

RATING RATIONALE

14 Nov 2019

Sarguja Rail Corridor Pvt Ltd

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

Particulars

Facility**	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sep 2018)	Present
Fund based	1200	1200	Long Term	BWR BBB+ Stable	BWR A Stable
Total	1200	1200	INR One Thousand and Two Hundred Crores Only		

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

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

Rating Action / Outlook

The rating upgrade factors in better than projected performance of the company for FY19 (first full year of operations post the commencement of phase II) and satisfactory track record of timely payments from the counterparty i.e. Rajasthan Rajya Vidyut Utpadan Nigam Ltd (RRVUNL).

The rating continues to draw strength from the strong parentage and their continuous support to the company, experience of the promoter Group in 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 RRVUNL with a Take or Pay arrangement, healthy profitability and generation of adequate cash flows to meet the debt obligations on time. BWR has also taken note that an escrow account is being maintained with the Lead Bank along with a 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 environmental and other inherent risks associated with the mining and power sectors, counterparty risk and the increasing overall debt size of Adani Group.

The outlook has been kept as Stable as the revenue risk is minimal with fixed annual contracted quantities and applicable tariff. Also, there is a take or pay arrangement to safeguard the interest of the service provider.



KEY RATING DRIVERS

Credit Strengths:

Improved Financial Performance: FY19 was the first full year of operations post commissioning of Phase II of the project. On account of higher quantity dispatched in line with the terms of TAUA, the revenue of the company increased from Rs. 50.55 Crs in FY18 to Rs. 368.76 Crs in FY19 (as against a projection of Rs. 300.64 Crs) and EBITDA increased from Rs. 34.74 Crs in FY18 to Rs. 326.17 Crs in FY19 (as against a projection of Rs. 268.68 Crs). The company also reported a healthy net profit of Rs. 67.92 Crs for FY19.

Strong Parentage and their 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 March 31, 2019, unsecured loans from holding company amounted to Rs. 517.98 Crs and Compulsorily Convertible Debentures amounted to Rs. 112.93 Crs.

Assured Off-take: The company has a long term track usage and access agreement with RRVUNL for a period of 30 years with fixed annual contracted quantity and tariff. There is also a Take or Pay arrangement ensuring 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 a variable charge of Rs. 22.50/MT to SRCPL.

Sufficient Cash Generation to Ensure Timely Debt Servicing: Repayment of the long term debt will commence from FY20 onwards. The company earned cash accruals of Rs. 165 Crs for FY19. Going forward, the cash accruals are expected to increase to more than Rs. 250 Crs with the increase in annual contracted quantity against which the company's annual repayment obligations amounts to only Rs. 77 Crs ensuring availability of adequate funds to pay the debt on time.

Maintenance of Escrow Account & DSRA: SRCPL is maintaining an escrow account with the Lead Bank i.e. Bank of Baroda. The account is regularly monitored by the Bank and all the project receivables are routed through the same. In addition to this, the company has also maintained a Debt Service Reserve Account (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 months, 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 the credit profile of RRVUNL or delays in payments by them is a potential risk factor and is to be monitored.

Increasing Debt Size at the Group Level: Overall debt level of the Adani Group has been increasing on account of new initiatives as well as inorganic growth undertaken across businesses by the Group, given the significantly capital intensive infrastructure nature and long gestation period of most of these businesses. However, SRCPL is an already operational project and is self-reliant in terms of generating sufficient cash to meet its expenses and debt obligations.

Analytical Approach And Applicable Rating Criteria

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

Rating Sensitivities

Going forward, the ability of the company 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 achieves the projected improvement for the next few years with timely payments from RRVUNL, it will be considered positive for the rating.

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

Liquidity Position: Strong

The company has strong liquidity position with reported cash & cash equivalents of Rs. 44.81 Crs and investments in liquid funds of Rs. 72.18 Crs as on March 31, 2019. The investment in liquid funds has increased to Rs. 185 Crs at present. Further, the company's financial flexibility is also high with healthy cash generation of Rs. 165 Crs in FY19 which is likely to increase to more than Rs. 250 Crs from FY21 onwards as against 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 construction of ~ 70 Km Private Siding from boundary of Parsa East & Kanta Basan coal blocks ("PE & KB mines"), located in Hasdeo Arand Coalfield in Sarguja district of Chhattisgarh, to the nearest Indian Railway ("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 Indian Railway network) to Ramanuj Nagar railway Station (approximately midway between mine boundary and Indian Railway 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 is operational since October 10, 2014. Phase II of the project is operational since April 2018. Since the proposed Project is the only rail connectivity between the Mining Site and IR line, RVUNL has entered into Track Access & Usage Agreement (“TAUA”) with SRCPL dated July 21, 2015 to use the said Private Siding as Co-User to transport the mined coal from the mines up to the Surajpur Road station for onward transportation of coal up to thermal power stations of RVUNL in the state of Rajasthan.

Key Financial Indicators

Particulars	Units	FY18 (A)	FY19 (A)
Revenue from Operations	Rs. Crs	50.55	368.76
EBITDA	Rs. Crs	34.74	326.17
PAT	Rs. Crs	2.12	67.92
Operating Margin	%	68.72	88.45
Net Profit Margin	%	4.20	18.42
Total Debt (Analyzed)	Rs. Crs	916.12	1124.17
Tangible Net Worth (Analyzed)	Rs. Crs	690.41	745.88
Total Debt/TNW (Analyzed)	Times	1.33	1.51

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	2018	2017	2016
Term Loan	Long Term	1200	BWR A/Stable	BWR BBB+/Stable	BWR BBB-/Stable	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	480.65	480.65
2.	IndusInd Bank	Term Loan	546.77	546.77
3.	Proposed	-	172.58	172.58
TOTAL				1200

Total - INR One Thousand Two Hundred Crores Only

For print and digital media

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