

Press Release
Rajasthan State Road Transport Corporation

November 10, 2020



Rating Downgraded

Total Facilities Rated*	Rs.175.00 Cr.
Long Term Rating	ACUITE BB+ (CE [^]) (Downgraded; Under Watch with Negative Implications)

* Refer Annexure for details

[^]Credit Enhancement in the form of Guarantee from Government of Rajasthan

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB+ (CE)** (**read as ACUITE double B plus (Credit Enhancement)**)' from '**ACUITE BBB (CE)** (**read as ACUITE triple B (Credit Enhancement)**)' on the Rs.175.00 crore Non-Convertible Debenture (NCD) issue of Rajasthan State Road Transport Corporation (RSRTC). The rating continues to be 'Under Watch with Negative Implications'.

Reasons for downward revision in the rating and rating watch

The downward revision in the ratings is driven by the ongoing challenges faced by the corporation in maintaining adequate liquidity buffers commensurate to its maturing debt repayment obligations. RSRTC's operations have been severely impacted on account of the ongoing COVID – 19 pandemic and the disruption of operations is expected to continue over the near term. This has led to severe deterioration in the operational cash flows of the corporation, leading to almost complete dependence on the support from the government to manage its fixed costs and overheads.

The corporation has near term debt obligations, which mainly includes Non-Convertible Debentures (NCD). The corporation is having a Bond/ NCD of Rs.500.00 crore (not rated by Acuité), which availed in two parts, Rs.188.20 crore and Rs.311.80 crore. For the first tranche of Rs.188.20 crore, the part principal repayment (30% of total) was due on 17 July 2020. The corporation, before the due date of principal payment, had made a request to the investors for deferment by six months. The corporation has received consent from some of the investors. The interest for the first tranche was serviced on time. For the second tranche of Rs311.80 crore, the part principal repayment (30% of total) was due on 01 November 2020. The corporation prior to the due date had requested the investors for an extension of payment for six months, i.e. 01 May 2021. However, they are yet to receive consent from the bondholders. The interest for the second tranche was serviced on time.

Acuite also learns that the corporation currently is in the process of refinancing the said redemptions by availing a term loan of Rs.200 crore. The proposed term loan is likely to be sanctioned with a tenure of three years and will be backed by guarantee from Government of Rajasthan. The corporations expect to clear the dues of both the NCDs on or before 30 November 2020

Acuité is closely monitoring the developments regarding the ongoing discussions with investors and trustee and is also in discussions with the corporation to further understand the impact of these developments on their liquidity and debt servicing ability. In the event of the corporation demonstrating the ability to successfully alter its liability profile by either deferring its due dates with the concurrence of lenders/investors or by refinancing it, Acuité will initiate necessary action to resolve the watch once adequate clarity emerges.

About The Company

Rajasthan State Road Transport Corporation (RSRTC) 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, as on January 2020, ~3733 own buses and ~959 private buses across 52 depots are plying more than 14 lacs kilometers per day and carrying more than 8.6 lakh passengers per day.

Analytical Approach

To arrive at the rating, Acuité has considered the standalone business and financial risk profiles of RSRTC and notched up the rating by factoring in Credit Enhancement in the form of Guarantee extended by Rajasthan State Government for the rated NCD issue.

Standalone (Unsupported) Rating:

ACUITE BB/ Stable (Downgraded from ACUITE BB+/Stable)

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 4600 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 more than 14,000 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.

Acuité, 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 bondholders of RSRTC.

- 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 bondholders 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 the 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 the 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 the 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 adherence to the above structured payment mechanism, which will continue to be administered by the trustees to the NCD.

Weaknesses

- Continuing losses and weak financial risk profile**

The corporation reported revenues of Rs.2138.07 crore for FY2019 as against Rs.2170.45 crore for FY2018. The corporation continued to report PAT losses of Rs.(75.93) crore FY2019 as against Rs.(115.06) crore for FY2018. There was some improvement seen in EBITDA levels in FY2019 on account of reduction in fuel and employee cost.

The financial risk profile continues to be weak marked by negative tangible net worth of Rs.3537.03 crore as on 31 March 2019. This is mainly on account of revaluation reserves of Rs.7258.28 crore as on 31 March 2019. The total debt of Rs.1357.51 crore as on 31 March 2019 consists mainly of NCDs of Rs.675 crore (Rs.500 crore + Rs.175 crore) and rest loans from banks and state government bodies.

The corporation has requested for deferment from its investors for the part principal payment of the NCD/ Bond of Rs.500 crore before the due date of 17 July 2020 and 01 November 2020. The operations of the corporations have been severely impacted on account of the ongoing COVID – 19 crisis and the corporation is relying mainly on grants and interest free loans from the GoR to manage its fixed costs and overheads. The corporation is in the process of refinancing these redemptions by taking a term loan of Rs.200 crore.

Acuité believes that timeliness of such refinancing measures and support from the GoR for repayment of the debt obligations will be a key monitorable.

Liquidity position: Stretched

RSRTC has a stretched liquidity position on a standalone basis on account of continuous losses. However, its liquidity position is supported by strong operational and financial support from the Government of Rajasthan.

Rating Sensitivities

- Timely arrangement of funds for redemption of NCD
- Credit profile of Rajasthan Government and timely support to RSRTC
- Improvement in the operational matrices and financial risk profile

Material Covenants

None

Assessment of Adequacy of Credit Enhancement

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	2,138.07	2,170.45
PAT	Rs. Cr.	(75.93)	(115.06)
PAT Margin	(%)	(3.55)	(5.30)
Total Debt/Tangible Net Worth	Times	(0.38)	(0.37)
PBDIT/Interest	Times	0.73	0.36

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
25-Aug-20	Non-Convertible Debentures	Long term	175.00	ACUITE BBB (CE) (Downgraded; Under Watch with Negative Implications)
04-May-20	Non-Convertible Debentures	Long term	175.00	ACUITE A (CE) /Stable (Reaffirmed)
06-May-19	Non-Convertible Debentures	Long term	175.00	ACUITE A (CE) /Stable (Reaffirmed)
04-May-18	Non-Convertible	Long term	175.00	ACUITE A (CE) /Stable

	Debentures			(Upgraded)
18-Oct-16	Non-Convertible Debentures	Long term	175.00	ACUITE BB /Stable (Downgraded)

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
INE700N08015	Non-Convertible Debentures	20-Feb-2014	10.25%	20-Feb-2024	175.00	ACUITE BB+ (CE) (Downgraded; Under Watch with Negative Implications)

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About Acuité Ratings & Research:

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