



## **ICRA reassigns [ICRA]AAA Credit Opinion to future borrowing programme of Dedicated Freight Corridor Corporation of India Limited**

ICRA has reassigned "[ICRA]AAA" (pronounced ICRA triple A) Credit Opinion to the future borrowing programme of Dedicated Freight Corridor Corporation of India Limited (DFCCIL), a wholly-owned special purpose vehicle (SPV) of the Ministry of Railways (MoR). This is as against earlier credit opinion of "[ICRA]AAA(SO) [pronounced ICRA triple A (Structured Obligation)] for the future borrowing programme. Instruments with "[ICRA]AAA" rating are considered to have the highest degree of safety regarding timely servicing of financial obligations.

Going forward reaffirmation of the aforesaid credit opinion or translation of the same into the instrument specific long-term rating will be subject to ICRA's evaluation of the final terms of the debt instrument.

The credit opinion factors in the signing of the Concession Agreement (CA) and Track Access Charges (TAC) agreement between MoR and DFCCIL. As per the agreements the Indian Railways (IR), being the only authorised rail service provider in the country, will be the sole customer of the dedicated freight lines and will pay TAC to DFCCIL so as to cover all variable and fixed costs, including debt repayment commitments of DFCCIL, thereby mitigating debt servicing risk for DFCCIL. The credit opinion also takes into account the support from MoR in case the dedicated freight corridors are not operational by the time debt repayment becomes due. Further the credit opinion continues to draw comfort from the strong technical, managerial and financial support available to DFCCIL from the MoR, given the strategic importance of the project for infrastructure growth and expansion of railway network in the country. In order to achieve timely completion of the project, the MoR has put in place the required administrative structure. Further, comfort is drawn from the fact that the project is being closely monitored by the Government of India, given its strategic importance. The dedicated freight corridors (DFCs), connected with existing rail network of Indian Railways (IR) through feeder routes would provide the IR with a more efficient freight transportation infrastructure, enable it to increase its domestic freight-transportation share from the current ~29%, and ease congestion of the existing rail network. This will also help reduce load on the existing rail network and increase its passenger revenue potential.

ICRA also takes note of the execution, time overrun, cost overrun and related funding risks associated with the project, given its scale and complexity, although healthy progress has been made in the last one year. DFCCIL has awarded contracts to the tune of ~Rs. 26,000 crore by March 2015 and is expected to award majority of the contracts in FY16. Further, there has been significant progress on land acquisition with ~90% (9,641 hectares) of the total required land (10,700 hectares) being acquired by MoR. The significant portion of the funding for the project has been tied up from multilateral agencies and the same is being sanctioned progressively. Apart from this the project also envisages development of a section of the freight corridor on Private Partnership (PPP) model. The current funding plan does not foresee any commercial borrowings, however in case it is required the same is expected to be guaranteed by the Government of India (GoI) through MoR.

### **Company Profile**

DFCCIL is an SPV promoted by the Government of India (GoI), through the MoR, to build, operate, and maintain dedicated freight railway lines along the rail routes on the Golden Quadrilateral and diagonals<sup>†</sup>. The dedicated freight network would ease the congestion on the existing rail network, thereby allowing the IR to run additional passenger trains. Further, the proposed design features of the

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<sup>†</sup> Golden Quadrilateral links Delhi, Mumbai, Chennai and Kolkata, and its diagonals link Delhi-Chennai and Mumbai-Kolkata



project would allow the IR to run high-speed and high axle load trains and thus improve its operating efficiency.

In the first phase, DFCCIL plans to construct two dedicated freight corridors (DFCs)—the Eastern DFC (Ludhiana to Dankuni) and the Western DFC (Dadri to Mumbai)—covering a length of 3,300 km. Both the corridors are scheduled to be fully operational by 2019-2020. The completion cost for these two corridors is estimated at Rs. 73,392 crore, which is proposed to be funded by the MoR via equity of Rs. 15,951 crore, externally aided gross budgetary support (GBS) of approximately Rs. 52,000 crore and balance through internal accruals. A part of the freight corridor (not included in project cost of Rs. 73,392 crore) is proposed to be funded through PPP mode. The current funding plan does not foresee any commercial borrowings, however in case there is any shortfall the same may be met through market borrowings. For the GBS, the funds are being sourced by the Ministry of Finance as loans from the Japanese International Cooperation Agency (JICA) and the World Bank. As on date, loan of 230.6 billion Yen has been sanctioned by JICA and 2,075 million USD by World Bank.

### **Guarantor Profile**

The Ministry of Railways (MoR), Government of India, is headed by the Union Minister for Railways, who in turn is assisted by two Ministers of State for Railways. The MoR owns and operates most of the railway infrastructure in the country through its department, the Indian Railways (IR). The IR is administered by the Railway Board, which consists of a Chairman, a Financial Commissioner, and five Members. The MoR has its own budget, separate from the Union Budget, which is drawn up by the Ministry of Finance, Government of India. The Railway Budget deals with the planned infrastructure expenditure on the railways as well as with the operating revenues and expenditures for the forthcoming fiscal year.

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*ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)*