

Andhra Pradesh State Road Transport Corporation

March 29, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	1500.00 (reduced from 2000.00)	CARE BB; Stable [Double B; Outlook: Stable]	Reaffirmed
Long-term Bank Facilities [^]	500.00	CARE A- (SO); Stable (A Minus [Structured Obligation]; Outlook: Stable)	Assigned
Proposed Long-Term Bank Facilities [#]	1000.00	Provisional CARE A- (SO); Stable (Provisional A Minus [Structured Obligation]; Outlook: Stable)	Assigned
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 is based on unconditional and irrevocable government guarantee extended by Government of Andhra Pradesh.

[#]The rating assigned to the proposed Long-term bank facilities is based on the credit enhancement in the form of unconditional and irrevocable guarantee proposed to be extended by the Government of Andhra Pradesh. The final rating is subject to execution of the guarantee documents to the satisfaction of CARE.

Detailed Rationale & Key Rating Drivers of APSRTC – standalone

The rating assigned to the bank facilities 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 FY18 (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), 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 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 description of the key rating drivers of APSRTC – Standalone

Key Rating Weaknesses

Weak financial performance and continuing cash loss during FY18: APSRTC has recorded growth of 4.91% in Total Operating Income (TOI) to Rs.5671.87 crore over Rs.4463.21 crore in FY17 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.1084.87 (FY17: Rs.789.93) at the back of due to volatile nature of resources leading to increase in cost of sales coupled with high capital charge (cost of interest & depreciation) leading to erosion of the net-worth to Rs.2095.91 crore (FY17: Rs.2990 crore).

Leveraged capital structure: APSRTC has a weak capital structure with the overall gearing weakening to 1.79x as on March 31, 2018 from 1.38x as on March 31, 2017 on account of APSRTC raising debt for capex to meet operational needs. The other debt coverage indicators viz. total debt to Gross Cash Accruals (GCA) and PBILDT interest coverage ratio are also weak on account of loss posted.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Weak liquidity position: The liquidity position of the corporation is weak marked by the current ratio of 0.43x & cash loss of Rs.912.42 crore as the corporation is not generating sufficient cash accruals and has raised new debt to repay old debt and fund its capex requirements. Further, the majority of the debtors pertain to GoAP (pertaining to subsidy for concessions) which have led to stretch in operating cycle to 131 days in FY18 from 70 days in FY17.

Volatility in cost of sales & limited control of pricing structure: Cost of sales for the corporation has risen significantly and cost of inputs attribute to major portion, that is, 83.20% of total cost of sales in FY18 for APSRTC. Furthermore, partial bus fleet is hired on rent, rental cost has increased and 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. 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 251% to Rs.52.61 crore as against Rs.14.98 crore in FY17. APSRTC 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.

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.

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

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%).

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:[Criteria on assigning Outlook to Credit Ratings](#)[CARE's Policy on Default Recognition](#)[Rating Methodology – State Governments](#)[Rating Methodology: Factoring Linkages in Ratings](#)[Financial ratios – Non-Financial Sector](#)**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 currently headed by Shri. N.V. Surendra Babu, I.P.S., who is the Managing Director & Vice-Chairman with experience of over two decades in public services and is supported by highly experienced & qualified management. 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 (Rs. crore)	FY17 (UA)	FY18 (UA)
Total operating income	5406.24	5671.88
PBILDT	-385.35	-655.42
PAT	-789.93	-1084.87
Overall gearing (times)	1.13	1.79
Interest coverage (times)	NM	NM

UA: Unaudited; NM: Not Meaningful

About the Guarantor:

Andhra Pradesh has been ranked no. 1 in 'Ease of Doing Business' amongst all States in 2018 by the World Bank. The state has been incurring higher expenditure towards asset creation. The state of Andhra Pradesh has received support from the Centre in creation of a new capital city along with various compensations.

Further, 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.

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

Any other information: Not applicable

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

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:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the company 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.

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	-	-	May, 2032	1450.00	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	May, 2032	500.00	CARE A- (SO); Stable
Fund-based - LT-Term Loan*	-	-	-	1000.00	Provisional CARE A-(SO); Stable

*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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
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	1)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	1)CARE BB; Stable (22-Mar-19)	1)CARE BB; Stable (04-Dec-17)	-	-
5.	Fund-based - LT-Term Loan	LT	500.00	CARE A- (SO); Stable	-	-	-	-
6.	Fund-based - LT-Term Loan	LT	1000.00	Provisional CARE A- (SO); Stable	-	-	-	-

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