

BHARUCH DAHEJ RAILWAY COMPANY LIMITED

Ratings

Facilities	Amount (Rs.crore)	Ratings ¹	Remarks
Long term Bank Facilities	226	CARE BBB+ (Triple B Plus)	Assigned
Total Facilities	226		

Rating Rationale

The rating takes into consideration the strong catchment area, monopolistic position being the only operator of rail link in the region, the moderate financial profile and the improving operational performance of the company. The rating also derives strength from the strong parentage and concession agreement in place, experienced and professional management team.

The rating is however constrained on account of the high concentration risk owing to the dependence on single cargo and single user and competition from the road as an alternative mode of transportation.

Going forward, the company's ability to achieve an envisaged traffic volume and profitability margins would remain the key rating sensitivities.

Background

Bharuch Dahej Railway Company Limited (BDRCL) incorporated in November 2006, is promoted by Rail Vikas Nigam Limited (RVNL 35%), Gujarat Maritime Board (12%), Gujarat Industrial Development Corporation (GIDC 12%), Adani Petronet (Dahej) Port Private Limited (11%), Gujarat Narmada Valley Fertilizers Company Ltd (9%) [Rated CARE AA-] and Hindalco Industries Limited (9%) [Rated CARE AA+]. RVNL is a GoI-owned company [100% shareholding with the Central Government (MoR)] created to undertake project development, mobilization of financial resources and the implementation of projects pertaining to the strengthening of the Golden Quadrilateral and Port connectivity programmes.

BDRCL is the operator of the 62.36 kms broad gauge (BG) rail link between Bharuch and Dahej (near Dahej port), both the stations are located in the state of Gujarat and it falls under the geographical jurisdiction of Western Railways. The company was formed as a Special Purpose Vehicle (SPV) to complete the BG conversion of the rail link (from the narrow gauge) which connects the petroleum, chemicals and petrochemical investment region (PCPIR) and the port facilities located in Dahej and other parts of Gujarat and the country..

The rail line conversion commenced in April 2009 and the project got commissioned in March 2012 (COD) and the traffic movement has started since then. The company has completed the conversion of rail line (62.36 kms) and other infrastructure amounting to Rs.373.01 crore through debt of Rs.230 crore and equity of Rs.143.01 crore as on March 31, 2013.

Credit Risk Assessment

Strong parentage and concession agreement in place

BRDCL is a SPV to complete the BG conversion of the rail link which connects Dahej port to inland parts of Gujarat and other parts of the country. The company has been sponsored by RVNL which is a GoI-owned company. The other major promoters include Gujarat Maritime Board, Gujarat Industrial Development Corporation (GIDC), Adani Petronet (Dahej) Port Private Limited, Gujarat Narmada Valley Fertilizers Company Ltd [Rated CARE AA-] and Hindalco Industries Limited [Rated CARE AA+].

Concession agreement in place

BDRCL in June, 2008 has entered into a concession agreement for thirty years with MoR for the development of the project. As per the concession agreement, IR is responsible for collecting the freight tariff from the users and subsequently apportions the same to BDRCL. The apportionment of the freight tariff is done on the basis of percentage of distance travelled on SPV line as compared with the total distance travelled from the originating station to the final destination (MoR has approved inflated kilometres @ 50% on 62 kms, equivalent to 93 kms for apportionment calculations). The basic freight rate is calculated on classification of the commodity, tonnage and distance slab which is decided by IR.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Strong operational synergies with the promoters' business

RVNL has executed various similar rail line projects through various SPVs and has extensive experience in rail line development. Furthermore, BDRCL is handling imported coal at Adani Petronet Dahej Port Pvt Ltd (APDPPL) which accounts for more than 60% of total coal traffic from APDPPL. BDRCL is also in advanced stage of discussions with few other promoters' companies to undertake movement of their cargos using the rail link. Thus, there exist strong operational synergies between BDRCL and its promoters and BDRCL's successful operation is crucial for its various promoter companies.

Experienced and professional management team

BDRCL is being managed by a professional management team lead by Mr Vinoo Narain Mathur, the Managing Director of the company. He has been associated with the Indian Railways (IR) for more than three decades and has served in various capacities in the past. He was Member Traffic, Railway Board, Chairman of Container Corporation of India Limited (CONCOR) and the Indian Railway Catering & Tourism Corporation (IRCTC) in the past. BDRCL is benefited from Mr Mathur's vast experience in IR and other allied organizations as he is well versed with the technicalities involved in the railway traffic movement. Other senior employees of the company have relevant experience and have served in IR in various capacities.

Strong catchment area coupled with favourable demand outlook

The immediate hinterland of the rail line includes Dahej Industrial area, which is one of the most industrialized centres in Gujarat. The region has witnessed a spurt of industrial activity mainly in the areas of chemical, petro-chemical and engineering industries. The region has been notified as petroleum, chemicals and petrochemical investment region (PCPIR). In addition, copper, fertilizer and steel pipe industries have already units in the area thus providing large untapped potential for the company.

Apart from the Adani Petronet Dahej Port Pvt Ltd (which has got two operational jetties) a few other ports are being developed in the region. Also, a numbers of companies are expected to commence their operations in the PCPIR and other parts of Dahej. Some of the major companies include ONGC-Petro additions Limited, Birla Copper Dahej plant, Welspun Corporation, Reliance Industries Limited, Gujarat Narmada Valley Fertilizers Ltd.

These companies and ports are expected to add to the overall freight traffic in the region. BDRCL by virtue of being the operator of the only rail link to the Dahej Port is expected to directly get advantage of the expected increase in the goods traffic.

Moderate financial profile

BDRCL started its commercial operations in March 2012 and it reported profits of Rs.28.52 crore. at PBILD levels during FY13 (refers to the period April 1 to March 31), the company's first full year of operations on a total operating income of Rs.54.19 crore. However, on account of the first full year of operations along with high interest and depreciation, the company reported a loss at net levels during FY13.

The overall gearing was moderate at 1.76x as on March 31, 2013 on account of debt raised for the project. However, due to the adequate liquidity, the company has pre-paid full scheduled debt due for FY14 as on October 31, 2013.

Cash and bank balance of Rs.23.86 crore as on March 31, 2013 and Rs.18.75 crore; as on September 30, 2013 provides cushions towards the liquidity position of the company. The current ratio as on March 31, 2013 remained moderate at 1.22x on account of the high levels of current liabilities (amount payable to IR for maintenance charges etc, which is netted off from receivables from IR).

On a provisional basis, BDRCL has reported a PBT of Rs.11.74 crore on a total income of Rs.37.43 crore during YTD August, 2013 .

Improving operational performance

The operating performance of the company has consistently improved during FY13 and during the current financial year indicated (April to Aug 2013) by a healthy ramp up of cargo volumes and trains handled per day. The number of trains handled (higher tonnage leading to higher number of train movement) has increased from 58 in April 2012 to 192 in August 2013. Furthermore, coal handled has increased from 2.28 lakh tonnes in April 2012 to 7.53 lakh tonnes in August 2013, thus indicating a growth of 330% in tonnage.

BDRCL is handling the maintenance of track structure, signalling and telecom assets itself (unlike other similar SPVs, wherein IR is responsible for maintenance) thus controlling the maintenance cost to a large extent, which directly contributes to margins.

High concentration risk owing to dependence on single cargo and single user

Presently, BDRCL is handling only imported coal through the Adani Petronet Dahej Port Pvt Ltd. However, with the development of other industries and ports in the vicinity, the concentration is expected to get moderated. Going forward, the company is planning to start handling various other commodities and is already in negotiation with various companies for the same. The company's ability to diversify its revenue stream in terms of commodities and clients over a period of time is likely given the fact that the company has a monopolistic advantage and catchment area includes a diverse industrial belt and various companies.

Competition from the road as an alternative mode of transportation

BDRCL faces direct competition from the freight transport via road. The roadways have an inherent advantage of last mile connectivity, flexible tariff structure combined with renewed focus on road infrastructure development by the government. Although railways has cost competitive advantage over roadways in the transport of bulk commodities in long hauls, the timely delivery and pilferage of goods have remained major concerns that led to increased roadways traffic.

Prospects

Government of India has identified Dahej as a petroleum, chemicals and petrochemical investment region (PCPIR), which is witnessing a rapid industrial development. This is in addition to the petrochemical, copper, fertilizer and steel pipe industries already based in the area. Bharuch-Dahej railway line is also expected to be an important Feeder Route to the Western Dedicated Freight Corridor (Dadri to Mumbai, passing through the states of Delhi, Haryana, Rajasthan, Gujarat and Maharashtra) currently under construction. All these factors augurs well for BDRCL.

Financial Performance

BDRCL started its commercial operations in March 2012 and therefore FY12 financials has been presented for 1 month.

(Rs. Cr)

For the period ended / as at March 31,	2012	2013
	(1m, A)	(12m, A)
Working Results		
Net Sales	2.75	54.19
Total Operating income	2.75	54.19
PBILDT	1.96	28.52
Interest	1.58	27.76
Depreciation	1.00	14.88
PBT	-0.46	-10.82
PAT (after deferred tax)	-0.84	-7.35
Gross Cash Accruals	0.54	3.00
Financial Position		
Equity Capital	116.62	143.01
Networth	130.89	130.67
Total capital employed	360.88	371.66
Key Ratios		
Growth		
Growth in Total income (%)	NA	High
Growth in PAT (after D.Tax) (%)	NA	High
Profitability		
PBILDT/Total Op. income (%)	71.25	52.63
PAT (after deferred tax)/ Total income (%)	-28.88	-12.79
ROCE (%)	0.31	3.72
Solvency		
Long Term Debt Equity ratio (times)	1.76	1.76

For the period ended / as at March 31,	2012	2013
	(1m, A)	(12m, A)
Overall Gearing ratio (excl acceptances)	1.76	1.76
Overall Gearing ratio (incl acceptances)	1.76	1.76
Interest coverage(times)	1.24	1.03
Term Debt/ Gross Cash Accruals	High	High
Total debt/Gross cash accruals(years)	High	High
Liquidity		
Current ratio(times)	2.07	1.22
Quick ratio(times)	2.07	1.22
Turnover		
Average collection period (days)	136	139
Average creditors (days)	0	198
Average inventory (days)	0	0
Operating cycle (days)	136	-60

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(This follows our brief rational for entity published on 13 November 2013)

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