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 at ‘IND AAA’. The Outlook is Stable.

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

Key Rating Drivers

Strategic Importance: 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 has 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.

Although India has one of the world’s largest railways networks comprising 126,366km (as at FYE20) of total running track, its share in India’s freight movement declined to 26% in FY22 from 88% in FY51. Despite the declining share, freight contributes about two-thirds of revenue for Indian Railways. Therefore, a 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 (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 FY24 is INR122.41 billion (FY23 actual: INR83.70 billion). Furthermore, 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 cost of the project (excluding the land cost) is being funded through a combination of loans from the World Bank (WB) and Japan International Cooperation Agency (JICA), equity infusion from the MoR. The eastern corridor is being funded by a loan of USD1.971 billion from the WB 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 WB 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 INR value deteriorated almost 5% against the USD. To mitigate the risk of fluctuations, the company’s risk management committee is finalising a hedging policy to manage the loan repayment liability.

Low Operational Risk and 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. TAC is currently worked out on the basis of cost reimbursement model which factors in fuel charges, staff cost, depreciation, and interest cost.

Liquidity Indicator-Superior: DFCCIL's liquidity remains superior, mainly on account of the regular fund infusion from the MoR in the form of equity/advances. The corporation also had cash and bank balance of INR9.55 billion at FYE23 (FYE22: INR8.90 billion). Its repayment obligations of around INR16.20 billion in FY23 (WB and JICA) were met through advances of INR102.4 billion received from the MoR. Furthermore, DFCCIL has repayment obligations of around INR16.96 billion for FY24 and around INR16.98 billion for FY25, which would be met through the MoR's equity/advances and TACs. MoR has made budgetary allocation of INR122.41 billion for FY24.

Construction on Course though Challenges in Execution: DFCCIL, like other infrastructure projects, is facing complex construction over a long and difficult terrain, costs and time overruns and a long gestation period. The overall cost (excluding land cost) was revised to INR1,021.6 billion from INR733.92 billion which, other than the delay, due to changes in original scope of the work. At FYE23, DFCCIL had incurred a cumulative capex of around INR913.557 billion (excluding the land cost) which was funded through debt of around INR548 billion with the remaining being met through equity/advances from the MoR.

Out of total length of Eastern Corridor of 1,875kms, physical construction of 1,150kms section was completed and commissioned as of June 2023. Except Shambhu-Khatauli section of 187km and Sonnagar-Dankuni section of 538km, the entire Eastern Corridor has been commissioned. Shambhu-Khatauli section is likely to be commissioned by FYE24. Furthermore, Sonnagar-Dankuni section, which would be built under the public-private partnership model, will now be undertaken by MoR, due to the non-availability of bidders for the project. The estimated cost of INR1,240.04 billion (including land cost) is excluding Sonnagar-Dankuni section.

On the Western Corridor, the project is commissioned from Dadri (UP) to Sanand (GJ; 1046kms out of 1,506kms) as of June 2023. The entire project, excluding the section between Vaitrana and JNPT, would be completed by March 2024. The Vaitrana-JNPT section would be completed by December 2024. Given the strategic importance of the project, Ind-Ra believes the GoI would extend its support to DFCCIL, as and when necessary.

Rating Sensitivities

Negative: Weakening of the linkages with the GoI would negatively affect 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.

FINANCIAL SUMMARY

Key Financials	FY22	FY23
Total income (INR million)	20,242	32,089
EBITDA (INR million)	17,290	27,123
EBITDA Margin (%)	85.42	84.52
Debt/EBITDA(x)	19.17	14.14
Interest Coverage(x)	1.93	1.93
Source: DFCCIL, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	**Rated Limits (million)**	**Rating**	**5 August 2022**	**30 July 2021**	**7 May 2020**
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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Rating of Public Sector Entities

Evaluating Corporate Governance

The Rating Process