October 28, 2024

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	265.00	265.00	[ICRA]BB-(Stable); reaffirmed
Total	**265.00**	**265.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation takes into consideration the strategic importance of Kalyana Karnataka Road Transport Corporation (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 considers the continuous and demonstrated timely release of various grants/reimbursements from the Government of Karnataka (GoK), which supported its liquidity position, especially in covering debt service obligations and meeting critical revenue expenses like payment of salaries and fuel bills. ICRA notes the improvement in KKRTC's operating performance, with an increase in the number of schedules and improvement in the load factor, which is likely to sustain in the near term. KKRTC's traffic revenue grew in FY2024 by ~22% over FY2023 on account of increased distance travelled by its buses with high passenger load, which is expected to sustain in FY2025. The passenger load has significantly risen in FY2024 with the introduction of the Shakti Scheme by the GoK, under which free travel is being provided by the state-owned road transport corporations (RTCs) to the women in the state. While the entire cost towards the Shakti Scheme is reimbursed by the state government, around 15% is still due to be received, which is likely to be released in FY2025.

The rating, however, remains constrained by KKRTC's loss-making operations, owing to inadequate ticket fare and lower subsidy received from the state government, despite an increased passenger load and a reduction in the number of loss-making schedules. Going forward, its profitability would remain under pressure on account of rise in fixed costs, with no fare revision and high share of loss-making schedules. Accordingly, KKRTC's dependence on discretionary grants from the GoK and external borrowings to meet its revenue and capital expenditure requirements would continue to increase.

The rating would remain sensitive to 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 the 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.

The Stable outlook on the long-term rating reflects ICRA's opinion that KKRTC would 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.

Key rating drivers and their description

Credit strengths

Strategic importance to GoK; financial flexibility derived from being 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 MVT in FY2022-2024, which provides liquidity cushion. Moreover, in FY2023, the outstanding MVT 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.

Demonstrated track record of timely release of funds supporting liquidity profile – 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 to around 5% of its total operating income in FY2024. While no special grant has been provisioned by the state government in FY2025, KKRTC receives additional reimbursement against 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 liquidity position.

Credit challenges

Low profitability due to high loss-making schedules – The corporation reported an operating loss in FY2024 owing to reduced subsidy received from the state government, despite increased passenger load and a reduction in the number of loss-making schedules. However, the percentage of loss-making schedules remains high at 21%, 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. 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 for discretionary 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. Further, external borrowings in the form of long-term loans have been availed by the entity to meet its capex requirements. While the cost of operations has been rising on the back of increased employee salary and fuel prices, the corporation has not been able to revise its tariff adequately. In absence of regular and adequate tariff revision, KKRTC's cash flow mismatch would continue, increasing its dependence on discretionary grants and fresh loans.

Large outstanding liabilities – KKRTC 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 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. Until then, the corporation will continue to stretch its liabilities and repay the loans with the support from the Government in the form of grants/subsidies.

Liquidity position: Stretched

The liquidity position of the corporation remains stretched on account of inadequate cash accruals. 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 MVT to GoK or an approval for exemption of the said tax for FY2025 will provide some comfort.

Rating sensitivities

Positive factors – ICRA could upgrade KKRTC'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 KKRTC's operating performance and a decline in its profits and cash accruals on a sustained basis. Any delay in receiving adequate support from the GoK to meet fund shortfalls, leading to further weakening in its liquidity and debt protection metrics could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Passenger Road Transport](#)
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, 2024, with a fleet strength of 4,924, KKRTC operates 4584 schedules daily through 52 depots and has 19,197 personnel.

Key financial indicators (audited)

KKRTC	FY2023	FY2024
Operating income	2,231.2	2,290.6
PAT	-118.8	-160.7
OPBDIT/OI	-3.6%	-4.2%
PAT/OI	-5.3%	-7.0%
Total outside liabilities/Tangible net worth (times)	-5.4	-6.3
Total debt/OPBDIT (times)	-1.0	-2.1
Interest coverage (times)	-10.9	-7.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs Crore)**	**Oct 28, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term loans	Long term	265.00	[ICRA]BB- (Stable)	Sep 15, 2023	[ICRA]BB- (Stable)	Sep 6, 2022	[ICRA]B+ (Stable)	Aug 25, 2021	[ICRA]B+ (Stable)

Complexity Indicator

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	8.85%	FY2025	23.0	[ICRA]BB- (Stable)
NA	**Term loan – II**	FY2019	8.75%	FY2027	42.04	[ICRA]BB- (Stable)
NA	**Term loan – III**	FY2022	8.85%	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:

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