Rating Rationale

April 19, 2023 | Mumbai

Dedicated Freight Corridor Corporation of India Limited

Rating reaffirmed at 'CRISIL AAA/Stable'

Rating Action

Corporate Credit Rating	**CRISIL AAA/Stable (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable' corporate credit rating on Dedicated Freight Corridor Corporation of India Limited (DFCCIL).

The rating continues to reflect the strategic importance of DFCCIL to the Government of India (GoI), as the company's ongoing project will augment the infrastructure required for enhancing economic growth in the country. The rating also factors in technical, managerial, and financial support from the parent, the Ministry of Railways (MoR), for implementing and funding the project. DFCCIL has entered into a concession agreement (CA) with MoR, wherein the company's infrastructure will be available to all authorised rail operators against track-access charges (TAC). These charges will include fixed and variable components which will cover debt obligation as well as operations and maintenance (O&M) cost. The company, however, may be adversely impacted by time and cost overruns associated with projects of such magnitude.

Analytical Approach

The rating on DFCCIL factors in support from GoI. CRISIL Ratings believes DFCCIL will continue to receive financial support from GoI, to ensure its debt is serviced in a timely manner. This is mainly due to the company's strategic role and importance in augmenting India's infrastructure requirement.

Key Rating Drivers & Detailed Description

Strengths:

Strategic and economic importance of the project for enhancing economic growth: DFCCIL, a special purpose vehicle (SPV) created by MoR, is constructing high-capacity and high-speed dedicated freight corridors (DFCs) of around 3,381-kilometre (km) along the Dadri-Mumbai (Western DFC [WDFC]) and Ludhiana-Kolkata (Eastern DFC [EDFC]) rail routes (including Sonnagar-Dankuni section), in the first phase of the project. This is one of the largest infrastructure projects in India and targets the Golden Quadrilateral rail route, which accounts for 16% of the entire railway route in India and more than half of the Indian Railways traffic. Successful implementation of the project is likely to boost the freight market share of railways, reduce congestion in its existing network, and provide high-capacity, efficient transportation service. Hon'ble Finance Minister has allocated Rs 27,482 crore to the Dedicated Freight Corridor Corporation of India (DFCC) for the financial year FY24, which is 75 percent higher than the Rs 15,710 crore allocated for FY23. CRISIL Ratings believes the project is extremely critical and of high strategic importance for economic growth in India.

Technical, managerial, and financial support from MoR: Given the criticality of the DFCs, MoR is providing complete support for the implementation of the project. The project is being monitored by the Prime Minister's Office, and MoR has deputed its senior and experienced personnel to DFCCIL's board. Governance planning through the CA between MoR and DFCCIL will ensure that no ambiguity arises regarding the scope and implementation of the project. A project of such magnitude is being undertaken by MoR for the first time, and is, therefore, likely to pose new implementation challenges, which could only be mitigated by strong government support. The rating is based on assumption of strong explicit government support.

The project is being funded through a combination of gross budgetary support (GBS) and equity. GBS has been arranged by the Ministry of Finance (MoF) and loans of Rs 13,625 crores (from the World Bank for EDFC) and Rs 38,722 crores (from the Japan International Cooperation Agency [JICA] for WDFC) are routed to DFCCIL through MoR. Additionally, loan agreement from the World Bank for the second and third phases of EDFC has been directly signed with DFCCIL and carries the sovereign guarantee. As per original estimates, MoR will infuse nearly Rs 21,000 crore as equity contribution into DFCCIL.

While more than 1,700 km of the project has been commissioned, the project has not received TAC till date since the estimates are yet to be approved by MoR. Debt obligations of Rs 2095.16 crore in fiscal 2022, on the World Bank and JICA loans, collectively, have been met through equity infusion from MoR. Expected debt obligation of Rs 1800 crore in fiscal 2023 will be funded through combination of equity infusion by MoR and TAC, once received.

Since the project has become partially operational from December 2020, DFCCIL will receive TAC from Indian Railways which will include a fixed component to cover its debt obligation and maintenance cost.

Weakness:
Exposure to project implementation risk, including time and cost overruns: The project is one of the largest undertaken by MoR. Although it has a track record in implementing large projects, a project of this scope has never been attempted. Also, for the first time, MoR has opted for the public-private participation (PPP) route to implement a large portion of the project (538 km Sonnagar- Dankuni stretch on EDFC) which exposes the project to implementation challenges. The project will be implemented under hybrid design, build, finance, operate and transfer (DBFOT) model, under which the concession will be awarded in 2 parts of around 250 km each. DFCCIL will provide 40% of the project cost, while rest will be incurred by the concessionaire. Concessionaire will construct the project in 5 years and operate & maintain it for 30 years post commercial operation date. The concessionaire will receive annuity payments in the concession period post construction. CA will be entered into between DFCCIL (authority), private player (concessionaire) and MoR (confirming party).

Around 1,277 kms (~45%) out of total project of 2,843 kms (except Sonnagar-Dankuni section) have become operational till date. As per company's estimate as on March 01, 2023, balance stretches are likely to be completed by June 2024, after a delay of around seven years. The project was initially targeted to be completed by March 2017. However, there has been delay majorly on account of issues related to land acquisition and liquidity issues of the contractors. There has been cost overrun in the project to accommodate significant works related to change is scope. This is expected to be funded through combination of debt and equity.

Liquidity: Superior
DFCCIL liquidity's is underpinned by support from GoI through budgetary allocations by MoF to MoR. GBS has been arranged by the Ministry of Finance (MoF) and loans of Rs 13,625 crores (from the World Bank for EDFC) and Rs 38,722 crores (from the Japan International Cooperation Agency [JICA] for WDFC) are routed to DFCCIL through MoR. Additionally, loan agreement from the World Bank for the second and third phases of EDFC has been directly signed with DFCCIL and carries the sovereign guarantee. As per original estimates, MoR will infuse nearly Rs 21,000 crore as equity contribution into DFCCIL.

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Outlook: Stable
CRISIL Ratings believes DFCCIL will continue to receive business and financial support from GoI because of its strategic importance in augmenting India's infrastructure requirement. The government support will keep the company's credit risk profile strong.

Rating Sensitivity factors
Downward factors
- **Significant time and cost overruns, leading to higher reliance on external debt not supported by GoI**
- **Any change in the railway sector policy leading to dilution in DFCCIL's strategic importance to GoI**

About the Company
DFCCIL, a GoI undertaking, was incorporated in October 2006 with a mandate to build, operate, and maintain the dedicated freight railway lines along the Golden Quadrilateral rail routes and its diagonals. Around Rs 78,265 crore has been incurred on the project (excluding land cost of Rs 19,693 crore) till Dec 31, 2022. Land cost has been entirely funded by equity. The corridors are expected to be fully operational over their entire lengths (barring one stretch on EDFC which will be undertaken on PPP mode) by December 2023. DFCCIL will receive TAC from MoR for providing and maintaining infrastructure for running freight trains on its network. TAC has two components – a) fixed capacity charge component to cover debt servicing and repayment obligations, interest on working capital, return on equity and other fixed costs and b) variable charge component, based on a charge per gross tonne-km (GTKM), thereby linked to the intensity of usage of the network

Key Financial Indicators CRISIL Ratings adjusted

As on /for the year ended March 31	Unit	2022*	2021*
Revenue	Rs crore	1974	300
Profit after tax (PAT)	Rs crore	-25	112
PAT margin	%	-	37.5
Adjusted debt/adjusted net worth	%	2.08	1.90
Interest coverage	Times	1.93	5.46

Operating income for fiscal 2021 and 2022 corresponds to TAC that has not been received and is reflected as unbilled revenue on the balance sheet. The final estimates are yet to be approved by MoR

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	NA	NA	NA	NA	NA	NA	NA

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Corporate Credit Rating	LT	0.0	CRISIL AAA/Stable		--	12-12-22	CRISIL AAA/Stable	28-04-21	CCR AAA/Stable	30-04-20	CCR AAA/Stable	CCR AAA/Stable
			--		--	28-04-22	CCR AAA/Stable		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
The Infrastructure Sector Its Unique Rating Drivers
Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support
Understanding CRISILs Ratings and Rating Scales

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