

Press Release

Chhattisgarh East Railway Limited

07 September 2020

Rating reaffirmed



Total Bank Facilities Rated*	Rs. 2443.00 Cr.
Long Term Rating	ACUITE A-/Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

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

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 up to Korba 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 debt to equity ratio of 4:1 by way of debt of Rs.2443 Cr. and equity of Rs.611.24 Cr.

Analytical Approach:

To arrive at the rating, Acuite 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 their shareholding of SECL ~64 per cent, Ircon Ltd (Ministry of Railways) ~ 26 per cent and Government of Chhattisgarh (CSIDCL) ~10 per cent. The notch up in the rating of CERL is 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 promoter

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 GOOG. SECL, the parent of CERL, is the largest coal producer in India and is part of Coal India Ltd (CIL). The company has 113 mines spread over Chhattisgarh and Madhya Pradesh, including 80 underground and 33 opencast mines. 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 the 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 300 major infrastructure projects in India and over 100 major projects across the world in more than 21 countries. The rating derives strength from the strong parentage of CERL, the significant experience of such promoters in project execution, their strong financial flexibility and also their sovereign ownership. Acuite 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 stakeholders

CERL was incorporated with the specific purpose of setting up the East Rail Corridor from Kharsia to Dharamjaygarh up to Korba with a spur line from Ghargoda to Donga Mahua, approximately 180 km in length. In the first phase, CERL will implement the railway line from Kharsia to Dharamjaygarh along with the spur line,

total 103.9 km in length, and three feeder lines of total length 29.20 km. The rail line will facilitate the movement of coal traffic from the mines in the Mand Raigarh coalfields of Chhattisgarh. The project is strategically important for coal excavation for SECL. The corridor will primarily carry originating traffic from the mines in the Mand Raigarh coalfields. The proposed rail infrastructure will help the coal movement and increase coal production in the region.

Significant progress in project

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 2020 Cr. is incurred until March 2020. The movement of goods train has commenced since October 2019 and registered revenue of Rs13.95 crore in FY20. The project is around 80.21 percent complete till March 2020. To fund this capex company has availed term loan of Rs 1760 crore and raise equity share capital of Rs 473 crore (including Rs 32.00 crore earmarked towards Phase II). In addition, the company has also received Rs 89.46 crore towards share application money as on 31.03.2020. Acuite believes the company will continue to improve its operation over the medium term as CERL has already started generating cash flow.

Weaknesses

Time overrun

The commercial operation date (COD) has been revised from September 2020 to September 2021 thereby marking a further one year delay from the original COD of October 2019. Initially, the project execution timelines were breached mainly due to critical aspects such as awaiting clearance for acquisition of forest land and diversion of tracks due to lack of technical viability. However, the current time overrun is mainly because of disruption in construction activities during Q1FY21 as there was a shortage of manpower due to ongoing pandemic. However, since July 2020, construction activities have partially resumed. So any further time overrun would be a key monitorable. Acuite draws comfort from the fact that though there has been a delay in project completion timelines, there have been no corresponding cost escalations.

Rating Sensitivity

- Any further time overrun
- Improvement in the revenue

Material Covenant

None

Liquidity Position: Adequate

Liquidity profile of CERL stood at an adequate level due to the promoter's ability to mobilise resources in the business. The SPV has received Rs. 530.42 crore ((including Rs 32.00 crore earmarked towards Phase II) June in the form of equity capital infusion by SECL, IRCON and CSIDCL. Further, there is no repayment obligation in FY2021 and FY2022 due to revision in COD. Acuite 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

Acuite 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 stakeholders. The outlook may be revised to 'Positive' in case of its ability to complete the project at its current schedule and ramp up operations faster than expected. The outlook may be revised to 'Negative' in case of any further significant time overruns also leading to cost overruns in the project, thus delaying the revenue generation and cash flow generation.

About the Rated Entity

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	13.95	NA
PAT	Rs. Cr.	-22.48	NA
PAT Margin	(%)	-161.17	NA
Total Debt/Tangible Net Worth	Times	3.26	2.84

PBDIT/Interest	Times	0.45	NA
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Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios and Adjustments- <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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)
19-September-2019	Term Loan	Long Term	658.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	235.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	376.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	235.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	235.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	235.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	282.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	187.00	ACUITE A-/Stable (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Term Loan	Not Available	Not Applicable	September 2037	658.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Available	Not Applicable	September 2037	235.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Available	Not Applicable	September 2037	376.00	ACUITE A-/Stable (Reaffirmed)

Term Loan	Not Available	Not Applicable	September 2037	235.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Available	Not Applicable	September 2037	235.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Available	Not Applicable	September 2037	235.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Available	Not Applicable	September 2037	282.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Available	Not Applicable	September 2037	187.00	ACUITE A-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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