August 18, 2020 Revised

Container Corporation of India Ltd.: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-fund-based limits- Long term	462.00	[ICRA]AA+ &; Rating on watch with developing implications; Assigned
Term Loans	9,000.0	[ICRA]AA+ &; Rating on watch with developing implications; Assigned
Issuer rating	-	[ICRA]AA+ &; Rating on watch with developing implications; Assigned
Total	**9,462.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating factors in the dominant position of CONCOR in the containerised rail freight business supported by large pan-India infrastructure and long and established track record of healthy operational. 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 ownership which has resulted in CONCOR receiving several benefits in the early stages of setting up its network which is 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 in the past the company has benefitted from close ties with the Ministry of Railways, however even post change in management control, it would continue to benefit from its large pan-India and strategically located infrastructure which would remain a source of 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 entity.

The rating is constrained by the steps being explored by Indian Railways (IR) to charge market linked rates for the land on which CONCOR's several terminals are located, prior to its disinvestment. While, earlier the land licensing fee (LLF) paid to IR was a variable payment linked to the volumes handled at the terminals, the revised LLF rates are fixed rentals based on land value at respective locations and will have an annual escalation clause. As per CONCOR's estimate, the LLF should increase from around Rs. 140 crore in FY2020 to ~Rs. 450 crore in FY2021, however IR has claimed higher charges, with ~Rs. 776 crore LLF for the two major terminals at Tughlakabad and Okhla itself, implying a much larger LLF charges for the year. The resolution of the difference and impact of final LLF charges fixed on profitability remains a sensitivity factor. Further, another possibility is to go for a long term lease, for which an upfront debt funded payment (estimated debt of ~Rs. 9000 crore) might be made to IR. In this scenario, there will be upfront cash outflow and an adverse impact on credit metrics. Another scenario could be deferred payments for long term lease of land. However, this could depend on the change in Railway's policy for land leased to CONCOR, the decision on which is yet to be taken by them. However, ICRA notes that only one of the above options is likely to be implemented finally and decision on land lease will have to be taken by Government. 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 the private Container Train Operators (CTOs) and road freight operators. The performance of the company remains vulnerable to domestic industry performance and EXIM trade in India.

The rating is on "&; watch with developing implications" given the lack of clarity on the final LLF to be paid by the company and possibility of upfront large debt funded lease payment to IR, instead of change in LLF terms. Further, ICRA also takes note of GoI's plan to offload 30.8% stake in CONCOR along with ceding management control to the incoming investor. The credit profile of the incoming investor will remain a key monitorable. ICRA will monitor the aforementioned developments and will review the impact on the company's rating as and when clarity emerges on any of these developments.

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 over the last decade in the rail freight segment, though it has moderated to 67% recently due to increasing competition from private players and company' focus on profitable routes. The large pan-India and strategically located infrastructure is a source of competitive advantage which has resulted in company being able to maintain its profitability despite losing some market share.

Long track record of healthy operational performance- The company has had a long and 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, the company has been able to improve its turnaround time and that is reflected in its improving operating margins over the years.

Robust financial risk profile characterized 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, apart from the Rs. 700 crore short term debt for payment under the Freight Advance Scheme of India Railways in FY2019 which was repaid in Q1 FY2020. The liquidity position of the company has remained robust in the past with large cash balances and investments coupled with nil debt repayments.

Favourable outlook for containerized cargo movement in India; soon to be commissioned Dedicated Freight Corridors 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 Dedicated Freight Corridor (DFC) is expected to provide impetus to containerised cargo movement in the country.

Large sovereign ownership though GoI is looking to offload significant portion of its stake in the company- Currently, GoI holds 54.8% stake in CONCOR. In order to meet its disinvestment targets for FY2021, the government is looking to offload nearly 30.8% stake in the company to a strategic investor along with ceding of 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 get 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. During the current fiscal, the company' performance is expected to be impacted by Covid-19 pandemic, which had adversely impacted EXIM (Export-Import) trade and container volumes.

Performance susceptible to changes in haulage rates- The charges paid by CONCOR to the Indian railways for using locomotives, wagons, railway network and fuel are called haulage rates. The haulage rates are notified by the Indian railways periodically and the charges paid by CONCOR forms nearly 73% 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 the changes in the haulage rates, which has witnessed periodic revisions.

Rising competition from private players particularly on short lead routes and competition from road carriers in a scenario of low diesel prices and low lead distances- The company has been facing stiff competition from private CTOs in the recent times particularly on the short lead routes. As a result, the company has lost market share in FY2020 and Q1 FY2021. Road freight players are also a source of competition for the company as rising efficiencies due to implementation of GST, improving highways, subdued diesel prices, door to door connectivity and flexibility associated with the road segment makes it a serious competitor for rail freight players. Additionally, the in-efficiencies in the railway network like network congestion, preference given to passenger trains and cross subsidisation of passenger fares with freight fares reduce the competitiveness of rail freight.

Steep rise in the Land Licencing Fee (LLF) from railways to impact profitability going forward; though company remains in discussion with Ministry of Railways: CONCOR's profitability is expected to moderate due to the proposed increase in the land licencing fee (LLF) post change in the methodology used by the Indian Railways (IR) for charging the LLF. As a result of the increase in the land licencing fee, the cash generation would decline for the company as it would be difficult to pass on the increase in the LLF to its consumers given the highly competitive environment and weak trade scenario in the post Covid-19 environment. The company however remains in discussion with the Ministry of Railways to roll back the revised methodology of charging LLF and revert to the per TEU based LLF charges till the time the company remains a Public Sector Undertaking (PSU). Further the company differs on the LLF charges estimated by the IR and the final outcome on the LLF charges levied on the company remains a key monitorable.

Liquidity position: Strong

Given the robust cash accruals, unencumbered cash balances of Rs. 2191 crore including fixed deposits along with ~Rs. 700 crore of investment in tax free bonds of GoI entities at the end of FY2020, the liquidity position of CONCOR has remained strong so far. Despite the steep increase in the LLF, company is expected to remain comfortable in meeting its capex requirements of ~Rs.500 crore (revised from ~Rs. 1000 crore expected earlier) for FY2021 from the internal accruals and the large cash balances on the books of the company aided by no debt repayments owing to its debt free status. Thus, ICRA believes the liquidity position of CONCOR is expected to remain strong in the near to medium term.

Rating sensitivities

Positive trigger: Favourable resolution of issues related to changes in lease terms of land from Indian Railways is a sensitivity factor and ratings could be revised upwards if any potential increment in annual lease repayment does not result in significant moderation in profit margins going forward and/or any material upfront debt funded cash outflow does not happen on account of change in the land leasing arrangement with the Indian railways resulting in the moderation in the financial risk profile.

Negative trigger: a) Divestment of GoI stake to sponsor with weaker credit profile will remain a key rating sensitivity factor. b) Significant decline in revenue and profitability due to loss of market share on sustained basis to road carriers or private CTOs and/or larger than expected increase in the Land Licensing fee charges from the Indian Railways c) stress on liquidity profile due to stretch in working capital cycle or higher than expected debt funded capex or any material fund outflow in excess of Rs. 9000 crore for land acquisition from the Indian Railways, leading to the deterioration in the credit metrics, could put downward pressure on ratings. d) Any unfavorable change in the structure of the Rs. 9000 crore term loan if availed, vis-à-vis the possible terms indicated to ICRA pertaining to tenure and interest rates, putting pressure on credit metrics and liquidity profile

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	The ratings factor in implicit support from the Government of India
Consolidation/Standalone	The rating is based on Consolidated Financials of the company

About the company

Container Corporation of India Limited (CONCOR) was incorporated in March 1988 and started its operations in November 1989 after taking over 7 Inland container Depots (ICDs) of Indian Railways. Over the years the company has developed its infrastructure and now operates 63 ICDs/CFS' across the country. 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 holds majority stake in the company, 54.8% at the end of June 2020.

Key financial indicators (audited)

	FY2019	FY2020	Q1 FY2021
Operating Income (Rs. crore)	6956.1	6539.4	1194.2
PAT (Rs. crore)	1174.6	366.9	58.3
OPBDIT/OI (%)	25.75%	25.90%	13.76%
RoCE (%)	18.01%	5.83%	
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2	
Total Debt/OPBDIT (times)	0.4	0.0	
Interest Coverage (times)	261.5	36.8	15.3
DSCR (excl. STD/prepayments)	236.9	35.2	

Source: ICRA estimates; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg. (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital; DSCR (excl STD/prepayments): Net Profit After Tax + Gross Interest + Depreciation) / (Gross Interest + long term debt Repayment + Dividend on Preference Shares)

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
					18-Aug-2020	-	-	-
1	Proposed Term Loans	Long Term	9000.00	-	[ICRA]AA+ &; Rating on watch with developing implications	-	-	-
2	Non-fund-based LC/BG	Long Term	462.00	-	[ICRA]AA+ &; Rating on watch with developing implications	-	-	-
3	Issuer rating	Long Term	0.00	-	[ICRA]AA+ &; Rating on watch with developing implications	-	-	-

Amount 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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Proposed Term Loan	-	-	-	9000.00	[ICRA]AA+ &; Rating on watch with developing implications
-	Non-fund-based LC/BG	-	-	-	462.00	[ICRA]AA+ &; Rating on watch with developing implications
-	Issuer rating	-	-	-	0.00	[ICRA]AA+ &; Rating on watch with developing implications

**source: RMSPL*

Annexure-2: List of entities considered for consolidated analysis

Company Name	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

Corrigendum

Document dated August 18, 2020 has been corrected with Revisions as below:

1. Section Related to analyst contacts: Contact details of Mr. K Ravichandran has been removed

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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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