

Press Release

Rajasthan State Road Transport Corporation

04 May, 2018



Rating Upgraded

Instruments Rated *	Rs.175.00 Cr.
Long Term Rating	SMERA A (SO) / Outlook: Stable (Upgraded)

** Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long-term rating of the Rs.175.00 Cr. Non-Convertible Debenture (NCD) issue of Rajasthan State Road Transport Corporation (RSRTC) to '**SMERA A (SO)**' (read as **SMERA single A (Structured Obligation)**) from '**SMERA BB**' (read as **SMERA double B**). The outlook is '**Stable**'.

The revision of the rating to SMERA A (SO) is driven by an improvement in RSRTC's demonstrated adherence to the Structured Payment Mechanism for meeting its interest payments and principal repayments in a timely manner. SMERA had earlier downgraded the rating to BB on account of non-adherence of Structured Payment Mechanism which had impeded its ability to meet its obligations in a timely manner.. SMERA also continues to derive comfort from the support extended to RSRTC by its owner, Government of Rajasthan (GoR) and the presence of an irrevocable and unconditional guarantee from GoR for the rated debt.

Rajasthan State Road Transport Corporation was incorporated in 1964 under the Road Transport Act 1950 with the objective of providing economic, adequate, punctual and efficient transportation services to the people in Rajasthan. Currently, 4500 buses across 51 depots are plying more than 16 lacs kilometres and carrying more than 9 lakh passengers per day.

Key Rating Drivers

Strengths

Criticality of RSRTC to the state and demonstrated support from the Government of Rajasthan (GoR)

The public road transport system in the state of Rajasthan is significantly dependent on RSRTC. Its large fleet of over 5000 buses is key towards maintaining intra and inter-state connectivity in Rajasthan. Further, RSRTC is also one of the largest government employers in the state of Rajasthan – employing nearly 22,000 permanent employees. RSRTC is wholly owned by the GoR and is a statutory body incorporated under the State Transport Corporation Act of 1950. Any disruption or failure in RSRTC's operations can have a massive political and socio-economic implication for the GoR. SMERA, therefore believes that RSRTC holds a fairly high strategic importance for GoR. Further, the high moral obligation to support the entity is reflected in the availability of an unconditional and irrevocable guarantee from GoR to the bond holders of RSRTC.

As a demonstration of such support, GoR has infused Rs. 518.94 Cr. between 1st April, 2014 and 31st March, 2017 in the form of equity infusion. In addition, the Government of Rajasthan has also infused Rs. 422.90 Cr. in the form of interest free loans and Rs. 254.42 Cr. in the form of Bond Redemption Fund from FY2014 to FY2017.

Continuing support from the Government of Rajasthan

The state of Rajasthan has witnessed growth in its Gross State Domestic Product (GSDP) at constant prices which stood at Rs. 6.42 lakh Cr. in FY18 (Advance Estimates) as compared to Rs. 5.99 lakh Cr. in FY17.

(Rs. In Crore)

Particulars	2015-16 (Actuals)	2016-17 (Actuals)	2017-18 (Revised Estimates)
Revenue Deficit	5954	18114	20166
Primary Deficit	51062	28641	9306
Fiscal Deficit	63070	46318	29092
Budgetary Surplus (+)/Deficit (-)	458.	-491	22

(Source: Economic Review 2017-18, Government of Rajasthan)

The fiscal deficit has reduced in FY2017-18 as compared to FY2016-17, i.e., Rs.29,092 crore in FY2017-18. Further, fiscal deficit to GSDP has reduced to 4.53 per cent (Fiscal deficit to GSDP) in FY2017-18 as against 7.73 per cent in FY2016-17. GoR has not utilised its ways and means advance for the past 3 years indicating adequate financial flexibility.

Presence of the Structured Payment Mechanism

The structured payment mechanism as enshrined in the trust deed, Assuming T is the due date for payment, the following timelines are expected to be followed:

- At T-10 days: The issuer will credit the requisite fund in TRA for the servicing of bond holders on the forthcoming due date "T" or put them in Fixed Deposit(FD) with a designated bank and ensure the FD are liened in favor of the trustees. There should be a communication mechanism in place to ensure the flow of information related to presence of funds in TRA to State Government and Trustees. In case, the issuer does not deposit the funds into the TRA, the issuer shall communicate by T-10 days, in writing to the Financial Secretary and/or designated official in state machinery with a copy of the same to the trustee and the credit rating agency. The issuer shall also request the state government to ensure that adequate clear funds are available in the TRA for servicing obligations on the bonds on due date "T".
- At T-7 days: In case of failure of intimation to the State government by the issuer, the trustee shall intimate the State Government at least 7 calendar days prior to forthcoming due date.
- At T-4 days: The trustee shall ensure the transfer of funds from matured FDs to TRA.
- In the event of state government failing to transfer clear funds in the TRA to make up the shortfall by T-4 working days, the trustee will forthwith invoke the guarantee issued by state government and inform the credit rating agency about the same.
- On invocation of guarantee, the state government must promptly deposit clear funds, to the extent of shortfall, into the TRA prior to the due date.

The rating factors in an adherence to the above structured payment mechanism which will continue to be administered by the trustees to the NCD.

Weaknesses

Continuing Operating Loss

The rating is constrained by the weak financial risk profile of RSRTC. The company has a negative net worth which further deteriorated from Rs. 1,959.27 Cr. as on 31st March, 2016 to Rs. 2,162.02 Cr. as on 31st March, 2017 (Provisional). The Operating losses of the RSRTC also increased from Rs. 492.41 Cr. in FY2016 to Rs. 511.56 Cr. in FY2017 (Provisional). The solvency of RSRTC is significantly dependent on the timely infusion of funds from the GoR to meet all its Operational and Financial Commitments.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of RSRTC and factoring support extended by GoR to arrive at the rating and the benefit of the Structured Payment Mechanism while arriving at the rating.

Outlook – Stable

SMERA believes that the outlook on RSRTC's rated facilities will remain 'Stable' over the medium term given the improved adherence to the structured payment mechanism and the strong support from GoR. The outlook may be revised to 'Positive' in case the company registers a significant improvement in its profitability and cash generation ability or in case of an improvement in the credit profile of GoR. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in the credit metrics of GoR.

About the Rated Entity - Key Financials

	Unit	FY17 (Provisional)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	1,723.59	1,683.75	1,723.75
EBITDA	Rs. Cr.	(433.28)	(358.81)	(503.17)
PAT	Rs. Cr.	(511.56)	(492.41)	(558.64)
EBITDA Margin	(%)	(25.14)	(21.31)	(29.19)
PAT Margin	(%)	(29.68)	(29.25)	(32.41)
ROCE	(%)	47.30	59.81	147.13
Total Debt/Tangible Net Worth	Times	(0.54)	(0.59)	(0.66)
PBDIT/Interest	Times	(4.15)	(3.71)	(4.10)
Total Debt/PBDIT	Times	(2.68)	(3.24)	(2.08)
Gross Current Assets (Days)	Days	38	41	25

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- State Government Support- <https://www.smera.in/criteria-gov.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Service Entities - <https://www.smera.in/criteria-services.htm>
- Securitized Transactions - <https://www.smera.in/criteria-securitization.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable):

None

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Oct-2016	Non Convertible Debentures	Long Term	INR 175	SMERA BB / Stable (Downgraded)
12-Oct-2015	Non Convertible Debentures	Long Term	INR 175	SMERA A (SO) / Stable (Reaffirmed)
24-June-2013	Non Convertible Debentures	Long Term	INR 175	SMERA A (SO) / Stable (Assigned)

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Non Convertible Debentures	19-02-2013	10.25%	18-02-2023	175.00	SMERA A (SO) / Stable (Upgraded)

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ABOUT SMERA

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