September 10, 2024

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	**NA**	**NA**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation reflects Dedicated Freight Corridor Corporation of India Limited's (DFCCIL's) 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. DFCCIL is implementing two dedicated freight corridors (DFCs)—the Eastern Dedicated Freight Corridor (EDFC; fully commissioned as of June 2024) and the Western Dedicated Freight Corridor (WDFC; 93.2% commissioned as of June 2024)—which will be connected with the existing rail network of the Indian Railways (IR) through feeder routes. This would provide the IR with a more efficient freight transportation infrastructure, helping it increase its share in domestic freight transportation. The rating continues to factor 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 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. DFCCIL has been recognising revenues based on the in-principle approved TAC methodology. However, the finalisation/ revision in TAC is yet to be approved and, hence, the amount is appearing as receivables. Nevertheless, the rating notes the track record of support from the MoR, as reflected in timely equity infusion for project construction, operational expenses and support for debt servicing, which is expected to continue going forward. DFCCIL maintains 2-3 months of planned expenses/obligations (including debt servicing obligations) as liquidity cushion on a sustained basis.

ICRA notes the time and cost overruns in the project, given its scale and complexity. There are running delays of ~7 years with respect to the initially envisaged scheduled commercial operation date (SCOD) and ~4 years with respect to the revised SCOD, which expects the project to be completed by the end of CY2025. Of the total stretch of 2,843 Rkm (excluding the Sonnagar–Dankuni stretch of 538 Rkm), 2,741 Rkm has been completed and operationalised till June 2024. There have been cost overruns with the total estimate (excluding land) increasing to Rs. 1,02,159 crore from Rs. 73,392 crore, primarily due to delay in securing right of way (RoW) and the Covid-19 pandemic, which impacted execution. Nonetheless, there has been significant progress on the corridors under implementation, with the requisite land acquired by the MoR and works for the pending stretches awarded to executing agencies. The overall project is being funded by borrowings from multilateral agencies (World Bank, Japanese International Cooperation Agency (JICA) and MUFG Bank Ltd.) and equity from the GoI. The debt has been sanctioned progressively and is either guaranteed by the GoI (sovereign guarantee)/ Multilateral Investment Guarantee Agency (MIGA) or availed by the Ministry of Finance (MoF) and extended to the MoR and DFCCIL. Going forward, timely completion of the project as well as revision/ finalisation of TAC methodology remains a key monitorable. Further, the company has sizeable contingent liabilities (~Rs. 12,927 crore as on March 31, 2024). While crystallisation of these contingent liabilities leading to material cash outflows is a risk, high likelihood of funding support from GoI mitigate it to a large extent.

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

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. ICRA notes that there is a consistent support in the form of advances from the MoR, GoI; however, the finalisation/ revision of the TAC methodology is yet to be approved. Hence, revision/ finalisation of the methodology remains a key monitorable.

Strategic importance of the project for MoR – The DFC projects are strategically important to the MoR as they will connect the existing rail network through feeder routes and 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.

Project near completion with 96.4% operationalised as on June 30, 2024 – Supported by healthy execution in FY2024, the project has achieved cumulative physical progress of ~96.4% (2,741 Rkm) for the total stretch till June 30, 2024. This comprises 100% commissioning of the EDFC and ~93.2% of the WDFC. The project is likely to be commissioned entirely by CY2025.

Credit challenges

Residual execution risk and sizeable contingent liabilities – Given the large scale and complexity of the project, DFCCIL remains exposed to residual execution risks (102Rkm or ~3.5% of total project length). The project is running with delays of ~7 years with respect to the initially envisaged SCOD and ~4 years with respect to the revised SCOD. It is expected to be fully completed by CY2025. There have been significant cost overruns, with the total estimate (excluding land) increasing to Rs. 1,02,159 crore from Rs. 73,392 crore, primarily due to delay in securing RoW and the Covid-19 pandemic impacting execution. However, the strong technical, managerial and financial support from the MoR mitigates this risk to an extent, and ICRA expects the support from MoR to continue, going forward. The pending project cost has also been tied-up. The project is closely monitored by the GoI, given its strategic importance. Further, the company had sizeable contingent liabilities (~Rs. 12,927 crore as on March 31, 2024) in the form of claims against the company not acknowledged as debt (primarily towards escalation claims raised by the contractors for works undertaken) and disputed liability under income tax and the goods and services tax (GST). While crystallisation of these contingent liabilities, leading to material cash outflows, is a risk, the high likelihood of funding support from GoI to meet the same mitigate it to a large extent.

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 guarantee from GoI/ MIGA. As on March 31, 2024, DFCCIL had unencumbered cash and bank balances of around Rs. 2,772 crore (excluding funds earmarked for land acquisition) vis-à-vis annual principal repayment obligation of ~Rs. 1,000 crore. The balance project cost is expected to be funded through equity infusion from MoR.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – The rating maybe downgraded if there is a significant increase in the project cost, which is not met by commensurate increase in support from GoI, or delay in realisation of receivables, after finalisation of the TAC methodology, or if there is any weakening of the company's strategic importance to or linkages with the GoI.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
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 and adequate 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 the Indian Railways towards DFCCIL.
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer.

About the company

Incorporated in 2006, 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 of the Golden Quadrilateral and its diagonals. The dedicated freight network is aimed towards easing 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 planned to construct two DFCs—the EDFC (from Ludhiana to Sonnagar) and the WDFC (from Dadri to Mumbai)—covering a length of 2,843 km. The EDFC has already been fully commissioned and the WDFC shall be commissioned by CY2025. Against the estimated revised cost of completion of these two corridors (Rs. 1,02,159 crore, excluding the land cost of Rs. 21,846 crore), about Rs. 94,091 crore had been incurred till March 2024. The original cost was proposed to be funded by the MoR via equity and external debt (JICA and World Bank). However, the funding mix of the revised project cost is yet to be finalised and is expected to be supported by incremental equity from the GoI.

Key financial indicators (audited)

DFCCIL	FY2023	FY2024
Operating income (Rs. crore)	3,141.5	4,484.9
PAT (Rs. Crore)	(19.7)	(29.6)
OPBDIT/OI (%)	84.2%	83.7%
PAT/OI (%)	-0.6%	-0.7%
Total outside liabilities/Tangible net worth (times)	4.7	5.8
Total debt/OPBDIT (times)	25.5	21.6
Adjusted* total debt/ OPBDIT (times)	14.5	12.0
Interest coverage (times)	1.9	2.2

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Adjusted total debt: Total debt reduced by funds received from MoR pending adjustment.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Sep 10, 2024	Date	Rating	Date	Rating	Date	Rating
Issuer	Long-term	NA	[ICRA]AAA (Stable)	Jul 03, 2023	[ICRA]AAA (Stable)	Apr 29, 2022	[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, ICRA Research

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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