

## North Eastern Karnataka Road Transport Corporation

July 06, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	0.00	230.00	[ICRA]B+(Stable); assigned
Issuer Rating	Nil	Nil	[ICRA]B+(Stable); withdrawn

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned the long-term rating of [ICRA]B+ (pronounced ICRA B plus)<sup>1</sup> to the Rs. 230.0 crore fund-based term-loan facilities of North Eastern Karnataka Road Transport Corporation (NEKRTC). The outlook on the long-term rating is Stable. ICRA has withdrawn the Issuer rating of [ICRA]B+ (pronounced ICRA B plus) at the request of NEKRTC.

### Rationale

The rating assigned takes into consideration the importance of the NEKRTC to the Government of Karnataka (GoK), with the Corporation playing a critical role in providing transport services in the north-eastern districts of the state, and the financial flexibility enjoyed for being a state-owned entity. The NEKRTC's performance remained modest during FY2018, as seen from the continuing net losses and the consequent strained liquidity position. The same is primarily due to reduced load factor and lack of tariff revision during recent fiscals despite rising fuel and employee expenses. The weak earnings during FY2017 and FY2018 has increased the corporation's dependence on grants and external borrowings for funding its capital expenditure and higher operating expenses. Its overall net worth base and cash flows were supported to some extent by the support received from the GoK in the form of capital grants. The ongoing capital expenditure towards strengthening its fleet is expected to constrain the leverage ratios and liquidity position of the corporation in the near term. The timely receipt of funding support from the GoK and the turnaround in operational performance, upon addition of buses and schedules, will be critical for improvement of the overall financial profile and would remain the key rating sensitivities going forward.

### Outlook: Stable

ICRA believes that the NEKRTC's performance is expected to improve over the medium term, aided by the steady increase in effective distances covered and the likely higher load factor following the ongoing fleet additions. The outlook may be revised to Positive if earnings exceed estimates and improves the financial risk profile. The outlook may be revised to Negative if the earnings are lower than expected, or if the debt-funded expenditure is higher than expected, which would weaken its liquidity position.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

## Key rating drivers

### Credit strengths

**Strategic importance to the GoK and financial flexibility derived for being a state-owned entity** – The NEKRTC 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. The operations of the corporation are supervised by its Board of Directors (BoDs) appointed by the GoK. It enjoys financial support from the GoK, with grants funding a considerable portion of its capital expenditure programs. The NEKRTC also enjoys financial flexibility with the banks through regular availability of credit for capital expenditure requirements at competitive rates.

### Credit weaknesses

**Weak operating performance** – The operating performance has been modest during the recent fiscals owing to limited fleet addition, impacting growth, and increasing competition, limiting the passenger load factor. In addition, the operating performance was severely constrained mainly due to firm fuel prices against lack of fare revision. Consequently, the number of profit-making schedules have reduced during the recent past, resulting in thin profits of Rs. 0.30 per km and Rs. 0.68 per km, respectively during FY2017 and FY2018. Ongoing addition of new buses with better facilities and improved utilisation of vehicles are likely to support growth in effective distance covered and load factor over the medium term.

**Modest financial profile** – The gearing of the NEKRTC stood at a moderate level of 1.3 times as on March 31, 2018, supported primarily by the capital grants from the GoK over the years. However, the losses incurred during the recent fiscals have adversely impacted the coverage indicators and liquidity position of the corporation. As a result, the corporation has become increasingly dependent on the financial support received from the GoK through grants and flexibility in payments of motor vehicle tax. The expected losses during FY2019 and the scheduled expenditure towards fleet addition are likely to further increase its debt levels and limit improvement in capitalisation ratios in the near term.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

### About the company:

NEKRTC was established in August 2000 as an independent entity under the provisions of the Road Transport Corporation (RTC) Act, 1950, to provide passenger road transport services in the north-eastern districts of Karnataka. As on March 31, 2018, with a fleet strength of 4,730 buses, NEKRTC operates close to 4,270 schedules daily through 50 depots and has around 20,200 personnel.

## Key Financial Indicators

Fiscal	FY2016	FY2017
	(Audited)	(Audited)
Operating Income (Rs. crore)	1501.25	1519.42
PAT (Rs. crore)	-20.19	-51.43
OPBDIT/ OI (%)	4.66%	0.95%
RoCE (%)	-25.94%	-76.75%
Total Debt/ TNW (times)	4.56	1.10
Total Debt/ OPBDIT (times)	1.02	3.12
Interest coverage (times)	5.96	2.10

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History		
		Type	Amount Rated	Amount Outstanding*	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2018
					July 2018	Feb 2018	Nov 2017	July 2017
1	Term Loans	Long-term	230.00	68.63	[ICRA]B+ (Stable)	-	-	-
2	Issuer Rating	Long-term	Nil	-	[ICRA]B+ (Stable) withdrawn	[ICRA]B+ (Stable)	[ICRA]B+ (Stable) ISSUER NOT COOPERATING	[ICRA]B+ (Stable)

\*outstanding as on March 31, 2018

## 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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans I	FY2019	-	FY2024	90.0	[ICRA]B+ (Stable)
NA	Term Loans Proposed	-	-	-	140.0	[ICRA]B+ (Stable)
NA	Issuer Rating	-	-	-	Nil	[ICRA]B+ (Stable); Withdrawn

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