

Press Release

Rajasthan State Road Transport Corporation

July 15, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	175.00	ACUITE BBB- CE Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	175.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed long term rating of **ACUITE BBB- (CE) (read as ACUITE triple B minus)** on Non Convertible Debentures of Rs.175.00 crore on Rajasthan State Road Transport Corporation (RSRTC). The outlook is '**Stable**'.

Rationale for reaffirmation

The rating continues to derive strength from support extended by Government in Rajasthan in the form of grants a subsidies and guarantee, which further provides financial flexibility to the entity. The corporation has demonstrated the ability to successfully alter its liability profile by refinancing the outstanding NCDs. The refinancing has done at lower rate when compared with NCDs, which is likely to provide some additional liquidity buffer in the form of lower interest outgo. Acuite has also noted that RSRTC is servicing interest on all NCDs in timely manner. However, the rating remains constrained by the ongoing challenges faced by the corporation in maintaining a stable business risk profile and steady operating cash flows.

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, on March 31, 2021, the company has 3492 owned, and 864 hired buses across 56 depots, It travels more than 7.55 lakhs kilometers per day, with more than 3.25 lakh passengers on board.

Analytical Approach

To arrive at the rating, Acuite 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 Rating: ACUITE BB

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 4500 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 Government of Rajasthan (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. Also, GoR has extended its guarantee to the newly availed term loans for refinancing of its NCDs. Acuité believes that RSRTC with established market position, strategic importance to GoR in road transportation, long track record of over two decades and continuous support from state government will benefit the corporation over the long term.

Presence of the Structured Payment Mechanism

The structured payment mechanism, as enshrined in the trust deed, assuming that 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 the 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. Further, GoR has also extended guarantee to term loans availed from lenders for refinancing of the NCDs.

Weaknesses

Continuing losses and weak financial risk profile

The corporation has reported total income of Rs. 1454.62 Cr for FY21 (Provisional) as against Rs.2034.66 Cr for FY20. Albeit, the corporation has reported operating profit of Rs.6.35 crores for FY21 (Provisional) as against operating loss of Rs.50.67 crore in FY20. The same is on account of decline in power cost and license and taxes changes. The corporation continues to report net loss. The continuous losses over the year and revaluation reserve have resulted in erosion of net worth, thereby resulting in weak financial risk profile. The entity has witnessed improvement in financial performance during 9MFY22, wherein RSRTC has reported total operating income of Rs.1043.32 crore in during 9MFY22 as against Rs. 516.93 crore during 9MFY21. On operational front, revenue per Km has increased from Rs.32.57 in 9MFY21 to Rs.36.15 in 9MFY22. The net loss, however increased to Rs. 223.27 crore as against Rs.186.50

crore. The entity is expected to receive Government grant of Rs. 667.64 crore during FY22, of which Rs.200.0 crore has already been received during 9MFY22. Acuite believes that post COVID relaxation and increase in movement of public, the operating revenue of the entity is expected to increase going ahead.

Acuite believes that ability of corporation to receive grant from State Government of Rajasthan would be crucial for maintaining the stability in revenue and operating profit going ahead.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- >Timely arrangement of funds for redemption of NCDs.
- >Improvement in 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: None

Liquidity: Stretched 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. The corporation has paid off its pending dues as on March 2022 and likely to serve debt obligations going ahead. The entity has been raising term debt for the redemption of NCD and the same has also been backed by Government of Rajasthan. The next instalment is due on July 17, 2022 w.r.t debt repayment of NCD of Rs.500.00 (tranche: Rs.188.20 crore) for which the entity has planned to receive loan from State Government of Rajasthan. The corporation's ability to raise the loan on timely basis would be a critical factor.

Outlook: Stable

Acuite believes that the outlook on RSRTC's rated facilities will remain 'Stable' over the medium term given the availability of term loans for refinancing of the maturing NCDs, the adherence to the structured payment mechanism and the expectation of 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, and subsequently, the corporation.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	1454.62	2034.66
PAT	Rs. Cr.	(125.66)	(151.88)
PAT Margin	(%)	(8.64)	(7.46)
Total Debt/Tangible Net Worth	Times	(0.46)	(0.46)
PBDIT/Interest	Times	0.22	(0.38)

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

Not Applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Jul 2021	Non Convertible Debentures	Long Term	175.00	ACUITE BBB- (CE) Stable (Upgraded from ACUITE BB+(CE))
	Proposed Term Loan	Long Term	200.00	ACUITE BBB- (Withdrawn)
24 Nov 2020	Non Convertible Debentures	Long Term	175.00	ACUITE BB+(CE) (Ratings Under Watch)
	Proposed Term Loan	Long Term	200.00	ACUITE BB+(CE) Stable (Assigned)
10 Nov 2020	Non Convertible Debentures	Long Term	175.00	ACUITE BB+(CE) (Ratings Under Watch)
25 Aug 2020	Non Convertible Debentures	Long Term	175.00	ACUITE BBB (CE) (Downgraded from ACUITE A (CE) Stable)
04 May 2020	Non Convertible Debentures	Long Term	175.00	ACUITE A (CE) Stable (Reaffirmed)
06 May 2019	Non Convertible Debentures	Long Term	175.00	ACUITE A (SO) Stable (Reaffirmed)
04 May 2018	Non Convertible Debentures	Long Term	175.00	ACUITE A (SO) Stable (Upgraded from ACUITE BB Stable)
18 Oct 2016	Non Convertible Debentures	Long Term	175.00	ACUITE BB Stable (Downgraded from ACUITE A (SO) Stable)
12 Oct 2015	Non Convertible Debentures	Long Term	175.00	ACUITE A (SO) Stable (Reaffirmed)
24 Jun 2013	Non Convertible Debentures	Long Term	175.00	ACUITE A (SO) (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Non-Convertible Debentures (NCD)	Not Applicable	Not Applicable	Not Applicable	175.00	ACUITE BBB- CE Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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