July 03, 2023

Dedicated Freight Corridor Corporation of India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	NA	NA	[ICRA]AAA (Stable); reaffirmed
Total	**0.0**	**0.0**	

Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation reflects Dedicated Freight Corridor Corporation of India Limited's (DFCCIL) strong linkages with the Ministry of Railways (MoR), Government of India (GoI), given the operational, managerial and financial support available from the MoR and its strategic importance for expansion of the railway network in India. The rating factors in the concession agreement (CA) and track access charges (TAC) agreement with the MoR, which will ensure regular cash flows for the company once the project becomes operational. As per the agreements, the Indian Railways (IR) will be the major customer of the dedicated freight lines and will pay TAC to DFCCIL to cover all variable and fixed costs, including its debt repayment commitments. While DFCCIL has started recognising revenues based on the draft TAC methodology, the final TAC is pending for approval of Railways Board and hence, the amount is appearing as receivable. Nevertheless, the MoR has been providing requisite funds regularly to DFCCIL to meet the ongoing capex, operational expenses and debt servicing obligations. The rating notes the demonstrated track record of support from the MoR as reflected in timely equity infusion for project construction and support for debt servicing, which is expected to continue going forward. DFCCIL is implementing two dedicated freight corridors (DFCs) – EDFC and WDFC – which will be connected with the existing rail network of the IR through feeder routes and would provide it with a more efficient freight transportation infrastructure and thereby help IR in increasing its share in the domestic freight transportation.

However, ICRA notes the time and cost overruns witnessed by the project, given its scale and complexity. There are running delays of ~6 years with respect to the initially envisaged scheduled commercial operation date (SCOD) and ~2 years with respect to the revised SCOD, with the project expected to be completed by CY2024. Out of the total stretch of 2,843 km (excluding the Sonnagar–Dankuni stretch), 2,089 km has been completed and operationalised till April 2023. There have been cost overruns with the total estimate (excluding land) increasing to Rs. 1,02,159 crore from Rs. 73,392 crore (cost overrun likely to funded by incremental support from the GoI), primarily due to delay in securing right of way, and Covid-19 pandemic, which impacted execution. There has been significant progress on land acquisition as around 99% of the total required land (excluding the land required for the Sonnagar–Dankuni section that is to be built under the PPP mode) has been acquired by the MoR and works were awarded to executing agencies. The overall project is being funded by borrowings from multilateral agencies (World Bank and Japanese International Cooperation Agency) and equity from the GoI. The debt is sanctioned progressively and is either guaranteed by the GoI or availed by the Ministry of Finance and extended to the MoR and DFCCIL. Going forward, timely completion of the project as well as finalisation of TAC methodology remains a key monitorable.

The Stable outlook reflects ICRA's expectation that DFCC will continue to benefit from timely operational and financial support from the MoR.

Key rating drivers and their description

Credit strengths

Support from MoR/GoI – DFCCIL is promoted by the MoR and receives technical, financial, and managerial support from the Ministry. The relationship is strengthened by the CA and the TAC agreement between the MoR and DFCCIL. As per the agreements, the IR will be the major customer of the dedicated freight lines and will pay a minimum fixed capacity charge to DFCCIL to cover all variable and fixed costs, including its debt servicing commitments. Despite constant support in form of advances from the MoR, GoI, no realisation/adjustment of the TACs has occurred yet pending approval from the Railways Board. Hence, finalisation of TAC methodology remains a key monitorable.

Strategic importance of the project for MoR – The DFC projects are strategically important to the MoR as these will connect the existing rail network of the IR through feeder routes and will provide a more efficient freight transportation infrastructure. This, in turn, will enable the IR to increase its domestic freight transportation, ease congestion of the existing rail network, and increase revenues.

73.5% completed and operationalised as on April 05, 2023 – Supported by healthy execution in FY2023, the project has achieved cumulative physical progress of ~73.5% (2,089 km) for the total stretch (excluding the Sonnagar–Dankuni Section) till April 05, 2023. This comprises ~78% commissioning of the EDFC corridor and ~69% commissioning of the WDFC corridor. The project is expected to be commissioned entirely by June 2024.

Credit challenges

Project exposed to execution challenges with running delays – Given the large scale and complexity, DFCCIL is exposed to execution risks. The project is running with delays of ~6 years with respect to the initially envisaged SCOD and ~2 years with respect to the revised SCOD. The project is expected to be completed by CY2023. Out of the total stretch of 2,843 km (excluding the stretch covered under PPP mode), 2,089 km has been completed and operationalised till April 2023. There have been cost overruns with the total estimate (excluding land) increasing to Rs. 1,02,159 crore from Rs. 73,392 crore (cost overrun likely to be funded by incremental support from the GoI), primarily due to delay in securing right of way and the Covid-19 pandemic, impacting execution. However, the strong technical, managerial and financial support from the MoR mitigates this risk. Further, the project is closely monitored by the GoI given its strategic importance.

Liquidity position: Strong

The strong liquidity factors in the backing and timely support from the GoI, which is reinforced by the track record of equity infusion by the GoI in the past. Moreover, the debt availed by DFCCIL is either routed through the GoI or backed by the GoI's guarantee. As on April 30, 2023, DFCCIL had cash and bank balances of around Rs. 2,082 crore (including funds earmarked for land acquisition).

Rating sensitivities

Positive factors – Not applicable.

Negative factors – The rating maybe downgraded if there is a significant increase in project cost, which is not met by commensurate increase in support from GoI, or if there is weakening of strategic importance or linkages from the GoI.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]()

Analytical Approach	Comments
Parent/Group support	Parent: MoR, GoI The assigned rating factors in the criticality and strategic importance of the two DFC projects and hence DFCCIL for the MoR and the expectation of timely financial support from the GoI to the rated entity. This comes in the form of budgetary support, as part of the Union Budget, allocated to Indian railways towards DFCCIL.
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer.

About the company

DFCCIL is a special purpose vehicle (SPV) promoted by the GoI, through the MoR, to build, operate and maintain dedicated freight railway lines, along the rail routes on the Golden Quadrilateral and diagonals. The dedicated freight network would ease the congestion on the existing rail network, allowing the IR to run additional passenger trains. The proposed design features of the project would allow the IR to run high-speed and high-axle load trains, improving its operating efficiency.

In the first phase, DFCCIL plans to construct two DFCs—the Eastern DFC (EDFC – from Ludhiana to Dankuni) and the Western DFC (WDFC – from Dadri to Mumbai)—covering a length of 3,381 km. The corridors, except the Sonnagar–Dankuni segment of 536 km, to be built on PPP basis, are planned to be fully operational by the end of CY2023. The estimated revised cost for completion of these two corridors (excluding PPP) is Rs. 1,24,005 crore (original planned cost was Rs. 81,459 crore), including a land cost of Rs. 21,846 crore (original planned cost was Rs. 8,067 crore), that is to be borne by the MoR. The planned cost, excluding the land cost, is Rs. 1,02,159 crore (original planned cost was Rs. 73,392 crore) and is to be borne by DFCCIL. The original cost was proposed to be funded by the MoR via equity of around Rs. 21,045 crore (excluding land cost) and external debt (JICA and World Bank) of Rs. 52,347 crore. However, the funding mix of the revised project cost is not finalised and is expected to be supported by incremental equity from the GoI.

Key financial indicators (audited)

DFCCIL	FY2021	FY2022
Operating income	289.9	1,949.2
PAT	112.5	(16.2)
OPBDIT/OI	64.3%	84.6%
PAT/OI	38.8%	-0.8%
Total outside liabilities/Tangible net worth (times)	3.2	3.7
Total debt/OPBDIT (times)	146.5	20.1
Interest coverage (times)	2.4	1.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: DFCCIL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021

			(Rs. crore)	as on March 31, 2023 (Rs. crore)	Jul 03, 2023	Apr 29, 2022	-	Jan 07, 2021
1	**Issuer rating**	Long-term	NA	NA	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not Applicable

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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer rating**	NA	NA	NA	NA	[ICRA]AAA (Stable)

Source: DFCCIL

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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