

April 20, 2020

Indian Railway Stations Development Corporation Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	1000.0	1000.0	[ICRA]A (Stable); Reaffirmed
Fund-based/Cash Credit	30.0	30.0	[ICRA]A (Stable); Reaffirmed
Total	1030.0	1030.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account the strong parentage of Indian Railway Stations Development Corporation Limited (IRSDCL) and its strategic importance to the Ministry of Railway (MoR) as the nodal agency for railway station development. IRSDCL is jointly promoted by Rail Land Development Authority (RLDA; a statutory authority under the MoR) and IRCON International Limited (IRCON; a public-sector enterprise under the administrative control of the MoR). Hence, the ultimate ownership is with the MoR, GoI. IRSDCL is the nodal agency for the railway station development program, which is an important infrastructure development program for the Indian Railways. Given the importance of the program, ICRA expects operational and financial support to IRSDCL from both its promoters and the MoR.

The rating is constrained by the execution risks associated with the railway station development projects, given its limited track record, sizeable scale of projects and the complexity in these projects. In addition, the funding requirement for the projects is large, which will require sizeable equity infusion. The funding risk is mitigated to an extent due to part equity inflow in FY2020 and the strong profile of its sponsors. Nevertheless, timely receipt of the balance equity contribution and finalisation of borrowing programme will be a key monitorable. Further, the ratings are constrained by the exposure of future revenues to market risks as a major part of the revenues are expected from the commercial development/monetisation of land near the railway stations.

While reaffirming the rating, ICRA has noted the commencement of station facility management (SFM) programme in five stations. The consolidated performance of these stations in 9M FY2020 has been lower than expected due to lower revenue generation and fixed obligation for manager fees. ICRA notes the rates for various station related services have been revised upwards that supported performance in Q4 FY2020. Nevertheless, the novel coronavirus (Covid-19) related lockdown is likely to put pressure on the SFM operations in the short term. The ramp-up in scale of revenues from the five stations and sustainable profitability of this model will be a key monitorable going forward. ICRA believes that the company will continue to benefit from the extensive experience and expertise of the sponsors and will receive timely funding support, either from the sponsors or the MoR, given the importance of the project for the ministry.

Key rating drivers and their description

Credit strengths

Financially strong sponsors with established track record; ultimate ownership by GoI – IRSDCL is promoted by Rail Land Development Authority (RLDA), a statutory authority under the MoR and IRCON International Limited (IRCON), a GoI undertaking under the MoR. Thus, the ultimate ownership of IRSDCL is with the MoR, GoI. Further, the sponsors have

extensive experience in the development of railway infrastructure. While IRCON has expertise in project management and implementation, RLDA has experience in developing vacant railway land. The GoI has also supported IRSDC by providing LoC for the term loan facility for the station development.

Prominence of IRSDCL as nodal agency for station development program – In October 2018, the Union Cabinet approved IRSDCL as the nodal agency and the main project development agency (PDA) for the development/redevelopment of railway stations. IRSDC also has the status of zonal railway for approving plans. In addition, IRSDC and RLDA have entered into an agreement for lease and development rights of the commercial exploitation of land and air space for projects. This also emphasises the importance of the station development programme for infrastructure upgrades along the railway network in India.

Station facility management to enhance scale of operations – IRSDCL is also taking up integrated station facility management (SFM) for the existing railway stations. Initially, five railway stations (Anand Vihar, Bengaluru, Chandigarh, Pune, Secunderabad) have been finalised and IRSDC has awarded contracts for facility management of these stations to private players on profit sharing basis. The SFM programme has commenced in these five stations, but the performance of these stations in first year of operations has been lower than expected due to lower revenue generation and fixed obligation for manager fees. While IRSDC expects significant ramp-up in the revenues from these stations, which will cover for the expenses and provide sufficient cash accruals for future capex in these stations over the years, the Covid-19 related disruptions would put pressure on the near-term performance.

Credit challenges

Project is exposed to execution challenges – Till March 2019, IRSDCL has been entrusted with the development of 37 railway stations. The development work on two of the railway stations is in an advanced stage, while contracts for development of another three stations have been recently awarded. The development of the stations is subject to execution and funding-related challenges, given the limited track record of such projects and sizeable funding requirement. The funding risk is mitigated to an extent due to part equity inflow in 9M FY2020 and strong profile of the sponsors. However, timely receipt of balance equity contribution and finalisation of borrowing programme will be a key monitorable.

Exposure of future revenues to market risks – The future revenues of IRSDCL are dependent on monetisation/development of commercial land and thus, is exposed to significant market risks of supply and demand as well as the timing of cash flows.

Limited track record of station facility management programme – The rating takes into account the commencement of SFM programme, but the consolidated performance in 9M FY2020 has been lower than expected due to weak revenue generation and fixed obligation for manager fees. ICRA notes the rates for various station related services have been revised upwards that supported performance in Q4 FY2020. Nevertheless, the performance in SFM is expected to remain weak in FY2021 due to the Covid-19 related lockdown on SFM operations. The ramp-up in scale of revenues from the five stations and sustainable profitability of this model will be a key monitorable going forward.

Liquidity position: Adequate

IRSDC has **adequate** liquidity, as reflected in cash and bank balance of ~Rs. 80 crore as on December 31, 2019 that can be used to part fund the EPC construction programme. However, disbursement of planned debt and the remaining equity will remain a key monitorable. The company does not have other major financial commitments for debt servicing or other capex programme in the near term.

Rating sensitivities

Positive triggers: While any rating upgrade on a standalone basis is unlikely in the near term, the rating maybe upgraded post timely monetisation of commercial development rights associated with the three railway station redevelopment projects being undertaken.

Negative triggers: The rating maybe downgraded if there are significant time and cost overruns in the ongoing capex that results in higher debt, or if there are any weakening of linkages with its sponsors and the MoR. The rating may also be downgraded if the company undertakes more projects on EPC basis that results in addition of sizable debt to the balance sheet of the company.

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/Sponsor Companies/Entities: Rail Land Development Authority (RLDA), a statutory authority under the MoR, and IRCON International Limited (IRCON), a GoI undertaking under the MoR The rating factors in the expectations of timely funding support from the sponsors/MoR besides the technical and managerial support
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer

About the company

IRSDCL is a special purpose vehicle incorporated in April 2012 as a 49: 51 joint venture company between RLDA, a statutory authority under the MoR and IRCON, a GoI undertaking under the MoR. Later, in September 2017, the MoR decided to make IRSDCL an equal ownership venture of IRCON and RLDA, with a 50% holding by each to provide more autonomy to the corporation. Consequently, IRSDCL has been restructured as a deemed Government company to enable it to function as an independent board-run company. A Managing Director and Functional Directors have been appointed with the prior approval from the MoR. In October 2018, IRSDCL was appointed as the nodal agency for station development program in the country.

In FY2019, the company reported a net profit of Rs. 10.1 crore on an operating income (OI) of Rs. 23.1 crore compared with a net profit of Rs. 2.7 crore on an OI of Rs. 8.0 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	8.0	23.1
PAT (Rs. crore)	2.7	10.1
OPBDIT/OI (%)	19.5%	46.8%
RoCE (%)	6.8%	37.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.2
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	NM	NM
DSCR	NM	NM

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					20-Apr-2020	01-Apr-2019	-	-
1	Term Loan*	Long Term	1,000.0	0.0	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
2	Fund Based/ Cash Credit*	Long Term	30.0	0.0	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-

* The facilities are currently under proposed/not sanctioned/disbursed; amounts in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans*	*	-	*	1000.0	[ICRA]A (Stable)
NA	Fund based/ Cash Credit*	*	-	*	30.0	[ICRA]A (Stable)

* The facilities are currently under proposed/not sanctioned/disbursed; Source: IRSDCL

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

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