September 09, 2022

Container Corporation Of India Ltd.: Ratings continues to be on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based limits - long term	462.00	462.00	[ICRA]AA+ &; rating continues to be on watch with developing implications
Proposed term loan	9,000.00	9,000.00	[ICRA]AA+ &; rating continues to be on watch with developing implications
Issuer rating	-	-	[ICRA]AA+ &; rating continues to be on watch with developing implications
Total	**9,462.00**	**9,462.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating factors in the dominant position of Container Corporation Of India Ltd. (CONCOR) in the containerised rail freight business, supported by a large, pan-India infrastructure and an established track record of healthy operational performance. The rating also considers the financial profile of the entity, characterised by healthy profitability and cash accruals. Owing to its strategically located terminal network, the company is well poised to gain from the commissioning of the dedicated freight corridor (DFC), particularly the western leg, as several industrial clusters are located along the western DFC

The rating also factors in the GoI's ownership, which benefitted CONCOR in the early stages of establishing its network, a source of competitive advantage for the company. ICRA notes that the GoI is looking to divest a 30.8% stake in the company along with ceding of management control to a strategic investor. While the company has always benefitted from its close ties with the Ministry of Railways, following the change in management control too, it is expected to continue to benefit from its pan-India, strategically located infrastructure. Nevertheless, once there is more clarity on the divestment, ICRA will review the rating to assess the implications on the credit profile of the entity.

The rating is constrained by the annual land licence fee (LLF) paid by the company which is now being charged on the basis of land value. While LLF charges are decreasing as a few terminals have been surrendered, the company expects an outgo of Rs. 390 crore as LLF in FY2023. Further, the GoI has been exploring the possibility of giving railway land to CONCOR on a 35-year lease, with the company making an upfront lease payment for the same. In this scenario, there will be an upfront cash outflow and an adverse impact on the credit metrics. Currently, the company estimates a cash outflow in the range of Rs. 6,500-7,500 crore, which will be funded through a mix of term debt and internal accruals. CONCOR's board has already approved raising term loans worth Rs. 3,500 crore. However, ICRA notes that only one of the above options will be implemented finally. Further, ICRA also takes note of the recent decision by Union Cabinet to revise the Railway's land policy and reduce the land lease rate to ~1.5% of land value (as against 6% being considered currently). However, further clarity on the impact of revised land policy on CONCOR's lease payment options are awaited and the developments on this front remain a key monitorable.

The rating is also constrained by the susceptibility of the entity's performance to the revision in haulage rates by the Indian Railways and rising competition from private container train operators (CTOs) and road freight operators. The performance of the company remains vulnerable to the overall macroeconomic activity and global trade.

The rating has been placed on watch with developing implications, given the GoI's plan to offload a 30.8% stake in CONCOR along with ceding management control to the incoming investor, together with lack of clarity on the total cash outflow for the upfront lease payment. The credit profile of the incoming investor will remain a key monitorable. ICRA will monitor these developments and will review their impact on the company's rating as and when clarity emerges.

Key rating drivers and their description

Credit strengths

Leadership position in container rail freight segment with strategically located infrastructure - CONCOR had maintained nearly 73-74% market share in the rail freight segment over the last decade, although this has moderated in recent years, with a market share of 64% in FY2022 (PY 67%) due to increasing competition from private players and the company's focus on profitable routes. Its large pan-India, strategically located infrastructure is a competitive advantage, which has helped the company to maintain its profitability despite losing some market share.

Extensive track record of healthy operational performance - The company has an established track record of healthy operational performance, characterised by growing container volumes, rising number of double-stacked trains and declining empty charges. As a result, it has improved its turnaround time, which is reflected in its improving operating margins over the years.

Robust financial risk profile - CONCOR's financial risk profile is robust, characterised by healthy operating margins, robust cash accrual and large cash balances. In FY2022, the company's revenues grew 19%. The OPM was 22.8% and NPM was 13.4% in FY2022 compared with 16.3% and 7.3%, respectively, in FY2021. Further, despite significant capex over the last couple of years, the company had not availed debt due to the strong internal cash generation. The company's liquidity position has remained robust with large cash balances and investments coupled with nil debt repayments at a standalone level.

Favourable outlook for containerised cargo in India – At present, containerised cargo movement in India is significantly below the global average. However, with the Indian economy expanding, albeit at a slower pace in recent times, the containerised cargo movement is expected to witness healthy growth in the medium to long-term. The development of the DFC is expected to provide impetus to containerised cargo movement in the country.

Strong parent - Currently, the GoI holds a 54.8% stake in CONCOR. The Government is looking to offload nearly a 30.8% stake in the company to a strategic investor along with ceding management control. The credit profile of the strategic investor will be a key rating sensitivity, going forward.

Credit challenges

Significant dependence on EXIM cargoes, which could be impacted by sluggish global economy - Currently, the share of EXIM cargoes in the overall container cargoes handled by the company is significantly high at around 85%. Accordingly, the performance of the company remains vulnerable to domestic industry performance and global trade issues.

Performance susceptible to periodic changes in haulage rates - The charges paid by CONCOR to the Indian Railways for using its locomotives, wagons, railway network and fuel are called haulage rates. The haulage rates are periodically notified by the Indian Railways and the charges paid by CONCOR form nearly 65-75% of its total operating expenses. With the haulage rates constituting a large proportion of its cost of operations, the performance of the entity remains susceptible to the changes in haulage rates.

Rising competition from private players and road carriers, particularly in low lead distances- The company has been facing stiff competition from private CTOs in recent times, particularly on short lead routes. As a result, the company has been losing some market share since FY2020, moderating to 64% in FY2022 from 67% in FY2020 and FY2021. Road freight players also pose competition to the company, as rising efficiencies due to the implementation of GST, improving highways, door-to-door connectivity and the flexibility associated with the road segment make it a serious competitor for rail freight players. Additionally, inefficiencies in the railway network, such as network congestion, preference given to passenger trains and cross-subsidisation of passenger fares with freight fares reduce the competitiveness of rail freight.

Potential moderation in credit profile – CONCOR's credit profile may moderate if it makes significant upfront lease payments to take the railway land on lease for 35 years. While the proposal remains in discussion, the total cash outflow for this is expected to be around Rs. 6,500-7,500 crore. The company will fund the upfront lease payment from term loans and internal accruals, which will lead to a moderation in its credit metrics. The implication of recent approval by Union Cabinet to revise the Railway's land policy and lease rates will be assessed as more clarity emerges and is a key moniterable.

Liquidity position: Strong

CONCOR's liquidity position remains strong, driven by cash and other bank balances (Rs. 2,900 crore at the end of FY2022), healthy cash generation from operations and no debt repayments at the standalone level. ICRA notes that the consolidated entity has large capex plans in the medium term, but the capex is expected to be only ~Rs. 550-650 crore in FY2023. The liquidity profile is expected to moderate if the company undertakes upfront lease payment for the railway land on which its terminals are located as a significant amount of cash at hand and term debt will be utilised to fund the outgo.

Rating sensitivities

Positive factors: A favourable resolution of issues related to changes in lease terms for railway land is a sensitivity factor. The rating may be upgraded if the debt availed to fund the upfront lease payment is lower-than-expected, leading to less-than-expected moderation in the credit metrics.

Negative factors: The rating could be downgraded if the GoI divests its stake to a sponsor with a weaker credit profile. A significant decline in revenue and profitability due to loss of market share on a sustained basis to road carriers or private CTOs and/or larger-than-expected increase in LLF charges from the railways could also be negative triggers. Stress on the liquidity profile due to a stretch in working capital cycle, or a higher-than-expected debt-funded capex, or significantly higher-than-expected cash outflow towards upfront lease payment to the railways will moderate the company's liquidity and credit profile and could trigger a downgrade.

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	The ratings factor in the implicit support from the Government of India
Consolidation/Standalone	The rating is based on the consolidated financials of the company.

About the company

Container Corporation Of India Ltd. (CONCOR) was incorporated in March 1988 and started its operations in November 1989 after taking over seven inland container depots (ICDs) of the Indian Railways. Over the years, the company has developed its infrastructure and now operates 59 terminals across the country along with two strategic tie-ups. The company's primary operation is to provide inland transportation of containers from ports using rail wagons. The company also manages cold storage chains and warehouses. The GOI, through the Ministry of Railways, continues to hold a majority stake of 54.8% in the company at the end of June 2022.

Key financial indicators (audited)

CONCOR Consolidated	FY2021	FY2022*
Operating income	6427.1	7652.7
PAT	469.3	1028.4
OPBDIT/OI	16.3%	22.8%
PAT/OI	7.3%	13.4%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.1	0.4
Interest coverage (times)	24.1	28.0

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

**As per quarterly results*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sept 09, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Sept 09, 2022	Aug 24, 2021	Aug 18, 2020	-
1	Term Loans	Long-term	9000.00	-	[ICRA]AA+; &	[ICRA]AA+ &	[ICRA]AA+; &	-
2	Non-fund based limits	Long-term	462.00	-	[ICRA]AA+; &	[ICRA]AA+ &	[ICRA]AA+; &	-
3	Issuer Rating	Long-term	-	-	[ICRA]AA+; &	[ICRA]AA+ &	[ICRA]AA+; &	-

&= rating on watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term– Non-Fund Based	Simple
Issuer Rating	Not Appliicable

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Proposed	Term loan	NA	NA	NA	9000.00	[ICRA]AA+; &
Unallocated	Non-Fund Based	NA	NA	NA	462.00	[ICRA]AA+; &
-	Issuer Rating	NA	NA	NA	-	[ICRA]AA+; &

Source: Company &= rating on watch with developing implications

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	CONCOR's Ownership	Consolidation Approach
SIDCUL CONCOR Infra Company Limited (SCICL)	74%	Full Consolidation
Punjab Logistics Infrastructure Limited (PCIL)	51%	Full Consolidation
Fresh & Healthy Enterprises Limited	100%	Full Consolidation
CONCOR Air Limited	100%	Full Consolidation
Star Track Terminals Private Limited	49%	Equity Method
Albatross Inland Ports Private limited	49%	Equity Method
Gateway Terminals India Pvt. Ltd.:	26%	Equity Method
CMA-CGM Logistics Park (Dadri) Pvt. Ltd	49%	Equity Method
Himalayan Terminals Pvt. Ltd.	40%	Equity Method
HALCON	50%	Equity Method
India Gateway Terminal Pvt. Ltd.:	11.87%	Equity Method
TCI-CONCOR Multimodal Solutions Pvt. Ltd	49%	Equity Method
Container Gateway Ltd	49%	Equity Method
Allcargo Logistics Park Pvt. Ltd	49%	Equity Method
Angul Sukinda Railway Ltd.	26%	Equity Method
CONCOR BATS Airport Services	50%	Equity Method

Source: CONCOR's Annual Report FY2021; **Note:** ICRA has taken a consolidated view of the CONCOR, its subsidiaries and associates while assigning the ratings.

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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.

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