

## Andhra Pradesh State Road Transport Corporation

May 18, 2020

### Ratings

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

#### *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 had, vide its press release dated March 09, 2020, placed the rating(s) of Andhra Pradesh State Road Transport Corporation (APSRTC) under the 'Issuer Non-Cooperating' category as APSRTC had failed to provide information for monitoring of the rating for the rating exercise as agreed to in its Rating Agreement. APSRTC continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and email dated March 31, 2020, April 07, 2020 and May 04, 2020. 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.

***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**

The state's financial position continues to be strained owing to non-adherence of fiscal consolidation norms prescribed by the finance commission. The state has sustained a revenue deficit, the fiscal deficit (as a % of GSDP) is above the stipulated 3% norm and the debt to GSDP ratio at 28.2% is above the stipulated 25% target. The state has been fiscally pressured over the years. Andhra Pradesh government's financial position is estimated to be stressed in FY20 and could be further pressured in FY21 with the disruptions caused by the Corona virus aggravating the state's financial weakness.

The state's revenue deficit has narrowed from Rs.16,152 crore in FY18 to Rs.11,655 crore in FY19 (RE), owing to the higher growth in revenue receipts (9%) vis-à-vis revenue expenditure (4%). The state's fiscal deficit (as a percentage of GSDP) has moderated from 4% in FY18 to 3.6% in FY19(RE). The state also carries a high debt burden to the tune of Rs 2.6 lakh crs as of FY19(RE). The state has moderate self-reliance as only half of the total revenue receipts are from own sources of revenue.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

\*Issuer did not cooperate; Based on best available information

The state has been incurring higher expenditure towards asset creation. Andhra Pradesh has been ranked no. 1 in 'Ease of Doing Business' amongst all States in 2018 by the World Bank. For meeting its liabilities, the state has been maintaining a guarantee redemption fund (GRF) and consolidated sinking fund (CSF).

The state has faced shortfalls in its liquidity management and has been availing WMA and overdraft facilities from the RBI. A number of bi-furcation related issues between Andhra Pradesh and Telangana remain unresolved particularly related to the status of investments, employees, public debt, remittances, loans and advances among other.

#### Rating sensitivities

##### Positives

- State attaining and maintaining a revenue surplus.
- Significant improvement in attaining FRBM targets.
- Sharp reduction in the debt levels.
- Resolution of the issues pertaining to apportionment of assets and liabilities between Andhra Pradesh and Telangana in favor of the latter

##### Negatives

- Further deterioration in FRBM targets
- Impact of the corona pandemic on the state's economy and finances

#### Outlook: Negative

The outlook is being changed from stable to negative on account of the expectation of a further deterioration in the state's already stressed financial position in 2020-21 and the lack of fiscal space to accommodate the disruptions caused by the Corona virus pandemic. The outlook can be revised to stable if the state is in adherence to the stipulated fiscal consolidation norms after the virus impact is factored.

#### 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 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

##### Key Rating Strengths

**Favorable economic growth:** Andhra Pradesh has been recording favorable economic growth in recent years. The state's economy registered a CAGR of 11% during FY16 to FY19. The economy grew at a stable rate of 11% in FY19(RE) almost at the same level as year ago(FY18: 11.3%), aided by broad based growth across sectors. The services sector accounts for almost half of the GDP and grew by 11% in FY19(RE) while growth in industrial sector at 10% in FY19(RE) has been marginally higher than a year ago. The growth in agriculture sector has been robust during FY17-FY19 (average 14%).

**Focus on asset creation:** The state government has incurred higher expenditure towards asset creation. Capital expenditure in FY19(RE) accounts for 23% of total expenditure. Capital outlay increased by 51% in FY19 (RE) as against negative growth of (-) 11% in the preceding year. It was mainly towards irrigation and flood control, industry and minerals, water supply, sanitation, urban development and transport.

**Maintenance of GRF and CSF:** The state has a Guarantee redemption fund with a corpus of Rs 753 crs to meet its guarantee obligation as of July 2019. It has also been maintaining a consolidated sinking fund which has a corpus of Rs 7,628 crs as end of July 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.

##### Key rating weaknesses

**Non-adherence to fiscal consolidation targets:** The state's financial position continues to be strained owing to non-adherence of fiscal consolidation norms prescribed by the finance commission. The state has sustained a revenue deficit, the fiscal deficit (as a % of GSDP) is above the stipulated 3% norm and the debt to GSDP ratio at 28.2% is above the stipulated 25% target.

**High debt levels:** The outstanding debt of the state at Rs 2.6 lakh crs as of FY19 (RE) and grew by 16% in FY19(RE).

**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

**Moderate Self-Reliance:** The state has moderate self-reliance as only half of the total revenue receipts are from own sources of revenue.

**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 May 2019, the state availed WMA of Rs 1,229 crs and even resorted to overdraft facility to the tune of Rs 522 crs.

**Increase in guarantees:** There has been a significant increase in guarantees extended by the state government to state entities from Rs 9,664 crs in FY17 to Rs 49,442 crs in FY19(RE).

#### **Detailed description of the key rating drivers of APSRTC – Standalone**

*(At the time of last rating in March, 2020, the following were the rating strengths and weaknesses)*

##### **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) – APSRTC	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 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

**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); Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Term Loan	-	-	-	1000.00	Provisional CARE A- (CE); Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

**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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	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; ISSUER NOT COOPERATING* (09-Mar-20)	1)CARE BB; Stable (29-Mar-19) 2)CARE BB; Stable (22-Mar-19)	1)CARE BB; Stable (04-Dec-17)
2.	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; ISSUER NOT COOPERATING* (09-Mar-20)	1)CARE BB; Stable (29-Mar-19) 2)CARE BB; Stable (22-Mar-19)	1)CARE BB; Stable (04-Dec-17)
3.	Fund-based - LT-Term Loan	LT	500.00	CARE A- (CE); Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A- (CE); Stable; ISSUER NOT COOPERATING* (09-Mar-20)	1)CARE A- (SO); Stable (29-Mar-19)	-
4.	Fund-based - LT-Term Loan	LT	1000.00	Provisional CARE A- (CE); Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)Provisional CARE A- (CE); Stable; ISSUER NOT COOPERATING* (09-Mar-20)	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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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.

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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.