Dedicated Freight Corridor Corporation of India Limited

January 05, 2024

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

The issuer rating of Dedicated Freight Corridor Corporation of India Limited (DFCCIL) continues to factor in the strategic and economic importance of the project to the Government of India (GoI) along with the company's strong operational and managerial linkages with the Ministry of Railways (MoR). The rating also factors the presence of tie-up of debt with International Bank for Restructuring and Development (IBRD) and Japan International Cooperation Agency (JICA) and demonstrated track record of the equity/advances infused by MoR for supporting the project.

Furthermore, the rating factors assured revenue stream in the form of track-access charges (TAC), which will cover operations and maintenance cost and debt servicing requirements of the company and will be governed by the Concession Agreement (CA) and TAC Agreement between DFCCIL and MoR. The rating favourably factors the, the significant land acquisition and the advanced stage of project execution with a physical progress of around 88% as of November 30, 2023 along with commissioning of about 2,258 km of route length. As of November 30, 2023, the company has commissioned entire stretch of Eastern Dedicated Freight Corridor (EDFC) and completed 78% of Western Dedicated Freight Corridor (WDFC). Furthermore, the rating also draws strength from the nature of the debt being deployed to implement the project wherein a portion is directly received by DFCCIL possessing a backing through a sovereign guarantee and the balance is availed by Ministry of Finance (MoF) and is extended to MoR and DFCCIL.

The above rating strengths are, however, constrained by the time and cost overruns with the project, emanating from inflationary pressures and fixed overheads incurred due to delay in project completion.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Any 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 the repayments and procure funds to meet the cost overruns in a time bound manner.

Detailed description of the 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. The dedicated freight lines will be linking the four metropolitan cities of 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 carried more than 58% of revenue-earning freight traffic of Indian Railways. The 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

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

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 the MoR: The company has strong operational, financial and managerial linkages with the MoR. The Board of Directors comprises a team of well-qualified professionals and civil servants with experience in executing railway projects. The serving Chairperson and Chief Executive Officer of the Railway Board, Ms. Jaya Varma Sinha, also serves as a part time Chairman of the board of DFCCIL, further stressing on the strategic importance of the projects and the continued support from GoI. The Managing Director, Ravindra Kumar Jain, is an Indian Railways Service of Engineers (IRSE) officer and prior to joining DFCCIL he had served as Chief Administrative Officer-Construction for Eastern Railway. Being a project of strategic importance, the progress is being monitored by the Prime Minister's Office directly. The regular equity infusions into the company are approved as part of the Union Government budget. There has been demonstrated track record of equity infusions by GoI to meet the project expenditure as well as debt service obligations. Furthermore, the debt is being funded from bilateral and multilateral organisations, a portion of which is directly received by DFCCIL possessing a 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: The EDFC is being funded by IBRD through a USD 1.97 billion loan, while the WDFC is being funded by JICA through a Special Term of Economic Partnership (STEP) Loan of JPY 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 USD 1.97 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 servicing of a portion of the above said loans has already commenced and the obligations are currently being met by project equity/funds received from MoR. Furthermore, the operations have begun from FY21 onwards and the project cashflows are being accrued under unbilled revenues. Nevertheless, the infusion from MoR is being received timely which is supporting the company to meet operational and debt servicing obligations. During FY23, the company received funds to the tune of Rs.10,243 crore from MoR and MoR has already made budgetary allocation of ₹12,241 crore for FY24. Going forward, as the revenues begin to be realized to the company by MoR, the same shall also aid in debt servicing.

Revenue visibility due to the concession agreement 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 the track access charge to be paid to DFCCIL which shall cover operations and maintenance expenses, depreciation, and interest. Therefore, all fixed and variable expenses as well as its debt repayment obligations shall be met through track access charges. Though, the company has started recognizing its revenues based on the TAC methodology (as per In-Principal Approval letter from MoR), however, the final TAC is pending for approval of Railways Board and hence, the revenue amount is being built up in receivables. Timely approval of final TAC and sustained support from MoR is key monitorable.

Key weaknesses

Exposure to project execution risk including time and cost overruns: DFCCIL remains exposed to project execution and construction risks, which may lead to time and cost overruns. The project is running behind schedule due to various issues pertaining to land acquisition, COVID-19 and the inherent challenges associated with executing project of such a scale. The completion timelines are also revised with completion of remaining portion of project by December 2024, excluding the Sonnagar-Dankuni section. As a consequence of the delays in completion, inflationary pressures and burgeoning overheads, the original envisaged cost of the DFCs of ₹81,459 crore was revised to about ₹1,24,000 crore, including the land cost. However, funding support from MoR has continued to be received by the company. With respect to progress, the company has incurred capex of ₹1,03,288 crore as on March 31, 2023. Out of route length of 3,381 km (including Sonnagar-Dankuni), 2,258 km has been commissioned. However, the strong technical, managerial and financial support from MoR mitigates this risk to an extent. Furthermore, the project is closely monitored by the GoI given its strategic importance.

Liquidity: Strong
With the projects being executed by DFCCIL – for both EDFC and WDFC, their liquidity position is dependent upon 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 ₹15,976 crore as on March 31, 2023. In the union budget of FY23-24, the Ministry of Finance had allocated ₹27,482 crore to DFCCIL. Furthermore, the debt being funded from multilateral organisations, is either through the GoI or backed by the GoI's guarantee. As on March 31, 2023, the company has cash balance of about ₹753 crore (excluding earmarked funds).

Assumptions/Covenants: Not applicable

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

Applicable criteria
Policy on default recognition
Factoring Linkages Government Support
Financial Ratios – Non financial Sector
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Service Sector Companies
Infrastructure Sector Ratings

About the company and industry

Industry classification

Macro-economic 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 & development, mobilization of financial resources, construction, maintenance and operation of the Dedicated Freight Corridors. Incorporated in October 2006 under Indian Companies Act 1956, DFCCIL enjoys strong technical, financial and managerial support from MoR, being a strategically and economically important project for enhancing economic growth of the country. The Dedicated Freight Lines are proposed to be built along the rail routes on the Golden Quadrilateral linking the four metros, viz., Delhi, Mumbai, Chennai and Howrah and its two diagonals (Delhi-Chennai and Mumbai-Howrah) adding to a total route length of 10,122 Km. Currently, DFCCIL is developing EDFC (Sahnewal to Dankuni) and the WDFC (Dadri to Mumbai) for a total route length of 3,381 Route Km (including 538 Route km from Sonnagar to Dankuni). The total estimated cost of the EDFC & WDFC is estimated to be revised at ₹1,24,000 (originally ₹81,459 crore). The original cost structure of ₹81,459 was proposed to be funded by MoR's equity of ₹21,045 crore, debt of ₹52,347 crore (from JICA and World Bank) and land cost of ₹8,076 crore to be borne by MoR. The revision in the land costs shall continue to be borne by MoR, however, for the balance over run, the funding mix is still under discussions and in the mean time being supported by incremental equity from MoR.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	1,961	3,141
PBILDT	1,670	2,664
PAT	-25	-20
Overall gearing (times)	2.07	2.40
Interest coverage (times)	1.86	1.89

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
The above calculations are as 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: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various 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 along with Rating Outlook
Issuer rating-Issuer ratings	-	-	-	-	0.00	CARE AAA; Stable

Annexure-2: Rating history for the 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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Issuer rating-Issuer ratings	Issuer rat	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Mar-23) 2)CARE AAA; Stable (26-Dec-22)	1)CARE AAA (Is); Stable (05-Jan-22)	1)CARE AAA (Is); Stable (06-Oct-20)

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Issuer rating-Issuer ratings	Simple

Annexure-5: Lender details: Not applicable

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