September 25, 2024

Jharkhand Central Railway Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term loans	1259.75	1259.75	[ICRA]BBB+ (Stable); Reaffirmed
Total	**1259.75**	**1259.75**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation factors in the steady progress in Jharkhand Central Railway Limited's (JCRL) under-construction railway project with ~56% of the project cost incurred as on June 30, 2024 (compared to ~25% as on March 31, 2023). The rating notes JCRL's long-term concession agreement with the Ministry of Railways (MoR) and the approval to charge an inflated mileage from users over and above the base charges, providing revenue visibility to the project. This would support its cash flows in the initial years of operations and the project's return indicators. ICRA notes that Central Coalfields Limited (CCL, with shareholding of 64%) plans to significantly ramp-up coal production in the North Karanpura coalfield over the medium term, which along with shorter lead distances, faster rake turnaround times and lower trip costs following the commissioning of JCRL's railway line, partly mitigates the traffic fluctuation risk. Moreover, given the strategic importance of the rail corridor to CCL's expansion plans, the operational synergies between CCL and JCRL remains high, supporting the company's business risk profile. JCRL's credit profile benefits from the strong financial profile of its parent CCL and IRCON International Limited (IRCON, shareholding of 26%) and Government of Jharkhand (GoJ, shareholding of 10%). The rating considers the fixed revenue sharing clauses with the MoR for providing reserve services, which partly mitigates risks associated with inadequate increase in freight rates to cover for rising operations and maintenance (O&M) costs.

The rating, however, remains constrained by JCRL's exposure to high project implementation risks, which exposes it to time and cost overrun risks. The company's sizeable dependence on external borrowings would lead to modest debt coverage metrics during the initial years post commissioning. ICRA notes that although the project has demonstrated progress in FY2024, its scheduled completion date is anticipated to be delayed to H1FY2026 from the original scheduled completion date in Q1FY2023. This delay is mainly attributable to delay in land clearances, Covid-19 and delayed financial closure. As per terms of the concession agreement and inter-ministerial MoU signed for formation of JCRL, the construction work could be undertaken only after achieving financial closure, which was achieved by JCRL in May-2022. Also, the cost of the project is expected to be revised upwards, driven by natural price escalation since the initial project DPR, changes in the scope of work to ensure compliance of technical requirements and revision in the GST rates. The cost overrun is proposed to be funded in debt-to-equity ratio of 70:30, which would necessitate tie-up for incremental fresh loan. Further, a sizeable portion of the estimated network traffic in the Shivpur – Kathautia line is likely to come from coal supply to the 5x660 MW Barh Super Thermal Power Plant of NTPC Limited (NTPC), which is dependent on timely commissioning of the Koderma – Tilaiya leg of an under-construction railway line by the East-Central Railway (ECR). Prior to Koderma – Tilaiya line completion, East Central Railway (ECR) is undertaking a project related to improving the rack capacity, which would support an increase in traffic on Shivpur - Kathautia line being constructed by JCRL. Any delay in its commissioning beyond the scheduled commissioning date of JCRL's railway line, could have an impact on the traffic. The rating also reflects the project's high sectoral concentration risk owing to its dependence on a single commodity (coal).

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that JCRL will complete the project within the approved timelines, in the backdrop of IRCON's established track record in executing railway projects. The outlook underlines ICRA's expectations that JCRL's fund requirements would be funded in a manner that is able to durably sustain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Long-term concession agreement provides earnings visibility - JCRL has signed a 30-year concession agreement (including three-year construction period) with the MoR, which assures guaranteed traffic. Though there is no long-term contract, JCRL would benefit from the parentage of CCL and IRCON as the parent entity CCL can direct the coal supply from it's mines in the North Karanpura area to the long-term fuel supply agreement (FSA) customers through JCRL's network. ICRA notes that although the project has demonstrated progress in FY2024, its scheduled completion date is anticipated to be delayed to H1FY2026 from the original scheduled completion date in Q1FY2023. This delay is mainly attributable to delay in land clearances, Covid-19 and delayed financial closure (as per terms of the concession agreement and inter-ministerial MoU signed for formation of JCRL, the construction work could be undertaken only after achieving financial closure, which was achieved by JCRL in May-2022). The cost of the project is expected to be revised upwards, driven by natural price escalation since the initial project DPR, changes in the scope of work to ensure compliance of technical requirements and revision in the GST rates. The cost overrun is proposed to be funded in debt-to-equity ratio of 70:30, which would necessitate tie-up for incremental fresh loan.

Inflated mileage makes project return indicators attractive - JCRL would have access to three revenue streams: a) 50% of the user fee (based on the actual distance traversed on JCRL's network), b) 60% inflated mileage (additional distance) to be collected from the users and retained entirely by JCRL and c) terminal charge to be collected from coal consumers, for using JCRL's network and infrastructure. The inflated mileage would account for ~50% of JCRL's overall annual revenue (net of MoR share) in the initial five years of operations and is a key reason behind the project's comfortable return indicators. Moreover, the inflated mileage reduces the capacity utilisation hurdle rate required to meet debt service obligations, with the break-even system utilisation levels (for DSCR=1 time) at 40-50% level in the initial few years post the scheduled completion date. Since MoR will review the inflated mileage every five years, any extension of the same could further improve the project's return indicators.

Significant planned ramp-up in production from CCL's North Karanpura coalfield partly mitigates traffic fluctuation risks - As per CCL's capacity expansion plans, the North-Karanpura coalfield, in future, would account for majority of CCL's production. The mines of Magadh (51 MTPA peak-rated capacity), Amrapali (25 MTPA peak-rated capacity), Sanghmitra (20 MTPA) Pachra (Chandragupta) (15 MTPA) are expected to steadily ramp-up production in the near to medium term. The feasibility for the Shivpur – Kathautia single track line has been prepared factoring in a traffic of around 21.5 MTPA (~1,075 million MT-km) mostly to the eastern power plants in Bihar and Jharkhand. The shorter lead distance, faster rake turnaround time and lower trip costs following the commissioning of JCRL's railway line, partly mitigates the traffic fluctuation risks. Apart from CCL's own expansions in the North Karanpura coalfields, the rail corridor is also likely to benefit from the traffic generated from NTPC's captive blocks such as Chatti Bariatu and Kerendari A and Pakri Barwadih. In addition, private commercial mining at Chakla, Chitarpur, Gondulpara, North Dhadu and Seregarha in the North Karanpura coalfield, with a cumulative peak-rated capacity of 25 MTPA, will further support traffic in the long term.

Fixed revenue share with MoR for reserve services mitigates risks associated with inadequate increase in freight rates - The bulk of the operating cost for a railway line special purpose vehicle (SPV) is fixed in nature. While JCRL would be responsible for the O&M of tracks, overhead equipment and signalling, the Indian Railways would be providing reserved services, including supply of rakes, wagons, locomotives, crew for locomotives, station operation management and fuel/ traction power for rake movement. The Indian Railways would deduct a flat 50% of the base user fee (excluding the inflated mileage) for providing these services, which mitigates the risk to JCRL's earnings arising out of a delay in freight tariff revision to cover the rising O&M costs. Consequently, JCRL's operating profitability is expected to remain healthy in the range of ~80-90% post the commencement of operations.

Strong financial profile of shareholders; strategic importance of rail corridor to CCL's expansion plans - The rating factors in the strong financial profile of JCRL's shareholders (CCL with 64% shareholding and IRCON 26%). Moreover, the rating notes the synergies between the operations of JCRL and CCL, with the former's railway network playing an enabling role in helping CCL achieve its target of increasing the annual coal production.

Credit challenges

High project implementation risks - JCRL's under-construction railway project incurred ~56% of the project cost as on June 30, 2024 (compared to ~25% as on March 31, 2023), which has been largely deployed towards land acquisition and civil engineering work. The project implementation risk remains high, given its greenfield nature and the nascent stage of execution. The tendering award has been done for part of the civil work and the construction period is estimated to be 37 months from the date of financial closure (designated as appointed date for the project), which was achieved on May 5, 2022. The project is being executed by IRCON (ultimate shareholding of 26%), with a track record of developing similar projects, partly mitigating the execution risks.

Modest debt coverage metrics during initial years due to sizeable dependence on external borrowings - JCRL's greenfield rail corridor has a budgeted cost of Rs. 1,799.64 crore, to be funded by a debt-to-equity mix of 70:30. A ramp-up to the peak traffic capacity is expected over a period of three years. Consequently, the project would demonstrate its full earnings potential from the third year onwards. JCRL's total debt to OPBITDA during the initial two years post commissioning is likely to remain elevated above 4.5 times, given the project's sizeable debt. Further, its minimum debt service coverage ratio (DSCR) is anticipated to be at 1.2 times even as the cumulative DSCR is estimated to remain comfortable at around 1.7 times.

Delay in commissioning of the Koderma - Tilaiya under-construction line by East Central Railways could impact traffic - A sizeable portion of the estimated network traffic in the Shivpur – Kathautia line is expected to come from the 5x660-MW Barh Super Thermal Power Plant of NTPC. With commissioning of the Shivpur – Kathautia line by JCRL and the Koderma – Tilaiya under-construction line by the Railways, the coal traffic to the Barh Power Station would take a shorter route (Shivpur --> Kathautia --> Koderma --> Tilaiya --> Nateswar --> Bihar Sarif --> Barh), against the existing longer route (from Gomo --> Koderma --> Gaya--> Tilaiya --> Shekhpur --> Luckeesarai --> Kiul --> Barh). ICRA understands from JCRL's management that the Koderma – Tilaiya line is likely to commence operations by March 2025. Prior to Koderma – Tilaiya line completion, ECR is undertaking project related to improving the rack capacity, which would support an increase in traffic on Shivpur - Kathautia line being constructed by JCRL.

High sectoral concentration risk - Almost JCRL's entire revenues would be generated from the movement of coal. Hence, the company's earnings would remain highly susceptible to any potential slowdown in the coal demand during the concession period.

Liquidity position: Adequate

As the project is under construction, JCRL may not maintain significant liquidity on its books. However, the company's liquidity position is supported by the undrawn sanctioned term loan (Rs. 642 crore as on June 30, 2024). It had cash and liquid investments of Rs. 70 crore as on March 31, 2024. JCRL also derives financial flexibility from its strong parentage.

Rating sensitivities

Positive factors - ICRA could upgrade JCRL's rating if it commissions the project within the budgeted time and costs and is able to timely ramp-up the capacity utilisation to achieve the traffic targets.

Negative factors - Negative pressure on JCRL's rating could arise if the strategic importance of the project to CCL reduces, and/or linkages with the parent Group weakens. Further, significant delays in execution leading to large cost overruns and sub-optimal project return indicators may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group Company: Central Coalfields Limited (CCL) The rating assigned to JCRL factors in the high likelihood of its parent, CCL, extending financial support to it because of the close business linkages between them. ICRA also expects CCL to be willing to extend financial support to JCRL out of the need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

Jharkhand Central Railway Limited (JCRL) is an SPV formed for construction, operation and maintenance of a new broad gauge (BG) electrified railway line for the coal corridor from Kathautia to Shivpur (~49 km) in Jharkhand, India. The railway line will augment the coal evacuation capacity from the North Karanpura coalfields of Central Coalfields Limited (CCL) to the existing and proposed power plants in Bihar, Jharkhand, Uttar Pradesh, Haryana, and Punjab. The line shall become a railway feeder to Eastern Dedicated Freight Corridor (EDFC) connecting Dankuni in the vicinity of Kolkata with North India.

Jharkhand Central Railway Limited (JCRL) was incorporated on August 31, 2015, following an inter-ministerial memorandum of understanding (MoU) on May 4, 2015, among the Ministry of Coal, the Ministry of Railways, and the Government of Jharkhand (GoJ), and a subsequent MoU on May 20, 2015, among CCL, IRCON International Limited, and the GoJ for the formation of joint venture companies/SPV to undertake identified railway projects in Jharkhand. JCRL is majority held by CCL, with a shareholding of 64%, followed by a 26% stake held by IRCON and 10% by GoJ.

Key financial indicators

Since JCRL has not yet commissioned operations, the key financial indicators of the company are not meaningful.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs Crore)**	**Sep 25, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term loans	Long Term	1259.75	[ICRA]BBB+ (Stable)	June 30, 2023	[ICRA]BBB+ (Stable)	-	-	-	-
Proposed term loans	Long Term	-	-	-	-	-	-	March 31, 2022	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – 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 loan-I**	Nov 29, 2021	-	FY2041	419.75	[ICRA]BBB+ (Stable)
NA	**Term loan-II**	Nov 12, 2021	-	FY2041	400.00	[ICRA]BBB+ (Stable)
NA	**Term loan-III**	Nov 15, 2021	-	FY2041	240.00	[ICRA]BBB+ (Stable)
NA	**Term loan-IV**	Nov 15, 2021	-	FY2041	200.00	[ICRA]BBB+ (Stable)

*Source: Company; *Date of first sanction, reduction in sanctioned amount and/or change in other terms through subsequent letters*

Please click here to view details of lender wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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