April 29, 2022

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-1*

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 technical, managerial and financial support available from the MoR and its strategic importance for infrastructure growth and 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. 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. The rating also takes into account the demonstrated track record of support from the MoR as reflected in timely equity infusion for project construction and support for debt servicing. 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, and related funding risks. There are running delays of ~5 years with respect to the initially envisaged scheduled commercial operation date (SCOD) and ~1.5 years with respect to the revised SCOD, with the project expected to be completed by CY 2023. Out of the total stretch of 2,843 km (excluding the stretch covered under PPP[1] mode), 1,010 km has been completed and operationalised. There have been cost overruns with the total estimate (excluding land) increasing from Rs. 73,392 crore to Rs. 1,02,159 crore, primarily due to issues in land acquisition, and Covid-19 pandemic, which impacted execution. DFCCIL has awarded all the contracts for the EDFC and WDFC projects. Further, 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 as of November 2021. The land acquisition for the Sonnagar–Dankuni section stands at around 89.15% of the total required land. The overall project is being funded by borrowings from multilateral agencies (World Bank and Japanese International Cooperation Agency) and equity from GoI. The debt is sanctioned progressively and is either guaranteed by GoI or availed by the Ministry of Finance and extended to MoR and DFCCIL.

The Stable outlook reflects ICRA's belief that the company will continue to receive timely funding support from the GoI and MoR, given the strategic importance of the project and the critical role it plays in facilitating freight transportation in the country.

[1] *Public Private Partnership*

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 also 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.

Strategic importance of the project – The DFC projects are strategically important to MoR as these will connect the existing rail network of the IR through feeder routes and will provide it with 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.

Long-term funding for project in place – The project is to be funded with equity from MoR and debt from the World Bank and the Japanese International Cooperation Agency (JICA). A significant portion of the debt funding for the project has been tied-up and the same is being sanctioned progressively. The equity infusion from MoR is in the process with sizeable equity already infused by GoI.

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 ~5 years with respect to the initially envisaged SCOD and ~1.5 years with respect to the revised SCOD. The project expected to be completed by CY 2023. Out of the total stretch of 2,843 km (excluding the stretch covered under PPP mode), 1,010 km has been completed and operationalised. 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 issues in land acquisition and the Covid-19 pandemic impacting execution. However, the strong technical, managerial and financial support from 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 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 March 31, 2021, DFCCIL had cash and bank balances of Rs. 467.7 crore (including earmarked funds).

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating maybe downgraded if there is significant increase in project cost which is not met by commensurate increase in support from GoI, or if there is material reduction in support/linkage from the GoI.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit support from Parent or Group
Parent/Group Support	Parent/Group Company: MoR, GoI

	The assigned rating factors in the criticality and strategic importance of the two DFC projects and hence the DFCCIL for the MoR and the expectation of timely financial support from the GoI to the rated entity
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 CY 2023. 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 GoI.

Key financial indicators (audited)

DFCCIL	FY2020	FY2021
Operating Income (Rs. crore)	0.0	289.9
PAT (Rs. crore)	-90.5	112.5
OPBDIT/OI (%)	-	64.3%
PAT/OI (%)	-	38.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	3.2
Total Debt/OPBDIT (times)	NM	146.5
Interest Coverage (times)	NM	2.9

NM – Non-Meaningful

Note – The company has started operations in FY2021 and hence there is very limited operating income. The company earns also non-operating income, primarily in the form of interest on bank balances

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in FY 2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 29, 2022	-	**Jan 07, 2021**	**Feb 07, 2020**
1	Issuer rating	Long-term	NA	NA	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Complexity level of 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: www.icra.in

Annexure-1: Instrument details

ISIN No.	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*

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Abhishek Gupta
+91 124 4545 863
abhishek.gupta@icraindia.com

Mrinal Jain
+91 124 4545 845
Mrinal.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches