Dedicated Freight Corridor Corporation of India Limited (Revised)

January 08, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	0.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the issuer rating assigned to Dedicated Freight Corridor Corporation of India Limited (DFCCIL) primarily factors its strategic role in expansion of the railway network in India. The rating also factors the company's strong operational and managerial linkages with the Ministry of Railways (MoR), Government of India (GoI). The rating favourably factors presence of debt tie-up with International Bank for Restructuring and Development (IBRD), Japan International Cooperation Agency (JICA) and External Commercial Borrowing (ECB) from MUFG Bank Ltd and equity from the GoI for the project. The rating also draws strength from the nature of debt being deployed to implement the project, where a portion is directly received by DFCCIL, with the backing through a sovereign guarantee and balance is availed by Ministry of Finance (MoF) and is extended to MoR and DFCCIL.

The rating factors assured revenue stream in the form of track-access charges (TAC), which will cover the company's operations and maintenance costs, and debt servicing requirements and will be governed by the Concession Agreement (CA) and TAC Agreement between DFCCIL and MoR. The rating favourably factors the significant land acquisition and advanced stage of project execution with a physical progress of ~96.41% as of March 31, 2024, and commissioning of ~2,741 km of route length. The company has commissioned entire stretch of Eastern Dedicated Freight Corridor (EDFC) and completed 93.23% of Western Dedicated Freight Corridor (WDFC).

The rating remains tempered by delay in finalisation of TAC methodology and time and cost overruns in the project due to its complexity. However, continuous infusion of funds by MoR either through equity or advances to support operations, debt servicing obligations and project expenditure mitigate this risk to a large extent. CARE Ratings Limited (CARE Ratings) takes cognisance of increase in contingent liabilities to ₹12,927 crore as of March 31, 2024. The management's articulation to relay on GoI's need based support, in case of crystallisation of contingent liabilities, largely mitigates the risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Weakening in the financial, operational, and managerial linkages with the GoI.

Analytical approach: Standalone; factoring parent notch up due to ownership of GoI and factoring financial and managerial support provided to the company by MoR.

Outlook: Stable

The stable outlook reflects expectation of continued managerial and financial support and association with GoI, which shall help DFCCIL to meet debt servicing and procure funds to meet cost overruns in a time bound manner.

Detailed description of key rating drivers:

Key strengths

Strategic and economic importance of the project

A wholly owned GoI entity, DFCCIL is under the administrative control of MoR and was incorporated with an objective of assisting the Indian Railways in planning & development, mobilization of financial resources, construction, maintenance and operation of the dedicated freight corridors. Dedicated freight lines will be linking four metropolitan: Delhi, Mumbai, Chennai and Howrah, commonly known as the Golden Quadrilateral; and its two diagonals (Delhi-Chennai and Mumbai-Howrah), adding up to a total route length of 10,122 km comprising 16% of the rail route that carries over 58% of revenue-earning freight traffic of Indian

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Railways. Existing train routes of Howrah-Delhi on the Eastern Corridor and Mumbai-Delhi on the Western Corridor are highly saturated. Therefore, separate route for passenger and freight traffic is expected to decongest Indian Railways. Higher speed of train, reduced transit time and greater throughput per train are expected to increase modal shift of traffic from roads to railways.

Operational, financial and managerial linkages with MoR

The company has strong operational, financial and managerial linkages with MoR. The Board of Directors comprises a team of well-qualified professionals and civil servants with experience in executing railway projects. The Chairperson and Chief Executive Officer of the Railway Board, Satish Kumar, also serves as part time Chairman of the board of DFCCIL, further stressing on the strategic importance of projects and continued support from GoI. The Managing Director, Praveen Kumar, is an Indian Railways Service of Engineers (IRSE) officer and has expertise in international tendering, procurement and dealing with multi- lateral funding agencies, including JICA and the World Bank. Being a project of strategic importance, the progress is being monitored by the Prime Minister's Office directly. The regular equity infusions in the company are approved as part of the Union Government budget. There has been demonstrated track record of equity infusions by GoI to meet project expenditure and debt service obligations. Debt is being funded from bilateral and multilateral organisations, a portion of which is directly received by DFCCIL, with backing through a sovereign guarantee and the balance is availed by Ministry of Finance and is extended to MoR and DFCCIL.

Debt funding tied up with JICA and IBRD and ECB from MUFG Bank Limited

The EDFC is being funded by IBRD through a US $1.775 billion loan but actual drawl till closer of the loan was US $1.762 billion, while the WDFC is being funded by JICA through a Special Term of Economic Partnership (STEP) Loan of ¥580.79 billion. Loan from JICA is being given to MoR as externally aided components of gross budgetary support through Ministry of Finance (MoF). This loan is passed on to DFCCIL on back-to-back basis. The tenure of loan is 40 years, rate of interest is 7% and moratorium period is 10 years.

The funding from IBRD of US $1.762 billion for the EDFC is in three tranches covering part portion of Khurja-Bhaupur section under EDFC 1, Kanpur-Mughalsarai and balance works of Khurja-Bhaupur section under EDFC 2 and Khurja-Ludhiana section under EDFC 3. For EDFC 1, GOI through MOR has made the proceeds of the loan available to DFCCIL by way of MOR loan under a subsidiary loan agreement between the GOI through MOR and DFCCIL. For the EDFC 2 and EDFC 3 loans, GOI has given a sovereign guarantee thus mitigating the credit risk on DFFCIL.

The company has signed a new loan with IBRD i.e. Rail Logistic Project on January 13, 2023 for US $245 million. This loan is to be utilised towards Institutional capacity strengthening, Construction of the EDFC Corridor: (a) design, construction, commissioning and testing of Khurja – Ludhiana section (401 kms) and Kanpur – Mughal Sarai Dedicated Freight Corridor Corporation of India Limited section (393 kms) of EDFC; and (b) provision of consultancy services relating to overall project management, social and environment management, and quality and safety audit and Last mile connectivity: Design, construction, commissioning and testing of civil, structure track, electrical and signalling systems work and related supervision consulting to provide last mile connectivity to terminals, on the basis of terminal feasibility studies and engineering designs undertaken by DFCCIL. The terminal date of the loan has been fixed on June 30, 2027. In this agreement also Government of India (GOI), has given sovereign guarantee thus mitigating the credit risk on DFFCIL. The company has also signed a new loan with JICA on February 20, 2024 for ¥40.00 billion. The same got effectuated in August 2024.

Servicing of a portion of these loans has already commenced and obligations are currently being met by project equity/funds received from MoR. Operations have begun from FY21 and project cashflows are being accrued under unbilled revenues. As on March 31, 2024, the company availed term debt of ₹45,059 crore from JICA and IRBD with equity contribution of ₹15,729 crore from GoI. Infusion from MoR is being received timely, which supports the company to meet operational and debt servicing obligations. In FY23, the company received funds to the tune of ₹12,241 crore from MoR, which has already made budgetary allocation of ₹8,155 crore for FY25. Going forward, as revenues begin to be realised to the company by MoR, it shall aid in debt servicing.

On January 17, 2024, DFCCIL secured a US$100 million external commercial borrowing (ECB) from MUFG Bank Limited, GIFT City, guaranteed by the Multilateral Investment Guarantee Agency. This loan, drawn in full on March 11, 2024, is designated for institutional capacity strengthening and the final construction of the EDFC corridor. It has an eight-year tenure with a three-year principal moratorium.

Revenue visibility due to CA and TAC agreement between MoR and DFFCIL

The contractual relationship between MoR and DFCCIL is governed by a concession agreement which clearly draws out the role of DFCCIL to build, operate and maintain the infrastructure. MoR would use the Indian Railways (IR) track network, routing freight traffic for DFCCIL by providing freight wagons, locomotives and train crews and paying track access charges. The TAC agreement governs track access charge to be paid to DFCCIL, which shall cover operations and maintenance expenses, depreciation, and interest. Therefore, all fixed and variable expenses and its debt repayment obligations shall be met through track access charges.

Though, the company has started recognising revenues based on TAC methodology (per In-Principal Approval letter from MoR), final TAC is pending approval from Railways Board. Hence, revenue amount is being built up in receivables. Timely approval of final TAC and sustained support from MoR is key monitorable.

Key weaknesses

Residual project execution risk

DFCCIL is exposed to inherent project execution risk for residual work of ~3.5% of total project length. The project is running behind schedule due to issues pertaining to land acquisition, COVID-19 and inherent challenges associated with executing project of such a scale. Completion timelines are also revised with completion of remaining portion of project by December 2025, excluding the Sonnagar-Dankuni section. As a consequence of delays in completion, inflationary pressures and burgeoning overheads, original envisaged cost (excluding land) of DFCs of ₹73,392 crore was revised to ₹1,02,159 crore. Funding mix for cost overruns is yet to be decided. However, funding support from MoR has continued to be received by the company. With respect to progress, the company incurred capex (excluding land) of ₹94,091 crore as on March 31, 2024. However, strong technical, managerial and financial support from MoR mitigates this risk to an extent. The project is closely monitored by the GoI given its strategic importance.

High contingent liabilities

As of March 31, 2024, the company had significant contingent liabilities amounting to ~₹12,927 crore. These liabilities primarily consist of claims not recognised as debt, including escalation claims raised by contractors for completed works, and disputed liabilities under income tax and GST. The management's reliance on Government of India's need-based support, in the event of crystallisation of these contingent liabilities, substantially mitigates the associated risk.

Liquidity: Strong

With the projects being executed by DFCCIL – for EDFC and WDFC, their liquidity position depends on timely infusion of equity, funding from MoR and disbursal of debt. There have been regular equity infusions, approved as part of the Union Government budget, marked by net worth of ₹15,946 crore as on March 31, 2024. In the union budget of FY24-25, the Ministry of Finance had allocated ₹8,155 crore to DFCCIL. Debt being funded from multilateral organisations, is either through GoI or backed by the GoI's guarantee. As on March 31, 2024, the company has cash balance of ~₹3,536 crore (including earmarked funds).

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Factoring Linkages Government Support
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Infrastructure Sector Ratings

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Transport Services	Railways

DFCCIL is a 100% government-owned special purpose vehicle (SPV) under the administrative control of Ministry of Railway (MoR) with an objective of assisting the Indian Railways in planning and development, mobilisation of financial resources, construction, maintenance and operation of the Dedicated Freight Corridors. Incorporated in October 2006 under Indian Companies Act 1956, Dedicated Freight Lines are proposed to be built along the rail routes on the Golden Quadrilateral linking Delhi, Mumbai, Chennai and Howrah and its two diagonals (Delhi- Chennai and Mumbai-Howrah) adding to a total route length of 10,122 Km. EDFC is fully operational and WDFC is expected to be fully operational by December 2025. The total estimated cost (excluding land) of the EDFC and WDFC is estimated to be revised at ₹1,02,159 (originally ₹73,392 crore).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	3,141.48	4,486.54
PBILDT	2,659.26	3,757.00
PAT	-19.70	-29.59
Overall gearing (times)	2.40	2.83
Interest coverage (times)	1.89	2.21

A: Audited UA: Unaudited; Note: these are latest available financial results
The above calculations are per CARE's internal classification.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE AAA; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Jan-24)	1)CARE AAA; Stable (08-Mar-23) 2)CARE AAA; Stable (26-Dec-22)	1)CARE AAA (Is); Stable (05-Jan-22)

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer Rating-Issuer Ratings	Simple

Annexure-5: Lender details: Not applicable

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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