India Ratings & Research
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India Ratings Affirms Dedicated Freight Corridor Corporation of India at 'IND AAA'; Outlook Stable

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India Ratings and Research (Ind-Ra) has affirmed Dedicated Freight Corridor Corporation of India Limited's (DFCCIL) Long-Term Issuer Rating as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue	Rating assigned along with Outlook/Watch	Rating Action
Issuer rating	-	-	-	-	IND AAA/Stable	Affirmed

Analytical Approach

Ind-Ra continues to take into consideration DFCCIL's strong linkages with the government of India (GoI) while arriving at the rating, given the significance of its contribution to the country's economic growth.

Detailed Rationale of the Rating Action

DFCCIL has built a corridor with appropriate technology that enables Indian Railways to regain its market share of freight transport by creating additional capacity and guaranteeing efficient, reliable, safe, and cheaper options for mobility to its customers. Ind-Ra expects the company's operating revenue to improve in the medium term supported by increasing freight traffic over rail network. The rating continues to draw comfort from the fact that 96.4% of the project is commissioned and the remaining project will be completed in the near term.

List of Key Rating Drivers

Strengths
- Strategically important to GoI
- Strong linkages with Union government
- Funding in place
- Low operational risk; high revenue visibility
- Improving credit metrics

Weaknesses
- Construction on track, although challenges in execution
- Substantial contingent liabilities

Detailed Description of Key Rating Drivers

Strategically Important to GoI: DFCCIL is constructing high-capacity and high-speed dedicated freight corridors of around 3,381km along the Western Dedicated Freight Corridor (Dadri (Uttar Pradesh)-Jawaharlal Nehru Port Trust (JNPT; Navi Mumbai)) and Eastern Dedicated Freight Corridor (Ludhiana (Punjab)-Dankuni (West Bengal)) rail routes. In early 2018, the Indian Railways had set a target to triple its freight traffic to 3 billion tonnes by 2030. The development of the dedicated freight corridors will enable the Indian Railways to regain its lost freight share and decongest the existing passenger lines. More importantly, the corridors would reduce the transit time involved in the shipment of goods and logistics costs, thereby bolstering India's overall economic growth. Consequently, any disruption in its services could adversely affect the country's growth profile.

Rail freight in India plays a pivotal role in the nation's transportation infrastructure, moving 27% of all goods in the country across its 68,000-km network. With one of the largest railway networks in the world, India's freight trains traverse diverse terrains, connecting industrial hubs, agricultural regions, and ports. Dedicated freight line holds high strategic importance to the GoI for regaining Indian Railways' lost freight share, decongesting existing passenger lines, accelerating industrial growth of the country and reducing time in export commitments.

Strong Linkages with Union Government: DFCCIL is a wholly government-owned entity. The GoI has regularly infused equity/advances into DFCCIL (FY24: INR122.41 billion; FY23: INR102.4 billion; FY22: INR83.7 billion; FY21: INR79.7 billion) through the budgetary provisions of the ministry of railways (MoR) for meeting its share of the funding requirement. The budgetary allocation for FY25 is INR81.55 billion (FY24 actual: INR122.41 billion). Furthermore, the MoR has been providing complete support for the implementation and the timely completion of the project, which is also being monitored by the Prime Minister's Office.

Funding in Place: The total project cost (excluding land cost) is being funded through a combination of loans from the International Bank for Reconstruction and Development (IBRD) and Japan International Cooperation Agency (JICA), and equity infusion from the MoR. The eastern corridor is being funded by a loan of USD1.933 billion from the IBRD and the western corridor by a special terms of economic partnership (STEP) loan of JPY580.787 billion from JICA. There is no forex risk for the JICA loan as the loan is disbursed in Indian rupee terms and the interest payment is also fixed in Indian rupee. There is no principal repayment. Nevertheless, DFFCIL remains exposed to forex risk in the IBRD loan as repayment commitments (interest and principal) are denominated in US dollar. Currently, there is no hedging mechanism in place, mainly on account of the long tenor of the loan (15 years). Post commencement of the Russia-Ukraine war, the Indian rupee value deteriorated almost 5% against the US dollar. To mitigate the risk of fluctuations, the company's risk management committee is finalising a hedging policy to manage the loan repayment liability.

DFCCIL borrowed external commercial borrowing (ECB) of USD100 million from MUFG Bank Ltd, GIFT City on 17 January 2024, which are guaranteed by Multilateral Investment Guarantee Agency. This loan is being utilised towards institutional capacity strengthening and the final construction of the EDFC corridor. The tenure of this loan is eight years with principal moratorium of three years. The loan was completely drawn in one instalment on 11 March 2024.

Low Operational Risk and High Revenue Visibility: Ind-Ra takes comfort from the track access agreement between the MoR and DFCCIL, as defined by the concession agreement. The agreement provides a commitment by the MoR to pay track access charge (TAC) for using the train paths and networks by authorised train users. The agreement requires the MoR to transfer minimum 70% of the existing freight traffic with the commencement of operations and to pay the TAC to DFCCIL to cover all variable and fixed costs, including debt repayment commitments of the company. MoR will finalise the TAC based on cost reimbursement model which factors in fuel charges, staff cost, depreciation, and interest cost.

Improving Credit Metrics: DFCCIL's revenue grew 44% yoy to INR46.52 billion in FY24, led by the stabilisation of its newly established dedicated freight network. The methodology for calculating TAC is mentioned in the in principle approval letter dated 3 December 2018 of the MoR. Since the TAC has not been finalised yet, the company has computed and recorded its entitlement to the receivable amount on account of TAC. The TAC is still under evaluation and the final charges will be circulated before FY25 as the company was awaiting the Goods and Services Tax exemption notification, which arrived on 15 July 2024.

DFFCIL's EBITDA improved to INR39.21 billion in FY24 (FY23: INR27.12 billion) owing to commissioning of 96.4% of the project and operating of trains on the commissioned tracks. However, the EBITDA margin remains almost stable at 84.28% in FY24 (FY23: 84.52%). The interest coverage (EBITDA/interest expense) improved to 2.31x in FY24 (FY23: 1.93x) and leverage (debt/EBITDA) to 11.49x (14.14x) and net leverage (net debt/EBITDA) to 10.59x (13.79x) due to revenue booking for the commissioned tracks .

Construction on Track; Although Challenges in Execution: DFCCIL, like other infrastructure projects, is facing complex construction challenges due to a long and difficult terrain, costs and time overruns, and a long gestation period. The overall cost (excluding land cost) was revised to INR1,021.59 billion (EDFC – INR396.21 billion and WDFC – INR625.38 billion) from INR733.92 billion due to changes in the original scope of the work. At FYE24, DFCCIL had incurred a cumulative capex of around INR940.91 billion (excluding land cost), which was funded through debt of around INR461.80 billion with the remaining being met through equity/advances from the MoR.

In October 2023, the eastern corridor from Sahnewal (Punjab) to Sonnagar (Bihar) was commissioned. Furthermore, the Sonnagar(Bihar)-Dankuni(West Bengal) section, which was earlier decided to be built under the public-private partnership model, has been undertaken by the MoR, due to the non-availability of bidders for the project.

On the western corridor, of 1,506kms, 1,404kms has been commissioned from Dadri (Uttar Pradesh) to Vaitarna(Maharashtra) The entire project is operational, except meagre track (102 kms) in Maharashtra between Vaitrana and JNPT, which will be completed by December 2025. Given the strategic importance of the project, Ind-Ra believes the GoI would extend its support to DFCCIL, as and when necessary.

Substantial Contingent Liabilities: Ind-Ra expects the GoI to provide additional support in case the contingent liabilities materialise. DFCCI had contingent liabilities amounting to INR129.27 billion as of FY24 (FY23: INR53.21 billion). These contingent liabilities mostly relate to arbitration/court cases filed by concessionaires/contractors. DFCCI has actively pursued the resolution of these disputes and claims.

Liquidity

Superior: Ind-Ra expects DFCCIL's liquidity to improve gradually in the medium term. DFCCIL's liquidity remains superior, mainly on account of the regular fund infusion from the MoR in the form of equity/advances. The company had a cash and bank balance of INR35.36 billion at FYE24 (FYE23: INR9.55 billion). Its repayment obligations of around INR16.98 billion in FY24 (IBRD and JICA) were met through advances of INR122.41 billion received from the MoR. Furthermore, DFCCIL has repayment obligations of around INR32.48 billion for FY25 and around INR34.81 billion for FY26, which would be met through the MoR's equity/advances and TACs. The MoR has made a budgetary allocation of INR81.55 billion for FY25.

Rating Sensitivities

Positive: Not applicable

Negative: A weakening of the linkages with the GoI would be negative for the rating.

About the Company

DFCCIL was set up by the MoR as a special purpose vehicle and incorporated as a company under the Companies Act, 1956, on 30 October 2006 for the construction, operations and maintenance of dedicated freight corridors.

Key Financials Indicators

Particulars	FY24	FY23
Total income (INR billion)	46.52	32.09
EBITDA (INR billion)	39.21	27.12
EBITDA margin (%)	84.28	84.52
Debt/EBIDTA (x)	11.49	14.14
Net leverage (x)	10.59	13.79
Interest coverage (x)	2.31	1.93
Source: DFCCIL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	30 October 2023	5 August 2022	30 July 2021
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable

Complexity Level of the Instruments

Not applicable

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Rating of Public Sector Entities

The Rating Process