

Andhra Pradesh State Road Transport Corporation

March 09, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	1500.00	CARE BB; Stable; ISSUER NOT COOPERATING* [Double B; Outlook: Stable, Issuer Non Cooperating]	Issuer not cooperating; On the basis of best available information
Long-term Bank Facilities (I)	500.00	CARE A- (CE); Stable; ISSUER NOT COOPERATING* (Single A Minus [Credit Enhancement]); Outlook: Stable, Issuer Non Cooperating)	Issuer not cooperating; On the basis of best available information
Proposed Long-Term Bank Facilities (II)	1000.00	Provisional CARE A- (CE); Stable; ISSUER NOT COOPERATING* (Provisional Single A Minus [Credit Enhancement]); Outlook: Stable, Issuer Non Cooperating)	Issuer not cooperating; On the basis of best available information
Total Facilities	3000.00 (Rupees Three Thousand Crore Only)		

Details of instruments/facilities in Annexure-1

The rating assigned to the Long-term bank facilities (I) above is based on unconditional and irrevocable government guarantee extended by Government of Andhra Pradesh.

The rating assigned to the proposed Long-term bank facilities (II) above is based on the credit enhancement in the form of unconditional and irrevocable guarantee proposed to be extended by the Government of Andhra Pradesh.

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Andhra Pradesh State Road Transport Corporation (APSRTC) to monitor the rating(s) vide e-mail communications/letters dated February 28, 2020, January 28, 2020, December 27, 2019 & October 10, 2019 and numerous phone calls. However, despite our repeated requests, the corporation has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Andhra Pradesh State Road Transport Corporation's bank facilities will now be denoted as CARE BB; Stable; ISSUER NOT COOPERATING and CARE A- (CE); Stable/Provisional CARE A- (CE); Stable; ISSUER NOT COOPERATING*.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed Rationale & Key Rating Drivers of Andhra Pradesh State Government

Andhra Pradesh has been recording favorable economic growth in recent years. The Gross State Domestic Product (GSDP) of the state has grown at a stable rate of 11% during FY16-FY18, supported by broad-based growth across sectors. Significant expenditure is being incurred towards building the new capital city, Amaravati, which is expected to generate employment opportunities and facilitate growth in the region.

For meeting its liabilities, the state has been maintaining a guarantee redemption fund (GRF) and consolidated sinking fund (CSF). The state has been faced with shortfalls in its liquidity management and has been availing Ways & Means Advances (WMA) and overdraft facilities from the RBI. A number of bi-furcation related issues between Andhra Pradesh and Telangana remains unresolved particularly related to the status of investments, employees, public debt, remittances, loans and advances among other.

Detailed Rationale & Key Rating Drivers of APSRTC

The rating of Andhra Pradesh State Road Transport Corporation (APSRTC) are 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 FY19 (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

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

continuous statutory & financial support from Government of Andhra Pradesh (GoAP), geographical presence & socio-economic importance of the corporation and well-equipped & developed logistics service.

The ability of APSRTC to improve the operational efficiently, optimize cost on employment of resources and recover the contract proceeds in timely manner thereby reducing the operating cycle are the key rating sensitivities.

Detailed description of the key rating drivers of Andhra Pradesh State Government

(At the time of last rating in March 2019, the following were the rating strengths and weaknesses):

Key Rating Strengths

Favorable economic growth

Andhra Pradesh has been recording favorable economic growth in recent years, with GSDP having grown at stable rate of 11% during FY16-FY18 aided by broad-based growth across sectors. The services sector, has witnessed stable growth of 9% during FY17 and FY18. The agriculture sector grew by 18% in FY18 over the 15% growth in FY17 while the industrial sector grew by 8.5% in FY18 over the 7% growth in FY17.

Healthy growth in revenue receipts

The state's revenues witnessed a noteworthy improvement with revenue receipts growing by 49% in FY19 (RE) over the 6% growth in the preceding year aided by higher growth state's own tax revenue (36% y-o-y growth) and non-tax revenues (40% growth) as well as transfers from the central government in form of grants and taxes.

Focus on asset creation

The state government is witnessed to be incurring higher expenditure towards asset creation. Capital outlay increased by 85% in FY19 (RE) over a contraction of (-) 11% in the preceding year. It was mainly towards irrigation and flood control, industry and minerals and transport.

Maintenance of GRF and CSF

The state has a Guarantee redemption fund with a corpus of Rs 725 crs as of January, 2019 to meet its guarantee obligation. It has also been maintaining a consolidated sinking fund for the amortization of its debt obligations with an accumulated corpus of Rs 7,338 crs as of end January 2019.

Ranks high in ease of doing business

Andhra Pradesh has been ranked no. 1 in Ease of Doing Business amongst all States in 2018 by World Bank.

Increase in private investments

There has been an improvement in private investments undertaken in the state. It increased by 6% in FY18 over a contraction of 28% in the preceding year.

Decline in PSU losses

The PSU losses of the state have declined from Rs 3,919 crs in FY16 to Rs 2,354 crs in FY17 (a decline of 39%).

Key rating weaknesses

Non-adherence to fiscal consolidation targets

Barring the interest to revenue receipts ratio norm of 15%, the state has been unable to adhere to the fiscal consolidation norms prescribed by the finance commission i.e. maintaining a zero revenue deficit, GFD/GSDP at less than 3% and Debt/GSDP within 25%. The state's revenue deficit has narrowed from Rs 16,152 crs in FY17 to Rs 2,494 crs in FY19 (RE), owing to the higher growth rate in revenue receipts (49%) vis-à-vis revenue expenditure (31%). As per the interim budget, the revenue deficit is estimated to decline further to Rs 2,099 crs in FY20 (BE). The state's fiscal deficit as a percentage of GSDP is estimated to decline from 4% in FY18 to 3.14% in FY19 (RE).

High debt levels

The state carries a high debt burden to the tune of Rs 2.5 lakh crs as of FY19 (RE), which has grown at a CAGR of 13% during FY16-FY19. This debt includes un-apportioned amount of Rs 23,483 that is yet to be distributed between Andhra Pradesh and Telangana.

Disputes and Un-apportioned amount to pressurize state finances

Since the bifurcation of Andhra Pradesh, there have been number of unresolved issues among the two states (Telangana and AP) particularly related to the status of investments, employees, public debt, remittances, loans and advances, reserve funds etc

Low Self-Reliance

The state has high dependence on the central government with over 50% of its revenues being accounted for by grants and central taxes. As such, self-reliance of the state on its own source of revenues is low at around 46%.

Shortfalls in Liquidity Management

The state has been facing shortfalls in its liquidity management and has been availing WMA and overdraft facilities from the RBI. In January 2019, the state availed WMA of Rs 1,406 crs and even resorted to overdraft facility to the tune of Rs 873 crs.

Increase in guarantees

There has been a significant increase in guarantees extended by the state government to state entities. It increased to Rs 35,964 in FY18 from Rs 9,665 crs in FY17. The guarantees were mainly towards the agricultural companies (38%) followed by energy companies (26%) and water resource department (11%).

Detailed description of the key rating drivers of APSRTC – Standalone

(At the time of last rating in March 2019, the following were the rating strengths and weaknesses, updated for FY19 financials)

Key Rating Weaknesses

Weak financial performance and continuing cash loss during FY19: APSRTC has recorded growth of 4.91% in Total Operating Income (TOI) from Rs.5671.87 crore in FY18 to Rs.6126.27 crore in FY19 on account of increase in the basic fares coupled with increase in passenger booking & cargo orders. The financial performance of the corporation has been weak with the corporation continuously reporting loss of Rs.961.28 crore in FY19 (FY18: Rs.1084.87).

Leveraged capital structure: APSRTC has a weak capital structure with the overall gearing of 3.30x as on March 31, 2019 on account of APSRTC raising debt for capex to meet operational needs along with erosion of net-worth with net loss reported. The other debt coverage indicators viz. total debt to Gross Cash Accruals (GCA) and PBILD interest coverage ratio remain stressed on account of losses reported.

Weak liquidity position: The liquidity position of the corporation is weak marked by the current ratio of 0.76x & cash loss of Rs.817.37 crore as the corporation is not generating sufficient cash accruals to meet its debt obligations with reliance on GoAP for same. Further, the majority of the debtors pertain to GoAP (pertaining to subsidy for concessions) which have led to stretch in operating cycle to 152 days in FY19 from 131 days in FY18.

Volatility in cost of sales & limited control of pricing structure: Cost of sales for the corporation has risen significantly and the same has led to operational loss of Rs.535.12 crore in FY19 for APSRTC. Further, APSRTC has limited control over the pricing structure for the services provided by them is finally fixed by the GoAP.

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 by providing competitive prices as against the fares charged by APSRTC which are majorly fixed in nature. Also, the recently launched logistics arm of the arm is in initial stages and has to develop to take on domestic players to provide services in southern and central part of India.

Key Rating Strengths

Continuous support from GoAP: APSRTC is a GoAP's statutory organisation formed under the Road Transport Act 1950. It is the sole organisation of GoAP which provides public transport both in intrastate as well as interstate. GoAP provides both statutory support as well as financial support to APSRTC in terms of subsidies for the concessions, interest free loans and guarantee, if required.

Well-established track record and strong fleet base: 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 GoAP & Central Government of India. Over the course of time, APSRTC has expanded its fleet size and as on January 31, 2019, APSRTC had fleet strength of 11,874 buses of which 9160 are government owned & remaining 2714 are hired on rental. Further, the Corporation is operating on over 40 lakh kilometers and has 128 bus depots, 426 bus stations and 790 bus shelters.

Well-equipped and developed logistics service: During FY17, APSRTC had incorporated its pilot logistics arm to provide ease of carrying luggage or load for passengers & costumers through its present bus fleet. During FY18, the contribution of revenue from cargo segment grew y-o-y by 82% to Rs.79.98 crore as against Rs.49.98 crore in FY18. APSRTC is continuously investing towards automation & computerized system through which both the sender & receiver of goods will be able to track the parcel/courier via SMS and e-mail with a tracking link.

Geographical presence and socio-economic importance of the corporation: APSRTC with track record of more than five decades has created well established position in the Indian transportation sector. 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.

Stable industry outlook: India is considered one of the fastest growing economies in Asia. Urbanization and Industrialization has led to increase in consumption due to increased demand in both freight and passenger. The outlook on the industry appears to be stable despite the growth of population, the transport sector face challenges with respect to infrastructure, pollution and increase in traffic density, regulatory policies and other inefficiencies in the system. Also, Logistics sector in India is expected to grow at CAGR of about 10% led by revival in GDP, e-commerce penetration, ramp up in transport infrastructure, storage, distribution and allied services. The logistics industry shall benefit from correction in economy coupled with increase in output of goods & services and improvement in logistics infrastructure.

Analytical approach: Standalone. Further, the rating is also based on unconditional irrevocable guarantee extended & proposed to be extended by Govt. of Andhra Pradesh (GoAP).

Applicable Criteria:

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Rating Outlook and credit watch](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Service Sector Companies](#)

About the Corporation:

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. APSRTC is engaged in providing transport & logistics services over the southern & central horizon of the nation. APSRTC provides various types of bus services for which more than 1 lakh seats are available for reservation on daily basis. As per Government order dated December 27, 2019, the Government has passed 'The Andhra Pradesh State Road Transport Corporation (Absorption of Employees into Government Service) Act, 2019' whereby all the employees of APSRTC have been absorbed by the Government of Andhra Pradesh.

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

Brief Financials (Rs. crore)	FY18 (UA)	FY19 (UA)
Total operating income	5671.88	6126.27
PBILDT	(655.42)	(535.13)
PAT	(1084.87)	(961.28)
Overall gearing (times)	1.79	3.30
Interest coverage (times)	NM	NM

UA: Unaudited; NM: Not Meaningful

About the Guarantor:

Andhra Pradesh has been recording favourable economic growth during FY16 – FY19(RE) with GSDP growth at CAGR of 11% during this period. The economy grew at a stable pace of 11% in FY19(RE) almost at the same level as year ago(FY18: 11.3%). The favourable growth in the state has been supported by broad-based growth across sectors. However, a number of bifurcation related issues between Andhra Pradesh and Telangana remains unresolved particularly related to the status of investments, employees, public debt, remittances, loans and advances among other.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March, 2032	1450.00	CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Term Loan	-	-	March, 2032	500.00	CARE A- (CE); Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Term Loan*	-	-	-	1000.00	Provisional CARE A- (CE); Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

*Proposed

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	-	-	-	-	-	-	1)CARE D (05-Apr-16)
2.	Fund-based - LT-Cash Credit	-	-	-	-	-	-	1)CARE D (05-Apr-16)
3.	Fund-based - LT-Term Loan	LT	1450.00	CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB; Stable (29-Mar-19) 2)CARE BB; Stable (22-Mar-19)	1)CARE BB; Stable (04-Dec-17)	-
4.	Fund-based - LT-Cash Credit	LT	50.00	CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB; Stable (29-Mar-19) 2)CARE BB; Stable (22-Mar-19)	1)CARE BB; Stable (04-Dec-17)	-
5.	Fund-based - LT-Term Loan	LT	500.00	CARE A- (CE); Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A- (SO); Stable (29-Mar-19)	-	-
6.	Fund-based - LT-Term Loan	LT	1000.00	Provisional CARE A- (CE); Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)Provisional CARE A- (SO); Stable (29-Mar-19)	-	-

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.