March 31, 2022

Jharkhand Central Railway Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Proposed Term Loans	1259.75	1259.75	[ICRA]BBB+ (Stable) reaffirmed
Total	**1259.75**	**1259.75**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Jharkhand Central Railway Limited's (JCRL's) long-term concession agreement with the Ministry of Railways (MoR), which provides revenue visibility to its upcoming railway project, and the approval to charge an inflated mileage from users, which would make the project's return indicators comfortable. ICRA notes that Central Coalfields Limited (CCL, target shareholding of 64%) plans to significantly ramp-up coal production in the North Karanpura coalfield over the medium term, which, along with shorter lead distances, faster rake turn-around times, and lower trip costs following the commissioning of JCRL's railway line, partly mitigates the traffic fluctuation risk. Moreover, given the strategic importance of the rail corridor to CCL's expansion plans, the operational synergies between CCL and JCRL remains high, which supports JCRL's business risk profile. In addition, JCRL's credit profile benefits from the strong financial profile of its parent CCL, IRCON International Limited (IRCON, target shareholding of 26%) and the Government of Jharkhand (GoJ, target shareholding of 10%) in JCRL. JCRL's rating also factors in the fixed-revenue-share clauses with MoR for providing reserve services, which partly mitigates risks associated with inadequate increase in freight rates to cover for rising operations and maintenance (O&M) costs.

The rating, however, remains constrained by JCRL's exposure to high project implementation risks, which leads to time and cost overrun risks, and the company's sizeable dependence on external borrowings, which is likely to lead to modest debt coverage metrics during the initial years post commissioning. ICRA notes that the project is at a nascent stage and its scheduled completion date is expected to be delayed by around 27 months (to April 2025) from the original scheduled completion date (January 2023), due to delay in land clearances and financial closures amid the pandemic. The cost overruns, if any, is expected to be funded by the sponsor Group. Moreover, a sizeable portion of the estimated network traffic in the Shivpur – Kathautia line is expected to come from coal supply to the 5x660 MW Barh Super Thermal Power Plant of NTPC, which is dependent on timely commissioning of the Koderma – Tilaiya leg of an under-construction railway line by the East-Central Railway, and any delay in its commissioning beyond the scheduled commissioning date of JCRL's railway line, could have an impact on the expected traffic. The rating also reflects the project's high sectoral concentration risk owing to its dependence on a single commodity (coal).

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that JCRL will benefit from IRCON's track record, which would help in commissioning the Shivpur – Kathautia railway line project within the budgeted time and costs and CCL's plans of ramping up coal production in the North Karanpura coalfields, which would help JCRL achieve the desired traffic targets.

Key rating drivers and their description

Credit strengths

Long-term concession agreement provides earnings visibility - On December 4, 2018, JCRL signed a 30-year concession agreement (including three-year construction period and 27-year operating period) with MoR. Though there is no long-term contract, which assures a guaranteed traffic, JCRL would benefit from the parentage of CCL and IRCON, who can direct the coal supply from CCL's mines in the North Karanpura area to the long-term fuel supply agreement (FSA) customers through JCRL's network. While the project's scheduled completion date is expected to remain delayed by around 27 months, the lease operating period will start after three years from the date of financial closure and thus, JCRL's parentage and 30-year concession agreement provide earnings visibility to the upcoming Shivpur – Kathautia railway line.

Inflated mileage makes project return indicators attractive - JCRL would have access to three revenue streams:
a) 50% of the user fee (based on the actual distance traversed on JCRL's network),
b) 60% inflated mileage (additional distance) to be collected from the users and retained entirely by JCRL
c) terminal charge to be collected from private-siding owners, for connecting its siding to JCRL's network.

ICRA notes that the inflated mileage would account for ~53%-54% of JCRL's overall annual revenue (net of MoR share) in the initial five years of operations and is a key reason behind the project's comfortable return indicators. Moreover, the inflated mileage also reduces the capacity-utilisation hurdle rate required to meet debt service obligations, with the break-even system utilisation levels (for DSCR=1) at a 40-50% level in the initial few years post the scheduled completion date. Since MoR will review inflated mileage every five years, any extension of the same could further improve the project return indicators.

Significant planned ramp-up in production from CCL's North Karanpura coalfield partly mitigates traffic fluctuation risks - As per CCL's capacity expansion plans, the North-Karanpura coalfield, in future, would account for majority of CCL's production. The mines of Magadh (51 MTPA peak-rated capacity), Amrapali (25 MTPA peak-rated capacity), Sanghmitra (20 MTPA) Pachra (Chandragupta) (15 MTPA) are expected to steadily ramp-up production in the near to medium term. The feasibility for the Shivpur – Kathautia single track line has been prepared factoring in a traffic of around 21.5 MTPA (~1,075 million MT-km) mostly to the eastern power plants in Bihar and Jharkhand. ICRA notes that shorter lead distance, faster rake turn-around time, and lower trip costs following the commissioning of JCRL's railway line, partly mitigates the traffic fluctuation risks. Apart from CCL's own expansions in the North Karanpura coalfields, the rail corridor is also expected to benefit from the traffic generated from NTPC's captive blocks such as Chatti Bariatu (7 MTPA) and Kerendari A (6 MTPA) and Pakri Barwadih (15 MTPA). In addition, private commercial mining at Chakla, Chitarpur, Gondulpara, North Dhadu and Seregarha in the North Karanpura coalfield, with a cumulative peak-rated capacity of 25 MTPA, will further support the traffic in the long term.

Fixed revenue share with MoR for reserve services mitigates risks associated with inadequate increase in freight rates – The bulk of the operating cost for a railway line SPV is fixed in nature. While JCRL would be responsible for the O&M of tracks, overhead equipment and signaling, the Indian Railways would be providing reserved services, including supply of rakes, wagons, locomotives, crew for locomotives, station operation management and fuel/ traction power for rake movement. The Indian Railways would deduct a flat 50% of the base user fee (excluding the inflated mileage) for providing these services, which mitigates the risk to JCRL's earnings arising out of a delay in freight tariff revision to cover the rising O&M costs. Consequently, JCRL's operating profitability is expected to remain healthy in the range of ~85-90% post the commencement of operations.

Strong financial profile of shareholders; strategic importance of rail corridor to CCL's expansion plans provides operational synergies - The rating factors in the strong financial profile of JCRL's shareholders (CCL with 64% ultimate shareholding, IRCON with 26% ultimate shareholding and GoJ with 10% ultimate shareholding). Moreover, the rating factor in the synergies between the operations of JCRL and CCL, with the former's railway network playing an enabling role in helping CCL achieve its target of increasing annual coal production.

Credit challenges

Exposure to high project implementation risks - JCRL's project is at a nascent stage of execution. At present, the land acquisition is in progress, with around 90-95% completed as on date. As on September 30, 2021, the cost incurred was Rs. 255 crore (~14% of the budgeted cost of Rs. 1,799.64 crore), which has been largely deployed towards land acquisition. The project implementation risk remains high given its greenfield nature and the nascent stage of execution. The tendering award has been made for part of the project and the construction period is likely to be 37 months from the date of financial closure (designated as appointed date for the project), which is expected to be achieved latest by April 2022. ICRA notes that the project is being executed by IRCON (ultimate shareholding of 26%), with a track record of developing similar projects, partly mitigating the execution risks.

Modest debt coverage metrics during initial years due to sizeable dependence on external borrowings - JCRL's greenfield rail corridor has a budgeted cost of Rs. 1,799.64 crore, to be funded by a debt-to-equity mix of 70:30. The ramp-up to the peak traffic capacity is expected over a period of three years, and consequently, the project would be able to demonstrate its full earnings potential from the third year onwards. JCRL's total debt to OPBITDA during the initial two years post commissioning is expected to remain elevated at around 4.5 times, given the project's sizeable debt. Further, its debt service coverage ratio (DSCR) is expected to remain at 1.0 times (in the first year of operations). Nonetheless, the cumulative DSCR of the project is estimated to remain comfortable at around 1.7-1.8 times.

Delay in commissioning of the Koderma - Tilaiya under-construction line by East Central Railways could impact traffic – A sizeable portion of the estimated network traffic in the Shivpur – Kathautia line is expected to come from the 5x660-MW Barh Super Thermal Power Plant of NTPC. With commissioning of the Shivpur – Kathautia line by JCRL and the Koderma – Tilaiya under-construction line by the Railways, the coal traffic to the Barh Power Station would take a shorter route of Shivpur --> Kathautia --> Koderma --> Tilaiya --> Nateswar --> Bihar Sarif --> Barh, compared with the existing longer route from Gomo --> Koderma --> Gaya--> Tilaiya --> Shekhpur --> Luckeesarai --> Kiul --> Barh. ICRA notes that the Koderma – Tilaiya line has been completed by around 70%, and is expected to commission before the scheduled commissioning of JCRL's rail corridor.

High sectoral concentration risk - Almost all JCRL's revenues would be generated from the movement of coal. Hence, the company's earnings would remain highly susceptible to a potential slowdown in the coal demand during the concession period.

Liquidity position: Stretched

JCRL's liquidity is stretched, owing to delays in achieving financial closures (~Rs. 1260 crore of term loan) for the project. ICRA notes that the financial closure is likely to be concluded by April 2022. Nonetheless, timely infusion of funds from shareholders and the high financial flexibility derived from the parent, CCL, supports its liquidity profile.

Rating sensitivities

Positive factors - ICRA could upgrade JCRL's rating if it commissions the project within the budgeted time and costs and is able to timely ramp-up capacity utilisation to achieve the traffic targets.

Negative factors - Negative pressure on JCRL's rating could arise if the strategic importance of the project to CCL reduces, and/or linkages with the parent Group weakens. Further, in case of any significant delays in execution, which leads to large cost overruns and sub-optimal project return indicators may also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit parent or group support
Parent/Group Support	Parent/Group Company: Central Coalfields Limited (CCL) The rating assigned to JCRL factors in the high likelihood of its parent, CCL, extending financial support to it because of the close business linkages between them. ICRA also expects CCL to be willing to extend financial support to JCRL out of the need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Jharkhand Central Railway Limited (JCRL) was incorporated on August 31, 2015, following an inter-ministerial MoU on May 4, 2015, among the Ministry of Coal, the Ministry of Railways, and the Government of Jharkhand, and a subsequent MoU on May 20, 2015, among Central Coalfields Limited, IRCON International Limited, and the GoJ for the formation of joint venture companies/ special purpose vehicles (SPV) to undertake identified railway projects in Jharkhand.

JCRL is a SPV formed with the objective of constructing a 49.085km single-line broad-gauge railway track from Shivpur to Kathautia in Jharkhand. The railway line will augment the coal evacuation capacity from the North Karanpura coalfields and has a rated coal evacuation capacity of 21.5 million tonne per annum (MTPA). JCRL is majority held by CCL, with a target shareholding of 64%, followed by IRCON, with a target shareholding of 26% and the GoJ, with a target shareholding of 10%.

Key financial indicators

Since JCRL's has not yet commissioned operations, the key financial indicators of the company are not meaningful.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec-21 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 31, 2022	Dec 3, 2020	-	-
1	Proposed Term Loans	Long-term	1259.75	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based Proposed Term Loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed Term Loans	NA	NA	NA	1259.75	[ICRA]BBB+ (Stable)

Source: Jharkhand Central Railway Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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