

January 08, 2021

Andhra Pradesh State Road Transport Corporation: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans (Guaranteed)	2500.00	[ICRA]BBB+ (CE) (Stable) Assigned
Fund-based Term Loans	3180.00	[ICRA]BBB- (Stable) Assigned
Total	5680.00	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement [ICRA]BBB-

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The rating assigned to the guaranteed bank facilities of the Andhra Pradesh State Road Transport Corporation (APSRTC) primarily reflects the credit profile of the Government of Andhra Pradesh (GoAP), which has extended an unconditional and irrevocable guarantee for the repayment of the principal and the payment of interest over the tenure of the rated instruments. While ICRA notes that no well-defined invocation and payment mechanism has been included as part of the guarantee deed, the APSRTC's strong business linkages with the state government provides an uplift to the credit rating assigned to the guaranteed bank facilities.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by the Government of Andhra Pradesh in favour of the said facility. While the guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated facility, it does not have a well-defined invocation and payment mechanism. Taking cognizance of the above, ICRA has assigned a rating of [ICRA]BBB+(CE) to the said facility against the unsupported rating of [ICRA]BBB- without any explicit credit enhancement. In case the rating of the guarantor or the unsupported rating of the APSRTC were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this facility may also undergo a change in a scenario whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants/clauses related to the credit enhancement of guaranteed bank loans, as specified in the guarantee documents

- An unconditional and irrevocable guarantee by the GoAP for the repayment of principal and interest over the entire tenure of the bank loans.

- In the event of a default, the guarantor shall, upon demand, forthwith pay to the lender without any demur or protest, all the amounts payable by the borrower to the lender under the transaction documents within 2 days of demand.
- Any demand, notice or request required to be given to the guarantor, sent in writing shall be deemed to be received after 24 hours of posting thereof provided signed by any officer of bank and shall be sufficient to prove that demand was properly addressed to the Guarantor.
- The guarantor has waived his rights under Sections 133,134, 135, 139 and 141 of the Indian Contract Act, 1872.
- No payment mechanism is included as part of the guarantee deed.

The rating without any explicit credit enhancement draws comfort from the strategic importance of the APSRTC to the Government of Andhra Pradesh (GoAP), as illustrated by the continuous financial support received over the years with the corporation playing a critical role in providing passenger transport services in the state. The rating favourably factors in the APSRTC's strong business linkages with the state government wherein the latter has absorbed all the permanent employees of APSRTC w.e.f January 1, 2020, which is likely to reduce the employee costs of APSRTC by more than Rs. 3,000 crore per annum, resulting in large operating surplus and an adequate liquidity profile from the current year. Moreover, this move strengthens its linkage with the state government even further, which as per ICRA is a strong credit positive. ICRA notes that the APSRTC has not been paying liabilities pertaining to the transfer of the Motor Vehicle Tax (MVT) and loans to the state government and, therefore, enjoyed the flexibility of holding the same, with prior approval of the GoAP, in the event of any cash flow mismatch, particularly on account of the repayment of the external borrowings. As per ICRA estimates, despite the loss of traffic operations due to the pandemic, APSRTC's financial profile will see a sharp turnaround in FY2021, which will lead to a comfortable liquidity position, even after paying off the state government's annual liabilities pertaining to loans and motor vehicle taxes. Moreover, APSRTC enjoys healthy financial flexibility with banks through regular availability of credit for capital expenditure requirements at competitive rates. The rating is also supported by the APSRTC's large geographical reach with its large fleet, connecting more than five states in the country and operating close to 11,000 schedules on a daily basis.

The rating, however, is constrained by the APSRTC's leveraged capital structure, as reflected by a gearing of 5.2x times as on March 31, 2020, and weak coverage indicators, which is on account of the high debt levels and a gradual decline in its net worth over the past decade. ICRA notes that the corporation has been operating with large losses in the past on account of high deployment of fleets in loss-making schedules, stagnant fares and high employee costs. Although a nominal fare hike has been implemented since December 2019, after a gap of five years, ICRA believes that timely fare hike and maintaining a satisfactory operating profile going forward, would be key rating sensitives. As per ICRA estimates, despite a sharp improvement in its profitability during FY2021, APSRTC's gearing levels are expected to remain high at around ~4x times as on March 31, 2021, given the high debt levels. ICRA believes that the healthy liquidity position of APSRTC would be subject to the GoAP's direction with regard to the utilisation of the excess surplus generated from the current year onwards. Additionally, the benefits accrued by the reduction in employee costs are likely to be offset partially by abolishment of revenue subsidies and reversal of retention benefits of certain liabilities like motor vehicle taxes and repayment of state government loans. Moreover, the GoAP has already stopped subsidy transfers under the concessionaire scheme and capital grants for FY2021, which is likely to leave APSRTC with a lower-than-expected surplus.

The Stable outlook on the long-term ratings reflect ICRA's outlook on the GoAP's finances, and the belief that APSRTC will continue to benefit from its strategic importance to the GoAP and strong business linkages with the state government.

Key rating drivers and their description

Credit strengths

Strategic importance to the state government: The APSRTC is owned by the GoAP (69%) and the Government of India (GoI, 31%) and is the only road transport carrier in the state of Andhra Pradesh, responsible for providing road transport infrastructure and services to passengers. Its operations are supervised by its Board of Directors appointed by the GoAP. The corporation has strong financial linkages with the state government, with the GoAP extending unconditional and irrevocable corporate guarantee towards the bank facilities of APSRTC, although the rated instruments does not have any well-defined invocation and payment mechanism. The APSRTC also enjoys healthy financial flexibility with banks through regular availability of credit for capital expenditure requirements at competitive rates.

Strong business linkages with the state government: The Andhra Pradesh Government enacted the Andhra Pradesh State Road Transport Corporation (Absorption of Employees into Government Services) Act 2019, as per which, all the permanent APSRTC employees (~52,000 as on March 31, 2020) have been designated as the state government employees w.e.f. January 01, 2020 and their salaries including other employment benefits are paid from the state treasury. Employee costs, which was the major operating cost for APSRTC (~50% of the revenues) will now come down to ~4% of the total revenues from FY2021 onwards and will lead to huge operating surplus. The decision, apart from providing significant financial benefit to APSRTC, also strengthens its linkage with the state government, which provides comfort to the APSRTC's weak financial profile and ICRA considers it as a strong credit positive.

Improvement in the financial profile of APSRTC from FY2021 onwards – The entity is expected to report an operating profit of more than Rs. 650 crore during FY2021, as against large operating losses (~average Rs. 500 crore) in the previous five fiscals. Moreover, APSRTC is also expected to report net profits for the first time in the recent history, given the major operational costs are now being borne by the state government. The liquidity position of APSRTC is expected to remain adequate, given the large surplus it would generate due to operating surpluses. Although the capital structure of the entity is also expected to improve significantly, its Total Debt/TNW would still remain high at 4.1x times as on March 31, 2021 given the large outstanding debt and lower net worth, most of which has been wiped out due to large losses incurred in the past.

Wide geographical presence with one of the largest fleets in the India – Over the years, APSRTC has expanded its fleet size to 11,834 vehicles as on March 31, 2020 of which, a majority (~75%) are self-owned while the remaining are hired on rental. APSRTC's operations are diversified and has large geographical presence with its routes connecting several states such as Telangana, Tamil Nadu, Maharashtra, Karnataka, Chhattisgarh, Madhya Pradesh, Odisha, operating close to 11,000 schedules through its 128 bus depots and runs more than 15,200 lakh km annually. The entity with a wide geographical presence and a large fleet, ranks among the top five road transport corporations in India with largest fleet.

Credit weaknesses

High debt levels leading to a leveraged capital structure - The APSRTC's capital structure is leveraged largely on account of increasing debt levels and continuous erosion in its net worth owing to large losses year after year. The entity had an overall gearing ratio of 5.2x times as on March 31, 2020. The other debt servicing indicators like interest cover of 0.04x times and debt servicing coverage ratio of 0.02x times as on March 31, 2020, also remained weak. ICRA, however, notes that APSRTC is likely to report large operating profits during FY2021, despite a significant loss of traffic revenues during the pandemic, because of savings of more than Rs. 3000 crore per annum related to employee costs, which would now be borne by the state government. As a result, the financial profile of the APSRTC, is likely to improve significantly during FY2021, although the gearing ratios are still expected to remain high unless the state government decides to clear the outstanding loan liabilities from the excess surplus generated.

Roll back of earlier transfers and benefits by the state government would impact APSRTC’s profitability and liquidity position – The significant financial benefit arising from the absorption of its employees with the state government, would be partially offset by abolishing various revenue subsidies and reversal of deferment benefits in the payment of MV tax and other liabilities. Accordingly, the profitability and liquidity position of APSRTC would be impacted to the extent of these payments from FY2021 onwards. While the liquidity position, from FY2021 onwards, would be sufficient to meet its debt servicing commitments, the APSRTC would be dependent on the GoAP’s direction with regards to the utilisation of the excess surplus generated over the future years. The GoAP has already stopped subsidy transfers under the concessionaire scheme and capital grants for FY2021. ICRA believes that the GoAP could direct the APSRTC to clear other government outstanding liabilities (state government loans, MV tax liabilities) or could pass on additional expenditure responsibilities, which may lead to a less than expected positive cash flows.

Liquidity position: Adequate

The corporation has substantial annual debt repayments amounting to Rs. 316.22 crore (considering moratorium benefit availed from April to August 2020) during FY2021. The retained cash flow estimated during FY2021 would be positive by around Rs. ~1,263 crore, which would be adequate to cover for the scheduled repayments. Moreover, a projected high cash balance of around Rs. ~950 crore as on March 31, 2021 is expected to support the liquidity position of APSRTC, which is likely to be utilised for carrying out a planned capex or any other commitments based on the direction of the state government. Nevertheless, the large cash balance, which is net of the annual liabilities, including transfer of motor vehicle taxes and repayment of government loans, provides a comfort to the APSRTC’s liquidity position. ICRA, however, notes that any adverse decision by the GoAP to transfer the additional surplus funds to any other government department or division, other than APSRTC or passing on additional expenditure responsibilities, would lead to a moderate tightening of liquidity position for the APSRTC in the medium term.

Rating sensitivities

Positive trigger - ICRA could upgrade the rating if the APSRTC is able to achieve higher-than-expected operating profits after traffic operations are normalised completely.

Negative trigger - ICRA could downgrade the rating if the state government decides to transfer the excess surplus generated by APSRTC, due to significantly lower employee cost, to some other entity or for any other work not related with its regular operations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Passenger Road Transport Entities Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent: Government of Andhra Pradesh The assigned ratings factors in the credit profile of the GoAP, which has strong linkages with the entity and has also extended an unconditional and irrevocable guarantee to the bank lines of APSRTC.
Consolidation / Standalone	Standalone

About the company

The APSRTC was established in January 1958 as an independent entity under Section 3 of the Road Transport Corporation (RTC) Act, 1950 as a charitable trust, to provide adequate, efficient and economic passenger road transport services in the state of Andhra Pradesh. The operations of APSRTC are supervised by the Board of Directors (BoDs), which www.icra.in

is chaired by a Vice Chairman and Managing Director, who is appointed by the GoAP. The BoD comprises representatives from the Transport and Finance Departments of the state government, Executive Directors and Financial Advisor of APSRTC and representatives of the Government of India. As on March 31, 2020, with a fleet strength of 11,834, the APSRTC operates close to 11,000 schedules daily through 128 depots and has 51,930 personnel.

Key financial indicators

	FY2018	FY2019	FY2020*
Operating Income (Rs. crore)	5,665.3	6,122.4	5,899.8
OPBDITA	-782.5	-538.8	12.3
PAT (Rs. crore)	-1,210.7	-961.3	-488.0
OPBDIT/ OI (%)	-13.8%	-8.8%	0.2%
RoCE (%)	-16.0%	-12.2%	-2.8%
Total Debt/ TNW (times)	1.8	3.2	5.2
Total Debt/ OPBDIT (times)	-4.7	-7.7	387.1
Interest Coverage (times)	-3.0	-1.9	0.04
NWC/ OI (%)	-20%	-23%	-19%

Source: APSRTC data, ICRA research; *FY2020 numbers are provisional

About the Guarantor – Government of Andhra Pradesh

The Government of Andhra Pradesh's (GoAP's) revenue expenditure has consistently exceeded its revenue receipts during FY2016 to FY2019, leading to sustained revenue deficit during these years. The latter worsened from Rs. 7,306 crore (1.2% of Gross State Domestic Product or GSDP¹) in FY2016 to Rs. 16,206 crore (2.0% of GSDP) in FY2018 before easing somewhat to Rs. 13,955 crore (1.6% of GSDP) in FY2019. However, the revised estimates (RE) for FY2020 indicate that the GoAP's revenue deficit worsened sharply to Rs. 26,720 crore (2.7% of GSDP) in that year. The state government's fiscal deficit in each of these years (3.7% in FY2016, 3.3% in FY2017, 4.1% each in FY2018 and FY2019, and 4.2% in FY2020 RE) was higher than the threshold of 3.0% of GSDP recommended by the Fourteenth Finance Commission (14th FC) for the period from FY2016 to FY2020. In its budget estimate (BE) for FY2021, the GoAP's revenue deficit was expected to narrow considerably to Rs. 18,496 crore from Rs. 26,720 crore in FY2020 RE, partly benefitting from the inclusion of Rs. 5,897 crore of revenue deficit grant recommended by the Fifteenth Finance Commission (15th FC) for the current fiscal.

However, the consumption of several discretionary items is expected to have been adversely impacted in the ongoing fiscal on account of the Covid-19 pandemic. This is expected to lead to the GoAP's revenue receipts, both own and Central transfers, being sharply lower than budgeted in FY2021, in ICRA's view. With a contraction likely in the state own tax revenues or SOTR, the overall revenue receipts as well as nominal GSDP in FY2021, the GoAP's level of leverage relative to each of these three metrics is expected to deteriorate in the ongoing fiscal, which would worsen its fiscal profile.

ICRA would continue to closely monitor the impact of the pandemic on the GoAP's revenues, both own and Central transfers, expenditures and its overall fiscal position. ICRA will assess the impact of the measure(s) that the GoI may announce to alleviate the fiscal and liquidity stress being experienced by the state governments in the light of the ongoing crisis, including permission of additional borrowings etc., as well as the timeliness and adequacy of GST compensation grants. ICRA would also analyse the impact of the recommendations of the 15th FC for the award period FY2022-FY2026 on the GoAP's finances.

¹ Source for GSDP of GoAP for FY2016 to FY2020 is Central Statistical Organization

Exhibit 1: Key fiscal indicators of the GoAP (Amounts in Rs. crore)

	FY2019	FY2020 RE	FY2021 BE
Revenue			
Revenue Receipts	1,14,615	1,10,798	1,61,896
State's Own Tax Revenue	58,107	57,447	70,679
State's Own Non-Tax Revenue*#	4,340	3,251	5,804
Share in Central Taxes	32,711	28,225	32,238
Grants from Centre	19,457	21,876	53,175
Capital Receipts#	56	73	62
Expenditure			
Revenue Expenditure*	1,28,569	1,37,518	1,80,393
Capital Outlay	19,976	12,845	29,908
Net Lending	1,566	1,001	-46
Revenue & Fiscal Balance			
Revenue Balance	-13,955	-26,720	-18,496
Fiscal Balance	-35,441	-40,493	-48,296
Leverage			
Debt	2,10,161	2,42,731	2,91,297
Guarantees		54,252	

* Adjusted for double entries of interest from Departmental Commercial Undertakings; # Adjusted for receipts from sale of land that is treated as a capital receipt; Guarantee estimate for FY2019 is as per the state budget

Source: State Budget, Finance Accounts and ICRA research

Credit strengths

High revenue receipts supported by Central transfers: Despite easing from 13.3% in FY2019 to 11.4% in FY2020 RE, the GoAP's performance on revenue receipts as a proportion to GSDP was favourable compared to several other states. The GoAP's revenue receipts are augmented by substantial Central transfers (share in Central taxes + grants from the Centre), which accounted for a considerable ~45% of its revenue receipts during FY2019-FY2020 RE.

Strategic geographical location: AP benefits from its strategic geographical location on the South-east coast of India. The state has the second longest coast line (approx. 972 km) among the Indian states, along which it has 14 minor ports and one major port, which provides potential for port-led growth in the state.

Credit challenges

Unfavourable fiscal balances: The GoAP's revenue deficit ranged from 1.2-2.0% of GSDP from FY2016 to FY2019 and is expected to have increased sharply to 2.7% of GSDP in FY2020 RE, despite large Central transfers. Additionally, the GoAP's fiscal deficit breached the 14th FC-recommended cap of 3.0% of GSDP during FY2016 to FY2020 RE.

Worsening leverage levels: The guarantees extended by the GoAP rose multi-fold to Rs. 54,252 crore in FY2019 from Rs. 9,665 crore in FY2017. Additionally, the debt outstanding of the GoAP increased by a substantial 29.9% to Rs. 2,10,161 crore in FY2019 from Rs. 1,61,755 crore in FY2017. Accordingly, the leverage as a proportion of SOTR of the GoAP deteriorated to 4.6x in FY2019 from 3.9x in FY2017. Moreover, as a proportion of the GSDP, the GoAP's leverage deteriorated to 30.6% in FY2019 from 25.0% in FY2017. The GoAP's performance on such indicators is unfavourable compared to several other states.

Relatively weak socio-economic indicators: AP's performance on literacy (67.7% in 2011) and urbanisation (29.5% in 2011) was unfavourable compared to the respective national averages (74.0% and 31.2%).

High relative dependence on agriculture: While the share of agriculture in AP's GSV (at constant prices) is nearly double the national average (30.7% vs. national average of 14.6% in FY2019) and there is substantial dependence on this sector for livelihoods², the state's irrigation coverage (35.1% in 2015) is weaker than the national average (48.8%). The dependence of a high proportion of population on the agricultural sector, which tends to be relatively less remunerative compared to the industry and services sectors, has contributed to AP's per capita income as well as the GoAP's per capita SOTR (Rs. 11,318 in FY2019) being lower than several other states.

Rating Sensitivities

Positive Triggers: Sustained improvement in the fiscal balances and leverage levels of the GoAP.

Negative Triggers: Deterioration in the revenue receipts, including increased dependence on GST compensation grants, fiscal balances and leverage levels of the state government.

Liquidity position: Stretched

The GoAP has availed the Ways and Means Advances and/or the Overdraft facilities from the Reserve Bank of India on several occasions during FY2019, FY2020 and in FY2021 (till September 2020). Based on the aforementioned indicators, the liquidity position of the state government can be implied to have been stretched during the recent times.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated	Amount Outstanding [^]	Date & Rating	Date (month/year) & Rating in		
					FY2020	FY2019	FY2018
				Jan08, 2021	-	-	-
1 Term Loans (Guaranteed)	Long-term	2500.00	1747.50	[ICRA]BBB+ (CE) (Stable)	-	-	-
2 Term Loans	Long-term	3180.00	1242.40	[ICRA]BBB- (Stable)	-	-	-

[^]As on March 31, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

² As per the Socio-Economic Survey of FY2019, published by the state government, agriculture was the main source of livelihood of 60.0% of the population of AP in 2017

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2016-2020	~8.7%	Up to FY2026	2500.00	[ICRA]BBB+(CE) (Stable)
NA	Term Loans	FY2016-2020	~8.7%	Up to FY2026	3180.00	[ICRA]BBB- (Stable)

Source: APSRTC

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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