

## Telangana State Road Transport Corporation

September 29, 2023

Facilities/Instruments@	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	2,823.00 (Enhanced from 2,491.00)	CARE BB; Stable	Revised from CARE BB-; Stable

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in rating assigned to Telangana State Road Transport Corporation (TSRTC) is on account of significant growth in total operating income exhibited during FY23 due to improved scale of operations and timely repayment of debt obligations. The rating, however, continues to remain constrained by the volatility in cost of resources & limited control over pricing structure, continuing cash loss during last six financial years, leveraged capital structure with stressed debt coverage indicators and competition from intrastate & interstate passenger bus transportation & logistics services.

The rating nevertheless is underpinned by the continuous statutory & financial support from Government of Telangana (GoTS), geographical presence & socio-economic importance of the corporation. TSRTC has recorded an increase of 52% in Total Operating Income on account of increased fares, return to office and slew of new initiatives introduced. The ability of TSRTC to improve the operational efficiency, optimize cost on employment of resources in timely manner thereby reducing the operating cycle are the key rating sensitivities.

CARE ratings is closely monitoring the impending merger of TSRTC's employees with the government and shall review the rating once the aforesaid development comes to an conclusion.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in operational efficiency leading to positive net profits.
- Improvement in liquidity by virtue of employment costs of TSRTC being absorbed by Telangana State Government post-merger.

#### Negative factors

- Decline in revenue by more than 10% of FY23 levels leading to further increase in losses
- Change in stance of the Government of Telangana impacting funds infusion for timely servicing of debt obligations
- Policy changes which would result in additional costs of operations and putting more strain on profitability levels

#### Analytical approach: Standalone

CARE Ratings has adopted a Standalone approach, while factoring support from Government of Telangana.

#### Outlook: Stable

CARE Ratings believes TSRTC will continue to benefit support extended by Government of Telangana (GoTS) while constrained by high employee costs and weak financial performance.

### Detailed description of the key rating drivers:

#### Key weaknesses

##### Volatility in scale of operations with losses since FY18:

TSRTC revenue levels have fluctuated in last 6 years of operation with FY23 reporting highest revenue and FY21 the lowest with losses for last 6 years. The profitability levels & margins of the company continues to remain weak mainly due to volatile nature of resources leading to increase in cost of sales (owing to increased diesel costs) which is reflected in operational losses for the last 6 years.

**Volatility in cost of sales and limited control of pricing structure:** Cost of sales for the entity is very high at Rs. 6347 crore in FY23 vis-à-vis Rs. 5598 crore in FY22. Employee cost has been major burden at Rs. 2998 crore in FY23 (61% of the total revenue in FY23). Power and Fuel contributed to 31% to the total expenses in FY23 (PY: 37%). However, there exists fluctuation of fuel prices on account of regulatory norms & foreign exchange fluctuation for crude oil imported in economy and revision in employee payments & benefits. The same is subject to stay volatile on account of nature of the commodity and market demand-supply scenario. Further, TSRTC has

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

limited control over the pricing structure of fares as the services provided by them are fixed by the GoTS. However, to combat the high diesel prices, TSRTC has increased its fares for certain services in FY23.

**Weak capital structure with high reliance on GoTS support leading to weak liquidity position:** TSRTC has a weak capital structure marked by networth turning negative in FY21 due to continuous operational losses. Consequently, the other debt coverage indicators viz. total debt to Gross Cash Accruals (GCA) and PBILDT interest coverage ratio continues to remain negative. The liquidity position of the company is weak marked by the current ratio of 0.32x as on March 31, 2023 & gross cash loss of Rs. 593 crore in FY23 as the corporation is not generating sufficient cash accruals and has raised new debt to fund its capex requirements. However, The Corporation benefits from the continuous support from the GoTS which is providing funds to cover losses and meet its debt obligations. The table below shows the support from Government as on March 31, 2023:

Particulars	Till FY23
Capital infusion by Government	1190.39
Loans from Govt.	1514.64
Grants from Scheme (JNNURM)	54.36
Govt. Guarantee for loans	0.00
<b>Total</b>	<b>2759.39</b>

**Competition from private players in intrastate & interstate passenger bus transportation and logistics services:** TSRTC faces competition from the private players in the intrastate and interstate segment. With high pricing power coupled with time taken to reach destination, services by private players can attract the passengers at competitive prices as against the fares charged by TSRTC which are majorly fixed in nature, although the fares were increased marginally in March 2022 for certain services. Also, the recently launched logistics arm is in growing stage to take on other players to provide services in southern and central part of India.

### Key strengths

#### **FY23 robust sales growth:**

TSRTC has recorded an increase of 52% in Total Operating Income (TOI) to Rs. 4940 crore in FY23 from Rs. 3268 crore in FY22 on account of increased fares, return to office and slew of new initiatives introduced. The PBILDT improved significantly with losses reducing from Rs. 2329 crores in FY22 to Rs. 1407 crores in FY23. The main reason being improved fixed cost absorption. The employee costs, though increased from Rs. 2742 crores in FY22 to Rs. 2998 crores in FY23, as a percentage of sales has come down from 84% to 61% in FY23.

**Well-established track record and strong fleet base:** TSRTC with track record of more than five decades (considering APSRTC experience - as TSRTC was formed post to bifurcation of state) has created significant position in the Indian transportation sector. As on March 31, 2023 TSRTC has fleet strength of 9233 buses of which 6370 are government owned & remaining 2863 are hired on rental, operating on over 36 lakh kilometers/day and has 96 bus depots and 364 bus stations in 11 regions. The entity is also planning to introduce around 1,300 electric vehicles in a phased manner. TSRTC is also carrying out modernization of bus stations covering the aesthetic aspects as well.

**Geographical presence and socio-economic importance of the corporation:** TSRTC has its own buses and a portion of buses are operated on a rental basis to provide the services. Due to its economical fares and accessibility across various routes TSRTC continues to operate efficiently. TSRTC provides services across various states such as Andhra Pradesh, Maharashtra, Karnataka, Tamil Nadu and Chhattisgarh.

#### **Diversification of revenue sources through well-equipped and developed logistics service and other avenues:**

In order to provide better services TRTC is taking cautious efforts to improve its services and is continuously investing in new technology. It has wef August 2023, TSRTC has launched the "TSRTC Gamyam" bus tracking app in an effort to make bus travel easier and safer. In FY21 TSRTC has introduced parcel and cargo services with 193 cargo bus vehicles Earlier, the cargo and parcel services were operated through private agencies. However, now TSRTC is doing freight management under its brand. Also, to provide better services TSRTC is making continuously investing and has an automated & computerized system through which both the sender and receiver of goods will be able to track the parcel/courier via SMS and e-mail with a tracking link. These new initiatives have also resulted in an increased customer satisfaction.

Apart from the transportation services, TSRTC is actively involved in development of social infrastructure for the state TSRTC established its own Nursing College at Tarnaka and the classes of Nursing College have already started for the Academic Year 2022-23. Tarnaka Hospital is now allowing out-patients other than TSRTC employees also through Pay Clinics. The company has also established retail pharmacy outlets for retail customers.

**Liquidity:** Stretched

The liquidity position of the corporation remains stretched with negative cash accruals from last six years. The GoTS has been supporting the company with infusion of funds to the tune of Rs. 2759 crore in last 7 FYs ending FY23. Going forward, TSRTC is expected to meet its debt obligations with the help of funds infusion from the GoTS. CARE ratings expects that the impending merger of RTC with the government, where in the existing employees will be considered as government employees (employee costs forms 61% of total revenue in FY23), will significantly improve the liquidity of TSRTC.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not mandatory for BIG cases, however ESG points like socio-economic importance relevant for credit rating have been mentioned above.

**Applicable criteria**

[Policy on default recognition](#)  
[Factoring Linkages Government Support](#)  
[Financial Ratios – Non financial Sector](#)  
[Liquidity Analysis of Non-financial sector entities](#)  
[Rating Outlook and Credit Watch](#)  
[Service Sector Companies](#)  
[Policy on Withdrawal of Ratings](#)

**About the company and industry****Industry Classification**

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Road Transport

RTC in Telangana State was first established as NSR-RTD (Nizam State Rail & Road Transport Department), a wing of Nizam State Railway in the erstwhile Hyderabad State, in 1932, with 27 buses and 166 employees. Andhra Pradesh State Road Transport Corporation (APSRTC) was established on 11th January 1958 in pursuance of the Road Transport Corporations Act 1950. In the undivided Andhra Pradesh, APSRTC had a fleet strength more than 22,628 buses which is the largest fleet held by any other transport undertaking in the World. Consequent upon state bifurcation of Andhra Pradesh state into Telangana and residual Andhra Pradesh, two separate administrative units of RTC in Andhra Pradesh and Telangana state were started functioning with effect from June 03, 2015. The Government of Telangana has subsequently established Telangana State Road Transport Corporation (TSRTC), on April 27, 2016, under the Road Transport Corporation Act, 1950.

Brief Financials (₹ crore)	31-03-2021 (P)	31-03-2022 (P)	31-03-2023 (P)
Total operating income	2,060	3,269	4,941
PBILDT	(2,436)	(2,329)	(1,407)
PAT	(2,329)	(1,987)	(672)
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	NM	NM	NM

A: Audited; P: Provisional; NM: Not meaningful; Note: 'the above results are latest financial results available'

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

**Any other information:** Not applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft	-	-	-	-	21.00	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	-	31/03/2027	2802.00	CARE BB; Stable

**Annexure-2: Rating history of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (29-Sep-21)	1)Provisional CARE A (CE); Stable; ISSUER NOT COOPERATING* (19-Mar-21) 2)Provisional CARE A (CE); Stable (03-Apr-20)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	1)CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* (25-Jan-22) 2)Withdrawn (25-Jan-22) 3)CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* (29-Sep-21)	1)CARE A (CE); Stable; ISSUER NOT COOPERATING* (19-Mar-21) 2)CARE A (CE); Stable (03-Apr-20)
3	Un Supported Rating-Un	LT	-	-	-	-	1)Withdrawn (25-Jan-22)	1)CARE D; ISSUER NOT

	Supported Rating (Long Term)						2)CARE D; ISSUER NOT COOPERATING* (25-Jan-22)  3)CARE D; ISSUER NOT COOPERATING* (29-Sep-21)	COOPERATING* (19-Mar-21)  2)CARE D (03-Apr-20)
4	Fund-based - LT-Term Loan	LT	2802.00	CARE BB; Stable	-	1)CARE BB-; Stable (16-Mar-23)  2)CARE BB-; Stable (21-Dec-22)	-	-
5	Fund-based - LT-Bank Overdraft	LT	21.00	CARE BB; Stable	-	1)CARE BB-; Stable (16-Mar-23)	-	-

\*Long term

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable**

**Annexure-4: Complexity level of various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Term Loan	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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