

August 30, 2019

Pepsu Road Transport Corporation: Rating Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Overdraft	25.0	25.0	[ICRA]B+(Stable); reaffirmed, removed from Issuer Not Cooperating category
Long-term/Unallocated	15.0	15.0	[ICRA]B+(Stable); reaffirmed, removed from Issuer Not Cooperating category
Total	40.0	40.0	

*Instrument details are provided in Annexure 1

Rationale

The rating continues to take into consideration the Pepsu Road Transport Corporation's (PRTC) strategic importance to the Government of Punjab (GoP) as a provider of passenger transport services in the southern region of Punjab and regular fare revisions during the last three years, although frequency of such revisions in future remains uncertain. While the upward fare revision implemented in FY2019 has resulted in nominal operating profits for the PRTC in FY2019, the extent of future fare hikes in relation to the rising cost of operations will remain a challenge. The rating is, however, constrained by the PRTC's weak financial profile, as characterised by net losses, modest coverage indicators and strained liquidity position. PRTC continued to have negative net worth till FY2018, improving in FY2019, subsequent to the receipt of a grant from a state government agency. The PRTC has large payables towards retiring employees, which if funded by fresh debt, will adversely impact its liquidity position. Additionally, large receivables from various government departments towards subsidised travel also necessitates working-capital requirement, leading to an increase in the PRTC's interest cost. ICRA also notes the corporation's plans of additional capex related to adding new vehicles to its fleet, which is critical for improving the operational efficiency as all the fresh buses are likely to replace the older ones. Therefore, an improvement in the operational performance of the PRTC, as witnessed during the last two years, is likely to support its financial position, going forward.

Outlook: Stable

ICRA believes that PRTC will continue to get approval for an upward fare revision from the state government. However, due to inadequacy of the same to cover an increase in the overall cost of operations, the PRTC will continue to report nominal operating profit and net losses. Additionally, the efficiency of the buses will increase with infusion of the new 100 buses thus witnessing an improving trend in the corporation's operational performance. The outlook may be revised to Positive if substantial growth in operating profitability is witnessed. The outlook may be revised to a Negative if the timely upward fare revision is not implemented, and as a result the corporation's liquidity is stretched.

Credit strengths

Strategic importance of PRTC to the state government: The PRTC, being a provider of passenger transport services in the southern region of Punjab, is strategically important for the state government. The importance is reflected by the financial support provided to the PRTC in the form of various grants, loans and exemptions by the GoP.

Upward fare revisions during FY2018 and FY2019: The state government approved upward fare revisions twice during FY2019. Consequently, the corporation was able to report nominal operating profits in FY2019, as per the shared provisional numbers, and clear some of its liabilities towards retiring employees. However, timely approval of future fare revisions in relation to the cost of operations would remain critical for comfortable financial position of the PRTC.

Credit challenges

Weak financial profile but improved somewhat in FY2019: Although the PRTC continued to report slim profit and losses at operating level during FY2017 and FY2018 respectively, the same has shown a marginal improvement in FY2019. Subsequently, the corporation reported nominal operating profits during FY2019, compared to operating losses in the previous year. The revenues remained stagnant during FY2019.

Adverse capital structure: The PRTC had a negative net worth as on March 31, 2018 on account of accumulated losses from the previous years. However, it has been showing an improving trend to Rs. -9.31 crore as on March 31, 2018 and further improved to Rs 10.57 crore as on March 31, 2019 on account of a grant received from the state government agency, the Punjab Infrastructure Development Board (PIDB) as well as nominal cash accruals of the PRTC. Its total debt of Rs. 73.4 crore as on March 31, 2018 includes Rs. 60.16-crore term loans from the bank, repayment of which remained within the comfortable limits of the corporation.

Large shortfall in retirement benefit fund of employees: The PRTC had a liability of around Rs. 67.00 crore towards benefits of employees due for retirement. Payment of such a large amount, though in phases, would adversely impact the liquidity of the corporation. Moreover, if such payments are funded by fresh loans, the profitability as well as capex plans of the corporation were likely to be impacted. Further, the corporation had tax liabilities of Rs 181 crore payable to different authorities of Rs 181 crore as on March 31, 2018.

Liquidity position

The liquidity position remained weak with average working capital limit utilisation of ~60% during FY2019, partly aided by free cash of Rs. 10.31 crore as per provisional numbers of March 31st, 2019. However, the overall liquidity remains weak as total repayment for FY2020 stands at approx. Rs. 12 crore annually.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Passenger Road Transport Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Pepsu Road Transport Corporation (PRTC) was established by the GoP in October 1956 under the provision of the Road Transport Corporations (RTC) Act, 1950 with a view to provide efficient, adequate, economic and properly co-ordinated operation system of Road Transport Services in the southern region (erstwhile PEPSU - Patiala and East Punjab States Union) of Punjab. The corporation operates over 1,085 buses daily through nine depots and around 4,000 personnel.

Key financial indicators (audited)

	FY2017	FY2018	FY2019*
Operating Income (Rs. crore)	525.65	519.33	587.86
PAT (Rs. crore)	-3.47	-5.80	-5.12
OPBDIT/ OI (%)	0.03%	-0.17%	0.12%
RoCE (%)	-0.66%	-1.12%	-0.87%
Total Debt/ TNW (times)	-3.81	-7.88	-
Total Debt/ OPBDIT (times)	671.56	-84.90	-
Interest Coverage (times)	0.01	-0.08	-

Source: PRTC data, ICRA research; *FY2019 numbers are provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding [^]	Date & Rating		Date (month/year) & Rating in		
					August 2019	June 2019	FY2019	FY2018	FY2017
1	Fund-Based Limits (Cash Credit/Overdraft)	Long Term	25.00	25.00	[ICRA]B+ (Stable); reaffirmed, removed from issuer non-cooperation	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	-	[ICRA]B+ (Stable); reaffirmed	[ICRA]B+; reaffirmed, suspension revoked
2	Long-term Unallocated	Long Term	15.00	15.00	[ICRA]B+ (Stable); reaffirmed, removed from issuer non-cooperation	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	-	[ICRA]B+ (Stable); reaffirmed	[ICRA]B+; reaffirmed, suspension revoked

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

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	Cash Credit/Overdraft	-	-	-	25.0	[ICRA]B+(Stable)
NA	Unallocated	-	-	-	15.0	[ICRA]B+(Stable)

Source: PRTC

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

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