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I C R A Limited
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ICRA reaffirms [ICRA]AAA (SO) Credit Opinion to future borrowing programme of Dedicated Freight Corridor Corporation of India Limited

ICRA has reaffirmed "[ICRA]AAA(SO)" [pronounced ICRA triple A (Structured Obligation)] 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). The credit opinion is based on the proposed guarantee to be provided by the MoR, assuring timely servicing of the underlying principal/interest obligations against DFCCIL's future borrowing programme in accordance with the terms therein. Instruments with "[ICRA]AAA" rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. The letters SO in parenthesis suffixed to the rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned.

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 and of the guarantee documents supporting the timely servicing of underlying principal/interest obligations as per terms.

Apart from the guarantee, 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.

Further, it is proposed that the IR, being the only authorised rail service provider in the country, will be the sole customer of the dedicated freight lines and will pay track access charges (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. However the revenue mechanism of DFCCIL remains uncertain till the Track Access Agreement between DFCCIL and IR is finalised. Moreover, debt repayment would require support from MoR, in case the dedicated freight corridors are not operational by the time debt repayment becomes due.

ICRA also takes note of the execution, time overrun, cost overrun and related funding risks associated with the project, given its scale, complexity and nascent stage of development, although healthy progress has been made in the last one year. DFCCIL has awarded two major contracts - ~Rs. 3300 crore contract for the 343 km Bhaupur-Khurja section of the Eastern DFC to Tata-Aldesa joint venture and ~Rs. 6700 crore contract for the 640 km Rewari to Iqbalgarh section of the Western DFC to L&t-Sojitz joint venture. In total contracts worth ~14% of the total project cost have been awarded. Further, there has been significant progress on land acquisition with 81% (8,673 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. A sizeable portion of the equity from IR remains to be infused. Also the Concession Agreement between the MoR and DFCCIL which defines the relationship and division of responsibilities between the two entities remains to be execute.

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†. 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 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 Western DFC (Ludhiana to Dankuni) and the Eastern DFC (Dadri to Mumbai)—covering a length of 3,300 km. Both the corridors are scheduled to be fully operational by 2017. The completion cost for these two corridors is estimated at Rs. 91,860 crore, which is proposed to be funded by the MoR via equity of Rs. 27,000 crore, externally aided gross budgetary support (GBS) of approximately Rs. 52,000 crore, funding through public private partnership, with the shortfall to be met through market borrowings, if required. For the GBS, the funds will be sourced by the Ministry of Finance as loans from the Japanese International Cooperation Agency (JICA) and the World Bank. As on date, loans of 356.2 billion Yen has been sanctioned by JICA and 975 million USD by World Bank.

DFCCIL is in the process of finalizing a concession agreement with the MoR, under which DFCCIL will function as an infrastructure manager providing freight rail lines to qualified rail operators (at present the IR is the sole such operator). In return, the IR would pay TAC to DFCCIL to cover all the variable and fixed costs, including debt repayment commitments of DFCCIL.

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. IR in its budget for FY2014 has estimated investment of Rs. 7124 crore for DFCs.

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† *Golden Quadrilateral links Delhi, Mumbai, Chennai and Kolkata, and its diagonals link Delhi-Chennai and Mumbai-Kolkata*