

Press Release

Chhattisgarh East Railway Limited

September 19, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 2443.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs. 2443.00 crore bank facilities of Chhattisgarh East Railway Limited (CERL). The outlook is '**Stable**'.

Incorporated in 2013, Chhattisgarh East Railway Limited is a Special Purpose Vehicle (SPV) promoted jointly by South Eastern Coalfields Limited (SECL), Ircon International Limited (IRCON) and Government of Chhattisgarh (GoCG) holding 64 per cent, 26 per cent and 10 per cent stake, respectively. The stake of GoCG, however, is indirectly held through Chhattisgarh State Industrial Development Corporation Limited (CSIDCL). CERL has been established with the specific purpose of setting up an East Rail Corridor from Kharsia to Dharamjaygarh in the state of Chhattisgarh with a total length covering approximately 180 Kms. The East rail corridor will facilitate the expansion of coal excavation activities of SECL to meet the planned target of Coal India Limited to produce 1 billion tonne of coal. The total cost of the project is estimated at Rs.3054 Cr. and is to be funded in the debt to equity ratio of 80:20 by way of debt of Rs.2443 Cr. and equity of Rs.611.24 Cr.

Analytical Approach

To arrive at rating, Acuité has considered the standalone business and financial risk profile of CERL and notched up the standalone rating by factoring in the strong operational and financial support extended on account of being a wholly-owned undertaking of the SECL ~64 per cent, Ircon Ltd (Ministry of Railways) ~ 26 per cent and Government of Chhattisgarh ~10 per cent. The team has notched up the rating for CERL based on the nature of the relationship between the government entities and CERL and the strategic importance of CERL for implementation of the East Rail Corridor.

Key Rating Drivers

Strengths

- **Strong Parentage**

Chhattisgarh East Railway Limited (CERL) was established in 2013 by SECL, Ircon and GoCG for developing the East Railway Corridor and enhancing the coal production of SECL. The board of CERL has 3 nominees from SECL and 2 nominees from Ircon and 1 nominee from GOCG. The promoters of CERL have established track record of implementing project of such scale. SECL, the primary sponsor, is the largest coal producer in India and part of Coal India Group (CIL). The company has 92 mines spread over Chhattisgarh and Madhya Pradesh, including 70 underground, 21 opencasts, and 1 mixed mine. SECL accounts for ~ 25 per cent of the total production of Coal India Limited (CIL) and has produced 159.50 MT of coal during FY 2018-19.

IRCON (formerly Indian Railway Construction Company Limited), responsible for implementation of the project, is an engineering and construction company specialized in transport infrastructure. The public sector undertaking was established in 1976, by the Government of India and is a wholly-owned entity of the Ministry of Railways. Ircon has completed over 1250 major infrastructure projects in India and over 200 major projects across the world in more than 31 countries. The rating derives strength from the strong parentage of CERL, the significant experience of such promoters in project execution, their high financial strength and also their sovereign ownership. Acuité believes that such promoter linkages and execution capabilities will offset the project risks to a considerable extent in CERL.

- **Strategic importance of East Railway Corridor to sponsors**

The East Railway Corridor project is strategically important for the growth of coal production and better logistical efficiencies in SECL. The corridor will primarily carry originating traffic from the mines in the Mand Raigarh coalfields, where SECL has 23 own mines of which 4 mines are currently in operation. Presently, the 4 mines have 9.50 MT of production capacity, which are largely sold through e-auction and evacuated by road. Going forward, SECL owned mines in the Mand-Raigarh coalfields are expected to contribute to about 63 MTPA freight traffic on the East Corridor at peak production. Given the steady rise in domestic coal production, evacuation of coal from mines and an environment-friendly transportation to consumption units will become a major challenge. In this regard, CERL will play a major role in timely evacuation and efficient transport of coal.

Further, the strategic importance of the project to the Railways is also evident from the concession agreement for a period of 30 years in place, where Ministry of Railway (MoR) shall pay CERL 50 per cent of the revenue earned from freight operations. MoR has also approved inflated mileage at the rate of 60 per cent for the first five years of operation, where CERL shall receive additional revenue equivalent to freight charges corresponding to 60 per cent of the distance travelled by the coal cargo.

Weaknesses

- **Delay in project execution**

The project was started from April 2014 and since inception it has been accorded very high priority and its progress is being closely monitored by the MoR. It is a strategic project, which will provide key rail infrastructure for enabling coal movement, and hence increase in coal production in the region and alleviate the coal shortage in the country.

The total project cost is estimated at Rs 3,054 Cr. of which Rs 1787.20 crore is expended till date i.e. 58.25 per cent of the project cost as on June 2019. The financial closure has already been achieved with the term loan of Rs. 2,443 Cr. having been sanctioned by the consortium of bankers led by Indian Bank. Though only 63 per cent of the project has been physically completed, tenders for laying of tracks and ballast has been awarded.

However, the project execution is currently delayed due to critical aspects such as awaiting clearance for acquisition of forest land and diversion of tracks due to lack of technical viability. The project was estimated to start commercial operation from October 2019, but Commercial Operation Date (COD) has been extended to September 2020. Currently, only single line operation can be started to generate revenue. Given that the entity has made substantial progress in the development of the East Railway corridor, Acuité expects no further significant delay in its completion from the extended scheduled timeline of September 2020.

- **Insufficient availability of rakes can hinder traffic movement on the corridor**

The rakes will be provided by MoR on a best effort basis and therefore any inadequate availability of such wagons can impact traffic volumes and CERL's revenues. Given that this rail line is one of the crucial links in achieving Government of India (GoI) goal of increasing coal production and meeting the growing requirement of thermal power plants in the country, it is expected that the sufficient rakes will be made available for this rail system. Power plants may also consider buying their own rakes to ply on this rail line so as to ensure uninterrupted coal supply to their projects. However, it is observed that supply of railway tracks is being delayed which is also hindering the progress of the project and its execution.

- **Risk of reduction in traffic volume**

The projected traffic volumes may ramp up slowly if the mining plans of the adjoining mines owned by SECL gets delayed. SECL has 23 mines in the Mand Raigarh coalfields in close proximity to the railway line, which are expected to contribute 63 MTPA traffic to east corridor. Four of these mines are already operational and the others are in advanced stage of development. However, Acuité derives comfort from other operational mines in the vicinity, which has been awarded to different players having a capacity of ~ 40 MTPA.

Liquidity Position:

Liquidity of CERL is enhanced and adequate due to the promoter's ability to mobilise resources in the business. The SPV has received Rs. 441.00 crore in form of equity capital infusion by SECL, IRCON and Government of Chhattisgarh. Further, there is no repayment obligation in FY2020 and FY2021, as the project is yet to start commercial operations from September 2020 having moratorium period of 2 years. Acuité believes that the liquidity of the company will remain adequate over near to medium term on account of strong parentage and resource mobilisation ability to service current debt obligations.

Outlook: Stable

Acuité believes that the outlook on CERL will remain 'Stable' over the medium term backed by its strong parentage and the project's strategic importance to the sponsors. The outlook may be revised to 'Positive' in case of its ability to commence operation on time and achieve the traffic volumes and revenues as projected. The outlook may be revised to 'Negative' in case of any further significant time and cost overruns in the project thus delaying the revenue generation and cash flow generation.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	NA	NA	NA
EBITDA	Rs. Cr.	(0.01)	(0.09)	(0.15)
PAT	Rs. Cr.	-0.15	-0.16	-0.15
EBITDA Margin	(%)	NA	NA	NA
PAT Margin	(%)	NA	NA	NA
ROCE	(%)	(0.01)	(0.02)	(0.03)
Total Debt/Tangible Net Worth	Times	2.84	2.75	1.65
PBDIT/Interest	Times	NA	NA	NA
Total Debt/PBDIT	Times	NA	NA	NA
Gross Current Assets (Days)	Days	NA	NA	NA

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Complexity Level Of Financial Instruments - <https://www.acuite.in/view-rating-criteria-33.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Jul-2018	Term Loan	Long Term	2443.00	ACUITE A- / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	658.00	ACUITE A- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	235.00	ACUITE A- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	376.00	ACUITE A- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	235.00	ACUITE A- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	235.00	ACUITE A- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	235.00	ACUITE A- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	282.00	ACUITE A- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	187.00	ACUITE A- / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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