November 21, 2024

Container Rail Road Services Private 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	360.00	540.00	[ICRA]A+ (Stable); reaffirmed/assigned
Total	**360.00**	**540.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to the term loans of Container Rail Road Services Private Limited (CRRS/the company) factors in the strong parentage of the company i.e. Mundra International Container Terminal Private Limited (MICT), which is currently under Hindustan Ports Private Limited (HPPL) – with the ultimate parent being DP World Limited (DPW/the parent, rated Baa2 (Stable) by Moody's). Currently DPW has presence in India through its Joint Venture with National Investment Infrastructure Fund (NIIF) known as Hindustan Infralog Private Limited, wherein it holds 65% ownership and through Hindustan Ports Private Limited (HPPL) in which NIIF bought 19.18% stake in March 2024. ICRA notes that HIPL and HPPL are in the process of merging their operations into a single entity, wherein DPW will continue to hold majority stake. The merged entity (i.e. HIPL and HPPL combined) will become the holding company for all the entities in India where currently HPPL and HIPL have ownership. While arriving at the ratings for the company ICRA has evaluated the credit profile of the merged entity factoring in the implicit support from DPW, being the majority shareholder in the merged entity and thereafter uplifted the rating of CRRS using the credit view of the merged entity and MICT as immediate parent. Given the rapidly growing market and increasing investment commitment of DPW in the country, the Indian assets are expected to remain strategically important for DPW going forward as well.

The rating also factors in a favourable outlook for containerised cargo movement in the country, given the low penetration of the segment in India. With the commissioning of the dedicated freight corridors (DFC), both western and eastern, container movement is expected to shift from the roads to the railways, going forward, which should bode well for the company and the Group.

The rating, however, is constrained by the susceptibility of the profitability to changes in the haulage rates set by the Indian Railways. The significant reliance on the EXIM segment also exposes the company's cash generation to the global macroeconomic activity. Moreover, the leverage and coverage indicators of the company are expected to remain subdued in the near to medium term due to the significant capex for rake addition being undertaken. As the rake utilisation is expected to ramp up gradually, the credit metrics will remain subdued in the near to medium term. However, the capex is expected to be funded equally by debt and inter-corporate deposits (ICD) from MICT and internal accruals which should support the credit profile.

The Stable outlook on the rating reflects ICRA's expectation that the credit profile of the entity will continue to be supported by the timely support and infusion of inter-corporate deposits from MICT. Hence, CRRS will continue to benefit from the established position of DP World in ports, CFS and ICD/PFT businesses, resulting in additional flexibility.

Key rating drivers and their description

Credit strengths

Strong parentage with DP World being the ultimate promoter– CRRS is controlled by MICT and benefits from being part of DP World group which is one of the largest container operator company, at global level along with established presence in India across the value chain, comprising port assets across west and east coast, container train operations, container freight stations, inland container terminals and warehousing. HPPL and HIPL enjoys high financial flexibility owing to the presence of strong promoters i.e. DP World and NIIF. The board of directors of HPPL and HIPL also include several representatives from DP World.

Established business profile with services being provided on major railway routes – CRRS holds a category-1 container train operator (CTO) licence. This licence authorises CRRS to operate container trains on Indian railway tracks, subject to the payment of haulage charges to the Indian Railways. CRRS deploys its fleet to predominantly serve the logistics needs of the DP World Group-managed terminals, along with CFSs/ICDs/PFTs, which leads to stable operational volumes and assured cash flows.

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, the containerised cargo movement is expected to witness a healthy growth in the medium to long-term. The development of the dedicated freight corridor (DFC) is expected to provide impetus to containerised cargo movement in the country. As the DFC is progressively fully operationalised, the company should benefit from the same.

Credit challenges

Significant dependence on EXIM cargoes, which could be impacted by sluggish global economy – At present, the overall container cargoes handled by the company is EXIM cargo only, hence the performance of the company remains vulnerable to the domestic industry's performance and global trade issues.

Performance susceptible to periodic changes in haulage rates– The charges paid by the company under CTO operations to the Indian Railways for using locomotives, wagons, the railway network and fuel are called haulage rates. The haulage rates are notified by the Indian Railways periodically and the charges paid by the company form 80-85% of its total operating expenses. With the haulage rates constituting a large proportion of the cost of operations, the performance of the entity remains susceptible to changes in haulage rates, which have been revised periodically. Recently, the Indian Railways had removed the discounts on the haulage rates for both loaded and empty containers which the company has been able to recover partially from its customers. Additionally, the performance of the entity remains closely tied to the global trade dynamics as the container volumes in the EXIM segment remain exposed to the global trade dynamics.

Intense competition in ICD/PFT space and container train operations – The CTO operations remain intensely competitive with several players having a pan-India infrastructure as well as competition from road freight, particularly in the low lead distance segments. Road freight players also pose competition to the company, as rising efficiencies due to the implementation of GST, improving highway infrastructure, 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 to passenger trains and cross subsidisation of passenger fares by freight fares reduce the competitiveness of rail freight.

Liquidity position: Adequate

CRRS had free cash and bank balance of ~Rs. 14.95 crore as on March 31, 2024. Despite the large capex plans and moderate profitability, the liquidity of the company is expected to remain adequate, underpinned by the timely infusion of funds by the shareholders (MICT). ICRA derives comfort from the track record of the shareholders in providing timely support in the past and the stated intent to support the group entities for their fund requirements.

Rating sensitivities

Positive factors – A significant improvement in the credit profile of MICT - immediate parent - may result in a rating revision of CRRS.The rating may be upgraded if the company exhibits a sustained improvement in the scale of operations and profitability while maintaining healthy leverage and coverage indicators..

Negative factors – A significant moderation in the credit profile and/or weakening of the linkages with MICT - the immediate parent and/or consolidated entity including HPPL+HIPL- may also result in a rating revision. The rating may be downgraded if the company takes up materially large debt funded capex going forward.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	ICRA has arrived at the company's rating after factoring a parent subsidiary rating notch-up using the credit view of MICT, which factors in parentage of the merged entity of HIPL and HPPL which in turn factors in the parentage of DP World Limited
Consolidation/Standalone	The ratings are based on standalone financials of the company

About the company

Container Rail Road Services Pvt Ltd (CRRS), a wholly-owned subsidiary of Mundra International Container Terminal Pvt Ltd (MICT), holds a category-1 container train operator (CTO) licence. This licence authorises CRRS to operate container trains on Indian railway tracks, subject to the payment of haulage charges to the Indian Railways. CRRS deploys its fleet, comprising both owned and leased rakes, to predominantly serve the logistics needs of the terminals managed by the DP World Group, along with the associated container freight stations (CFSs), inland container depots (ICDs) and private freight terminals (PFTs). At present, the entity holds 34 rakes and operates between the NCR to Mundra, Hyderabad to JNPT and Ahmedabad to Mundra routes on the Indian Railways network.

Key financial indicators (audited); Mundra International Container Terminal Private Limited (Consolidated)

MICT Consolidated	FY2023	FY2024
Operating income	4,915.6	5,794.0
PAT	322.4	271.2
OPBDIT/OI	21.2%	19.3%
PAT/OI	6.6%	4.7%
Total outside liabilities/Tangible net worth (times)	0.8	0.6
Total debt/OPBDIT (times)	2.7	2.6
Interest coverage (times)	5.7	4.1

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore ; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *ICRA estimates and includes MICT (Standalone) and CRRS*

Key financial indicators of Container Rail Road Services Private Limited (audited)

Standalone	FY2023	FY2024
Operating income	405.6	488.9
PAT	9.2	9.5
OPBDIT/OI	6.8%	9.2%
PAT/OI	2.3%	1.9%
Total outside liabilities/Tangible net worth (times)	0.9	2.6
Total debt/OPBDIT (times)	3.9	7.1
Interest coverage (times)	4.7	2.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years	
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Nov 21,2024	March 28, 2024	-	-
1	**Term loans**	Long term	540.00	**[ICRA]A+ (Stable)**	**[ICRA]A+ (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 loans**	August 2023	-	August 2033	540.00	[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

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About ICRA Limited:

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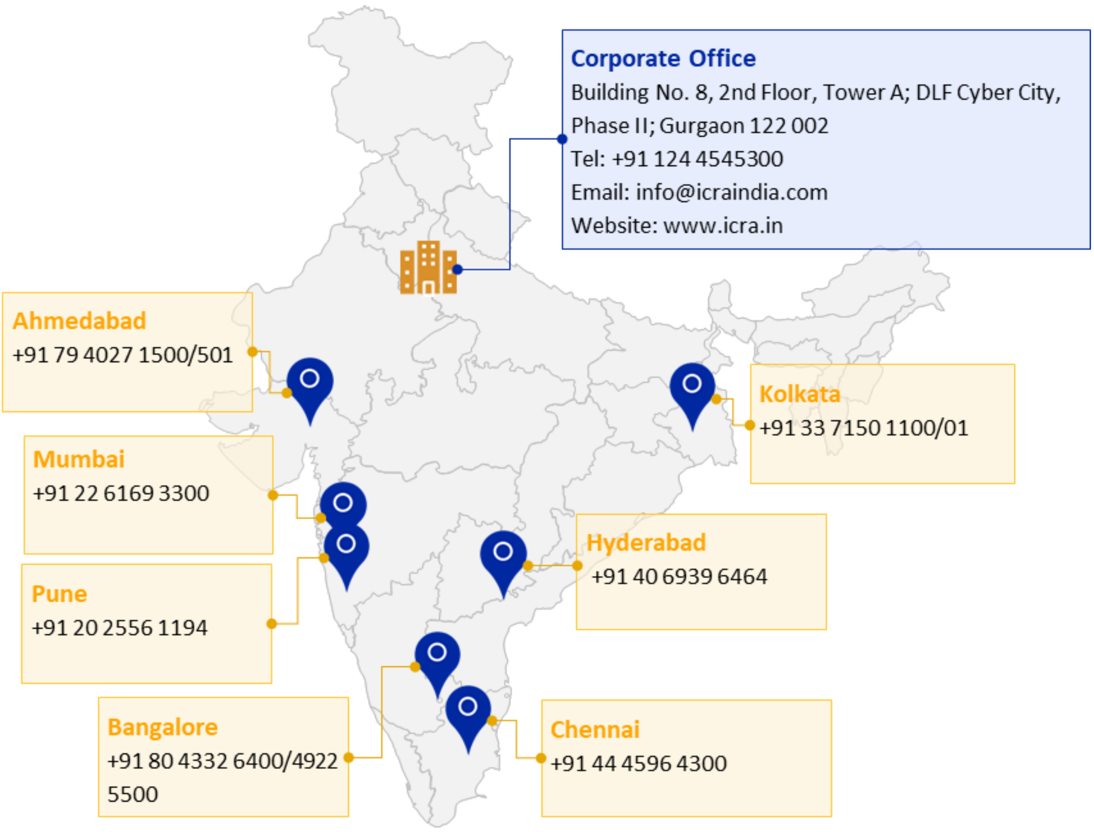

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