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 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 (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 three 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/advances into DFCCIL (FY22: INR83.7 billion; FY21: INR79.7 billion; FY20: INR40.4 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 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, and through the public-private partnership (PPP) mode. 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 mainly on account of the long tenor of the loan (15 years).

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 2022, stood in excess of INR133 billion coupled with the regular fund infusion from the MoR in the form of equity/advances. The repayment obligations of around INR6.82 billion in FY22 were absorbed by advances of INR83.7 billion received from the MoR. Furthermore, DFCCIL has repayment obligations of around INR15.2 billion and around INR19.6 billion for FY23 and FY24, respectively, which would be met out of proceeds from the MoR in the form of equity/advances and track access charges. DFCCIL is supposed to receive a budgetary support of INR117.2 billion (including the loan component of JICA) from the MoR in FY23.

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) has been revised to INR1,021.6 billion from INR733.92 billion which, other than the delay, has been on account changes made in original scope of work. Till FYE22, DFCCIL had incurred a cumulative capex of around INR706.2 billion (excluding the land cost) which was funded via debt of around INR333.6 billion with the remaining being met through equity/advances from the MoR.

Furthermore, till March 2022, almost the entire land required (excluding the Sonnagar-Dankuni section to be built under the PPP mode) had been acquired. Also, the sections covering 659km on the Western Dedicated Freight Corridor and 618km on the Eastern Dedicated Freight Corridor had been commissioned at end-June 2022. Though the final amount for track access charges (TAC) is yet to be approved by the railway board given the commissioning of many sections, DFCCIL has started booking TAC revenue on cost reimbursement basis. It booked a TAC of INR2.89 billion in FY21 while in FY22, the revenue booked under the same head totalled INR19.49 billion. The requisite TAC amount shall be received from the MoR post finalisation.

As per the latest estimates, almost the entire project with the exception of the section between Vaitrana and JNPT would be completed by June 2023. The Vaitrana-JNPT section would be completed by March 2024. These estimates do not include the section to be built under the PPP mode. Though there have been many revisions in the past in terms of the estimated completion date for both projects, given the strategic importance, Ind-Ra believes the GoI will step in to extend its support to DFCCIL, as and when necessary.

Rating Sensitivities

Negative: Weakening of linkages with the GoI would 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	FY20	FY21
Total income (INR million)	614	5,183
EBITDA (INR million)	-906	4,148
EBITDA margin (%)	-148	80
Debt/EBITDA(x)	-247.93	65.84
Interest coverage(x)	-12.30	5.23
Source: DFCCIL, Ind-Ra		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	July 30 2021	7 May 2020	19 February 2019
Issuer rating	Long term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable

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Rating of Public Sector Entities

Revenue-Supported Rating Criteria

The Rating Process