India Ratings & Research
A Fitch Group Company

India Ratings Affirms DP World Rail Logistics' Bank Facilities at 'IND A+'/Stable/'IND A1+'

Oct 23, 2023 | DP World Rail Logistics Private Limited(Formerly Kribhco Infrastructure Private Limited) | Logistics Solution Provider

India Ratings and Research (Ind-Ra) has taken following rating actions on DP World Rail Logistics Private Limited (DPW Rail; formerly known as Kribhco Infrastructure Private Limited):

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	30 June 2032	INR2,760 (reduced from INR2,950)	IND A+/Stable	Affirmed
Fund-based working capital limit	-	-	-	INR250	IND A+/Stable	Affirmed
Fund-based working capital limit	-	-	-	INR190	IND A+/Stable	Assigned
Non-fund-based working capital limit	-	-	-	INR500	IND A1+	Affirmed

Analytical Approach: To arrive at the rating of DPW Rail, Ind-Ra has taken a top-down approach and equated the rating with its 76% parent, DP World Multimodal Logistics Private Limited (DPW Multimodal; formerly known as Continental Warehousing Corporation (Nhava Seva) Private Limited; debt rated at 'IND A+'/Stable), given the strong operating and strategic linkages between them.

Key Rating Drivers

Established Business Profile: DPW Rail has an established business operation across domestic container train services and inland container depots (ICD) and private freight terminals (PFT), with a track record of over a decade. The company holds a category-I licence for carrying out its container rail transportation business. Container train operations remain the primary revenue driver for the company, contributing generally over 75% to the overall revenue. As of September 2023, DPW Rail operated a total of 25 rakes, of which it owned 22 rakes, while the remaining were taken on lease. As per the management, the rakes count is likely nearly double in the next 12-15 months. The company has been increasing its cargo handling facilities over the years, thereby ensuring sustained growth in the revenue from operations.

Part of Established Group; Strong Parentage: DPW Rail is a part of the DP World group. With effect from 16 April 2020, the company became a subsidiary of DPW Multimodal and a step-down subsidiary of Hindustan Infralog Private Limited, the majority shareholding of which is ultimately held by DP World (Fitch Ratings Ltd. Issuer Default Rating: 'BBB+'/Stable). In April 2020, DPW Multimodal acquired 76% shareholding in DPW Rail from Krishak Bharati Co-operative Limited (Kribhco); the latter continues to hold the balance 24% shareholding in the company.

According to Fitch Ratings, DP World, the ultimate parent, is the fifth-largest container port operator globally, with a gross volume market share of around 9% and it has a long average concession life of around 32 years. It operates directly or through joint ventures in 75 countries across the world and has a gross cargo handling capacity of 92.5 million twenty-foot equivalent unit (TEUs). In India, DP World has been operating container port terminals since 1997 and is present in five locations, handling over six million TEUs of gross capacity. Furthermore, DP World, through its various subsidiaries (including DPW Multimodal and its subsidiaries), operates container freight stations, ICDs, and PFTs, and also offers last-mile delivery services. DP World, through a different subsidiary, also operates container trains, connecting ports to the hinterland. DP World, thus, has an established presence in India, with integrated offerings across the logistics value chain through its various subsidiaries.

Strong Linkages with Parent: DPW Rail and DPW Multimodal have strong operational linkages. The acquisition of DPW Rail has enabled the group to have a presence in domestic container train operations and has also enhanced the group's market presence in ICD and PFT operations across the northern and the western regions of the country. The inclusion of container train services has strengthened the consolidated business profile, as it enables the group to operate across the logistics value chain, and provide integrated service offerings and value-added services to the end-customers. Complimentary business operations shall ensure higher synergies across the business operations and increased capability of the group to handle higher cargo volumes. Additionally, the operational linkages remain strong in view of the strong board representation from the parent. DPW Rail's board consists of eight members, of which six are present on the board of the parent as well. The board also has representation from Kribhco.

The business operations of DPW Rail also remain strategically important for the parent. DPW Rail contributed around 30% to DPW Multimodal's consolidated revenue and EBITDA in FY23. Additionally, the strategic importance of the company towards the parent emanates in view of its substantial investments made towards the acquisition as well as infusion of funds post the acquisition.

Liquidity Indicator – Adequate; Supported by Parent: At a standalone level, DPW Rail had cash and bank balances of INR0.2 billion as on 31 March 2023. The company also has access to working capital limit of INR0.5 billion, the average month end utilisation of which stood at about 45% during the 12 months ended June 2023. Ind-Ra expects the use to have been on similar lines since then. Furthermore, there was an additional sanction of INR0.4 billion in the fund-based working capital limits in 1HFY24. However, DPW Rail plans to invest about INR8.0 billion over the next 12-18 months, mainly for the acquisition of railway rakes and containers. The capex is likely to be funded equally with debt and equity/quasi-equity instrument. The liquidity is anchored on timely infusions of shareholder funds and the group's strong financial flexibility to raise debt to cover the high capex requirement.

The agency draws support from DP World's track record of providing need-based support to its subsidiaries. The parent infused a total of about INR11 billion equity in DPW Multimodal over FY20-FY22 towards acquisitions and for supporting the group's operational activities. During FY23, intercorporate deposits from affiliates amounting to INR1.6 billion were infused in DPW Multimodal and its subsidiaries. Furthermore, as per the management, additional intercorporate deposits of INR2.3 billion were infused during 1HFY24 in DPW Multimodal and its subsidiaries. Ind Ra believes the strong financial resourcefulness of DP World would support the liquidity of the group during the business expansion stage.

Healthy Revenue Growth; Moderation in Profitability: Despite a decline in bulk cargo handling income, DPW Rail's revenue grew by a healthy 25% yoy to INR5.8 billion in FY23, driven by healthy growth in container train operations' volume and container handling income at ICD/PFT. The company's EBITDA margin declined to 6.7% in FY23 (FY22: 11%) owing to the following factors: i) decline in the share of high-margin bulk cargo handling revenue; ii) a one-time expense of about INR30 million related to the Export Promotion Capital Goods scheme; and iii) certain other one-off expenses.

Weakened Credit Metrics: The credit metrics deteriorated in FY23 owing to an increase in debt to fund the capex coupled with the moderation in profitability. The interest coverage (EBITDA/gross interest expenses) declined to 1.9x in FY23 (FY22: 7.5x) and the net adjusted leverage (net adjusted debt/ EBITDA) increased to 7.9x (2.9x). The net adjusted debt is calculated as gross debt including lease liabilities and excluding inter corporate deposits and optionally convertible debentures less unencumbered cash and cash equivalents. While the net adjusted leverage is likely to remain elevated over the medium term, Ind-Ra believes it could improve gradually on the back of capex-led improvement in scale and profitability. This remains a key monitorable. Higher-than-expected debt-funded capex could be detrimental for the credit metrics, and hence, to the ratings of the company.

Customer Concentration: The top 10 customers account for a significant proportion of the DPW Rail's revenue. As per the management, the company is taking steps towards diversifying its customer profile. Moreover, the risk of customer concentration is partially mitigated by the long-term contracts, established relationships with the end-customers, and the group's ability to provide integrated service offerings.

Intense Competition: DPW Rail faces intense competition from other players, such as Gateway Rail Freight Limited

('IND AA'/Stable), Adani Logistics Limited and Container Corporation of India Limited, which exerts pressure on the company's realisations, and hence, its profitability. Besides, the company also remains exposed to competition from road transportation of containers. On an all-India basis, the road sector accounts for 60%-70% of the transportation, while the share of railways is below 30%. However, in the case of long-haul routes, the competition from roads is lower because of the higher cost involved in road transportation. Furthermore, the risk is partially mitigated by the group's established presence across the logistics value chain and its strong ability to offer value-added services, which also remains a key service differentiation.

Susceptibility to Economic Cycles; Exposure to Regulatory Risk: DPW Rail's volume growth is linked to macro-economic conditions. Furthermore, DPW Rail continues to be exposed to regulatory risk. The company has to pay haulage charges to the Indian Railways for running the container trains on its network. Haulage charges account for over 75% of the total operating cost for container train operators. These charges have been revised several times over the last decade, and the inability to pass on the rise in same to the end-customers could impact the company's profitability.

Rating Sensitivities

Positive: An improvement in the DPW Multimodal's consolidated credit profile on a sustained basis could lead to a positive rating action.

Negative: Deterioration in the DPW Multimodal's consolidated credit profile on a sustained basis or weakening of linkages with the parent could lead to a negative rating action.

About the Company

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Incorporated in April 2009, DPW Rail offers multimodal transportation services. The company operates container train services and a network of four ICDs/ PFTs located at Hazira (Gujarat), Pali (Haryana), Modinagar (Uttar radish) and Hindaun (Rajasthan). The company holds Category I licence for carrying out the business of container train operations.

STANDALONE FINANCIAL SUMMARY- DPW Rail

Parameters	FY23	FY22
Revenue (INR billion)	5.8	4.7
EBITDA (INR billion)	0.4	0.5
EBITDA margin (%)	6.7	11.0
Interest coverage (x)	1.9	7.5
Adjusted Net leverage (x)	7.9	2.9
Source: DPW Rail, Ind-Ra		

CONSOLIDATED FINANCIAL SUMMARY- DPW Multimodal*

Particulars	FY23	FY22
Revenue (INR billion)	19.0	15.4
EBITDA (INR billion)	1.3	1.5
EBITDA margin (%)	7.0	9.9
Interest coverage (x)	1.9	2.6
Adjusted net leverage (excluding ICD) (x)	5.2	3.8
Source: DPW Multimodal, Ind-Ra *Based on Ind-Ra consolidation		

Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/ Outlook		
	Rating Type	Rated Limits (million)	Rating	20 October 2023	25 July, 2022	1 September 2021
Issuer rating	Long-term	-	-	WD	IND A+/Stable	IND A+/Stable
Term loan	Long-term	INR2,760	IND A+/Stable		IND A+/Stable	IND A+/Stable
Fund-based working capital facilities	Long-term	INR440	IND A+/Stable		IND A+/Stable	IND A+/Stable
Non-fund based working capital facilities	Short-term	INR500	IND A1+		IND A1+	IND A1+

Bank wise Facilities Details

Complexity Level of the Instruments

Parameters	Complexity Indicator
Term loan	Low
Fund-based working capital limit	Low
Non-fund-based working capital limit	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA AND POLICIES

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process