

Dedicated Freight Corridor Corporation of India Limited

January 07, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	0.0	0.0	[ICRA]AAA (Stable); Reaffirmed
Total	0.0	0.0	

*Instrument details are provided in Annexure-1

Rationale

The issuer rating of Dedicated Freight Corridor Corporation of India Limited (DFCCIL) factors in its established relationship with the Ministry of Railways (MoR) as defined by the concession agreement (CA) and track access charges (TAC) agreement and the strategic importance of the project for the country. As per the agreements, the Indian Railways (IR) will be the major customer of the dedicated freight lines and will pay TAC to DFCCIL to cover all variable and fixed costs, including debt repayment commitments of the company. This should mitigate the debt servicing risk for DFCCIL. The rating also takes into account the support from the MoR in case the dedicated freight corridors (DFCs) are not operational by the time the debt repayment becomes due. Further, the rating draws comfort from the strong technical, managerial and financial support available to DFCCIL from the MoR, given the strategic importance of the project for infrastructure growth and expansion of the railway network in India. To achieve timely completion of the project, the MoR has put in place the required administrative structure. Further, the rating draws comfort from the fact that the project is closely monitored by the Government of India (GoI) owing to its strategic importance. The DFCs connected with the existing rail network of the IR through feeder routes would provide it with a more efficient freight transportation infrastructure and enable it to increase its domestic freight transportation share. This would also ease congestion on the existing rail network as well as help to reduce load on the same and increase the IR's passenger revenue potential.

However, ICRA has taken note of the execution, time and cost overrun, and related funding risks associated with the project, given its scale and complexity, although healthy progress has been made in the last couple of years. DFCCIL has awarded most of the contracts for the two DFC projects and is expected to award the remaining contracts shortly. Further, there has been significant progress on land acquisition with around 98% of the total required land (excluding the land required for the Sonnagar-Dankuni section that is to be built under the PPP¹ mode) being acquired by the MoR by March 2018. A significant portion of the funding for the project has been tied-up from multilateral agencies and the same is being sanctioned progressively. The current funding plan does not foresee any commercial borrowings. However, in case it is required, the same is expected to be guaranteed by the GoI through the MoR.

Outlook: Stable

ICRA believes that the company will receive timely funding support from the GOI, given the strategic importance of the project for infrastructure growth and expansion of the railway network in the country. The outlook may be revised to Negative in case of reduction in support/linkage from the GOI.

¹ Public Private Partnership

Key rating drivers

Credit strengths

Established relationship with MoR – DFCCIL is a subsidiary of the MoR and receives technical, financial, and managerial support from the ministry. The relationship is also strengthened by the CA and the TAC agreement between the MoR and DFCCIL. As per the agreements, the IR will be the major customer of the dedicated freight lines and will pay a minimum fixed capacity charge to DFCCIL to cover all variable and fixed costs, including debt servicing commitments of the company. This should mitigate the debt servicing risk for DFCCIL.

Strategic importance of the project – The DFCs projects are strategically important to MoR as these will connect the existing rail network of the IR through feeder routes and will provide it with a more efficient freight transportation infrastructure. This in turn will enable the IR to increase its domestic freight transportation, ease congestion of the existing rail network, and increase revenues.

Long-term funding for project in place – The project is to be funded with equity from MoR and debt from the World Bank and the Japanese International Cooperation Agency (JICA). The debt for the project has been tied-up and its disbursement is underway. The equity infusion from MoR is also in the process.

Credit challenge

Project remains exposed to execution challenges owing to large scale – As the DFC projects are large scale, these are prone to execution challenges, which could result in time and cost overruns. However, the project is closely monitored by the GoI and the MoR has put in place the required administrative structure for it to achieve timely completion.

Liquidity position

DFCCIL is implementing the eastern and western freight corridors. Hence, its liquidity profile is dependent on timely disbursements of debt and timely equity infusion. Besides, ICRA takes comfort from the liquidity support available to the company from MoR if required. The company had a cash balance of Rs. 1,519.3 crore as on March 31, 2018.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: Ministry of Railways, Government of India The assigned rating factors in the importance that the dedicated freight corridor project and hence the company (DFCCIL) for the Ministry of Railways (Government of India), which along with the contractual agreements (concession agreement and Track Access Agreement) should ensure the Government to extend timely financial support to the rated entity.
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer

About the company

DFCCIL is a special purpose vehicle (SPV) promoted by the GoI, through the MoR, to build, operate and maintain dedicated freight railway lines along the rail routes on the Golden Quadrilateral and diagonals. The dedicated freight network would ease the congestion on the existing rail network, allowing the IR to run additional passenger trains. Further, the proposed design features of the project would allow the IR to run high-speed and high-axle load trains, improving its operating efficiency.

In the first phase, DFCCIL plans to construct two DFCs – the Eastern DFC (Ludhiana to Dankuni) and the Western DFC (Dadri to Mumbai) – covering a length of 3,360 km. Both the corridors are scheduled to be fully operational by March 31, 2020. The completion cost for these two corridors is estimated at Rs. 81,459 crore (including land cost of Rs. 8,067 crore to be borne by the MoR; the cost excluding the land cost is expected at Rs. 73,392 crore and is to be borne by DFCCIL). The cost is proposed to be funded by the MoR via equity of around Rs. 23,796 crore (including land), external debt (JICA and World Bank) of Rs. 52,347 crore and the balance through internal accruals. A part of the freight corridor (not included in the project cost of Rs. 81,459 crore) is proposed to be funded in the PPP mode. The current funding plan does not foresee any commercial borrowings. However, in case there is any shortfall, the same may be met through market borrowings. For the GBS, the funds are being sourced by the Ministry of Finance as loans from the JICA and the World Bank.

In FY2018, the company reported a net profit of Rs. 17.8 crore on an operating income (OI) of Rs. 0.0 crore compared with a net profit of Rs. 75.8 crore on an OI of Rs. 0.0 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	0.0	0.0
PAT (Rs. crore)	75.8	17.8
OPBDIT/OI (%)	-	-
RoCE (%)	NM	NM
Total Debt/TNW (times)	0.9	0.9
Total Debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

NM – Non-Meaningful;

Note – The company has not started operations and hence there is no operating income, however the company earns non-operating income, primarily in the form of interest on bank balances

Sponsor profile

The MoR is headed by the Union Minister for Railways, who in turn is assisted by two Ministers of State for Railways. The MoR owns and operates most of the railway infrastructure in the country through the IR. The IR is administered by the Railway Board, which consists of a chairman, a financial commissioner, and five members.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in	Date & Rating in	Date & Rating in
					FY2018 November 2017	FY2017 September 2016	FY2016 October 2015
1 Issuer Rating	Long Term	Not Applicable	Not Applicable	[ICRA]AAA (Stable) January 2019	[ICRA]AAA (Stable)	-	-
2 Credit Opinion	Long Term	Not Applicable	Not Applicable	-	-	[ICRA]AAA (Stable)*	[ICRA]AAA (Stable)

*The credit opinion assigned earlier was replaced with an issuer rating for the company.

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: DFCCIL

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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