

Andhra Pradesh State Road Transport Corporation

June 24, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	1,154.14	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Long Term Bank Facilities#	2,044.93	CARE BBB (CE); Stable [Triple B (Credit Enhancement); Outlook: Stable]	Assigned
Total Bank Facilities	3,199.07 (₹ Three Thousand One Hundred Ninety-Nine Crore and Seven Lakhs Only)		

Details of facilities in Annexure-1

#Term loans of State Bank of India, Bank of India and Punjab National Bank are covered by unconditional and irrevocable guarantee by the Government of Andhra Pradesh.

Un Supported Rating	CARE BB (Double B) [Assigned]
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Note : Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The credit enhancement ratings assigned to the bank facilities of Andhra Pradesh State Road Transport Corporation (APSRTC) are based on the credit enhancement in the form of unconditional and irrevocable Corporate Guarantee extended by Government of Andhra Pradesh (GoAP or the state).

Detailed Rationale & Key Rating Drivers of Government of Andhra Pradesh (Guarantor)

The state's economy contracted by 3% in FY21 owing to the Covid-19 pandemic shock. Prior to that the state was witnessing favorable economic growth with the Gross State Domestic Product (GSDP) averaging an annual growth of 8% during FY14-20.

The state's finances have been pressured over the years and it has been unable to adhere to the fiscal consolidation norms of the Finance Commission (i.e., maintaining a zero-revenue deficit, Gross Fiscal Deficit (GFD)/GSDP at less than 3% and Debt/GSDP within the 25% limit). The pandemic further strained the state's finances in FY21 (as per the revised estimates)- the revenue deficit and fiscal deficit widened to multi year highs and indebtedness increased. The state has been facing liquidity shortfalls and has been availing financial accommodation from the RBI.

The state has a moderate amount of self-reliance with nearly half of its revenues being derived from its own source revenues. Andhra Pradesh is ranked first in ease of doing business and 7th in the NITI Aayog India Innovation Index (2020) and is perceived to have economic potential.

The Government has set up a specific cell in order to ensure that all the government guaranteed debts are met on or before time and it shall make necessary arrangements in case the funds are required to the entity to which it has extended guarantee.

Rating Sensitivities of GoAP

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Moderate self-reliance
- High rank in ease of doing business
- Maintenance of GRF & CSF

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Economic & Fiscal stress due to Covid-19 pandemic
- Rising debt levels
- Increasing Guarantees
- Unresolved issues pertaining to bifurcations of the state

Key Rating Drivers of Andhra Pradesh State Road Corporation i.e. for standalone and unsupported rating

The rating of APSRTC is constrained by the volatility in cost of resources & limited control over pricing structure, competition from intrastate & interstate passenger bus transportation & logistics services, weak financial performance with continuing cash loss during FY21 (refers to period April 01 to March 31) and a leveraged capital structure with stressed debt coverage indicators. The ratings are however underpinned by the continuous statutory & financial support from Government of Andhra Pradesh (GoAP), significant improvement in the liquidity of APSRTC on account GoAP bearing the entire employee expense leading to regularization of debt obligations from November 2021, geographical presence & socio-economic importance of the corporation and well-equipped & developed logistics service. The ability of APSRTC to improve the operational efficiently,

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

optimize cost on employment of resources and recover the contract proceeds in timely manner thereby reducing the operating cycle are the key rating sensitivities.

Rating sensitivities of APSRTC

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant increase in the scale of operation in TOI by 10% and above while maintaining a PBILDT margin of minimum 15% on sustained basis.
- Improvement in debt coverage indicators

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decrease in TOI below Rs. 4000 crores and PBILDT margin below 5% in future years
- Any debt-funded fleet expansion in near future which will lead to considerable increase in debt levels

Detailed description of the key rating drivers-GoAP

Key Rating Strengths

Maintenance of GRF and CSF

The state has a guarantee redemption fund with a corpus of Rs 735 crores and a consolidated sinking fund (for amortization of its debt) which has a corpus of Rs 8097 crores as the end of March 2021.

Ranks 1st in ease of doing business

Andhra Pradesh has been ranked no. 1 in Ease of Doing Business amongst all States (2019) and ranked no.7 in terms of NITI Aayog India Innovation Index (2020)

Moderate Self-Reliance

The state has a moderate amount of self-reliance with around 51% of the revenues being derived from its own source revenues in FY21(RE).

Key rating weaknesses

Contraction in economic growth

The state's economy contracted by 3% in FY21 owing to the economic shock due to the pandemic. In terms of sectoral growth in FY21, barring the agriculture sector, the other key sectors of the state's economy saw a sharp drop in output and growth. The agriculture sector (33% share) showed resilience amidst the pandemic turmoil and grew by 4% while Industry (27% share) contracted by 3% and services (41% share) by 7%.

Non-adherence to fiscal consolidation targets

The state's finances have been pressured over the years and it has been unable to adhere to the fiscal consolidation norms of the Finance Commission (i.e., maintaining a zero-revenue deficit, GFD/GSDP at less than 3% and Debt/GSDP within the 25% limit). The state's revenue deficit widened to Rs. 0.35 lakh crore in FY21 (RE), Rs. 8,486 crore or 32% increase over FY20, fiscal deficit has risen to 5.5% of GSDP (over the flexible limit due to pandemic of 5%) and debt as a percentage of GSDP is estimated to be 35%.

Rising debt levels

The state's debt burden has been consistently rising. As per the revised estimates the state's outstanding debt stood at Rs. 3,55,874 crore in FY21, 18% higher than Rs. 3,01,802 crores in the previous year.

Increasing Guarantees

The outstanding guarantees extended by the state represent an increasing trend. In FY21 (RE) they have risen to Rs. 91330 crores, 17% higher than the previous year (Rs. 77,783 crores in FY20).

Unresolved issues pertaining to bifurcations of the state

Issues among the two states (Andhra Pradesh and Telangana) particularly related to the status of capital along with loans and advances are yet to be resolved even after eight years of bifurcation of the two states.

Shortfalls in Liquidity Management

The state has been facing shortfalls in its liquidity management and has been availing SDF, WMA and overdraft facilities from the RBI on a monthly basis. As of Oct'21, the state has availed an average SDF amount of Rs. 604 crore (30 days), average WMA of Rs. 1757 crores (28 days) and Rs. 1,321 crore (14 days) under the overdraft facility.

Detailed description of the key rating drivers-APSRTC

Key Rating Strengths

Improvement in liquidity on account of increased fleet utilisation Q2FY22 onwards

The corporation was under liquidity stress during Q1FY22 on account of rampant spread of Covid second wave which has restricted the travel movements thus leading to lower fleet utilization resulting in cashflow mismatches. However with improvement in fleet utilization and occupancy rate in buses, the corporation was able to generate adequate cash accruals to meet its debt obligations on time since November 2021. Further, the Government has set up a specific cell in order to ensure that all the government guaranteed debts are met on or before time and it shall make necessary arrangements in case the funds are required to the entity to which it has extended guarantee. APSRTC has generated GCA of about Rs. 971.75 crore during FY22 as against negative GCA during FY21.

Well-established track record and strong fleet base with improving operational efficiency:

Before inception of APSRTC in 1958, the road transport corporation was a part of Nizam State Rail & Road Transport Department during the late 1930s and later it was moulded into APSRTC by the support of Government of Andhra Pradesh (GoAP) & Central Government of India. Over the course of time, APSRTC has recorded significant growth in operations & revenue. As on March 31, 2022 APSRTC has fleet strength of 11,262 buses (11,834 in FY20) of which 8977 are government owned & remaining 2285 are hired on rental, operating on over 40 lakh kilometers and has 129 bus depots, 423 bus stations and 274 bus shelters.

Geographical presence and socio-economic importance of the corporation:

APSRTC with track record of more than five decades has created significant position in the Indian transportation sector. APSRTC has its own buses and also a portion of buses are operated on a rental basis to provide the services. Due to its economical fares and accessibility across various routes APSRTC continues to operate efficiently. APSRTC provides services across various states such as Chhattisgarh, Maharashtra, Madhya Pradesh, Odisha, Telangana, Karnataka, Tamil Nadu and Puducherry.

Improvement in liquidity on account of employee cost being borne by the GoAP during FY22

The employee cost which is the major burden of the corporation which is over Rs. 3400 crore per year is now borne by Government of AP. Employee cost has contributed 47% and 127% of total cost during FY20 and FY21. As this significant burden has come down during FY22, it has resulted in improvement in liquidity leading to meeting its debt obligations on time since November 2021.

Well-equipped and developed logistics service

During FY21, the contribution to revenue from logistics service stood at Rs. 66 crore. Also, to provide better services to customer, APSRTC is making continuous investments 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. Further, to address the queries of the customer, a central communication cell has been established. APSRTC entered into an agreement with AP medical and Health Department to provide transportation of medicines to various hospitals and health centres.

Key Rating Weaknesses

Constrained operating income and profitability margins albeit improvement seen in FY22

APSRTC has recorded decline of -54% in Total Operating Income (TOI) to Rs.2710.90 crore over Rs.5933.83 crore in FY21 on account of pandemic related travel disruptions. However, TOI improved to Rs. 4080.73 crore in FY22 aided by improved fleet utilisation. 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 which is reflected operational loss of Rs.2981.57 crore in FY21 vis-à-vis Rs.488.03 crore in FY20. However, the same improved to Rs. 859.32 crore in FY22.

Volatility in cost of sales and limited control of pricing structure

Cost of sales for the entity is substantially dependent on the fuel cost on which the company has no control. Employee cost has also been major component of cost of sales for the company, although the same is borne by GoAP now. Power and Fuel contributed to 40% to the total expenses in FY22 as compared to 35% in FY21. 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, APSRTC has limited control over the pricing structure for the services provided by them is finally fixed by the GoAP.

Weak capital structure with high reliance on GoAP support leading to weak liquidity position

APSRTC has a weak capital structure marked by networth turning negative due to operational losses in FY21. Consequently, the other debt coverage indicators viz. total debt to Gross Cash Accruals (GCA) and PBILDT interest coverage ratio continues to remain weak during FY21.

Competition from private players in intrastate & interstate passenger bus transportation and logistics services

APSRTC faces stiff 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 APSRTC which are majorly fixed in nature. Also, the recently launched logistics arm is in nascent stages and in growing stage to take on other players to provide services in southern and central part of India.

Liquidity of GoAP: Adequate The state has been facing shortfalls in its liquidity management and has been availing SDF, WMA and overdraft facilities from the RBI on a monthly basis. As of Oct,'21, the state has availed an average SDF amount of Rs. 604 crore (30 days), average WMA of Rs. 1757 crores (28 days) and Rs. 1321 crore (14 days) under the overdraft facility.

Liquidity of APSRTC: Adequate The liquidity position of the corporation remains adequate both on account of support from GoAP and improvement in its own cash flows as the employee cost which is its major expense is now borne by Government. APSRTC has generated Gross cash accruals of about Rs. 971.75 crore during FY22 and with subsiding of Covid the same is expected to improve during FY23, which would be adequate enough of meet the debt obligations of Rs. 466.59 crore.

Analytical approach: Credit Enhancement rating

The rating is based on credit enhancement in the form of proposed unconditional and irrevocable corporate guarantee extended by Govt. of Andhra Pradesh (GoAP) for the rated bank facilities of the company.

Analytical approach: Standalone and unsupported rating

Standalone, factoring linkages to parent.

Applicable Criteria

[Policy on default recognition](#)

[Assignment of Provisional Rating](#)

[Factoring Linkages Government Support](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Credit Enhanced Debt](#)

[Rating Outlook and Credit Watch](#)

[Service Sector Companies](#)

[State Governments](#)

About GoAP

Government of Andhra Pradesh with its capital city at Amravathi, is the government for the state of Andhra Pradesh. Shri Biswa Bhusan Harichandan is the Hon'ble Governor of Andhra Pradesh and Shri Y.S.Jagan Mohan Reddy is the Hon'ble Chief Minister of Andhra Pradesh.

About the company - APSRTC

Andhra Pradesh State Road Transport Corporation (APSRTC) headquartered in Vijayawada, Andhra Pradesh was incorporated on January 11, 1958. APSRTC was started with contributions from Government of Andhra Pradesh (GoAP) & Central Government in the form of interest bearing loan capital which was later converted into equity capital in the year 1992. At present, APSRTC is engaged in providing transport & logistics services over the southern & central horizon of the nation. APSRTC provides about 11 types of bus services for which more than 1 lakh seats are available for reservation on daily basis.

Brief Financials of APSRTC (Rs. crore)	31-03-2020 (Prov.)	31-03-2021 (Prov.)	31-03-2022 (Prov.)
Total operating income	5933.83	2710.91	4,080.78
PBILDT	16.04	-2562.73	1,284.89
PAT	-488.03	-2981.57	859.32
Overall gearing (times)	25.41	NM	NA
Interest coverage (times)	0.05	NM	NA

Prov.: Provisional, NM: Not Meaningful, NA: Not Available

Brief financials of GoAP: Not applicable as it is a state government

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	June 2030	2044.93	CARE BBB (CE); Stable
Fund-based - LT-Term Loan	-	-	-	February 2031	1104.14	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	-	50.00	CARE BB; Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	-	0.00	CARE BB

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (15-Dec-20) 2)Withdrawn (15-Dec-20) 3)CARE BB; Stable; ISSUER NOT COOPERATING* (16-Sep-20) 4)CARE BB; Stable; ISSUER NOT COOPERATING* (18-May-20)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (09-Mar-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (15-Dec-20) 2)Withdrawn (15-Dec-20) 3)CARE BB; Stable; ISSUER NOT COOPERATING* (16-Sep-20) 4)CARE BB; Stable; ISSUER NOT COOPERATING* (18-May-20)	1)CARE BB; Stable; ISSUER NOT COOPERATING* (09-Mar-20)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	1)CARE BB+ (CE); Stable; ISSUER NOT COOPERATING*	1)CARE A- (CE); Stable; ISSUER NOT COOPERATING*

							(15-Dec-20) 2)Withdrawn (15-Dec-20) 3)CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* (16-Sep-20) 4)CARE A- (CE); Negative; ISSUER NOT COOPERATING* (18-May-20)	(09-Mar-20)
4	Fund-based - LT- Term Loan	LT	-	-	-	-	1)Withdrawn (15-Dec-20) 2)Provisional CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* (16-Sep-20) 3)Provisional CARE A- (CE); Negative; ISSUER NOT COOPERATING* (18-May-20)	1)Provisional CARE A- (CE); Stable; ISSUER NOT COOPERATING* (09-Mar-20)
5	Fund-based - LT- Term Loan	LT	2044.93	CARE BBB (CE); Stable				
6	Fund-based - LT- Term Loan	LT	1104.14	CARE BB; Stable				
7	Fund-based - LT- Cash Credit	LT	50.00	CARE BB; Stable				
8	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BB				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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