

December 07, 2023

## Bengaluru Metropolitan Transport Corporation: Rating upgraded

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	902.07	800.00	[ICRA]BB- (Stable); Rating upgraded from [ICRA]B+ (Stable)
Long-term – Fund-based – Overdraft	65.00	65.00	[ICRA]BB- (Stable); Rating upgraded from [ICRA]B+ (Stable)
Long-term – Fund-based – Unallocated limits	332.93	435.00	[ICRA]BB- (Stable); Rating upgraded from [ICRA]B+ (Stable)
<b>Total</b>	<b>1,300.00</b>	<b>1,300.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating upgrade takes into consideration the improvement in the operating performance of Bengaluru Metropolitan Transport Corporation (BMTC), which is likely to sustain in the near term. BMTC reported a nominal operating profit in FY2023 (provisional) against losses in the previous years, owing to increased passenger load and reduction in the number of loss-making schedules. Going forward, the passenger load is estimated to increase further with the introduction of the Shakti Scheme by the Government of Karnataka (GoK), under which free travel would be provided by the state-owned road transport corporations (RTCs) to the women in the state. Moreover, the entire cost towards the Shakti Scheme would be reimbursed by the state government, which would provide significant comfort to BMTC's financial health. ICRA notes a significant rise in BMTC's traffic revenue in FY2023 on account of increased distance travelled by its buses with high passenger load, which is estimated to improve further in FY2024. The rating continues to derive comfort from the strategic importance of BMTC as a provider of passenger road transport service in the south-eastern region of Karnataka. As an important agency of the state government, the corporation enjoys significant financial flexibility in terms of receiving financial support from the GoK and raising loans for its regular capex. The rating also considers continuous and timely release of various grants/reimbursements, including grants for repayment of some loans from the GoK, which supported the stretched liquidity position of BMTC, especially in covering debt service obligations and meeting critical revenue expenses like payment of salaries and fuel bills.

The rating, however, is constrained by the weak financial profile of the corporation, as reflected by its low profits and cash accruals, though the same have improved in FY2023. The profitability would remain under pressure on account of increasing fixed costs and high share of loss-making schedules, though the same reduced marginally in FY2023. BMTC's dependence on discretionary grants from the GoK and external borrowings to meet its revenue and capital expenditure requirements have increased over the years. Further, BMTC has significant repayment obligations in the near term with limited cash flows from operations, which will continue to impact its already stretched liquidity position. Nevertheless, ICRA notes that some of the loans sourced from the Karnataka Urban Infrastructure Development & Finance Corporation Limited (KUIDFC) are supported by the GoK, which provides comfort to the weak financial health of BMTC. Any material deterioration in BMTC's operational profile owing to low passenger load or high maintenance costs towards buses could result in a sharp fall in its revenues and operating profits. Additionally, receiving approval for waiver or retention of Motor Vehicle Tax (MVT) and timely receipt of reimbursement towards subsidised travel from the state government would remain key rating sensitivities. Nevertheless, ICRA believes that BMTC would continue to enjoy support from the state government to sustain its operations as passenger transport is an essential service.

The Stable outlook on the long-term rating reflects ICRA's opinion that BMTC would continue to derive comfort from its strategic importance to the state government and regular financial support in the form of various grants and subsidy reimbursement, which would help in meeting its critical revenue expenses. However, the operating profitability would remain under pressure due to increasing fixed costs and inadequate tariff level.

## Key rating drivers and their description

### Credit strengths

**Strategic importance to the GoK; financial flexibility derived from being a state-owned entity** – BMTC is wholly owned by the GoK and is strategically important to the state government, with the corporation playing a critical role in providing transport services in the capital city of the state. BMTC receives support from the GoK in the form of revenue and capital grants to meet its funding requirements, including grant for servicing specific loans.

**Timely release of funds from the state government** – BMTC receives large revenue grants from the state government in the form of reimbursement towards subsidised travel for students and other categories and special grants, which contributed around 40% to its total operating income in FY2023. While no special grant has been provisioned by the state government in FY2024, BMTC has started receiving additional reimbursement against the free travel for women in the state. Release of all such reimbursements including grants for repayment of specific term loans helps the corporation in servicing its debt obligations in a timely manner and manage its stretched liquidity position.

### Credit challenges

**Weak financial profile as characterised by low profitability due to high loss-making schedules** – The corporation reported a nominal operating profit in FY2023 against large losses posted in the past years. The improvement can be attributed to increased passenger load and reduction in loss-making schedules. However, the percentage of loss-making schedules remains high at 96%, which would result in low profits and cash accruals for the corporation, going forward. Consequently, the debt coverage metrics are likely to remain under pressure in the near term, albeit with some improvement over FY2023. Nevertheless, revenue support from the GoK helped BMTC meet its critical fixed expenses (salaries and pension to employees) and repayment of some term loans. Despite continuation of such timely support from the GoK, BMTC's liquidity position is likely to remain stretched in the near term on account of high fixed costs and lack of adequate tariff revision.

**Increasing dependence on GoK's discretionary grants and external borrowings in the absence of adequate tariff revision** – BMTC's dependence on discretionary grants from the GoK to meet its revenue as well as capital expenditure and partial repayment requirements has increased over the years. Further, the external borrowings in the form of long-term loans have also been availed by the entity to meet its capex requirements. While the cost of operations has been increasing on the back of increased employee salary and high fuel price, the corporation has not been able to revise its tariff adequately. In the absence of regular and adequate tariff revision, BMTC's cash flow mismatch would continue, increasing its dependence on discretionary grants and fresh loans.

**Large repayments related to capex in the near term and outstanding liabilities** – The corporation has no plans of taking any new loan and wants to repay the existing loans with the support from the Government in the form of grants/subsidies. The corporation is planning to purchase around 450 new buses in the current year, out of which the corporation has augmented 20 diesel buses and 120 electric buses in 7M FY2024. The remaining 310 buses (electric) will be augmented by the end of FY2024. While the state government has sanctioned a capital grant of Rs. 180.0 crore, the balance will have to be funded by BMTC from its own accruals. Further, the corporation has large liabilities related to arrears of the last pay revision, which cannot be paid without the support from the state government. ICRA believes that improvement in the operating performance, as reflected by a sustained reduction in the share of loss-making schedules and high passenger load, would be critical to achieve adequate profits and cash accruals.

### Liquidity position: Stretched

The liquidity position of the corporation continues to remain stretched on account of limited cash accruals and large repayments due in the near term. While the corporation is likely to generate cash flows from operations of more than Rs. 150.0 crore in FY2024, it would be inadequate to cover an estimated annual debt repayment of Rs. 255.52 crore. ICRA notes that the corporation assigns the highest priority to debt servicing over other expenditure. Available funds would be adequate to support its debt servicing obligations. However, the corporation would continue to stretch its payables, leading to an

increase in its current liabilities. Moreover, the company's ability to defer the payment of MVT to the GoK or an approval for exemption of the said tax for FY2024 will provide some flexibility. ICRA notes that any further deviation in the operational cash flows would lead to a tighter liquidity position for BMTC in the medium term, impacting debt servicing.

## Rating sensitivities

**Positive factors** – ICRA could upgrade BMTC's rating if there is an improvement in its profitability and debt protection metrics on a sustained basis.

**Negative factors** – ICRA could downgrade the rating if there is a significant deterioration in BMTC's operating performance and a decline in its profits and cash accruals on a sustained basis. A further weakening in its liquidity and debt protection metrics could also trigger a rating downgrade. Any delay in receiving adequate support from the GoK to meet fund shortfalls could impact the rating.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Passenger Road Transport Entities</a>
Parent/Group support	The assigned rating factors in the importance that BMTC holds for the state government as an institution for providing public transportation services in the state, as a result of which the GoK extended timely financial support to the rated entity.
Consolidation/Standalone	Standalone

## About the company

BMTC was established in August 1997 as an independent entity under the Road Transport Corporation Act, 1950 and as a charitable trust for providing public transport system to the commuters in and around Bengaluru city. BMTC was carved out from Karnataka State Road Transport Corporation by combining two divisions of Bangalore Transport Service (BTS; BMTC has been formed by combining Bangalore Transport Service North and BTS South with effect from August 1997. BMTC's jurisdiction extends to around 25 km in all the directions from the Bruhat Bengaluru Mahanagara Palike (the urban local body for the city of Bengaluru) boundaries.

As on March 31, 2023, with a fleet strength of 6,688, BMTC is one of the largest among the Urban State Road Transport Undertakings (SRTUs) in the country. It operates 5,557 schedules daily through 49 depots, 2 central workshops and 29,457 personnel.

## Key financial indicators

Bengaluru Metropolitan Transport Corporation	FY2022	FY2023*
Operating income	2,115.1	2,914.3
PAT	-178.2	-100.7
OPBDIT/OI	-0.9%	2.7%
PAT/OI	-8.4%	-3.5%
Total outside liabilities/Tangible net worth (times)	-5.8	14.2
Total debt/OPBDIT (times)	-49.0	10.3
Interest coverage (times)	-0.3	1.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore \*Provisional data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Amount outstanding as on Nov 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Dec 07, 2023	Mar 03, 2023	Sep 29, 2022	Aug 25, 2021	Aug 17, 2020
1 Term loans	Long-term	800.00	634.89	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)	[ICRA]B-(Stable)	[ICRA]B-(Stable)
2 Overdraft	Long-term	65.00	-	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	-	-	-
3 Unallocated limits	Long-term	435.00	-	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)	[ICRA]B-(Stable)	[ICRA]B-(Stable)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loans	Simple
Long-term – Fund-based – Overdraft	Simple
Long-term – Fund-based – Unallocated limits	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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2013	6.50%	FY2026	17.23	[ICRA]BB- (Stable)
NA	Term loan	FY2014	6.50%	FY2027	16.58	[ICRA]BB- (Stable)
NA	Term loan	FY2015	6.50%	FY2028	14.84	[ICRA]BB- (Stable)
NA	Term loan	FY2015	6.50%	FY2027	148.00	[ICRA]BB- (Stable)
NA	Term loan	FY2017	6.50%	FY2029	108.27	[ICRA]BB- (Stable)
NA	Term loan	FY2018	6.50%	FY2025	128.57	[ICRA]BB- (Stable)
NA	Term loan	FY2020	6.50%	FY2026	69.00	[ICRA]BB- (Stable)
NA	Term loan	FY2022	6.50%	FY2031	78.00	[ICRA]BB- (Stable)
NA	Term loan	FY2014	9.35%	FY2024	9.76	[ICRA]BB- (Stable)
NA	Term loan	FY2020	9.35%	FY2025	71.75	[ICRA]BB- (Stable)
NA	Term loan	FY2021	9.35%	FY2026	138.00	[ICRA]BB- (Stable)
NA	Overdraft	FY2013	9.35%	NA	65.00	[ICRA]BB- (Stable)
NA	Unallocated limits	NA	NA	NA	435.00	[ICRA]BB- (Stable)

Source: Company

[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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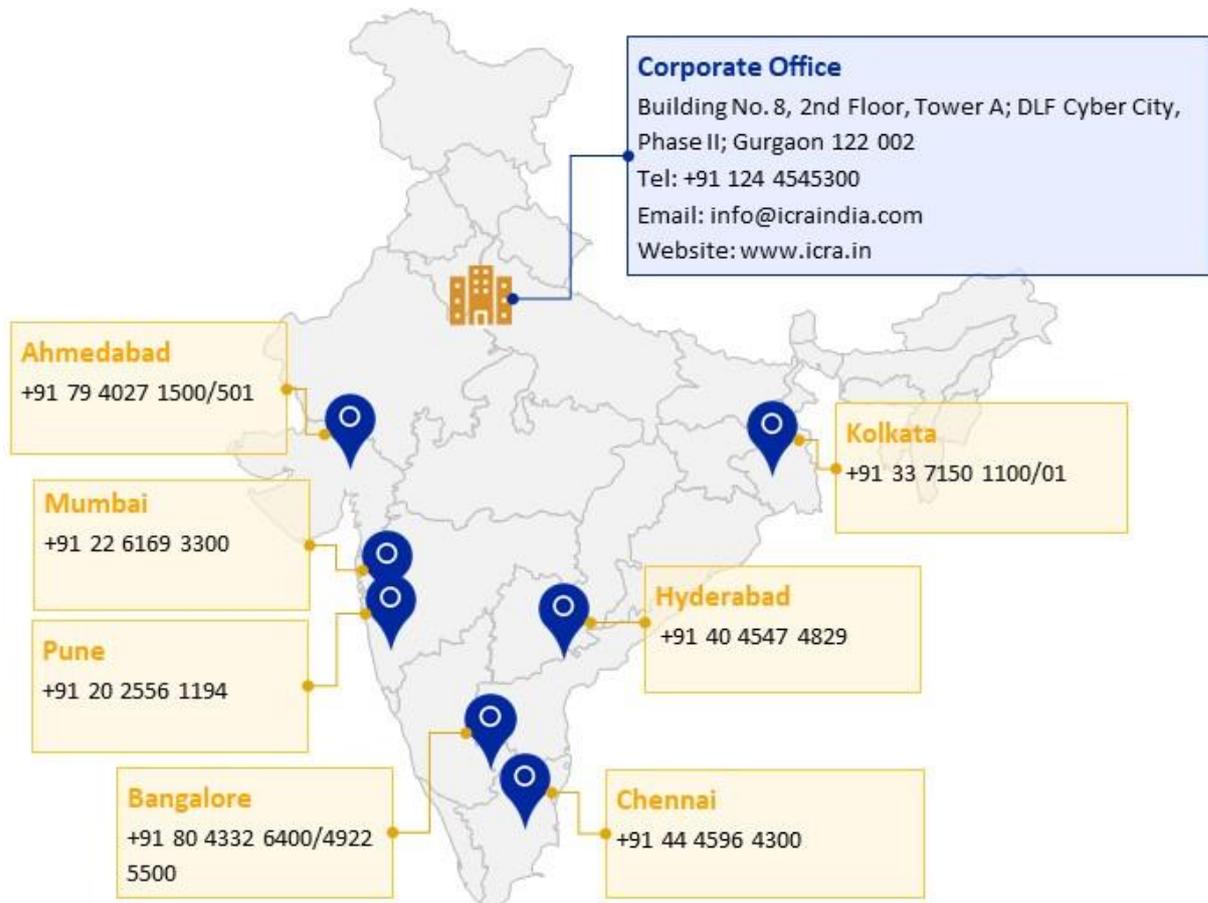
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