

Konkan Railway Corporation Limited

January 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	500.00	CARE AA+; Stable	Reaffirmed
Non-convertible debentures	-	-	Withdrawn
Non-convertible debentures	-	-	Withdrawn
Bonds@	300.00	CARE AAA (CE); Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

@The Ministry of Railways, Government of India, has issued a letter of comfort for these bond issues and it has undertaken to make funds available to the company, if required, to ensure timely repayment of principal and interest thereon.

Unsupported rating	CARE AA+ [Reaffirmed]
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Note: Unsupported rating does not factor in the explicit credit enhancement.

Rationale and key rating drivers for the credit enhanced debt

Reaffirmation of the rating assigned to long-term instruments of Konkan Railway Corporation Limited (KRCL) principally rely on credit enhancement (CE) in the form of an unconditional and irrevocable pre-default letter of comfort (LoC) from Ministry of Railways (MoR), Government of India (GoI). The rating also takes comfort from the presence of structured payment mechanism (SPM) monitored by a third-party trustee. According to SPM, if the designated account is not funded by KRCL, the trustee will notify the MoR on T-2 day (where 'T' is the due date of debt servicing). Upon such notification from the trustee, MoR will fund the designated account either on T-1 or T Day. The LoC is valid until the tenor of rated instruments.

CARE Ratings Limited (CARE Ratings) has relied on an independent legal opinion that the LoC is unconditional, irrevocable, and legally enforceable. Additionally, there is an established track of infusion of fund from MoR by way of equity and advances to fund the capex and support KRCL's operations.

In accordance with CARE Ratings' withdrawal policy, the rating assigned to KRCL's NCD issue (INE139F07063, INE139F07048, INE139F07055), aggregating ₹780 crore, has been withdrawn with immediate effect. This action follows complete redemption of NCDs and receipt of no dues certificate. As on November 30, 2024, there is no outstanding under this issue.

Key rating drivers of KRCL for unsupported and standalone rating

Reaffirmation of ratings assigned to long-term bank facilities of KRCL continues to factor the majority shareholding of the GoI through MoR and its strategic importance to the Indian Railways network. Rating also considers the continued financial support from the GoI through regular equity infusions and interest-free loans to fund the capex and support operations. Additionally, the presence of LoC from GoI for raising debt provides financial flexibility to KRCL. Presence of SPM monitored by third party trustee ensures timely repayments of its debt obligations.

Ratings derive strength from improvement in operations of KRCL's traffic division and healthy order book position providing revenue visibility over the medium term. Ratings also factors in strong liquidity position, indicated by adequate cash balances and unencumbered liquid investments on a consistent basis. Ratings also takes cognisance of moderation in profitability, however, this is expected to remain comfortable.

Ratings strengths are partly offset by moderate debt coverage indicators and leverage, and the susceptibility of KRCL's order book due to the intense competition in the construction sector.

Rating sensitivities: Factors likely to lead to rating actions

For credit enhanced debt

Positive factors

Not applicable

Negative factors

- Non-adherence to the trustee-administered SPM by CE provider in the transaction, triggering adverse action/event of default.

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

- Dilution in support philosophy by GoI towards KRCL.

For standalone ratings**Positive factor**

- Significant improvement in operational metrics and debt coverage indicators.

Negative factors

- Dilution of stake by MoR, GoI, or dilution in KRCL's strategic importance for MoR.
- Non-adherence to the structured payment mechanism.
- Decline in operating performance or increase in debt leading to below unity interest coverage on a sustained basis.

Analytical approach

CE rating: Factoring in the CE in the form of LoC provided by MoR, GoI, for ensuring timely payments of KRCL's debt obligations until they are fully redeemed. The structured payment mechanism is also part of the debenture trust deed. If the designated account is not funded by KRCL, the trustee will notify the MoR on T-2 day. Once notified, MoR will fund the designated account either on T-1 or T (where 'T' is the due date).

Standalone and unsupported ratings: Standalone, while factoring in the operational linkages and financial support from MoR.

Outlook: Stable

The outlook is expected to remain stable with steady revenue from train operations, improved profitability, stable execution of projects on hand, and the strong liquidity position.

Detailed description of key rating drivers**Key strengths****LoC from MoR (GoI) backing its instruments**

The company's debt instrument aggregating to ₹ 600 crore is backed by an unconditional and irrevocable letter of comfort for the servicing of entire issue (principal and interest), throughout the tenure of instruments from GoI, MoR. Trustee-administered SPM is in place to ensure timely payment of interest and principal obligations of bond/NCD issues through a tripartite agreement between KRCL, trustee, and GoI, through MoR.

Presence of structured payment mechanism

KRCL follows a structured payment mechanism stipulated by the debenture trust deed. The timely funding of escrow is strictly monitored by the debenture trustee, who promptly notifies KRCL about funding the escrow account if it is not funded before the due date. Three days prior to the scheduled due date of payment to bond holders for coupon and principal, KRCL is required to fund the designated escrow account. If the designated account is not funded by KRCL, the trustee notifies MoR two days prior to the scheduled date. Post this, a day prior to the scheduled date upon notification from the trustee, MoR funds the designated account so that payments are made to bondholders on time. CARE Ratings notes KRCL has been adhering to the above structure and is promptly funding the escrow account per the above mechanism.

Controlling stake and management of MoR, GoI

The GoI has a strong control on KRCL's management and function. Freight and passenger fares are decided by the MoR. KRCL's board of directors has representation from the MoR and state governments of Maharashtra, Karnataka, Kerala, and Goa. Being a railway administration under the Indian Railways Act 1989, the corporation is a member of the Indian Railways Conference Association and follows operating and commercial rules framed by the MoR. KRCL's operational and financial performances are monitored regularly based on memorandum of understanding (MoU) between KRCL and the Indian Railways.

Strategic importance of KRCL to the Indian Railways

The entire western coastal belt, except Goa, was untouched by the railways prior to commissioning the Konkan Railway. Before the Konkan Railway, there was no railway line on half of India's western coast. The two important port cities of Mangalore and Mumbai were also not directly connected by railway network.

The Konkan Railway plays a strategic role in connecting the western coast of India, integrating it with the rest of the Indian Railway network. Along with seamless freight movement, it has also played an important role in developing tourist destinations such as Goa, Ratnagiri, and Udupi, among others, on the western coast. Apart from traffic revenues (passenger and freight segments), KRCL also undertakes the construction of tunnels, bridges, and railway tracks for Zonal Railways and different

government entities. Given its technical expertise in constructing railway tracks across hilly and rugged terrains, KRCL has been appointed by MoR to construct a section of the Udampur-Baramulla-Srinagar railway link.

Demonstrated support from the GoI by way of financial assistance

The GoI, through MoR, has regularly supported KRCL in the form of unsecured loans to help the corporation meet its debt obligations. It has also extended support through equity infusions from time to time. KRCL also received interest-free unsecured loans from the MoR, which stood at ₹365 crore as on March 31, 2024. Considering KRCL's strategic importance to the GoI, CARE Ratings expects such financial support to continue.

Healthy order book position of the project division

KRCL, for its project division, has a healthy outstanding order book position of ~₹4,988 crore as on June 2024, which translates to an order book-to-sales (project revenue) ratio of 1.06x. Additionally, KRCL has bid for projects amounting to ₹10,500 crore which are under different stages of bidding process. Major orders include a ₹1,645-crore order by the Kerala Government for constructing the AKM road tunnel and a ₹1500-crore order for J&K Udampur-Srinagar-Baramulla Rail Link (USBRL). However, with discontinuation of award of nomination-based orders by the GoI, consistent built-up of fresh order pipeline bid on a competitive basis constitutes as a key rating monitorable.

Moderation in revenue and profitability margins in FY24 and H1FY25

KRCL's total operating income (TOI) moderated from ₹5,029 crore in FY23 to ₹4,462 crore in FY24, registering year-over-year (y-o-y) decline of ~11%. This decline is primarily due to decline in project revenue. In FY24, passenger and freight revenue stood at ₹1764 crore, registering y-o-y growth of ~0.57% over FY23, while project revenue was ₹2698 crore, ~17.62% lower than FY23.

KRCL's profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin improved to 11.66% in FY24 (10.12% in FY23) due to lower fuel cost and better absorption of fixed expenses. The company achieved 100% route electrification in March 2022 and commercial operations on the electric traction commenced from September 2022 resulting in significant savings on fuel cost in FY24. However, PBILDT margin took a dip in H1FY25 considering higher employee costs, train operational expenses and significant reduction in project revenue.

In H1FY25 (U/A), KRCL reported a TOI of ₹2,006 crore with a PBILDT margin of 8.77% and a profit-after-tax (PAT) margin of 2.32% (H1FY24: TOI – ₹2,175 crore, PBILDT margin – 10.36%, and PAT margin – 3.93%). Going forward, CARE Ratings expect the margin to stabilise ~9-10%.

KRCL has a negative operating cycle with its receivables mainly from the Indian railways for its share of fare which are collected within 30 days while its payables are mainly towards fuel and hire charges and charges to Indian Railways for the usage of wagons/coaches/rakes.

Key weaknesses

Moderate leverage and coverage indicators

KRCL had availed debt for funding projects (including 100% route electrification and line doubling), with erosion of net worth considering losses in the past, resulted in a leveraged capital structure. However, the company's overall gearing improved from 2.02x as on March 31, 2023, to 1.99x as on March 31, 2024. The debt coverage indicators, including total debt/gross cash accruals (TD/GCA) and interest coverage ratio (ICR) also moderated to 9.57x and 1.19x, respectively, in the same period. The interest coverage stood moderate at 1.16x H1FY25.

Inherent challenges associated with the construction industry

The disproportionate hikes in commodity prices compared to inflation indexation, aggressive bidding, delays in achievement of financial closure, or delays in project progress due to the non-availability of regulatory clearances affects the credit profiles of contractors thus exerting pressure on their operating margins. However, KRCL has demonstrated strong execution capabilities with completion of many complex projects in the past, with KRCL's strategic importance and regular support from Indian Railways largely mitigates the risk.

Liquidity: Strong

Strong liquidity is marked by healthy generation of cash accruals and presence of liquid investment of ₹3,045 crore as on March 31, 2024. Presence of significant level of liquid funds are primarily due to advances received against the project, elongated payables and accumulated cash balances. Surplus funds are available, if required for debt servicing. In FY25, the company had to meet huge repayment obligations consisting of bonds and term loans amounting to ₹ 987.50 crore. As on November 30, 2024, the company has met ₹943.75 crore amount from existing cash balances and infusion of funds from MoR.

Assumptions/Covenants: Annexure-3

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Government Support](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Credit Enhanced Debt](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Service Sector Companies](#)

[Construction](#)

[Infrastructure Sector Ratings](#)

Adequacy of CE structure:

The rating assigned KRCL's instruments is backed by an underlying CE in the form of a LoC from the MoR, where the ministry undertakes to make funds available to KRCL, if required, for ensuring timely repayments of debt obligations.

Instruments are backed by a debenture trustee monitored structured payment mechanism (SPM) arrangement. The SPM stipulates that in case the designated escrow account is not funded by KRCL on T-3, the trustee will notify MoR on T-2 and MoR will fund the designated account either on T-1 or T ('T' being the due date).

About the Credit Enhancement Provider

GoI has extended the absolute, unconditional, and irrevocable pre-default letter of comfort for timely servicing rated bonds.

About the company (KRCL) and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Transport services	Railways

KRCL was formed in 1990 for constructing, operating, and transferring a single-line railway track between Roha (near Mumbai) and Mangalore (Karnataka) on the west coast of India over 760 km. It is the first railway project in the country to be executed on the build, operate, and transfer (BOT) principle. The GoI, through the MoR, is the main shareholder of KRCL, holding 57.47% of the total equity share capital, with the balance shared among governments of Maharashtra (19.47%), Karnataka (13.27%), Kerala (5.31%), and Goa (4.48%) as on March 31, 2024.

KRCL also undertakes construction and consultancy projects of tunnels, roads, and bridges among others for some state governments and advisory assignments in different railway-related fields. Apportioned earnings from other zonal railways whose traffic either passes through or terminates on the Konkan Railway route also contribute to KRCL's traffic revenues.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (U/A)
Total operating income	5,029	4,462	2,006
PBILDT	509	520	176
PAT	279	302	47
Overall gearing (times)	2.02	1.99	1.41
Interest coverage (times)	2.17	1.91	1.16

A: Audited; U/A: Unaudited; Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds	INE139F07089	30-03-2016	8.50	30-03-2026	250.00	CARE AAA (CE); Stable
Bonds	INE139F07097	29-04-2016	8.30	29-04-2026	50.00	CARE AAA (CE); Stable
Debentures-Non convertible debentures	INE139F07048	21-07-2014	9.15	21-07-2024	-	Withdrawn
Debentures-Non convertible debentures	INE139F07055	11-08-2014	9.18	11-08-2024	-	Withdrawn
Debentures-Non convertible debentures	INE139F07063	25-09-2014	9.08	25-09-2024	-	Withdrawn
Fund-based/Non-fund-based-Long term*	-	-	-	-	500.00	CARE AA+; Stable
Unsupported rating	-	-	-	-	-	CARE AA+

*Interchangeable with fund-based limits.

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debentures-Non-convertible debentures	LT	-	-	-	1)CARE AAA (CE); Stable (23-Jan-24)	1)CARE AAA (CE); Stable (24-Jan-23) 2)CARE AAA (CE); Stable (21-Dec-22)	1)CARE AAA (CE); Stable (22-Dec-21)
2	Debentures-Non-convertible debentures	LT	-	-	-	1)CARE AAA (CE); Stable (23-Jan-24)	1)CARE AAA (CE); Stable (24-Jan-23) 2)CARE AAA (CE); Stable (21-Dec-22)	1)CARE AAA (CE); Stable (22-Dec-21)
3	Debt	LT	-	-	-	-	1)Withdrawn (21-Dec-22)	1)CARE AA+; Stable (22-Dec-21)
4	Bonds	LT	300.00	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (23-Jan-24)	1)CARE AAA (CE); Stable (24-Jan-23) 2)CARE AAA (CE); Stable (21-Dec-22)	1)CARE AAA (CE); Stable (22-Dec-21)
5	Un Supported Rating	LT	0.00	CARE AA+	-	1)CARE AA+ (23-Jan-24)	1)CARE AA+ (24-Jan-23) 2)CARE AA+ (21-Dec-22)	1)CARE AA+ (22-Dec-21)
6	Fund-based/Non-fund-based-Long Term	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (23-Jan-24)	1)CARE AA+; Stable (24-Jan-23)	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Name of the Instrument-Bonds	Detailed Explanation
A. Financial covenants	
I. Security Cover	Minimum security cover of 1.25x of the net fixed assets to be maintained.
B. Non-financial covenants	
I. Payment mechanism	<p>Three days prior to the scheduled due date of payment to the bond holders for both coupon and principal, KRCL is required to fund the designated escrow account. If the designated account is not funded by KRCL, the trustee will notify the MoR two days prior to the scheduled date.</p> <p>Upon receipt of notification, the MoR will fund the designated account a day prior to the date of payment or on the date of payment so that payments are made to bondholders on time.</p>

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds	Complex
2	Debentures-Non-convertible debentures	Complex
3	Fund-based/Non-fund-based-Long term	Simple
4	Unsupported rating	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

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