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 economic growth.

KEY RATING DRIVERS

Strategic Importance: DFCCIL is constructing high-capacity and high-speed dedicated freight corridors of around 3,360km along the Western Dedicated Freight Corridor (Dadri (Uttar Pradesh)-Jawaharlal Nehru Port Trust (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 will reduce the transaction 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.

Strong Linkages with Union Government: DFCCIL is a wholly government-owned entity. The GoI has regularly infused equity into DFCCIL (FY20: INR30.53 billion, FY19: INR2.54 billion, FY18: INR31.1 billion) through the budgetary provisions of the Ministry of Railways (MoR) for meeting its share of the funding requirement. Furthermore, MoR has been providing complete support for the implementation and timely completion of the project, which is also being monitored by the Prime Minister's Office.

Construction on Course: DFCCIL, like other infrastructure projects, is facing complex construction over a long and difficult terrain, plausible costs and time overruns and a long gestation period. DFCCIL had, till FYE21, incurred a cumulative capex of INR568.8 billion (excluding land), and achieved an overall financial progress of 71%. Furthermore, till end-May 2021, 98.7% of the total land required had been acquired (99.9%, excluding the Sonnagar-Dankuni section to be built under the public-private partnership (PPP) mode). Also, the 351km Khurja-Bhaupur section on the Eastern Dedicated Freight Corridor and the 306km Rewari-Madar section on the Western Dedicated Freight Corridor has already been commissioned in December 2020 and January 2021, respectively. Additionally, the mechanised track construction (using new track construction machines) of up to 3,452km and overhead wiring (using mechanised wiring trains) of up to 2,689km was completed till May 2021.

Funding in Place: The total estimated cost of the project is INR733.92 billion (excluding the land cost), which is being funded through a combination of loans from the World Bank (WB) and Japan International Cooperation Agency (JICA), equity infusion from the MoR, and through the PPP mode. With the debt-equity proportion of 3:1, the eastern corridor is being funded by a loan of USD1.775 billion from the WB and the Western Corridor by a Special Terms of Economic Partnership (STEP) loan of JPY555 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 (there is no principal repayment) accordingly is fixed in Indian rupee. Nevertheless, DFFCIL remains exposed to forex risk in the WB loan as repayments commitments (interest and principal) are denominated in US dollar and currently, there is no hedging mechanism in place.

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 for a commitment by the MoR to pay track access charge for the usage of train paths and networks by authorised train users. The agreement requires the MoR to transfer a minimum 70% of the existing freight traffic with the commencement of operations and to pay the track access charges to DFCCIL to cover all variable and fixed costs, including debt repayment commitments of the company.

Liquidity Indicator-Superior: DFCCIL’s liquidity remains superior mainly on account of the significant amount of undrawn debt which, as on 31 March 2021, stood in excess of INR200 billion coupled with the regular fund infusion from the MoR in the form of equity/advances. The repayment obligations of INR5.84 billion in FY21 were absorbed by advances of INR57.2 billion received from MoR. Furthermore, DFCCIL has repayment obligations of around INR12.02 billion and around INR15.3 billion in FY22 and FY23, respectively, which would be met out of proceeds from the MoR in the form of equity/advances and track access charges. The modalities of the track access charges are being finalised and DFCCIL will start receiving the same in FY22 itself as two stretches - one each on Eastern Dedicated Freight Corridor and Western Dedicated Freight Corridor - are already operational. DFCCIL is supposed to receive a budgetary support of INR160.86 billion (including the loan component) from the MoR in FY22.

Challenges in Execution: Though the project construction has picked up speed, with all the contracts of INR569.5 billion being awarded till December 2020 as against INR130 billion awarded during the initial phase of FY10-FY15, the corridors have fallen behind their original completion schedules. The corridors were initially expected to start their operations in 2016, which was subsequently rescheduled to FY19. Furthermore, basis the revised deadlines, DFCCIL had targeted the completion of both the corridors by December 2021 (excluding the PPP stretch). However, due to the COVID-19 led disruptions, the completion date has been further revised to June 2022. However, given the strategic importance of the project, Ind-Ra believes the GoI will step in to extend support to DFCCIL, if and when necessary.

RATING SENSITIVITIES

Negative: Any weakening of DFCCIL’s linkages with the GoI will negatively affect the rating.

COMPANY PROFILE

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	FY19	FY20
Total income (INR million)	1085	614
EBITDA (INR million)	441	-906
EBITDA margin (%)	41	-148
Debt/EBITDA(x)	346.71	-247.93
Interest coverage(x)	101.05	-12.30
Source: DFCCIL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	7 May 2020	19 February 2019	12 February 2018
Issuer rating	Long term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

Since issuer rating has been assigned, complexity indicator is not applicable.

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

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Applicable Criteria

Rating of Public Sector Entities
Tax-Supported Rating Criteria

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