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Ind-Ra Assigns Dedicated Freight Corridor Corporation 'IND AAA'; Outlook Stable

Ind-Ra-New Delhi-5 August 2014: India Ratings & Research (Ind-Ra) has assigned Dedicated Freight Corridor Corporation of India Ltd. (DFCCIL) a Long-Term Issuer Rating of 'IND AAA'. The Outlook is Stable.

KEY RATING DRIVERS

Linkages with Union Government: DFCCIL has strong operational, managerial and financial linkages with the government of India (GoI). GoI owns 99.99% of DFCCIL and has regularly infused equity into the latter (FY13: INR11.91bn, FY12: INR2.15bn) through the budgetary provisions of the Ministry of Railways (MoR).

Strategic Importance: A dedicated freight line is of high strategic importance to GoI for regaining Indian Railways' lost freight share (FY12: 35.53%; FY61: 86.2%), decongesting existing passenger lines and accelerating industrial growth of the country. The development of a dedicated freight corridor will reduce the transaction time of shipment of goods and transaction costs. The project serves an important social purpose and acts as a critical enabler to India's economic growth. Therefore, any disruption in its services would cause dearly to the country's growth profile.

A further commitment of the union government is reflected in its INR219.54m expenditure in FY14 (revised estimate) on a study of dedicated freight corridors (FY15 (budget estimate): INR250m).

Project Funding: The total project cost is estimated at INR733.92bn according to the concession agreement, of which 36.34% is accounted by the eastern corridor and the remaining 63.66% by the western corridor. The eastern corridor is being funded by World Bank's USD2.725bn loan and the western corridor by JICA's Special Terms of Economic Partnership Loan of JPY677bn. Though JICA's loan is hedged by GoI at a rate of 6.8%, DFCCIL is exposed to forex risk as the World Bank loan is not hedged. This loan will be serviced in rupee equivalent to USD at prevailing rates. However, DFCCIL has requested MoR for hedging the loan.

Construction Targets: DFCCL, alike other infrastructure projects, is marked with complex construction over long and difficult terrain, plausible costs and time overruns and a long gestation period. Ind-Ra thus considers possible delays, although the project is scheduled to be fully operational by FY19. Around 97.3% of land has been acquired, of which 32.9% (1,100km) of length has been awarded for civil construction up till February 2014. During FY15, another 1,000km of civil construction contracts are envisaged to be awarded.

Averting Operational Risk: We take support from the track access agreement entered into by and between MoR and DFCCIL. The agreement provides for a commitment by MoR to pay track access charges in lieu of using train paths and networks by authorised train users. It also directs MoR to transfer minimum 70% of freight traffic due with the commencement of operations in FY17 and thereafter in every subsequent year. Ind-Ra believes that the project would support export competitiveness by reducing transaction cost by providing uninterrupted traffic movements at a higher speed.

RATING SENSITIVITIES

Weakening of DFCCIL's linkages with GoI would be negative for the ratings.

COMPANY PROFILE

DFCCIL was originally set up by MoR as an SPV for the construction, operations and maintenance of dedicated freight corridors. It was incorporated as a company under the Companies Act, 1956 on 13 October 2006.

Contacts:
Primary Analyst
Devika Malik
Analyst
+91 11 4346 7259
India Ratings & Research Pvt Ltd
601-609, Prakashdeep Building
7, Tolstoy Marg, Connaught Place
New Delhi - 110 001

Secondary Analyst
Sunil Sinha
Director
+91 11 4346 7255

Committee Chairperson
Kishore Gandhi
Chief Credit Officer
+91 22 4000 1755

Media Relations: Saraanya Shetty, Mumbai, Tel: + 91 22 4000 1729, Email: saraanya.shetty@indiaratings.co.in.

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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Applicable Criteria: 'Rating of Public Sector Entities' dated 12 September 2012, are available at www.indiaratings.co.in.

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