

June 24, 2013 - Mumbai

Facilities	Amount (Rs. Crores)	Rating
Unsecured, Redeemable, Taxable, Non-Convertible Debentures (NCD) Issue	175	SMERA A(SO)* (Assigned)

**Credit enhancement on account of an unconditional and irrevocable guarantee from the Government of Rajasthan (GoR)*

SMERA has assigned an in-principle rating of '**SMERA A(SO)**' - read as (**SMERA A structured obligation**), to The Rajasthan State Road Transport Corporation's (RSRTC) Rs.175 crores non-convertible, unsecured, redeemable, taxable debentures issue. The outlook is '**Stable**'. The rating draws core support from the Government of Rajasthan's (GoR) unconditional and irrevocable guarantee extended towards the timely payment of principal and interest on the NCDs. The rating accordingly factors in the guarantor's credit risk profile. The rating also centrally factors in adherence to a specific, legal payment mechanism administered by the trustees of the NCDs.

The in-principle ratings are provisional and the final rating is subject to the execution of an unconditional and irrevocable guarantee to be extended by GoR for timely payment of interest and principal on the instrument and execution of a trust deed (with a SEBI registered trustee) which clearly outlines the payment mechanism, escrow mechanism and rights and obligations of various parties involved in the issuance.

The ratings also centrally factor in adherence to a specific, legal payment mechanism administered by the trustee of the NCD. The payment mechanism for the ten year bond (Rs.175 crore issue) is as follows:

- At least ten days prior to the forthcoming due date (T) for interest or principal payment (T-10), RSRTC shall credit the requisite funds in the Trust & Retention Account (TRA) for servicing the bond holders on the forthcoming due date "T" and ensure that GoR and the trustee are intimated about the clear funds balance in the TRA.
- If RSRTC fails to do so, it will inform GoR about the same.
- In case RSRTC fails to intimate GoR as required, the trustee shall intimate GoR least seven calendar days prior to forthcoming due date (T-7).
- In shortfall in the TRA persists till four calendar days before the due date, the trustee will invoke the guarantee.
- On invocation of the guarantee, GoR must promptly deposit clear funds, to the extent of shortfall, into the TRA, prior to the due date

Rajasthan's credit profile benefits from an improving economic structure and rising contribution from the tertiary sector (48.8 per cent for FY2012-13, as per economic review) which adds buoyancy to the state's tax revenues. Rajasthan also benefits from a satisfactory economic and financial infrastructure. The state's financial position is characterized by healthy deficit parameters

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and high interest coverage levels. Rajasthan is one of the few states in India to have a revenue surplus budget. Rajasthan's fiscal deficit is within the Fiscal Responsibility and Budget Management (FRBM) targets and has reduced from 1.36 per cent of the gross state domestic product (GSDP) in FY2010-11 to 0.98 per cent of the GSDP in 2011-12 (actual). The state's revenue surplus for FY2011-12 stood at 0.8 percent. Rajasthan's interest coverage ratio has improved to 1.4 times in FY2011-12 as compared with 1.1 times a year earlier.

Rajasthan's credit profile is however adversely affected by a higher than average portion of committed expenditure to total expenditure, which limits the scope for expenditure flexibility. The state's per capita income is also amongst the lowest in the country. Rajasthan's overall indebtedness (consolidated debt + guarantees/GSDP) stood at 45 per cent for FY2011-12 (49.4 per cent for FY2010-11), which is relatively high.

Outlook: Stable

In SMERA's opinion, GoR's credit profile to continue to benefit from a comfortable economic and fiscal profile despite some deterioration in deficit indicators. A material and sustained improvement or deterioration in fiscal and economic profile of the state could lead to a revision of its outlook to either positive or negative.

About RSRTC

Rajasthan State Road Transport Corporation (RSRTC) (a wholly-owned Government of Rajasthan undertaking) is the largest intercity public road transporter in Rajasthan. RSRTC was incorporated in 1964 under the Road Transport Corporation Act 1950, GoI. RSRTC started its operations with 421 buses and has 4,400 buses at present, which cater to more than 10 lakh passengers a day.

RSRTC's revenues have grown at a CAGR of 9 per cent over the past five years. As per provisional financials of March 31, 2013, the corporation reported net loss of Rs.220 crores on total revenue of Rs. 1,456 crores as compared with net loss of Rs.130 crores on total revenue of Rs. 1399 crores for the corresponding period in the last year

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