September 06, 2022

Kalyana Karnataka Road Transport Corporation: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	230.00	230.00	[ICRA]B+ (Stable); reaffirmed
Total	**230.00**	**230.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to take into consideration the importance of Kalyana Karnataka Road Transport Corporation (KKRTC) to the Government of Karnataka (GoK), reflected by continuous financial support received over the years as the corporation plays an important role in providing transport services to the north-eastern districts of the state. ICRA also notes that KKRTC enjoys the benefit of exemption or holding the payment of the Motor Vehicles Tax (MVT), with prior approval of the GoK, in case of any cash flow mismatch, particularly on account of repayment of external borrowings. The rating also considers continuous and timely support received from the GoK, which supported the stretched liquidity position of KKRTC, especially in meeting important revenue expenditures like payment of salaries.

The rating, however, remains constrained by the deterioration in KKRTC's operational profile owing to low passenger load, high loss-making schedules, lack of tariff revision and increase in high speed diesel (HSD) prices, which resulted in a sharp fall in its revenues and operating profits in FY2021 and FY2022, based on the provisional estimates. ICRA notes that KKRTC's revenues and profitability would continue to be adversely impacted during the current year, given the elevated HSD prices and high employee cost. Moreover, lower-than-expected earnings in FY2023 are likely to increase KKRTC's dependence on discretionary grants from the state government to meet critical revenue expenditures such as salaries to employees and payment of statutory liabilities like provident fund. ICRA notes that KKRTC's financial profile is likely to be adversely impacted in the medium term, given the high employee costs, high HSD prices and low traffic revenues.

Key rating drivers and their description

Credit strengths

Strategic importance to the GoK; financial flexibility derived from being a state-owned entity – KKRTC is wholly owned by the GoK and is responsible for providing transport infrastructure and services to passengers in the north-eastern districts of the state. Its operations are supervised by its Board of Directors (BoDs) appointed by the GoK, which also extends financial support. Grants fund a considerable portion of its capital expenditure programme. Further, the GoK has allowed the corporation to retain MVT till KKRTC reaches break-even, providing a liquidity cushion. Moreover, in FY2022, the corporation was exempted from paying MVT. KKRTC also enjoys financial flexibility with the banks, which offer regular credit for capital expenditure requirements at competitive rates.

Continuous revenue support from the GoK – KKRTC has again proposed to the state government for an exemption of MVT payable in FY2023, otherwise it may have to defer the payment of MVT to the GoK, given the liquidity concerns caused by increasing losses. Revenue expenditure requirements like payment of salaries/pensions to employees for April, May and June 2022 have been met by revenue support received from the GoK. Moreover, timely release of advance subsidy reimbursement against student and other category passes helped it service debt obligations in a timely manner and manage its stretched liquidity position.

Credit challenges

Weak operating profile as reflected by low passenger load and high loss-making schedules – The corporation has not been able to regain its pre-pandemic operating performance, as reflected by low passenger load and high loss-making schedules, which resulted in KKRTC's stretched liquidity position. Nevertheless, revenue support from the GoK helped it meet critical fixed expenses (salaries and pension to employees). Despite continuation of such a timely support from the GoK, KKRTC's liquidity position is likely to remain stretched in the near term on account of high fixed costs, lack of adequate tariff revision and weak traffic revenues.

Deterioration in financial profile characterised by widening losses – KKRTC's operating performance has been adversely impacted over the years owing to limited addition to its fleet strength, a decline in the number of profitable schedules operated and the rising cost of operations amid lower-than-optimal vehicle utilisation rates. These factors, along with the lack of upward revision in tariffs (since February 2020) have constrained revenue growth, resulting in a deterioration in the operating margins. KKRTC's operating performance is likely to improve in FY2023 owing to the removal of pandemic-related restrictions. However, increased fixed costs and lack of tariff revision would result in higher losses.

Increasing dependence on GoK grants and external borrowings – KKRTC's dependence on discretionary grants from the GoK to meet its revenue and capital expenditure requirements has increased over the years. Although the liquidity position, till now, has been supported by the transfer of grants and subsidy reimbursements by the GoK, the debt-servicing coverage indicators continue to show signs of stress due to weakening of operational performance.

Liquidity position: Stretched

The liquidity position of the corporation continues to remain stretched on account of high operating losses. However, KKRTC's cash and cash equivalents are estimated to be adequate to cover an estimated debt repayment of Rs. 31.28 crore in FY2023. 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. Further, a special grant from the GoK to meet KKRTC's high establishment costs and the release of advance subsidy against special category bus passes would provide some support. Moreover, the company's ability to defer the transfer of MVT to the GoK or an approval for exemption of the said tax for FY2023 will provide some flexibility. ICRA notes that any further deviation in the operational cash flows would lead to a tighter liquidity position for KKRTC in the medium term, impacting debt servicing.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if KKRTC is able to achieve operating profits.

Negative factors – ICRA could downgrade the rating if there is a delay in receiving adequate support from the GoK to meet any shortfalls and if there is a further deterioration in KKRTC's operating performance in FY2023.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Passenger Road Transport Entities Rating Approach – Implicit Support from Parent or Group
Parent/Group support	The assigned rating factors in the importance that KKRTC holds for the state government as an institution for providing public transportation services in the state, which has prompted it to extend timely financial support to KKRTC.
Consolidation/Standalone	Standalone

About the company

KKRTC was incorporated in August 2000 as a Charitable Trust under Section 3 of the Road Transport Corporation (RTC) Act, 1950, for providing a public transport system to the commuters of the Kalyana region of Karnataka. As on March 31, 2022, with a fleet strength of around 4,517, KKRTC operates close to 4,141 schedules daily through 52 depots and has around 19,319 personnel.

Key financial indicators (actuals)

KKRTC	FY2020	FY2021	FY2022(P)
Operating Income (Rs. crore)	1,837.2	1,281.4	1,475.1
OPBDITA	37.9	-93.7	-134.3
PAT (Rs. crore)	-84.2	-172.6	-220.1
OPBDIT/ OI (%)	2.1%	-7.3%	-9.1%
RoCE (%)	-312.9%	99.3%	58.4%
Total Debt/ TNW (times)	-1.3	-0.3	-0.2
Total Debt/ OPBDIT (times)	2.5	-0.8	-0.8
Interest Coverage (times)	3.9	-12.5	-23.1

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

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 as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sept 06, 2022	Aug 25, 2021	Aug 14, 2020	Aug 26, 2019
1	Term loans	Long term	230.00	106.33	**[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 Loan	Simple

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 Loans**	FY 2018	~8%	FY2028	230.00	[ICRA]B+(Stable)

Source: Company

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

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About ICRA Limited:

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