June 23, 2023

# Container Corporation of India Ltd.: Rating upgraded; removed from rating watch and Stable outlook assigned

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Non-fund based limits - long term** | 462.00 | 800.00 | [ICRA]AAA (Stable); Upgraded from [ICRA]AA+ (Rating watch with developing implications); rating removed from watch with developing implications |
| **Proposed term loan** | 9000.00 | 0.00 | - |
| **Issuer rating** | - | - | [ICRA]AAA (Stable); Upgraded from [ICRA]AA+ (Rating watch with developing implications); rating removed from watch with developing implications |
| **Total** | **9,462.00** | **800.00** | |

**Instrument details are provided in Annexure-I;*

## Rationale

The rating upgrade factors in the emergence of clarity over Container Corporation of India Ltd.'s (CONCOR, the company) lease payment charges and upfront lease payment plan to the Indian Railways. Earlier, CONCOR was exploring the option of making an upfront lease payment for a long-term lease agreement with the Indian Railways for the terminals which were built on the land owned by the Indian Railways. The payment would have resulted in a materially large cash outflow for CONCOR which was expected to be funded partly by the company's free cash balances and additional term debt, thereby negatively impacting its credit profile. However, with the finalisation of the new Land Licensing Policy by the Indian Railways in October 2022, CONCOR will now continue to pay land licencing fee on an annual basis, approximately Rs. 430-450 crore for FY2024 with an annual escalation of 7%. Thus, the overall liquidity position and the credit profile of the company is expected to remain robust going forward.

The rating continues to factor in the dominant position of CONCOR in the containerised rail freight business, supported by a large, pan-India infrastructure and an established track record of healthy operational performance. The rating also considers the financial profile of the entity, characterised by robust cash generation, low working capital requirements and internally funded capex plans. Owing to its strategically located terminal network, the company is well positioned to gain from the commissioning of the dedicated freight corridor (DFC), particularly the western leg, as several industrial clusters are located along the western DFC. The rating also factors in the GoI's ownership, which benefited CONCOR in the early stages of establishing its network, a source of competitive advantage for the company. ICRA notes that the GoI is looking to divest 30.8% stake in the company along with ceding management control to a strategic investor. While GoI had made the announcement for divestment of its stake in November 2019, the expression of interest (EoI) is yet to be released. Taking cognizance of the little progress on divestment and unclear timelines, ICRA has removed the rating from watch and assigned a "Stable" outlook though the same remains an event-based sensitivity and ICRA will appropriately factor in the impact on CONCOR's credit profile if there are any developments in this regard.

The rating factors in the rising competition from the private players in the containerised train operator (CTO) segment as well as road freight carriers which has resulted in the moderation of the market share of the company to ~63% from ~74% a couple of years earlier. However, the company continues to retain its market leadership position and is making efforts to regain the lost market share by building operational efficiencies. The rating also factors in the susceptibility of the profitability to the change in the haulage rates by the Indian Railways. The significant reliance in EXIM segment also exposes the company's cash generation to the global macroeconomic activity.

The "Stable" outlook on the rating emanates from ICRA's expectation of CONCOR's ability to maintain a healthy credit profile, going forward, driven by its leadership position in containerised rail freight segment and strong cash generation.

## Key rating drivers and their description

### Credit strengths

**Leadership position in container rail freight segment with strategically located infrastructure**-CONCOR had maintained nearly 73-74% market share in the rail freight segment over the last decade, although this has moderated in recent years, with a market share of ~63-64% in FY2022 and FY2023E due to increasing competition from private CTOs and the road freight players. CONCOR's pan-India, strategically located infrastructure offers competitive advantage helping the company to maintain its profitability despite losing some market share.

**Extensive track record of healthy operational performance**- The company has an established track record of healthy operational performance, characterised by growing container volumes and rising number of double-stacked trains. At present, the empty charges have risen owing to the removal of discount by Indian Railways on the haulage rate for empty containers along with the rising share of domestic container volumes. However, once the EXIM volumes start growing in line with previous years, the empty charges as a percentage of the revenue are expected to moderate and support the operating margins.

**Robust financial risk profile -** CONCOR's financial risk profile is robust characterised by healthy revenue growth along with healthy operating margins, robust cash accruals and large cash balances. The company has been generating around Rs. 1000-1100 crore of net cash accruals which has allowed the company to fund its capex and the working capital requirement through internal accruals. As a result, the credit profile of the company has remained robust characterised by marginal debt at consolidated level, interest coverage of 29.2x in FY2023 (PBDITA/interest of 34.1x in FY2023), and ~Rs. 3,173.9 crore of free cash as on March 31, 2023.

**Favourable outlook for containerised cargo in India** – At present, containerised cargo movement in India is significantly below the global average. However, with the Indian economy expanding, though at a slower pace in recent times, the containerised cargo movement is expected to witness healthy growth in the medium to long-term. The development of the DFC is expected to provide impetus to containerised cargo movement in the country. As the DFC has not been operationalised fully and the currently operational segments are yet to achieve the promised operational parameters e.g, speed of train operations, full connectivity from hinterland to port etc. the full benefits of DFC are yet to accrue to the company.

**Significant sovereign ownership though GoI is looking to offload significant ownership in the company –** At present, GoI holds 54.8% stake in CONCOR. GoI is looking to offload nearly 30.8% stake in the company to a strategic investor along with ceding of management control. The credit profile of the strategic investor will be a key rating sensitivity going forward.

### Credit challenges

**Significant dependence on EXIM cargoes, which could be impacted by sluggish global economy** - Currently, the share of EXIM cargoes in the overall container cargoes handled by the company is significantly high at around 78%. Accordingly, the performance of the company remains vulnerable to domestic industry performance and global trade issues.

**Performance susceptible to periodic changes in haulage rates -** The charges paid by the CONCOR to the Indian railways for using locomotives, wagons, railway network and fuel are called haulage rates. The haulage rates are notified by the Indian railways periodically and the charges paid by CONCOR forms nearly 73% of its total operating expenses. With the haulage rates constituting a large proportion of the cost of operations, the performance of the entity remains susceptible to the changes in the haulage rates, which has witnessed periodic revisions. Recently, IR had removed the discounts on the haulage rates for both loaded and empty containers which company was able to recover partially from its customers, resulting in some headwinds for its operating margins.

**Rising competition from private players and road carriers, particularly in low lead distances -** The company has been facing stiff competition from private CTOs. As a result, the company has been losing some market share since FY2020, moderating to 62-64% in FY2022 and FY2023E from 67% in FY2020 and FY2021. Road freight players also pose competition to the company, as rising efficiencies due to the implementation of GST, improving highways, door-to-door connectivity and the flexibility associated with the road segment make it a serious competitor for rail freight players. Additionally, inefficiencies in the railway network, such as network congestion, preference given to passenger trains and cross subsidisation of passenger fares with freight fares reduce the competitiveness of rail freight. However, CONCOR has been focusing on improving its first mile last mile (FMLM) connectivity to provide end to end solution to its customers. However, the results of these initiatives is yet to yield material benefits for the company.

## ESG comments

Rail transportation results in lower CO2 emissions compared to road transportation and hence the CTO sector is favourably placed to benefit from the long-term trend of tightening of environmental norms towards emissions. CONCOR, being the market leader in the CTO segment is expected to benefit from its dominant position from a long-term credit perspective. CONCOR is further making efforts to reduce the $CO_2$ emissions by using fuel efficient equipment and rail infrastructure and focuses on water and energy management by taking initiatives like using solar energy at some of the terminals of the company and rain-water harvesting.

CONCOR's exposure to social risks mainly pertains to ensuring safe operations and human capital risk management. Based on the disclosures in the annual report, there have been no major industrial accidents. Overall, the exposure to social risks is not material from a credit perspective.

## Liquidity position: Strong

CONCOR's liquidity position is expected to remain strong going forward supported by significant cash balance (Rs. 3173.9 crore at the end of FY2023), robust cash accruals of ~Rs. 1000 crore p.a. which is more than adequate to meet the capex of Rs. 500-600 crore p.a. and incremental working capital requirements going forward.

## Rating sensitivities

**Positive factors –** NA

**Negative factors –** The rating could be downgraded if the GoI divests its stake to a sponsor with a weaker credit profile. A significant decline in revenue and profitability due to loss of market share on a sustained basis to road carriers or private CTOs and/or larger-than-expected increase in LLF charges from the railways could also be the negative triggers. Stress on the liquidity and credit profile driven by higher-than-expected debt-funded capex could trigger a downgrade.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Impact of parent or group support on an issuer's credit rating |
| **Parent/Group support** | The ratings factor in the implicit support from the Government of India |

| Analytical Approach | Comments |
|---|---|
| Consolidation/Standalone | The rating is based on the consolidated financials of the company. The entities forming part of the consolidated financials are given in Annexure-II |

## About the company

Container Corporation of India Limited (CONCOR) was incorporated in March 1988 and started its operations in November 1989 after taking over seven inland container depots (ICDs) of the Indian Railways. Over the years, the company has developed its infrastructure and now operates 59 terminals across the country along with two strategic tie-ups. The company's primary operation is to provide inland transportation of containers from ports using rail wagons. The company also manages cold storage chains and warehouses. The GOI, through the Ministry of Railways, continues to hold a majority stake of 54.8% in the company at the end of March 2023.

### Key financial indicators (audited)

| CONCOR Consolidated | FY2022 | FY2023 |
|---|---|---|
| **Operating income** | 7652.7 | 8169.1 |
| **PAT** | 1028.4 | 1152.3 |
| **OPBDIT/OI** | 22.8% | 22.8% |
| **PAT/OI** | 13.4% | 14.1% |
| **Total outside liabilities/Tangible net worth (times)** | 0.2 | 0.2 |
| **Total debt/OPBDIT (times)*** | 0.4 | 0.4 |
| **Interest coverage (times)** | 27.8 | 29.2 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Includes lease liability, long term and short term debt*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2024) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of March 31, 2023 (Rs. crore) | Date & Rating in | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | 23-Jun-23 | 9-Sep-22 | 24-Aug-21 | 18-Aug-20 |
| 1 | Term Loans | Long-term | 0.0 | - | - | [ICRA]AA+; & | [ICRA]AA+ & | [ICRA]AA+; & |
| 2 | Non-fund based limits | Long-term | 800 | - | [ICRA]AAA (Stable) | [ICRA]AA+; & | [ICRA]AA+ & | [ICRA]AA+; & |
| 3 | Issuer Rating | Long-term | - | - | [ICRA]AAA (Stable) | [ICRA]AA+; & | [ICRA]AA+ & | [ICRA]AA+; & |

*&: Rating watch with developing implications*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term– Non-Fund Based | Simple |
| Issuer Rating | Not Applicable |

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: Click Here

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| Unallocated | Non-Fund Based | NA | NA | NA | 800.00 | [ICRA]AAA (Stable) |
| - | Issuer Rating | NA | NA | NA | - | [ICRA]AAA (Stable) |

*Source: Company*

[*Please click here to view details of lender-wise facilities rated by ICRA*]

## Annexure II: List of entities considered for consolidated analysis

| Company Name | CONCOR's Ownership | Consolidation Approach |
|---|---|---|
| Container Corporation of India Limited | 100% (Self) | Full Consolidation |
| SIDCUL CONCOR Infra Company Limited (SCICL) | 74% | Full Consolidation |
| Punjab Logistics Infrastructure Limited (PCIL) | 51% | Full Consolidation |
| Fresh & Healthy Enterprises Limited | 100% | Full Consolidation |
| CONCOR Air Limited | 100% | Full Consolidation |
| Star Track Terminals Private Limited | 49% | Equity Method |
| Albatross Inland Ports Private limited | 49% | Equity Method |
| Gateway Terminals India Pvt. Ltd.: | 26% | Equity Method |
| CMA-CGM Logistics Park (Dadri) Pvt. Ltd | 49% | Equity Method |
| Himalayan Terminals Pvt. Ltd. | 40% | Equity Method |
| HALCON | 50% | Equity Method |
| India Gateway Terminal Pvt. Ltd.: | 11.87% | Equity Method |
| TCI-CONCOR Multimodal Solutions Pvt. Ltd | 49% | Equity Method |
| Container Gateway Ltd | 49% | Equity Method |
| Allcargo Logistics Park Pvt. Ltd | 49% | Equity Method |
| Angul Sukinda Railway Ltd. | 26% | Equity Method |
| CONCOR BATS Airport Services | 50% | Equity Method |

*Source: CONCOR's results FY2023*

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## About ICRA Limited:

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