

October 18, 2017

ACRA assigns A(RU) to the Krasnodar Krai, outlook Stable, and A(RU) to bond issues

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Key rating assessment factors

The credit rating was assigned to the [Krasnodar Krai](#) (hereinafter, the Krai, or the Region) based on sufficient diversification of the regional economy and tax revenues, high self-sufficiency and low flexibility of the budget's revenue side, favorable debt repayment schedule, and relatively high debt load.

The Krasnodar Krai is part of the Southern Federal District. Almost 4% of Russia's population live in the Krai, and around 3% of the total GRP of Russian regions is generated in the Krai. The Krasnodar Krai is a consistent leader among Russian regions in terms of agricultural production. The Region is also a large Russian health resort and an important transportation hub.

A diversified economy with prospective growth of added value in the agribusiness.

The Krai is a consistent leader among Russian regions in terms of agricultural production (in monetary terms). In addition, agribusiness accounted for only 13% in the Krai's GRP structure according to 2016 data, with wholesale and retail trade and repair (18%) and transportation and communications (17%) being the largest sectors. Around a third of the industrial production structure (around 16% of GRP) is attributable to food production, and crude oil refining (around 8% of Russian refinery production) accounts for a quarter of the industrial production. In ACRA's opinion, the Krai's economy has a significant potential for development by virtue of increasing the depth of agricultural processing (which is currently low) and active utilization of export infrastructure (sea ports) which will have effect on both economic (GRP per capita is consistently below the national average) and fiscal indicators.

Insufficient flexibility of budget spending with high own revenues and sufficient diversification of tax revenues. While self-sufficiency of the Krai's budget is high (85% in 2014-2017), it is not flexible due to significant mandatory spending (73%) and average values of the operating balance and regular revenues (22%). Trade and repair and transportation and communications are the two sectors with the largest contributions to the Region's GRP: in the last four years their share in tax revenues of the Krai's budget is the largest (18% and 16% on average for these industries respectively). At the same time, the Krai's budget has no significant dependence on the only taxpayer. The Krai's budget has an increasing level of the operating balance (25% in 2017 vs 20% in 2014). Capital expenditures of the Krai decreased in 2014-2017 from 20% to 14% of spending (primarily owing to closing up of Olympic construction program) and are currently made using funds of the Krai's budget.

A well-balanced debt structure in terms of maturity will offset the negative effect from high debt load. 40% of the current debt will be repaid in 2022 and beyond, which offsets high debt load indicators of the Krai (direct debt to operating balance ratio is estimated at 2.83 by year-end 2017). Following 2017 performance, the operating balance less interest expenses will be twice as high as the debt repayment amount. According to ACRA estimates, this indicator will also be twice as high as the debt repayment amount in 2018 and 2019. By virtue of a substantial share of long-term fiscal loans in the Krai's debt portfolio (46%), the relative value of the debt is low (15% of the operating balance as estimated as at end of the current year). Restructuring of fiscal loans planned for the end of 2017 will have a minor effect on the Krai's debt portfolio as the major share of debt of that kind has been restructured earlier.

Significant level of the budget's liquidity. The Region has a significant liquidity to timely perform expenditure commitments including interest payments, and the right to place funds in deposits. No loans have been raised from the Federal Treasury Department this year as they were unnecessary, and the excess liquidity in this period was used to early repay debt commitments. The Krai raises loans from credit institutions for a period of more than one year, and therefore, the intra-year turnover in raising and repaying debts does not exceed one fifth of the total revenues of the budget.

Key assumptions

- Capital expenditures remain as planned for 2017;
- The Krai obtains transfers in 2018 and 2019 in the amount equal or exceeding the average amount obtained in 2014-2017;
- Refinancing of fiscal loans.

Potential outlook or rating change factors

The Stable outlook assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- A positive economic and tax effect from an increased share of manufacturing with high added value;
- A higher flexibility of budget spending;
- A lower relative debt load.

A negative rating action may be prompted by:

- A decrease in own revenues of the Krai by 5% or more from the level estimated by ACRA for 2017-2018;
- A lower self-sufficiency of the Krai's budget;
- A higher debt load on the Krai's budget;
- A decline in capital expenditures in the Krai's budget.

Issue ratings

Credit rating rationale. The below listed bond issues by the Krasnodar Krai, in ACRA's opinion, have a status of senior unsecured debt, with their credit ratings corresponding to the credit rating of the Krasnodar Krai.

Key issue properties

1) RegS/ ISIN: **RU34004KND0 / RU000A0JTBA3**

Issue volume / outstanding	RUB 12 bln / RUB 1.2 bln
Issue date / Repayment date	November 22, 2012/ November 9, 2017

2) RegS/ ISIN: **RU34005KND0 / RU000A0JVZE0**

Issue volume / outstanding	RUB 4.8 bln / RUB 4.08 bln
Issue date / Repayment date	December 1, 2015/ November 27, 2018

3) RegS/ ISIN: **RU35001KND0 / RU000A0JXYS9**

Issue volume / outstanding	RUB 10 bln / RUB 10 bln
Issue date / Repayment date	August 11, 2017 / August 9, 2024

Rating history

None.

Regulatory disclosure

The credit ratings have been assigned to the Krasnodar Krai and to bonds issued by the Krasnodar Krai (RU000A0JTBA3, RU000A0JVZE0, RU000A0JXYS9) under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation](#) and the

[Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). The Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also applied to assign credit ratings to the above issues.

The credit rating has been assigned to the Krasnodar Krai for the first time. The credit rating and credit rating outlook are expected to be revised within 182 days following the rating action (October 16, 2017).

The credit rating has been assigned to the bonds of the Krasnodar Krai (RU000A0JTBA3, RU000A0JVZE0, RU000A0JXYS9) for the first time. The credit rating is expected to be revised within 182 days following the rating action (October 16, 2017).

The credit rating was assigned based on the data provided by the Krasnodar Krai, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), as well as ACRA's own databases. The credit rating is solicited, and the Krasnodar Krai participated in its assignment.

No material discrepancies between the data provided and the data officially disclosed by the Krasnodar Krai in its financial report have been discovered.

ACRA provided no additional services to the Krasnodar Krai. No conflicts of interest were discovered in the course of credit rating assignment.

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