August 24, 2021

Container Corporation of India Ltd.: Rating 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 on watch with developing implications
Term Loans	9,000.00	9,000.00	[ICRA]AA+ &; Rating continues on watch with developing implications
Issuer rating	-	-	[ICRA]AA+ &; Rating continues on watch with developing implications
Total	**9,462.00**	**9,462.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating factors in the dominant position of Container Corporation of India Limited 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 GoI's ownership, which has resulted in CONCOR receiving several benefits 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 30.8% of its 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, which would remain a competitive advantage. Nevertheless, once there is more clarity on the divesture, ICRA will review the rating to assess the implications on the credit profile of the entity.

The rating is constrained by the steep rise in the Land Licensing Fee (LLF) from FY2021 onwards since the same is now being charged on the basis of the land value. While CONCOR had paid nearly Rs. 671.0 crore in FY2021 as LLF, it expects an outgo of Rs. 350 crore as LLF in FY2022 as it plans to surrender two more terminals and undertake rightsizing of the terminals as well by giving up excess land to the Indian Railways. Further, GoI is 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 upfront cash outflow and an adverse impact on credit metrics. Currently, the company estimates the cash outflow to be in the range of Rs. 6,500-7,000 crore, which will be funded through a mix of term debt and internal accruals. CONCOR's board has already approved raising the term loans to the extent of Rs. 3,500 crore. However, ICRA notes that only one of the above options will be implemented finally. ICRA expects the final decision on the upfront lease payment to be taken in FY2022 as a precursor to the divestment of stake by the GoI. The rating is also constrained by the susceptibility of the performance of the entity to the revision in the haulage rates by the Indian Railways and the 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 is on "&; watch with developing implications" given the GoI's plan to offload 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 the 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 to 67% recently 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 by its improving operating margins over the years.

Robust financial risk profile characterised by healthy profitability and strong liquidity - CONCOR's financial risk profile is robust, characterised by healthy operating margins, robust cash accrual and large cash balances. Despite undertaking significant capex over the last couple of years, the company had not availed debt due to strong internal cash generation. The liquidity position of the company has remained robust with large cash balances and investments coupled with nil debt repayments at a standalone level.

Favourable outlook for containerised cargo movement in India; soon to be commissioned DFCs to provide impetus to growth - Currently the 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.

Large sovereign ownership; although GoI looking to offload significant stakes in the company - Currently, the GoI holds 54.8% stake in CONCOR. To meet its disinvestment targets for FY2022, the Government is looking to offload nearly 30.8% stake in the company to a strategic investor along with ceding its 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 in case of 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 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 Railways and the charges paid by CONCOR forms nearly 74% 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 changes in haulage rates.

Rising competition from private players and competition from road carriers particularly 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 lost some market share in FY2020, which has remained stable in FY2021. Road freight players also pose competition for the company, as rising efficiencies due to implementation of GST, improving highways, door-to-door connectivity and the flexibility associated with the road segment makes 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.

Expected moderation in credit profile driven by upfront lease payment to Indian Railways for long-term leasing arrangement for land – CONCOR's credit profile is expected to moderate driven by the significant upfront lease payment that it has to make for taking 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. 6,500-7,000 crore. The company will fund the upfront lease payment with proceeds from the term loans to be raised as well as from internal accruals, which will lead to moderation in its credit metrics.

Liquidity position: Strong

CONCOR's liquidity position remains strong driven by the large unencumbered cash balances (Rs. 2,550.1 crore at the end of FY2021), healthy cash generation from operations, low capex outlay and no debt repayments at the standalone level. 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 significant amount of cash at hand and term debt to be availed, will be utilised for funding the outgo.

Rating sensitivities

Positive factors – Favourable resolution of issues related to changes in lease terms of land from the Indian Railways is a sensitivity factor. Lower than expected debt availed for funding the upfront lease payment leading to less than expected moderation in the credit metrics may lead to a rating upgrade.

Negative factors – The rating could be downgraded in case of a **d**ivestment of the GoI's stake to a sponsor with a weaker credit profile. 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 rating triggers. Stress on the liquidity profile due to stretch in working capital cycle or higher than expected debt-funded capex, or significantly higher than expected cash outflow towards upfront lease payment to the railways leading to moderation in the liquidity and credit profile of the company could also 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

CONCOR was incorporated in March 1988 and started its operations from November 1989 after taking over seven Inland Container Depots (ICDs) of the Indian Railways. Over the years, the company has developed its infrastructure, which now operates 59 terminals across the country with four 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. Trough the Ministry of Railways, the GoI continues to hold majority stake in the company, which was 54.8% at the end of June 2021.

Key financial indicators (audited)

CONCOR Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	6539.4	6427.1
PAT (Rs. crore)	366.9	469.3
OPBDIT/OI (%)	25.9%	16.3%
PAT/OI (%)	5.6%	7.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2
Total Debt/OPBDIT (times)	0.0	0.1
Interest Coverage (times)	36.5	24.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 29, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Aug 24, 2021	Aug 18, 2020	-	-
1	Term Loans	Long-term	9000.00	-	[ICRA]AA+; & Rating on Watch with developing implications	[ICRA]AA+; & Rating on Watch with developing implications	-	-
2	Non-fund based limits	Long-term	462.00	-	[ICRA]AA+; & Rating on Watch with developing implications	[ICRA]AA+; & Rating on Watch with developing implications	-	-
3	Issuer Rating	Long-term	0.00	-	[ICRA]AA+; & Rating on Watch with developing implications	[ICRA]AA+; & Rating on Watch with developing implications	-	-

&= Under 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	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 analyzing 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, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	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+; & Rating on Watch with developing implications
Unallocated	Non-Fund Based	NA	NA	NA	462.00	[ICRA]AA+; & Rating on Watch with developing implications
-	Issuer Rating	NA	NA	NA	0.00	[ICRA]AA+; & Rating on Watch with developing implications

Source: *Company*

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:

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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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