

RATING RATIONALE

Sarguja Rail Corridor Pvt Ltd

Brickwork Ratings reaffirms the rating, but revises the outlook for the Bank Loan Facilities aggregating ₹ 1200 Crores of Sarguja Rail Corridor Pvt Ltd

Particulars

Facility**	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Nov 2019)	Present
Fund based	1200	1140	Long Term	BWR A Stable	BWR A Positive
Non-Fund Based	-	60		NA	
Total	1200	1200	INR One Thousand and Two Hundred Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of bank facilities are provided in Annexure-I

Rating Action / Outlook

The change in the outlook is on account of the improvement expected in the financial performance of Sarguja Rail Corridor Pvt Ltd (SRCPL or the company) over the next two years, marked by higher revenue and better profitability. It also factors in the successful track record of operations of both the phases for nearly three years.

The rating continues to draw strength from the strong parentage of Adani Group and their continuous support to the company, experience of the promoter group in the execution and operation of infrastructure projects, assured off-take with the track access and usage agreement (TAUA) in place for a period of 30 years with Rajasthan Rajya Vidyut Utpadan Nigam Ltd (RRVUNL) with a take or pay arrangement, generation of adequate cash flows to meet the debt obligations on time and maintenance of an escrow account with the bank, along with a Debt Service Reserve Account (DSRA) equivalent to two quarters of principal and interest as an additional comfort to the lenders.

The rating however, continues to remain constrained on account of counterparty risk associated with RRVUNL, being the sole customer and having a weak credit risk profile.

KEY RATING DRIVERS

Credit Strengths:

Expected Improvement in Financial Performance: FY19 was the first full year of operations post the commissioning of Phase II of the project. Additionally, the contracted quantity as per the agreement has undergone a change from 11 MMT in FY20 to 12.49 MMT in FY21 and will further increase to 15.93 MMT during FY22-FY44. In line with the increased quantity, the company's revenue has improved and is expected to reach ~ Rs.600 Crs by FY22. Furthermore, the quantity transported is expected to increase by 7-9 MMTPA post the commissioning of Kente Extension mine of RRVUNL in FY23, which will lead to a further surge in the company's operating income. Additionally, the company's profitability is expected to increase with the reduction in the interest rate and electricity expense. The company will save approximately Rs. 10 Crs from FY21 onwards with the track-related electricity cost now being borne by the Indian Railways (IR). The company's financial cost has also come down from ~ 11% to ~ 9.50% in the current financial year post the takeover of the entire debt by Bank of Baroda; this too will result in an improved net profit.

Strong Parentage and Support: SRCPL is a part of the diversified Adani Group, which has extensive experience in the infrastructure sector. It is a wholly owned subsidiary of Adani Rail Infra Pvt Ltd (ARIPL), which in turn is held by the S B Adani Family Trust. The group has also infused a significant amount in the company by way of equity, as well as unsecured loans. As on 31 March 2020, unsecured loans from the holding company amounted to Rs. 562.66 Crs, and compulsorily convertible debentures amounted to Rs. 125.35 Crs.

Assured Off-take: The company has a long-term track usage and access agreement with RRVUNL for a period of 30 years with a fixed annual contracted quantity and tariff. There is also a take or pay arrangement, ensuring the payment of fixed charges even if the actual quantity dispatched is lower than the contracted quantity. As per the terms of the agreement, the annual contracted quantity is fixed at 11MMT for FY20, 12.49MMT for FY21 and 15.93MMT for FY22 onwards. A variation of 10% is allowed in the contracted quantity to RRVUNL. As both the phases have become operational, RRVUNL is liable to pay a fixed charge of Rs. 331.19/MT and variable charge of Rs. 22.50/MT to SRCPL.

Sufficient Cash Generation to Ensure Timely Debt Servicing: The repayment of the long-term debt commenced from FY20 onwards. The company earned cash accruals of more than Rs. 180 Crs for FY20. Going forward, the cash accruals are expected to increase to more than Rs. 250 Crs with the increase in the annual contracted quantity against which the company's annual

repayment obligations amount to only Rs. 77 Crs, ensuring the availability of adequate funds to pay the debt on time.

Maintenance of Escrow Account and DSRA: SRCPL is maintaining an escrow account with Bank of Baroda. The account is regularly monitored by the bank, and all the project receivables are being routed through the same. In addition to this, the company has also maintained a DSRA in the form of a fixed deposit equivalent to principal and interest obligation for two quarters.

Credit Risks:

Counterparty Risk: The company has a sole customer, i.e. RRVUNL, with which it has signed the TAUA on a long-term basis. While RRVUNL's liquidity position has deteriorated over the last few years, it has been making payments to the company generally on time as this is a necessary expense for them for transporting coal to the project sites. However, any variation in RRVUNL's credit profile or delays in payments by them is a potential risk factor and is to be monitored.

Analytical Approach And Applicable Rating Criteria

For arriving at the rating, BWR has considered the company's standalone performance. BWR has applied its methodology as highlighted in the criteria mentioned below.

Rating Sensitivities

Going forward, the company's ability to maintain its operational performance, achieve the projected numbers with stable cash generation and continue recovering dues from RRVUNL in a timely manner shall remain key rating sensitivities.

Positive: If the company is able to increase the quantity transported beyond the contracted quantity and diversify the customer base, it will be considered positive for the rating.

Negative: The rating can be revised downwards if projected growth is not achieved, and there is a delay in realising the payments by the counterparty.

Liquidity Position: Superior

The company has a strong liquidity position, with reported cash and cash equivalents of Rs. 118.77 Crs as on 31 March 2020. Furthermore, the company's financial flexibility is also high, with healthy cash generation of more than Rs. 180 Crs in FY20, which is likely to increase to more than Rs. 250 Crs from FY21 onwards as against an annual repayment obligation of Rs. 77 Crs.

Company Profile

Sarguja Rail Corridor Private Limited (SRCPL), a wholly-owned subsidiary of Adani Rail Infra Private Limited (ARIPL), has implemented a project envisaging the construction of a ~ 70 Km private siding from the boundary of Parsa East and Kanta Basan coal blocks (PE & KB mines), located in Hasdeo Arand Coalfield in Sarguja district of Chhattisgarh, to the nearest IR line at Surajpur station in Chhattisgarh.

SRCPL has executed the project in two phases, i.e., Phase I starting from Surajpur Road Railway Station (lying on the IR network) to Ramanuj Nagar railway Station (approximately midway between the mine boundary and IR station) with a distance of ~33 Km, and Phase II starting from Ramanuj Nagar Railway Station to PE & KB mine with a distance of ~37 Km. Phase I of the project was completed and has been operational since 10 October 2014. Phase II of the project has been operational since April 2018. Since the project is the only rail connectivity between the mining site and IR line, RRVUNL entered a TAUA with SRCPL dated 21 July 2015 to use the said private siding as a co-user to transport the mined coal from the mines up to the Surajpur Road station for onward transportation of coal up to the thermal power stations of RRVUNL in Rajasthan.

Key Financial Indicators

Particulars	Units	FY19 (A)	FY20 (A)
Revenue from Operations	Rs. Crs	368.76	417.29
EBITDA	Rs. Crs	326.17	357.12
PAT	Rs. Crs	67.92	82.40
Total Debt (Analyzed)	Rs. Crs	1125.73	1114.91
Tangible Net Worth (Analyzed)	Rs. Crs	744.31	877.65
Total Debt/TNW (Analyzed)	Times	1.51	1.27

Note: Analyzed ratios have been calculated after adjusting for unsecured loans/CCD from the promoters. BWR has applied its methodology while calculating the key indicators.

Key Covenants Of The Instrument/Facility Rated: NA

Non-cooperation With Previous Rating Agency If Any: NA

Rating History

Facility	Current Rating			Rating History		
	Tenure	Amount (₹ Crs)	Rating	2019	2018	2017
Term Loan	Long Term	1140	BWR A/Positive	BWR A/Stable	BWR BBB+/Stable	BWR BBB- /Stable
Non-Fund Based						
Bank Guarantee	Long Term	60	BWR A/Positive	NA	NA	NA
Total		1200	INR One Thousand Two Hundred Crores Only			

Complexity Levels Of The Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference To Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)

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Sarguja Rail Corridor Pvt Ltd
Annexure I
Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Total (₹ Cr)
1.	Bank of Baroda	Term Loan	1052.27	1052.27
2.	Bank of Baroda	BG	60.00	60.00
3.	Proposed	-	87.73	87.73
TOTAL				1200

Total - INR One Thousand Two Hundred Crores Only

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