Konkan Railway Corporation Limited

January 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	500.00	CARE AA+; Stable	Assigned
Bonds	300.00	CARE AAA (CE); Stable	Reaffirmed
Non-convertible debentures	280.00	CARE AAA (CE); Stable	Reaffirmed
Non-convertible debentures	500.00	CARE AAA (CE); Stable	Reaffirmed

Details of instruments in Annexure-1

*The Ministry of Railways (MoR), Government of India (GoI), 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]**

Note: Unsupported rating does not factor in the explicit credit enhancement.

Rationale and key rating drivers for the credit enhanced debt

The rating assigned to the long-term instruments of Konkan Railway Corporation Limited (KRCL) is based on the credit enhancement (CE) in the form of 'Letter of Comfort' (LoC) provided by Ministry of Railways (MoR), Government of India (GoI), to ensure timely payment of KRCL's debt obligations for the rated instruments. Furthermore, the structured payment mechanism is also a part of the mortgage deed. According to the terms of rated instrument, if the designated account is not funded by KRCL, the trustee will notify the MoR on T-2 days (where T is the due date of debt servicing). Upon such notification from the trustee, MoR would fund the designated account either on T-1 or T Day. LoC is valid till the tenor of the rated instruments. CARE Ratings Limited (CARE Ratings) has relied on an independent legal opinion opining that LoC is unconditional, irrevocable, and legally enforceable. In the past, MoR has infused funds for funding of capex and supporting uninterrupted operations during COVID-19 pandemic.

Key rating drivers of KRCL for unsupported and standalone rating

The rating assigned to the instruments and bank facilities of KRCL continues to factor strength derived from majority shareholding of GoI through MoR, the strategic significance of KRCL to Indian Railways network, the continued financial support from the Government through regular equity infusions and interest free advances as well as by way of LOC for raising debt, which provides financial flexibility to KRCL along with trustee-monitored mechanism ensuring timely repayment of its debt obligations.

The rating continues to derive strength from gradual ramp-up in operations of the traffic division of KRCL post COVID-19, healthy order book position providing revenue visibility over the medium term along with strong liquidity position as reflected by adequate cash balances and unencumbered liquid investments on consistent basis.

The rating strengths are partly offset by moderate profitability especially from traffic division and susceptibility of order book to intense competition in the construction sector owing discontinuation of nomination policy by MoR. However, the rating takes cognisance of completion of part doubling of single line Konkan railway route and completion of electrification for the entire Konkan route, which is expected to boost profitability of traffic segment from FY24 (refers to the period April 1 to March 31) due to substantial savings in the fuel cost. The rating also takes cognisance of inherent refinancing risk due to bulky repayment of bonds over FY25-FY27. However, long-term cash flow visibility from traffic segment and sovereign ownership offset the aforementioned risks from the credit perspective.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Not applicable

Negative factors

- Dilution of stake by MoR, GoI or dilution in the strategic importance of KRCL for MoR.
- Non-adherence to structured payment mechanism.
- Significant deterioration in standalone credit profile of KRCL.

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

Analytical approach:

Credit Enhancement rating: Factoring the CE from LoC provided by MoR, GoI, to ensure timely payment of KRCL's debt obligations until they are fully redeemed. Furthermore, the structured payment mechanism is also a part of the mortgage deed. If the designated account is not funded by KRCL, the Trustee will notify the MoR on T-2 days. Upon notification from the Trustee, the MoR would fund the designated account either on T-1 or T (where T is the due date).

Standalone and Unsupported rating: Standalone, while factoring in the operational linkages and financial support from MoR. CARE Ratings has considered Standalone approach for the rating of bank facilities of ₹500 crore, as it is not explicitly backed by any credit enhancement.

Key strengths

LoC from MoR (GoI) backing its bonds: GoI through MoR has issued LoC for various bond issues aggregating to ₹1,500 crore through which it undertakes to make funds available to KRCL, if required, to ensure timely repayment of principal and interest thereon. The LoC is strongly articulated and is co-terminus with the tenure of the bonds.

Trustee-monitored mechanism that ensures timely payment of all obligations on the instruments: KRCL follows a structured payment mechanism stipulated by the debenture trust deed. Timely funding of escrow is strictly monitored by debenture trustee who would promptly notify KRCL to fund the escrow account if it is not funded before the due date. 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 would notify the MoR two days prior to the scheduled date. Then, one day prior to the scheduled date upon notification from the Trustee, the MoR would fund the designated account so that the payment is made to bondholders on time. CARE Ratings notes that KRCL has been adhering to the above structure and promptly funds the escrow account as per the above mechanism.

Controlling stake and management of MoR, GoI: The GoI has a strong level of control on the management and functioning of KRCL. The freight and passenger fares are decided by the MoR. KRCL's board of directors has representation from the MoR as well as the 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 the operating and commercial rules framed by the MoR. KRCL's operational and financial performances are monitored on a regular basis based on a memorandum of understanding between KRCL and Indian Railways.

Strategic importance of KRCL for Indian Railways: The entire western coastal belt except Goa was untouched by railway prior to commissioning of Konkan Railway. Before Konkan Railway, there was no railway line on half of India's western coast, and this stood out like a gaping hole on India's railway map. Furthermore, the two important port cities, Mangalore and Mumbai, were not directly connected by the railway network. Thus, Konkan Railway plays a strategically important role in connecting the western coast of India, integrating it with the rest of Indian Railway network. Along with seamless freight movement, it has also played an important role in the development of tourist destinations on the western coast of India, such as Goa, Ratnagiri, Udupi, etc. Besides the traffic revenues (i.e., passenger and freight segment), KRCL also undertakes project for construction of tunnels, bridges, railway tracks, Zonal Railways and various government entities. Given its technical expertise in the construction of railway tracks across hilly and rugged terrain, KRCL is appointed by MoR to undertake construction in the section of Udampur-Baramulla-Srinagar railway link.

Demonstrated support from the Government of India by way of financial assistance: GoI through MoR has regularly supported KRCL in the form of unsecured loans to help the corporation to meet its debt obligations. GoI has also extended support through equity infusions from time to time. In FY20 (refers to the period April 1 to March 31), KRCL announced rights issue of ₹490 crore, for partial track replacement, out of which MoR, Government of Kerala and Government of Maharashtra has infused ₹399 crore upto March 2022. Furthermore, during FY22, MoR has also extended financial assistance in the form of interest free loans of ₹235 crore. Considering the strategic importance of KRCL to GoI, CARE Ratings expects such financial support to continue.

Healthy order book position of the project division: KRCL has a healthy outstanding order book position of ₹3,940 crore as on March 31, 2022 (₹3,517 crore as on March 31, 2021) for project division and is currently executing 7 large orders and 14 small orders. The current order book translates to order to sales (project revenue) ratio of 1.94x. The major orders constitute order of ₹2,044 crore towards the construction of AKM road tunnel awarded by the Kerala Government and order worth ₹1,060 crore towards connection of rail at Vinzhinjam Seaport to Southern Railways. However, with discontinuation of award of orders on nomination basis, the receipt of fresh orders on a competitive basis and building-up of order pipeline shall be a key rating monitorable.

Key weaknesses

Moderate profitability: The total operating income (TOI) of KRCL during FY22 has doubled from ₹1,576 crore in FY21 to ₹3,200 crore in FY22. The same is primarily driven by the rise in passenger and freight operations post COVID-19 along with almost doubling of project revenue. The passenger revenue during FY22 was ₹602 crore registering an increase of around 200% over FY21. The freight revenue during FY22 was ₹543 crore, which is around 40% higher than that of FY21.
Due to COVID-19, regular passenger train operations remained suspended for entire year, and the construction activities at site were impacted as well, resulting into operating losses. With gradual restoring of train services, the PBILDT margin of KRCL has marginally turned positive during FY22.
During H1FY23 (provisional; refers to the period April 01 to September 30), KRCL reported a TOI of ₹2,360 crore with a PBILDT margin of 9.40%. Owing to low profitability during COVID-19, the debt coverage indicators remained modest. The interest coverage stood moderate at 2.38x and total debt/PBILDT stood at 7.98x during H1FY23. However, CARE Ratings expects substantial savings in the fuel cost with completion of part doubling of single-line Konkan railway route and completion of electrification for the entire Konkan route. The same is expected to boost the profitability of traffic segment from FY24.

Inherent challenges associated with the construction industry: The disproportionate hike in commodity prices as compared to inflation indexation, aggressive bidding, delay in the achievement of financial closure, or delay in project progress due to the unavailability of regulatory clearances might affect the credit profile of the contractors and exert pressure on the margins of the entities operating in the industry.

Liquidity: Strong

KRCL held cash and unencumbered liquid investments amounting to ₹2,570 crore as on September 30, 2022, mainly due to availability of project advances from its clients. KRCL benefits from the long maturity of its debt with term debt repayment commencing from FY24 onwards and non-convertible debenture (NCD) repayments commencing from FY25 onwards.
KRCL does not avail any working capital borrowings, as the infrastructure projects executed by KRCL are funded based on the advances from the customers. Furthermore, during FY22, MoR has also extended refundable financial assistance in the form of interest free loans of ₹235 crore to tide over the stress during the pandemic.

Applicable criteria

Policy on default recognition
Factoring Linkages Government Support
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Credit Enhanced Debt
Rating Outlook and Credit Watch
Service Sector Companies
Policy on Withdrawal of Ratings

About the company – Konkan Railway Corporation Limited

Konkan Railway Corporation Limited (KRCL) was formed in 1990 to construct, operate and transfer a single-line railway track between Roha (near Mumbai) and Mangalore (Karnataka) on the west coast of India over a distance of 760 km. It is the first railway project in the country to be executed on the build, operate and transfer principle. Government of India (through Ministry of Railways) is the main shareholder of KRCL, holding 52.81% of the total equity share capital, and the balance is shared among state governments of Maharashtra (22.78%), Karnataka (12.13%), Kerala (6.66%) and Goa (5.62%) as on March 31, 2022.
KRCL also undertakes various construction and consultancy projects related to the construction of tunnels, roads, bridges, etc., for some of the State Governments and various 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, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)	9MFY23 (UA)
Total operating income	1,576	3,201	2,360	NA
PBILDT	-254	18	169	NA
PAT	-365	-135	80	NA
Overall gearing (times)	1.81	2.35	129	NA
Interest coverage (times)	-1.84	0.10	2.38	NA

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	INE139F07048	July 21, 2014	9.15%	July 21, 2024	170.00	CARE AAA (CE); Stable
Debentures-Non-convertible debentures	INE139F07055	August 11, 2014	9.18%	August 11, 2024	110.00	CARE AAA (CE); Stable
Debentures-Non-convertible debentures	INE139F07063	September 25, 2014	9.08%	September 25, 2024	500.00	CARE AAA (CE); Stable
Bonds	INE139F07089	March 30, 2016	8.50%	March 30, 2026	250.00	CARE AAA (CE); Stable
Bonds	INE139F07097	April 29, 2016	8.30%	April 29, 2026	50.00	CARE AAA (CE); Stable
Unsupported rating	-	-	-	-	0.00	CARE AA+
Non-fund-based-Long Term*	-	-	-	-	500.00	CARE AA+; Stable

* Interchangeable with Fund based limits

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non-convertible debentures	LT	280.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (21-Dec-22)	1)CARE AAA (CE); Stable (22-Dec-21)	1)CARE AAA (CE); Stable (23-Dec-20)	1)CARE AAA (CE); Stable (03-Jan-20)
2	Debentures-Non-convertible debentures	LT	500.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (21-Dec-22)	1)CARE AAA (CE); Stable (22-Dec-21)	1)CARE AAA (CE); Stable (23-Dec-20)	1)CARE AAA (CE); Stable (03-Jan-20)
3	Debt	LT	-	-	1)Withdrawn (21-Dec-22)	1)CARE AA+; Stable (22-Dec-21)	1)CARE AA+; Stable (23-Dec-20)	1)CARE AA+; Stable (03-Jan-20)
4	Bonds	LT	300.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (21-Dec-22)	1)CARE AAA (CE); Stable (22-Dec-21)	1)CARE AAA (CE); Stable (23-Dec-20)	1)CARE AAA (CE); Stable (03-Jan-20)
5	Unsupported rating	LT	0.00	CARE AA+	1)CARE AA+ (21-Dec-22)	1)CARE AA+ (22-Dec-21)	-	-
6	Non-fund-based-Long term^	LT	500.00	CARE AA+; Stable				

*Long term/Short term.
^ Interchangeable with Fund based limits

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

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of Instrument	Complexity Level
1	Bonds	Simple
2	Debentures-Non-convertible debentures	Simple
3	Bank facilities – Non-fund-based – Long term	Simple
4	Unsupported rating	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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About us:

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