December 21, 2022

Hyderabad Metropolitan Development Authority: [ICRA]BBB(Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Proposed	2000.00	[ICRA]BBB(Stable); assigned
Total	**2000.00**	

**Instrument details are provided in Annexure-1.*

Rationale

The assigned rating is based on the strategic importance of Hyderabad Metropolitan Development Authority (HMDA) to the Government of Telangana State (GoTS) for its status as the nodal agency for planning, regulating, developing and coordinating a comprehensive development of Hyderabad Metropolitan Region (HMR) and HMDA's strong operational as well as financial linkages with the GoTS. Despite a likely deterioration in the state government's fiscal health, ICRA continues to factor in HMDA's long track record of executing diverse projects and its consistent track record of generating adjusted net profits[1] in the last five years without any financial support from the GoTS. The rating derives comfort from HMDA's comfortable capital structure as well as healthy debt coverage metrics with a gearing (Total Debt/Tangible Net Worth) of 0.1 times as on March 31, 2022 and an adjusted interest coverage of 37.6 times for FY2022. Further, HMDA's revenues are likely to increase in the medium term, given the additional annual revenue from the Outer Ring Road (ORR) project and collection of special development charges from sites falling within 500 metres from the proposed link roads being developed by HMDA.

The rating is, however, constrained by the highly volatile nature of HMDA's revenues, the entity's high dependence on the GoTS for key revenue-related decisions like revision in rate structures, and inconsistencies in its financial statements, indicating a significant scope for improvement in the current accounting practices being followed. The rating is also impacted by the moderate credit profile of the state government, which has witnessed some deterioration in the recent past as its leverage level has worsened considerably. HMDA is planning to undertake many road development projects in the medium term with an estimated cost of over Rs. 2,500 crore, which would be partially funded through fresh long-term borrowings. Consequently, as per ICRA's estimates, fresh borrowings and reduction in its cash and bank balances would impact HMDA's liquidity and debt protection metrics in the medium term. Further, any significant increase in advances to other state government entities/departments without any reimbursement from the GoTS and transfer of additional funding responsibility on HMDA for projects of other Government entities without any revenue consideration or reimbursements would be key sensitivities.

The Stable outlook reflects ICRA's belief that HMDA will continue to benefit from its strategic importance to the GoTS and its strong linkages with the state government. Additionally, HMDA's large revenue base, though volatile, would continue to support its healthy accruals, comfortable liquidity and debt coverage metrics.

Key rating drivers and their description

Credit strengths

Strategic importance to the GoTS – HMDA is the apex agency with strategic importance to the GoTS for planning, regulating, developing and coordinating the overall urban development functions in the entire Hyderabad Metropolitan Region (HMR).

[1] As per HMDA's accounting policy, 85% of development charges are transferred to the balance sheet under a separate fund named 'Metropolitan Development Fund' and the balance 15% is reported as revenue in its income and expenditure account. ICRA, for its analysis, has considered the entire income as revenue.

HMDA provides infrastructure facilities like construction of flyover, widening of roads, maintenance of lakes, parks and greenery and has executed large projects like Elevated Express Highway Corridor, Outer Ring Road (through HGCL) etc. in the HMR region. Additionally, HMDA is responsible for developing layouts within HMR.

Strong linkages with GoTS – HMDA has strong legal, operational and financial linkages with the GoTS, also reflected by the composition of its authority, which is headed by the Chief Minister (Telangana). However, HMDA does not have any financial dependence on the GoTS to meet its regular expenditure as it has own revenue sources, which are adequate to meet its regular expenditure including debt servicing requirements. Moreover, in the past, HMDA has funded the gap in committed grants from the GoTS for annuity payments related to the ORR project (owned by HMDA). Nevertheless, there has been no upstreaming of funds from HMDA to the state government in the recent years. Additionally, no unrelated additional expenditure responsibilities have been passed by the state government to HMDA. ICRA notes that based on the directions of the state government, HMDA has been undertaking various projects, to be funded partially from own accruals and fresh debt. However, the state government has supported HMDA by announcing additional revenue stream for HMDA to recover its investments in some of these projects over a period of time.

Healthy financial risk profile, supported by large revenue base and a comfortable debt coverage metrics – HMDA has consistently maintained a strong overall cash flow position on account of regular inflow from collection of development charges (85% of which has been earmarked for carrying out various projects envisaged by the GoTS under the Metropolitan Development Fund in the balance sheet) and relatively lower expenditure. Moreover, the adjusted operating income, considering the entire development charges, remained high at Rs. 1,415.7 crore as on March 31, 2022, resulting in an operating profit of Rs. 882.1 crore during the same period. The Outer Ring Road (ORR) project was completed in FY2022, and accordingly the project has now been included in HMDA's balance sheet, which is likely to add a yearly revenue of around Rs. 350.0 crore. ICRA notes that healthy surpluses and limited debt have supported HMDA in maintaining a comfortable financial risk profile, as reflected by an adjusted gearing of 0.1 times as on March 31, 2022, and adjusted OPBDITA / interest of 37.6 times for FY2022.

Credit challenges

Volatility in HMDA's revenues – HMDA's revenues from development charges are exposed to volatility associated in the real estate market. Additionally, one-time regularisation schemes related to land and building that are notified by the GoTS to regularise unapproved and unauthorised layouts and buildings also result in revenue volatility for HMDA.

Dependence on the GoTS for key revenue decisions – HMDA depends on the GoTS for revision in rate structures. The last revision in development charges on land and buildings was done in August 2016 and no further revision has taken place since last six years. The regularisation scheme related to land and building, which generates significant revenues for HMDA and strengthens its liquidity position, are also announced by the GoTS.

Moderate credit profile of the state government – Healthy capital spending and revenue deficits in some years led to fiscal deficit of GoTS relative to its gross state domestic product (GSDP), exceeding the permissible limit from FY2017 to FY2020 as well as the enhanced limit in FY2021. The leverage level of the state government (as indicated by its debt and guarantees) worsened considerably to 36.2% of GSDP in FY2021 from 24.2% of GSDP in FY2017. This was primarily led by a considerable increase in the guarantees extended by the GoTS to Rs. 1,05,007 crore as on March 31, 2021, from Rs. 29,965 crore as on March 31, 2017, mainly led by guarantees to irrigation entities.

Significant capex plans funded by large fresh debt – HMDA has proposed many large projects with an estimated cost of more than Rs. 2,500 crore, likely to be executed over the next two to three years. The proposed capex, to be funded by fresh long-term borrowing programme, could impact its debt protection metrics to a certain extent. Additionally, HMDA's participation in unanticipated projects within HMR, without any incremental revenue, funding of which could be from own accruals and cash balances, would result in an adverse impact on its liquidity.

Liquidity Position – Adequate

The liquidity position of the entity has remained comfortable during the past years. As on March 31, 2022, the entity had a large cash and bank balance of Rs. 2,284.0 crore. However, free cash available out of the same stands at around Rs. 500.0 crore and the balance amount has been earmarked towards specific projects/layouts of HMDA. The annual repayment obligation towards existing loans is less than Rs. 100.0 crore per annum till FY2024, which is likely to increase in the future years because of the proposed fresh term loans. The liquidity of the entity remains exposed to risks associated with sudden large expenditure responsibilities undertaken in future, majorly funded by its large balances and fresh debt.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a substantial growth in revenues, which would further strengthen its liquidity position on a sustained basis. The rating could also be upgraded if there is an improvement in the credit profile of the state government.

Negative factors – The rating may be downgraded if there is a significant increase in advances to other state government entities, or additional funding responsibility on HMDA for projects of other government entities without any revenue support, which would weaken its liquidity position, or if there is any significant debt-funded capital expenditure that would impact HMDA's capital structure and debt protection metrics. The rating could also be downgraded if there is a deterioration in the credit profile of the state government.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for State Governments Rating Approach – Implicit parent or group support
Parent/Group Support	The assigned rating factors in the importance that HMDA holds for the GoTS as the nodal agency for infrastructure planning and development within Hyderabad Metropolitan Region (HMR) and its strong operational as well as financial linkages with the GoTS
Consolidation/Standalone	The rating is based on standalone financial profile of the entity

About the entity

HMDA was set up by the government of un-bifurcated Andhra Pradesh in August 2008 under the Hyderabad Metropolitan Development Authority Act, 2008. The erstwhile entities, Hyderabad Urban Development Authority (HUDA), Hyderabad Airport Development Authority (HADA), Cyberabad Development Authority (CDA) and Buddha Poornima Project Authority (BPPA) were dissolved by the state government, and the assets and liabilities of the dissolved entities were transferred to HMDA, which became operational from August 25, 2008. The jurisdiction (Hyderabad Metropolitan Region, HMR) of around 7,257 square kilometre (sq. km.), covers seven districts, 70 mandals and 1,032 villages.

HMDA is administered by the Municipal Administration and Urban Development (MAUD) department of the GoTS as per the provisions of the relevant Act. HMDA is governed by its metropolitan development authority (MDA), members of which are nominated by the GoTS. The Chief Minister of the state heads the authority as a Chairman and Minister for MAUD department is the Vice Chairman. The regular operations of HMDA are supervised by the Metropolitan Commissioner, who is also member-convener of the authority.

Key financial indicators

	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	125.4	125.5	595.0
PAT (Rs. crore)	-71.2	-133.7	98.0
OPBDIT/OI	-71.4%	-127.1%	10.3%
PAT/OI	-56.8%	-106.6%	16.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3	0.3
Total Debt/OPBDIT (times)	-6.5	-3.3	7.5
Interest Coverage (times)	-2.4	-5.3	2.6

*Actuals as per HMDA's financial statements (unadjusted), PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional*

Source: Entity; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding crore)	Date and Rating on	Date & Rating			
						FY2022	FY2021		FY2020
					Dec 21, 2022	Feb 10, 2022	Dec 18, 2020	Aug 28, 2020	-
1	Fund-based limits - Proposed	Long-term	2000.0	NA	[ICRA] BBB (Stable)	-	-	-	-
2	Issuer Rating	Long-term	Nil	-	-	[ICRA]A (Stable); Withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable); ISSUER NOT COOPERATING	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund based limits – Proposed	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long-term Fund-based limits - Proposed	NA	NA	NA	2000.0	[ICRA]BBB(Stable)

Source: *Entity*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-II: List of entities considered for consolidated analysis: Not Applicable

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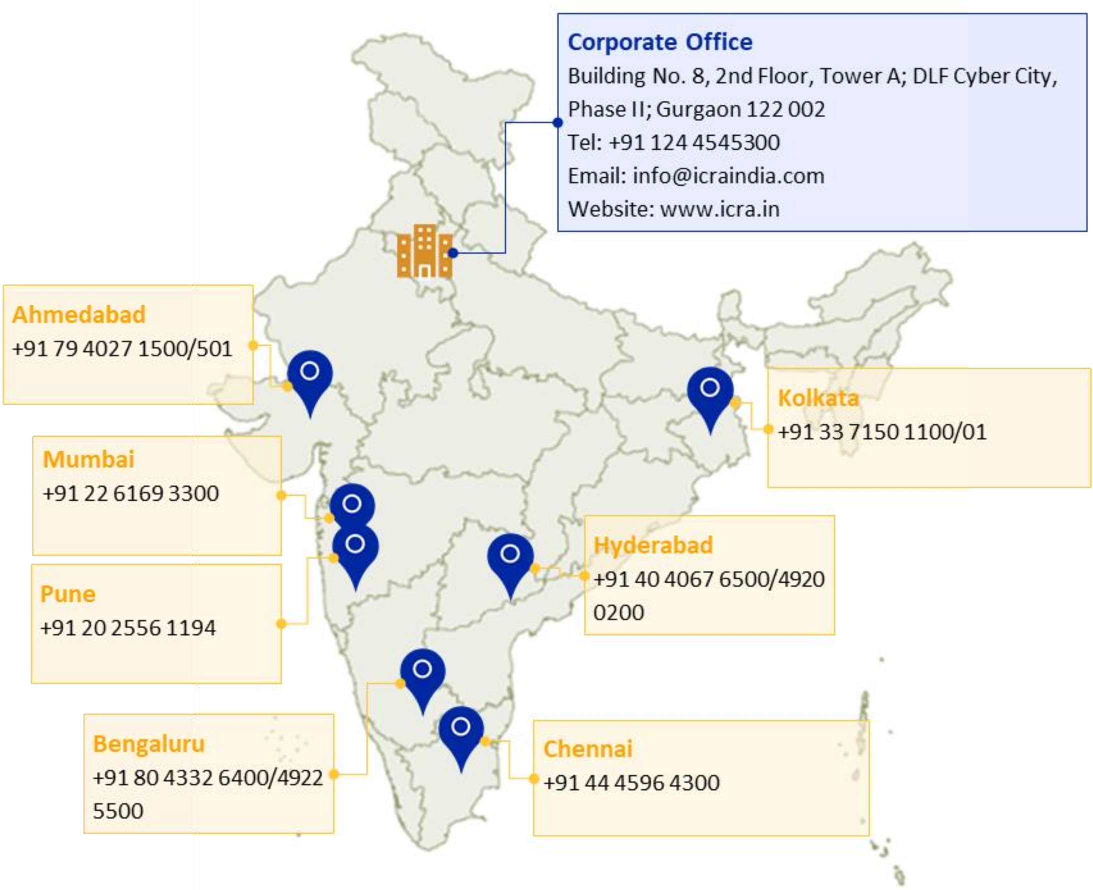

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