

Press Release
Chhattisgarh East Railway Limited
May 27, 2024



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Shareholder
Bank Loan Ratings	2443.00	ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	2443.00	-	-

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**'.

Rationale for Rating

The rating reaffirmation reflects strong promoters with leading PSUs, namely, South Eastern Coalfields Limited (SECL), Ircon International Limited (IRCON) and Chhattisgarh State Industrial Development Corporation Limited (CSIDCL) being the shareholders of the company. The rating factors significant progress in the project as reflected from 88 percent of physical progress till 31st December 2023 and the project is expected to be completed by December 2024. Though there have been delays on account of the rerouting which has also resulted in lower revenues compared to the projections mainly on account of the initial operational challenges. With the additional rerouting and time overruns, there has been cost overruns as well for which the company is yet to achieve the financial closure. The additional debt tie-up and the equity infusion would remain a key monitorable for the project going ahead. However, the shortfalls and the cashflow mismatches will be borne by the promoters as evident in the past as well.

About the Company

Chhattisgarh East Railway Ltd was incorporated in 2013 it is a Special Purpose Vehicle (SPV) jointly promoted by Southeastern Coalfields Limited. ("SECL"), Ircon International Limited. ("IRCON") and Chhattisgarh State Industrial Development Corporation Limited. ("CSIDCL") who will hold 64%, 26.00% and 10% stake in the company respectively. Going forward, the shareholding of CSIDCL will be the value of land or 10%, whichever is higher, and the shareholding of SECL will be modified accordingly for following corridor i.e. Corridor – I: - East Corridor – Korba – Gharghoda – Dharamjaygarh upto Korba approximately 180 km in length. The JVCs formed are: • Chhattisgarh East Railway Limited for Corridor - I • Chhattisgarh East West Railway Limited for Corridor – III Chhattisgarh East Railway Limited (CERL) was established 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 (hereinafter referred to as "the Phase I Project"). The rail line will facilitate movement of coal traffic from the mines in the Mand Raigarh coalfields of Chhattisgarh.

Unsupported Rating

Not Applicable

Analytical Approach

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 South Eastern Coalfields Limited (SECL) ~64 per cent, Ircon International 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 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. SECL, the parent of CERL, is the largest coal producer in India and is part of Coal India Ltd (CIL). The company has 65 mines spread over Chhattisgarh and Madhya Pradesh, including 46 underground and 19 opencast mines. 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. IRCON is responsible for construction of rail infrastructure in Phase I. 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. 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 stakeholders CERL was incorporated with the specific purpose of setting up the East Rail Corridor. The project is strategically important for coal evacuation 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.

Project in an advanced stage

The project started from April 2014 and since inception, it has been accorded very high priority and its progress is being closely monitored by the Ministry of coal (MOC) and Ministry of Railway (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 cost erstwhile was Rs. 3055.15 Cr. which has been revised to Rs. 3407.09 Cr. considering the rerouting and the time overruns. The project is significantly completed as reflected from 88 percent of physical progress till 31st December 2024. The movement of goods train has commenced since October 2019. The company has registered revenue of Rs 51.21 crore in FY24 as against Rs 62.23 Cr. in FY23. The project is expected to be completed by December 2024. Acuité believes the company will continue to improve its operation over the medium term as CERL has already started generating cash flow.

Weaknesses

Time and cost overrun

There has been a time overrun is due to the re-routing and realignment of railways line to the extent it was falling within the boundaries of coal blocks awarded to Maharashtra State Power Generation Co. Ltd (MAHAGENCO) and Chhattisgarh State Power Generation Company (CSPGCL) on the envisaged route which in turn led to the cost overrun for the said projects.

The revised cost for the project completion as estimated is Rs. 3407.09 crore from earlier Rs.3055.15 Cr. The said cost is the net cost after deducting the reimbursement of the rerouting and Infructuous cost. The revised cost is expected to be funded at a debt: equity ratio of 80:20. The company is yet to complete the debt syndication process. The financial closure of the same would remain a key monitorable for the project going ahead. Further shortfalls and cashflow mismatches will be borne by the promoters.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Any further time and cost over-run
- Completion of the project on time with an improvement in the project cashflows

Liquidity Position

Adequate

Liquidity profile of CERL stood at an adequate level due to the promoter's ability to mobilize resources in the business. The SPV has received Rs. 608.76 crore in the form of equity capital infusion by SECL, IRCON and CSIDCL for CERL Phase 1. The repayment obligation will start from October FY2024. Acuité believes that the liquidity of the company will remain adequate over near to medium term on account of strong parentage and resource mobilization ability to service current debt obligations. Acuite, also takes note of the support to be extended by CERL's promoters to fund the shortfalls and cashflow mismatches as evident in the past as well.

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 stakeholders.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	51.21	62.23
PAT	Rs. Cr.	(94.88)	(118.59)
PAT Margin	(%)	(185.27)	(190.55)
Total Debt/Tangible Net Worth	Times	3.82	3.38
PBDIT/Interest	Times	0.03	0.21

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Feb 2023	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)
29 Nov 2021	Term Loan	Long Term	187.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	282.00	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	376.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	235.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	658.00	ACUITE A- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not avl. / Not appl.	Term Loan	30 Dec 2016	Not avl. / Not appl.	30 Sep 2027	Simple	658.00	ACUITE A- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	30 Dec 2016	Not avl. / Not appl.	30 Sep 2027	Simple	235.00	ACUITE A- Stable Reaffirmed
Union Bank of India	Not avl. / Not appl.	Term Loan	30 Dec 2016	Not avl. / Not appl.	30 Sep 2027	Simple	376.00	ACUITE A- Stable Reaffirmed
Bank of Baroda	Not avl. / Not appl.	Term Loan	30 Dec 2016	Not avl. / Not appl.	30 Sep 2027	Simple	235.00	ACUITE A- Stable Reaffirmed
Indian Overseas Bank	Not avl. / Not appl.	Term Loan	30 Dec 2016	Not avl. / Not appl.	30 Sep 2027	Simple	235.00	ACUITE A- Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Term Loan	30 Dec 2016	Not avl. / Not appl.	30 Sep 2027	Simple	235.00	ACUITE A- Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Term Loan	30 Dec 2016	Not avl. / Not appl.	30 Sep 2027	Simple	282.00	ACUITE A- Stable Reaffirmed
Bank of Baroda	Not avl. / Not appl.	Term Loan	30 Dec 2016	Not avl. / Not appl.	30 Sep 2027	Simple	187.00	ACUITE A- Stable Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

1. Chhattisgarh State Industrial Development Corporation Limited
2. Ircon International Limited
3. South Eastern Coalfields Limited

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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