

June 30, 2024

Kutch Railway Company Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1,000.0	1,275.0	[ICRA]A (Stable); reaffirmed/assigned for enhanced amount
Total	1,000.0	1,275.0	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Kutch Railway Company Limited (KRCL) factors in its long operational track record and importance of the rail line, which provides connectivity to two major seaports [Adani Port (erstwhile Mundra Port) and Deen-Dayal Port (erstwhile Kandla Port)] with the northern mainland. It will also be a feeder route to the Western Dedicated Freight Corridor (WDFC). KRCL has signed a 32-year concession agreement (CA), in November 2005, with the Ministry of Railways (MoR) for operating the 301-km rail line between Gandhidham and Palanpur in Gujarat. The rating notes KRCL's healthy financial profile with strong accruals and redeployment of the same, which reflects in its strong net worth position (Rs. 2,567.3 crore as on March 31, 2024, provisional figures). This has enabled KRCL to fund most of the capex from its internal accruals/reserves with limited dependence on external borrowings (Debt: Equity ratio of doubling and electrification project was 0.46:1). The rating takes comfort from the strong sponsor profile such as Rail Vikas Nigam Ltd. (RVNL), a Government of India (GoI) undertaking with 50% stake in KRCL and its demonstrated record of timely funding support. In FY2024, all the sponsors have cumulatively infused Rs. 571 crore to fund the cost overrun in the project. The company's parentage lends strong financial flexibility to negotiate favourable terms with lenders.

The capex towards the doubling and electrification of the project line has been completed in FY2024, eliminating the residual execution risk. The same will support growth in apportionment revenue share for KRCL, and the expectation of reduction in diverted traffic going forward. KRCL witnessed a ~13% decline in cargo transported from the project stretch due to 'Biparjoy Cyclone' (in June 2023) and the Red Sea crisis (since Q3 FY2024). Moreover, the volume reduction in FY2024 contrasted with the volume growth in Mundra Port and Kandla Port, indicating some loss of freight to alternate modes. Nonetheless, it saw a 4% growth in its operating income (net of construction revenue) supported by higher apportionment. With no plans of any major debt-funded capex and steady improvement in revenues, KRCL's coverage metrics are likely to improve over the medium term. ICRA, however, notes that the near-term DSCR may remain relatively moderate, given the equitable repayment obligations.

The rating remains constrained by the dependence of its cash flows on timely remittance of revenue share payments from the Western Railway (WR) after adjusting for operations and maintenance (O&M) charges, as well as freight rates, which are controlled by the MoR. KRCL's credit profile remains exposed to the operating efficiency of the WR. Moreover, its ability to keep the overall maintenance expenditure (other than O&M charges deducted by WR) within the budgeted level remains important from the credit perspective. In the past, KRCL's profitability was impacted by high overhead costs apportioned by WR. However, the same has reduced since FY2021, post signing of the joint procurement order (JPO) in December 2019. Any material delay in remittances or increase in overhead cost could adversely impact the profitability and liquidity position of the entity. Nonetheless, ICRA derives comfort from the established track record of operations with WR. Despite the importance of the project line and sustained freight traffic growth, it remains exposed to risks inherent in rail development projects, including risks of diversion of traffic to alternate modes of transport, moderation in freight traffic growth rates, or non-revision in freight

rates to account for increasing costs, which could weaken its coverage metrics. ICRA derives comfort from diversified mix of commodities, which reduces the revenue volatility risk to an extent.

The company received communications from the MoR in FY2024 regarding the applicability of GST on apportionment and O&M payable, which could have serious implication on its cash flows. However, in its June 2024 meeting, the GST council has allowed exemption to services such as allowing IR to utilise SPV-owned infrastructure and maintenance services provided by IR to the SPVs during the concession periods. Consequently, the risk is largely mitigated. ICRA will continue to monitor development in this regard.

The Stable outlook on the long-term rating reflects ICRA's opinion that KRCL will see sustained growth in its freight revenue, given the importance of the rail line it operates, notwithstanding the ongoing disturbances due to the Red Sea crisis. Further, the outlook underlines ICRA's expectation that incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics.

Key rating drivers and their description

Credit strengths

Established track record of operations and concession from MoR – KRCL was incorporated on January 22, 2004, as a special purpose vehicle (SPV) to convert the existing metre gauge to broad gauge on the existing 301-km railway line between Gandhidham and Palanpur, in Gujarat. The company signed a CA for 32 years with MoR, GoI, on November 8, 2005. The project achieved commercial operation date (COD) in November 2006 and has an operational track record of nearly 18 years.

Important route providing rail connectivity to Mundra and Deendayal seaports with northern hinterland; route will act as a feeder to WDFC – The Gandhidham-Palanpur corridor is an important rail line that provides the shortest connectivity to two major ports in Gujarat—erstwhile Kandla and Mundra— with the northern hinterland via the Delhi-Ahmedabad main line. These are two of India's largest ports, handling over 20% of the total port cargo in the country. The commodity mix, besides petroleum and lubricants, includes edible oil, fertilisers, iron ore, coal, and containers. Further, the project merges with the WDFC at Palanpur and Chadotar and act as a feeder route for the corridor. Given the prospective traffic on WDFC and the cargo trend at the ports, the potential serviceable cargo volumes are expected to be healthy on KRCL's stretch.

Revenues from diversified mix of commodities – The project stretch caters to a large volume of cargo transport, which is reflected in the ~47.11 million metric tonne (MMT) cargo transported in FY2024. The containers accounted for ~50% of the total cargo transported, whereas fertiliser and coal contributed to 20% and 14%, respectively. Over the years, the dependence on bulk cargo has reduced and the share of containers has increased. Overall, the project line transports a relatively diversified mix of commodities, which mitigates the risk of volatility in revenues due to dependence on a single commodity.

Above average financial profile – KRCL's financial profile is underpinned by stable revenues (net of construction income) and a strong net worth position, driven by healthy accretion to reserves. It had started a large capex programme in FY2017, which was finally completed in FY2024, eliminating the execution risk. The final cost of the programme stood at Rs. 3,776 crore (including cost overrun of Rs. 900 crore). The same has been funded by Rs. 1,285 crore of long-term debt, Rs. 571 crore of equity infusion by the promoters and the balance through internal accruals. Despite additional debt of Rs. 285 crore, the operational cash flows are expected to remain healthy for debt servicing and maintenance capex requirements.

Credit challenges

Risks related to freight traffic growth and freight rates – The freight rates for bulk goods transport are decided by the MoR. Therefore, this can result in the risk of lower growth in the freight rates in future, despite increase in O&M costs. Like any rail project, KRCL is exposed to the risk of slowdown in the freight traffic, or competition from alternate modes of transportations, which could impact its revenues and profits. In FY2024, KRCL witnessed ~13% decline in cargo transported from the project stretch due to "Biparjoy Cyclone" (operations halted for few days in June 2023, followed by gradual scale-up) and the Red Sea

crisis (impact on EXIM traffic). Despite a diversified mix of cargo carried, the traffic on the project stretch remains vulnerable to policy decisions such as ban on export of wheat or reduced imports of coal and fertilisers as witnessed in FY2024.

Exposure to risks pertaining to operating efficiency of O&M contractor – The O&M works on the project stretch are being undertaken by the MoR through WR. The latter collects freight charges from users and apportions the revenues to KRCL (based on the distance carried on the route) after deducting O&M-related expenses. Thus, KRCL is dependent on WR’s operating efficiencies and timely remittance of its revenue share from the same. In the past, the company’s profitability was impacted as high overhead costs were apportioned by the WR. Any disproportionate increase in overhead or O&M cost, not mitigated by increase in revenues, remains a risk to the project’s cash flows.

Liquidity position: Adequate

The company’s liquidity position is expected to remain adequate, with healthy cash flows from operations, supported by free cash balances of Rs. 254.7 crore (including DSRA of ~Rs. 115 crore) as on March 31, 2024. It has term loan repayment obligations of ~Rs. 221.8 crore in FY2025 and Rs. 211.1 crore for FY2026 (principal + interest), apart from maintenance capex requirement. Its operational cash flows are likely to remain adequate for meeting the same. ICRA takes comfort from KRCL’s strong sponsor/shareholders and its strong cash flow profile, which provides financial flexibility to raise funds.

Rating sensitivities

Positive factors – The rating may be upgraded if the company ramps up its revenues and profitability satisfactorily, backed by sustained growth in traffic and cargo carried. Specific credit metrics which will be a monitorable will be three-year average DSCR above 1.4 times on a sustained basis.

Negative factors – Negative pressure on the rating could arise if lower traffic or cargo carried results in significantly lower apportionment or there are significant delays or deductions in apportionment due to higher-than-envisaged O&M costs or additional indebtedness leading to reduction in average three-year DSCR below 1.2 times on a sustained basis. The rating could also come under pressure if there is any non-adherence to the debt structure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company’s standalone financials

About the company

KRCL was incorporated in January 2004 as an SPV for converting the existing metre gauge to broad gauge on the existing 301-km railway line between Gandhidham and Palanpur in Gujarat. The company was formed as a joint venture between RVNL (50%), Mundra Ports and SEZ Ltd. (now Adani Ports and Special Economic Zone Limited; 20%), Kandla Port Trust (now Deendayal Port Trust; 26%) and the Government of Gujarat (4%). It signed a CA with MoR, Gol, in November 2005, for a concession period of 32 years. The O&M of the project is conducted by the MoR through WR. The project achieved COD on November 26, 2006. Subsequently, KRCL took up the project for doubling the existing railway line and completing electrification of the same and these works were completed in February 2023 and May 2023, respectively.

Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Adjusted operating income** (Rs. crore)	835.6	1132.9	1179.5
PAT (Rs. crore)	136.4	116.9	19.6
OPBDIT/Adjusted OI**	20.5%	28.1%	29.5%
PAT/Adjusted OI**	15.0%	6.6%	1.3%
Total outside liabilities/Tangible net worth (times)	0.7	0.8	0.6
Total debt/OPBDIT (times)	5.5	3.1	3.4
Interest coverage (times)	7.5	10.2	2.8

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

* Provisional; ** OI less Construction contract revenue under Service concession agreement

Status of non-cooperation with previous CRA: Not applicable

Any other information: The company faces prepayment risk, in case of debt acceleration upon the breach of covenants, including financial covenants, operating covenants, and rating linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lender or the lender does not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on May 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 30, 2024	Jun 6, 2023	May 9, 2022	-
1 Term loan	Long term	1,275.0	1188.03	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	July 2022	NA	July 2030	1,275.0	[ICRA]A(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis - NA

ANALYST CONTACTS

Rajeshwar Burla

+91 40 6939 6443

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Ritu Goswami

+91 124 4545 826

ritu.goswami@icraindia.com

Ritik Sundarka

+91 80 4332 6414

ritik.sundarka@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.