

## Andhra Pradesh State Road Transport Corporation

December 15, 2020

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	-	-	Reaffirmed at CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*) & Withdrawn
Long-term Bank Facilities (I)	-	-	Reaffirmed at CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* [Provisional Double B Plus (Credit Enhancement); Outlook: Stable ISSUER NOT COOPERATING*] & Withdrawn
Proposed Long-Term Bank Facilities (II)	-	-	Withdrawn
<b>Total Facilities</b>	-		

*Details of instruments/facilities in Annexure-1*

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

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

### Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated September 16, 2020, 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 September 08, 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.

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BB; Stable; ISSUER NOT COOPERATING/CARE BB+ (CE); Stable; ISSUER NOT COOPERATING' assigned to the bank facilities of Andhra Pradesh State Road Transport Corporation (APSRTC) with immediate effect. The above action has been taken at the request of APSRTC and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE. Further in-line with CARE's policy for assignment of Provisional Rating, the rating of 'Provisional CARE BB+ (CE); Stable; ISSUER NOT COOPERATING' assigned to the proposed facility has been simultaneously withdrawn at the request of APSRTC on account of non-submission of copies of relevant executed documents.

### Detailed Rationale & Key Rating Drivers of Andhra Pradesh State Government

*At the time of last rating in March, 2020, the following were the rating strengths and weaknesses (Updated for information received through interaction with lenders):*

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 crores 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

#### Positive Factors

- 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 favour of the latter

#### Negative Factors

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

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

At the time of last rating in September, 2020, the following were the rating strengths and weaknesses

*(Updated information taken from Due Diligence undertaken by CARE)*

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 Weaknesses

##### 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

##### 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%.

#### Key Rating Strengths

##### 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.

##### 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.

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

#### 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 PBILDT interest coverage ratio remain stressed on account of losses reported.

**Liquidity position: Poor,** The liquidity position of the corporation is poor 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:** The rating of APSRTC was based on standalone financials of the corporation. Further, the rating was 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](#)  
[Policy on Assignment of Provisional Ratings](#)  
[Financial ratios – Non-Financial Sector](#)  
[Rating Methodology - Service Sector Companies](#)  
[Liquidity Analysis of Non-Financial Sector Entities](#)  
[Policy on Withdrawal of ratings](#)

#### 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.

#### 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.

In the event of outbreak of pandemic COVID-19, APSRTC had taken moratorium on loans availed from lenders for the period March 2020 – August 2020.

Brief Financials (Rs. crore) – APSRTC	FY18 (UA)	FY19 (UA)
Total operating income	5671.88	6126.27
PBILDIT	(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

**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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

## 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	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (16-Sep-20) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (18-May-20)	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	-	-	1)CARE BB; Stable; ISSUER NOT COOPERATING* (16-Sep-20) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (18-May-20)	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	-	-	1)CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* (16-Sep-20) 2)CARE A- (CE); Negative; ISSUER NOT COOPERATING* (18-May-20)	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	-	-	1)Provisional CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* (16-Sep-20) 2)Provisional CARE A- (CE); Negative; ISSUER NOT COOPERATING* (18-May-20)	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.



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

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. 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.

#### Disclaimer

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