September 15, 2023

# Kalyana Karnataka Road Transport Corporation: Rating upgraded; rated amount enhanced

## 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 | 265.00 | [ICRA]BB- (Stable); Rating upgraded from [ICRA]B+(Stable) and assigned for the enhanced amount |
| **Total** | **230.00** | **265.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating upgrade takes into consideration the improvement in the operating performance of Kalyana Karnataka Road Transport Corporation (KKRTC), which is likely to improve further in the near term. KKRTC has reported a nominal operating profit in FY2023 (provisional) against losses in the previous years, owing to an increased passenger load and a 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 KKRTC's financial health. ICRA notes a significant rise in KKRTC'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 KKRTC as a provider of passenger road transport service in the north-eastern region of Karnataka. As an important agency of the state government, the corporation enjoys significant financial flexibility in terms of receiving support from the GoK and raising loans for its regular capex. The rating also considers continuous and timely release of various grants/reimbursements from the GoK, which supported the stretched liquidity position of KKRTC, 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 low profits and cash accruals, though it has improved in FY2023. The profitability would remain under pressure on account of increasing fixed costs and high share of loss-making schedules, though it has reduced marginally in FY2023. KKRTC's dependence on discretionary grants from the GoK and external borrowings to meet its revenue and capital expenditure requirements has increased over the years. ICRA also notes the large debt-funded capex being undertaken by the corporation in FY2024, which would increase its debt servicing obligations in the near term. Any material deterioration in KKRTC'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 KKRTC would continue to enjoy support from the state government to sustain its operations as passenger transport is an essential service.

## 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 (Kalyana region) districts of Karnataka. Its operations are supervised by its Board of Directors (BoDs) appointed by the GoK, which also extends financial support. Grants from the state government fund a considerable portion of KKRTC's capital expenditure programme. Further, the corporation has been receiving approval from the state government for retention or waiver of MV tax, which provides a liquidity cushion. Moreover, in FY2023, the outstanding MV tax as on March 31, 2022, was converted into equity by the state government, which significantly improved KKRTC's capital structure. KKRTC also enjoys financial flexibility with the banks, which offer regular credit for capital expenditure requirements at competitive rates/terms.

**Timely release of funds from the state government –** KKRTC 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 20.4% to its total operating income in FY2023. While no special grant has been provisioned by the state government in FY2024, KKRTC has started receiving additional reimbursement against the free travel for women in the state. Release of all such reimbursements helps the corporation in servicing its debt obligations in a timely manner and manage its stretched liquidity position.

## Credit challenges

**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 50%, which would result in low profits and cash accruals for the corporation. 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 KKRTC meet its critical fixed expenses (salaries and pension to employees). Despite continuation of such timely support from the GoK, KKRTC'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 –** KKRTC's dependence on discretionary grants from the GoK to meet its revenue and capital expenditure 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, KKRTC's cash flow mismatch would continue, increasing its dependence on discretionary grants and fresh loans.

**Large debt-funded capex in the near term –** KKRTC has planned an aggressive capex in FY2024, which mainly includes purchase of 1,500 new buses, which would be partly funded by fresh term loans. While the state government has sanctioned a capital grant of Rs. 100.0 crore, the balance will have to be funded by KKRTC from its own accruals. Further, the debt servicing obligation on account of fresh loans would increase significantly in the near-to-medium term. 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 of Rs. 27.2 crore estimated for FY2024 against the annual repayment of Rs. 31.38 crore. ICRA notes that despite its stretched liquidity, the corporation assigns the highest priority to debt servicing over other expenditure. ICRA believes that the corporation would continue to stretch its payables, leading to an increase in its current liabilities. Moreover, the corporation's ability to defer the payment of Motor Vehicle Tax (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 KKRTC in the medium term, impacting its debt servicing.

## Rating sensitivities

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

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

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Passenger Road Transport Entities |
| **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 Karnataka, which has prompted it to extend timely financial support to KKRTC. |
| **Consolidation/Standalone** | Standalone |

## About the company

KKRTC was incorporated in August 2000 as an independent entity under Section 3 of the Road Transport Corporation (RTC) Act, 1950 as a charitable trust, with the aim of providing a public transport system to the commuters of the Kalyana (North-Eastern) region of Karnataka. As on March 31, 2023, with a fleet strength of 4,327, KKRTC operates 4066 schedules daily through 52 depots and has 18,803 personnel.

### Key financial indicators

| KKRTC | FY2022 | FY2023* |
|---|---|---|
| **Operating income** | 1,467.9 | 2,200.2 |
| **PAT** | -221.8 | -46.2 |
| **OPBDIT/OI** | -10.5% | 0.3% |
| **PAT/OI** | -15.1% | -2.1% |
| **Total outside liabilities/Tangible net worth (times)** | -2.6 | -5.7 |
| **Total debt/OPBDIT (times)** | -0.7 | 14.2 |
| **Interest coverage (times)** | -26.6 | 0.8 |

*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 Aug 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Sep 15, 2023 | Sept 06, 2022 | Aug 25, 2021 | Aug 14, 2020 |
| 1 | Term loans | Long-term | 265.00 | 222.22 | [ICRA]BB- (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 Loan – I** | FY2018 | 8.25% | FY2025 | 23.00 | [ICRA]BB- (Stable) |
| **NA** | **Term Loan – II** | FY2019 | 8.35% | FY2026 | 42.04 | [ICRA]BB- (Stable) |
| **NA** | **Term Loan – III** | FY2022 | 8.25% | FY2029 | 50.00 | [ICRA]BB- (Stable) |
| **NA** | **Term Loan – IV** | FY2024 | 8.65% | FY2031 | 149.96 | [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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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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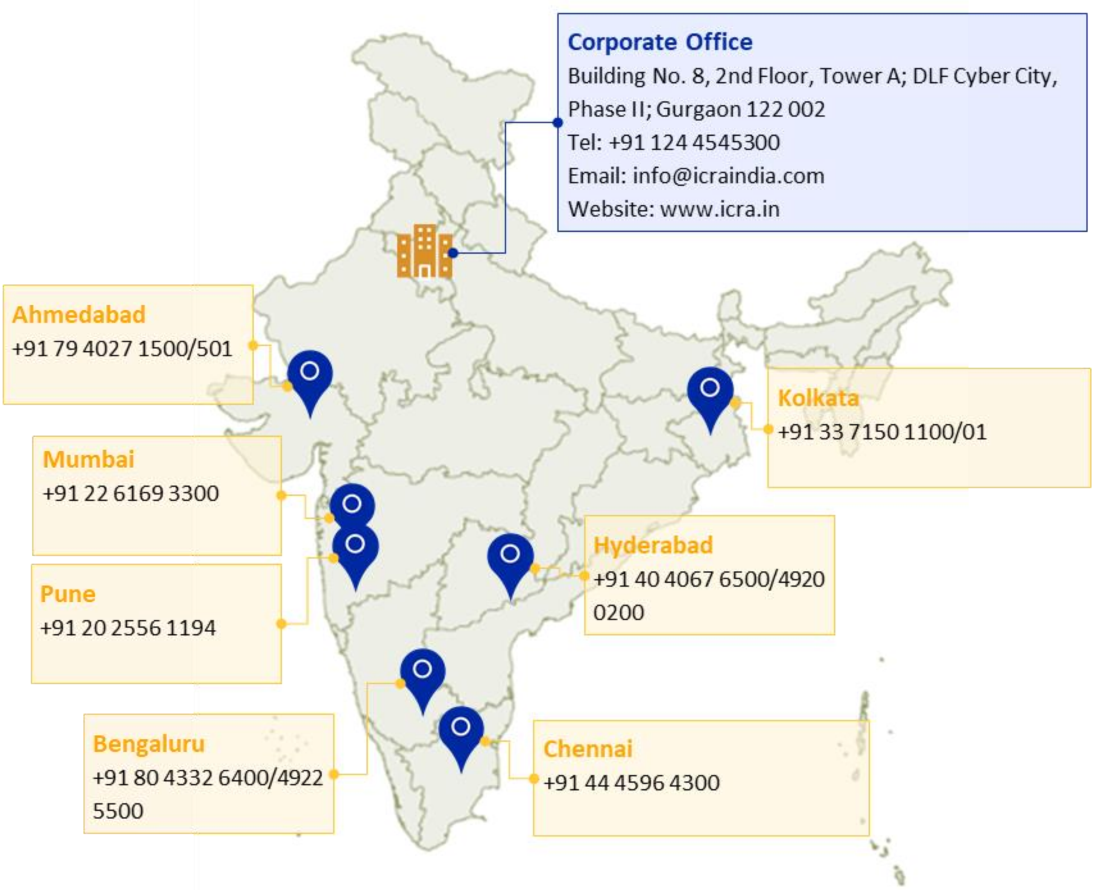




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