermore, APSFC's exposure to micro, small and medium enterprises sector with borrowers having relatively weaker credit risk profiles makes asset quality vulnerable.

- Average, although improving, earnings profile**

Though profitability has improved, it remains modest, particularly on account of high credit cost over the last few fiscals and contraction in loan book since 2014. However, APSFC reported Y-o-Y growth 8% in the loan book to Rs 1,223 crore as on March 31, 2023 with net profit and return on assets (ROA) of Rs 185 crore and 9.5% respectively (as compared to Rs 143 crore and 7.3% for fiscal 2022). Improvement in the earnings profile is due to lower financial cost owing to decline in total debt.

#### Liquidity: Adequate

As on March 31, 2023, the company had total liquidity of Rs 183 crore (Rs 108 crore cash and bank balances and Rs 75 crore of liquid investments & fixed deposits). Against this, the company has repayments scheduled at Rs 9.7 crore for five months i.e. from April till August 2023. The ALM position as on March 31, 2023 also stood comfortable with no cumulative mismatched across buckets upto 1 year.

#### Outlook: Stable

APSFC will continue to adhere to defined T-structures for bonds and that liquidity at Andhra Pradesh and Telangana divisions will be better managed to ensure timely servicing of debt.

#### Rating Sensitivity factors

##### Upward factors

- Ability to significantly scale up the loan book while maintaining return on managed assets at over 3% on a sustained basis
- Sustainable improvement in asset quality with 90+ days past due improving to below 5%

##### Downward factors

- Weakening of asset quality and its impact on earnings
- Stress in capitalisation with significant increase in gearing to beyond 3 times

**Unsupported rating - CRISIL B+**

Disclosure of unsupported rating for credit ratings without 'CE' suffix, where the instruments are backed by specified support considerations, is in compliance with SEBI's Operational Circular dated January 06, 2023.

**About the Company**

Incorporated in 1956, APSFC is a term-lending institution for promoting small and mid-sized industries in Andhra Pradesh under the provisions of the State Financial Corporation Act, 1951. It reported a profit after tax (PAT) of Rs 185 crore on total income of Rs 403 crore for fiscal 2023 as against PAT of Rs 143 crore on a total income of Rs 393 crore in the previous fiscal

**Key Financial Indicators: (standalone)**

As on/ for the year ended March 31,	Unit	2023	2022
Total assets	Rs crore	1,976	1,897
Total income	Rs crore	402	393
PAT	Rs crore	185	143
GNPA	%	16.1	11.7
Gearing	Times	0.03	0.2
Return on assets	%	9.5	7.3

**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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). 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
INE695F09441	APSFC NON-SLR BONDS SERIES -VII 2014	24-Mar-14	9.75%	24-Mar-24	11.6	Complex	CRISIL B+/Stable
INE695F09458	APSFC NON-SLR BONDS SERIES -VIII 2014	28-Mar-14	9.85%	28-Mar-24	30.0	Complex	CRISIL B+/Stable

**Annexure - Details of rating withdrawn**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NE695F09441	APSFC NON-SLR BONDS SERIES -VII 2014	24-Mar-14	9.75%	24-Mar-24	11.6	Complex	Withdrawn
INE695F09458	APSFC NON-SLR BONDS SERIES -VIII 2014	28-Mar-14	9.85%	28-Mar-24	30.0	Complex	Withdrawn

**Annexure - Rating History for last 3 Years**

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Bond	LT	41.6	CRISIL B+/Stable		--	28-06-22	CRISIL B+/Stable	30-07-21	CRISIL B+/Stable	29-07-20	CRISIL B+/Stable	CRISIL B+/Watch Negative
			--		--		--		--	30-04-20	CRISIL B+/Watch Negative	--
			--		--		--		--	31-01-20	CRISIL B+/Watch Negative	--

All amounts are in Rs.Cr.

## Criteria Details

Links to related criteria
<a href="#">Rating Criteria for Finance Companies</a>

Media Relations	Analytical Contacts	Customer Service Helpdesk
<b>Aveek Datta</b> Media Relations <b>CRISIL Limited</b> M: +91 99204 93912 B: +91 22 3342 3000 <a href="mailto:AVEEK.DATTA@crisil.com">AVEEK.DATTA@crisil.com</a>  <b>Prakruti Jani</b> Media Relations <b>CRISIL Limited</b> M: +91 98678 68976 B: +91 22 3342 3000 <a href="mailto:PRAKRUTI.JANI@crisil.com">PRAKRUTI.JANI@crisil.com</a>  <b>Rutuja Gaikwad</b> Media Relations <b>CRISIL Limited</b> B: +91 22 3342 3000 <a href="mailto:Rutuja.Gaikwad@ext-crisil.com">Rutuja.Gaikwad@ext-crisil.com</a>	Ajit Velonie Senior Director <b>CRISIL Ratings Limited</b> B:+91 22 3342 3000 <a href="mailto:ajit.velonie@crisil.com">ajit.velonie@crisil.com</a>  Rahul Malik Associate Director <b>CRISIL Ratings Limited</b> B:+91 22 3342 3000 <a href="mailto:rahul.malik@crisil.com">rahul.malik@crisil.com</a>  MEERA JAYENDRABHAI THAKRAR Senior Rating Analyst <b>CRISIL Ratings Limited</b> B:+91 22 3342 3000 <a href="mailto:MEERA.THAKRAR@crisil.com">MEERA.THAKRAR@crisil.com</a>	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301  For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a>  For Analytical queries: <a href="mailto:ratingsinvestordesk@crisil.com">ratingsinvestordesk@crisil.com</a>

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