

Rating Rationale

Sarguja Rail Corridor Pvt Ltd.

28 Sep 2018

Brickwork Ratings reviews the ratings for the Bank Loan Facilities of Rs. 1200 Crore of Sarguja Rail Corridor Pvt. Ltd.

Particulars

Facility*	Previous Limits (Rs. Cr)	Current Limits (Rs. Crs)	Tenure	Previous Rating (June 2017)	Rating based on current review (Upgrade)
Fund Based - Term Loans	1200	1200	Long term	BWR BBB- (Pronounced as BWR triple B minus) Outlook - Stable	BWR BBB+ (Pronounced as BWR triple B plus) Outlook - Stable

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied on audited financials of Sarguja Rail Corridor Pvt. Ltd. (SRCPL) up to FY18, projections, publicly available information and information/clarifications provided by the company.

The rating upgrade factors successful commissioning of the entire project in April 2018, strong revenue visibility with 30 years Track Access and Usage Agreement with Rajasthan Rajya Vidyut Utpadan Nigam Ltd. (RUVNL) and continued expectation of support from Adani Group.

However, the rating is constrained by inherent problems pertaining to mining activities, moderate counter-party risk of RVUNL and increasing overall debt levels of the Adani Group.

Rating Outlook: Stable

BWR believes the Sarguja Rail Corridor Pvt. Ltd.'s business risk profile will be maintained over the medium term. Achievement of projected operating performance in terms of revenue and profitability in FY19 will be a key rating sensitivity as the repayment for the project term loan will begin from April 2019. Non-achievement of expected profitability and cash flows could result in a change in the rating or outlook.

Analytical Approach: BWR has analyzed SRCPL on a standalone basis. However, BWR has taken note of the fact that the company belongs to the diversified Adani Group, which can bring in need based support to the company.

Credit Strengths:

Group Support: SRCPL is a part of the Adani Group. 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. During FY18, promoters have infused equity of Rs.148.55 Cr in the company to meet the funding requirements of the company and maintain its leverage profile.

Commissioning of the entire project: While Phase I of the project (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) has already been operational since October 2014, the Phase II of the project (starting from Ramanuj Nagar Railway Station to PE & KB mine with a distance of ~37 Km) became operational in April 2018. Thus, the user of the railway line currently RVUNL has started deriving full benefit the project.

Revenue visibility: PE & KB mines, Pasra and Kente Extension coal blocks (near to PE&KB mines) located at Mining Site have been allocated to Rajasthan Rajya Vidyut Utpadan Nigam Ltd (rated BWR A+ (SO) - "RVUNL") by Govt. of India. 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 for the period of 30 years 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. Further the ‘Take or Pay’ clauses in the Agreement protect the revenues of SRCPL. Projected revenues and debt servicing obligation show comfortable debt protection indicators.

Credit Risks

Inherent Problems relating to mining: Mining is a highly regulated activity in India and subject to both Central and State Government Regulations. In this case, the said mines are specifically for the captive coal requirement of RVUNL.

Counterparty risk of RVUNL: Currently RVUNL is the sole/main user of the railway line and has to pay the charges in accordance with TAUA mentioned above. Hence, counterparty risk of timely receipt of payment from RVUNL is a key rating sensitivity. RVUNL is a state power utility of Govt of Rajasthan, and rated BWR A+ (SO) Stable. Company’s billing and receipts pattern shows that RVUNL is making timely payments.

Increasing overall debt levels of the Adani Group: Overall debt level of Adani Group has been increasing on account of new initiatives, inorganic growth, etc. This will limit the Group’s ability to support the company, should such a need arise.

About the Company

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 Chattisgarh.

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.

PE & KB mines, Parsa and Kente Extension coal blocks (near to PE&KB mines) located at Mining Site have been allocated to Rajasthan Rajya Vidyut Utpadan Nigam Ltd (rated BWR A+ (SO) - “RVUNL”) by Govt. of India. 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

Company Financial Performance

(Rs. Cr)	Audited	
	FY17	FY18
Total Income	57.5	52.89
Operating Profit	40.7	37.2
Net Profit	-10.6	-24.8
Secured Debt from Banks	300.0	800.0
Other Equity (USL/CCD)	674.8	678.4
Tangible Networth	689.5	894.1
Gearing (x)	0.001	0.894

Rating History for the last three years: (including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (Year 2018)			Rating History		
		Type (Long Term/Short Term)	Amt (Rs Crs)	Rating	June 2017	Date in 2016	Date in 2015
						Rating details	Rating details
1.	Term Loan	Long Term	1200	BBB+(Stable)	BBB-(Stable)	-	-
	Total		1200				

Status of non-cooperation with previous CRA (if applicable): Reason and comments

Any other information

Hyperlink/Reference to Applicable Criteria

• [General Criteria](#)

• [Infrastructure Sector Criteria](#)

• [Approach to Financial Ratios](#)

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

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