

November 29, 2023

Konkan Railway Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture Programme	1,500.00	1,500.00	[ICRA]AAA(CE)(Stable); Reaffirmed
Total	1,500.00	1,500.00	

Rating Without Explicit Credit Enhancement	[ICRA]AA
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*Instrument details are provided in Annexure I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The rating for the non-convertible debenture (NCD) programme of Konkan Railway Corporation Limited (KRCL) is based on the strength of the Letter of Comfort (LOC) issued by the Ministry of Railways, Government of India (GoI). The rating draws comfort from KRCL being a key implementation agency for executing complex projects under the Indian Railways and the majority shareholding of GoI through Ministry of Railways in the company (51.48% ownership). The balance 48.52% stake is being held by Government of Maharashtra (22.21%), Government of Karnataka (15.14%), Government of Goa (5.11%) and Government of Kerala (6.06%). The Stable outlook on this rating reflects ICRA's outlook on the rating of the support provider, Ministry of Railways, GoI.

Adequacy of credit enhancement

For assigning the rating for the NCD programme, ICRA has assessed the attributes of the LOC provided by the Ministry of Railways, GoI for the said instrument. The LOC has a well-defined payment mechanism to ensure timely support for servicing of the rated NCDs. Considering the credit enhancement from the LOC, ICRA has assigned a rating of [ICRA]AAA(CE) to the said instrument against the rating of [ICRA]AA without explicit credit enhancement. In case the Unsupported Rating of KRCL was to undergo a change in future, the same would have a bearing on the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

The bonds are secured by way of first pari-passu charge on the specific assets, except the debt on the company's book, with minimum asset coverage of 1.25 times of the aggregate face value of the bonds outstanding at all times.

Key rating drivers and their description

Credit strengths

LOC from the Ministry of Railways – The NCDs are backed by an LOC from the Ministry of Railways, GoI. The Ministry of Railways has given an undertaking to make funds available to KRCL, if required, to ensure timely payment of KRCL's debt obligations under the NCD issue. In the past, the Ministry of Railways, GoI has provided financial support to KRCL in the form of loans and by enabling KRCL to raise funds from the market at competitive rates by providing LOC on the debt raised.

Well-defined payment mechanism – The NCDs have a well-defined payment mechanism to ensure timely payment on the rated NCDs. The transaction structure ensures that the NCDs effectively carry the credit risk of Ministry of Railways. There is a demonstrated track record of adhering to the payment mechanism.

Strong promoters – The rating draws comfort from the majority shareholding of the GoI in KRCL (51.48% ownership). The balance 48.52% stake is held by the Government of Maharashtra (22.21%), Government of Karnataka (15.14%), Government of Goa (5.11%) and Government of Kerala (6.06%). The Board of Directors includes nominees from the Railway Board and Principal Secretaries of Maharashtra, Karnataka, Goa and Kerala.

Credit challenges

Exposed to refinancing risk – The company is exposed to refinancing risk as a sizeable proportion of NCD debt, i.e., Rs. 780 crore falls due for repayment in FY2025. However, ICRA has taken comfort from the strong financial flexibility enjoyed by the company, being a GoI entity, which is evident from its demonstrated track record of timely debt refinancing in the past at competitive rates. ICRA understands that the company would continue to maintain ~Rs. 1,500 crore of liquidity on a steady state basis, which can be utilised to service the debt, if the need arises.

Liquidity position: Adequate

For the [ICRA]AAA(CE)(Stable) rating: Superior

The liquidity profile of the LOC provider is superior. The rated NCDs have a moratorium till FY2024, post which the NCD gets repaid over the next six years. The NCDs have a defined payment mechanism covering the repayment obligations to NCD holders.

For the [ICRA]AA rating: Strong

The company has a strong liquidity position with unencumbered cash balances and liquid investments of ~Rs. 1,500 crore as on March 31, 2023. It has Rs. 15 crore of long-term debt repayments in FY2024, which can be comfortably serviced from its operational cash flows.

Rating sensitivities

For the [ICRA]AAA(CE)(Stable) rating

Positive factors – Not Applicable

Negative factors – The rating assigned to the NCD programme would remain sensitive to any form of non-adherence to the NCD structure. Negative pressure on the rating could emerge if there is a significant deterioration in KRCL's credit profile or any weakening of linkages of KRCL with the Ministry of Railways, GoI.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Entities Methodology Rating Methodology – Project Finance
Parent/Group Support	Parent: Ministry of Railways, Government of India For arriving at the ratings, ICRA has taken into account, inter alia, the LOC provided by Ministry of Railways, GoI to ensure timely payment of KRCL's debt obligations for the rated NCDs.

Analytical Approach	Comments
Consolidation/Standalone	Standalone

About the company

Incorporated in July 1990 as a public limited company, KRCL undertook the construction and operation of the Konkan Railway, a broad gauge 761-km railway line, along the west coast of India connecting Roha (near Mumbai) in the North to Mangalore in the South. KRCL was formed pursuant to an agreement between the Government of India (acting through Ministry of Railways) and the state governments of Maharashtra, Goa, Karnataka and Kerala. The project was completed in December 1997 at a total cost of Rs. 3,550 crore. At present, its major activities consist of management of operations of the Konkan Railway line, undertaking construction of various railway projects awarded by the Ministry of Railways, a notable one being the construction of Katra Dharam section of Udhampur-Srinagar-Baramulla Rail Project in Jammu and Kashmir. It also undertakes consultancy projects related to railways across India. Historically, ~60-65% of the operating revenue is contributed by projects division, while the balance constitutes of the traffic division (passenger and freight services).

Key financial indicators (audited)

Standalone	FY2022	FY2023	H1 FY2024*
Operating income (Rs. crore)	3,256.1	5,031.2	2,175.3
PAT (Rs. crore)	-140.9	278.9	85.5
OPBDIT/OI (%)	0.8%	10.2%	10.4%
PAT/OI (%)	-4.3%	5.5%	3.9%
Total outside liabilities/Tangible net worth (times)	4.7	3.9	3.7
Total debt/OPBDIT (times)	136.2	6.1	7.6
Interest coverage (times)	0.1	2.2	1.7

Source: Company, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Nov 29, 2023	Nov 29, 2022	Nov 29, 2021	Nov 30, 2020
Non-convertible debenture 1	Long-term	1380.0	1380.0	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)
Non-convertible debenture 2	Long-term	120.0	120.0	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE139F07105	NCD	Sep-16	7.65%	Sep-26	300.0	[ICRA]AAA(CE) (Stable)
INE139F07097	NCD	Apr-16	8.30%	Apr-26	50.0	[ICRA]AAA(CE) (Stable)
INE139F07089	NCD	Mar-16	8.50%	Mar-26	250.0	[ICRA]AAA(CE) (Stable)
INE139F07063	NCD	Sep-14	9.08%	Sep-24	500.0	[ICRA]AAA(CE) (Stable)
INE139F07055	NCD	Aug-14	9.18%	Aug-24	110.0	[ICRA]AAA(CE) (Stable)
INE139F07048	NCD	Jul-14	9.15%	Jul-24	170.0	[ICRA]AAA(CE) (Stable)
INE139F07113	NCD	Oct-19	7.94%	Oct-29	120.0	[ICRA]AAA(CE) (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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