IndiaRatings & Research
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India Ratings Affirms DP World Rail Logistics's Bank Facilities at 'IND A+'/Stable/'IND A1+'; Rates Additional Limits

Jan 16, 2025 | 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):

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	-		-	INR538	IND A+/Stable	Assigned
Fund-based working capital limit	-		-	INR440	IND A+/Stable	Affirmed
Non-fund-based working capital limit	-		-	INR430 (reduced from INR500)	IND A1+	Affirmed
Term loan	-		30 June 2032	INR2,292 (reduced from INR2,760)	IND A+/Stable	Affirmed

Analytical Approach

Analytical Approach: To arrive at the rating of DPW Rail, Ind-Ra continues to take a top-down approach and equated the rating with its 76% parent, DP World Multimodal Logistics Private Limited (DPW Multimodal; debt rated at 'IND A+'/Stable), given the strong operating and strategic linkages between them**.**

Detailed Rationale of the Rating Action

The ratings follow the affirmation of the rating of its parent, DP World Multimodal Logistics Private Limited.

List of Key Rating Drivers

Strengths

- Established business profile
- Part of established group; strong parentage
- Strong linkages with parent
- Healthy revenue growth; moderation in profitability

Weaknesses

- Modest credit metrics
- Customer concentration
- Intense competition

- Susceptibility to economic cycles; exposure to regulatory risk

Detailed Description of Key Rating Drivers

Established Business Profile: DPW Rail has an established business operation across domestic container train services and inland container depots 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. The container train operations remain the primary revenue driver for the company, contributing generally over 75% to the overall revenue. Over the past 12-18 months, the company has significantly increased its rake count to 42 as of September 2024 (March 2023: 19). The increase in its capacity along with an increase in DPW Rail's cargo handling facilities over the years has led to sustained growth in the revenue from operations.

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

According to Fitch Ratings, DP World is the fifth-largest container port operator globally, with the volumes spread across over 70 terminal operations, a gross volume market share of around 9%, and has a long average concession life of around 32 years.

DP World has been operating container port terminals in India since 1997 and is present in five locations, handling over six million twenty-foot equivalent units of gross capacity. It also operates container freight stations (CFS) and inland container depots/ PFT and has two category I container train operations licenses. Furthermore, it provides express logistics and third-party logistics services. Additionally, DP World operates three free trade warehousing zones and is also developing a container terminal at Deendayal Port. All these businesses are hosted either in subsidiaries of HIPL or Hindustan Ports Private Limited (National Investment Infrastructure Fund acquired a 19.18% stake in HPPL in March 2024 and the balance is ultimately being held by DP World). Ind-Ra notes that the merger of HIPL and HPPL is under process and the resultant merged entity, which will become immediate parent of DPW Multimodal, will continue to be majorly held by DP World. DPW Multimodal has been receiving timely support from HPPL's subsidiaries, and hence, Ind-Ra expects the merger of HIPL and HPPL to be credit neutral for the company.

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 its 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 about 30% to DPW Multimodal's consolidated revenue and about 50% to consolidated EBITDA in FY24. 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.

Healthy Revenue Growth; Moderation in Profitability: DPW Rail's revenue grew 29% yoy to INR7.5 billion in FY24, driven by an increase in the number of rakes and an increase in handling income. The company's EBITDA margin declined to 6.3% in FY24 (FY23: 6.7%), owing to the increase in rail/road transportation charges; nevertheless, its absolute EBITDA improved to INR0.5 billion (INR0.4 billion). Ind-Ra expects the company's profitability to improve over the near to medium term, led by an increase in the scale and an improvement in its efficiency owing to the planned capex.

Modest Credit Metrics: The overall debt increased to about INR9.9 billion as on 31 March 2024 (31 March 2023: INR4.9 billion). The overall debt included the inter-corporate deposits/optionally convertible debentures (ICDs/OCDs) extended by related parties/ parent of INR6.5 billion in FY24 (FY23: INR1.7 billion). The adjusted gross interest coverage (EBITDA/adjusted gross interest expenses) declined to 1.7x in FY24 (FY23: 1.9x) and the net adjusted leverage (net adjusted debt/ EBITDA) improved to 6.6x (7.9x). Its net adjusted debt was calculated as the gross debt including lease liabilities and excluding ICDs/OCDs less unencumbered cash and cash equivalents. The adjusted gross interest expense was calculated as gross interest expenses less interest on debt from related parties. While the capex during FY24 was entirely funded by ICDs, Ind-Ra believes that the capex during FY25-FY26 will be funded through debt so as to maintain a debt-to-equity ratio of 1:1. With the expected increase in debt to fund the capex plans, Ind-Ra expects the credit metrics to remain elevated over the near to medium term. However, the capex-led improvement in the scale and profitability would lead to a gradual improvement in the net adjusted leverage and the same remains a key monitorable.

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 to diversify 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 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, regarding long-haul routes, competition from roads remained lower because of 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 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 past decade, and the inability to pass on the rise in same to the end-customers could impact the company's profitability.

Liquidity

Adequate; Supported by Parent: The liquidity of the company is supported by: (a) free cash and bank balances of about INR0.2 billion at FYE24; b) strong financial flexibility with proven ability to tie up for term debt and working capital facilities; c) 15 years of the recently tied-up term loan; and d) DP World's track record of need-based support extension and a commitment of the sponsor group to extend support as and when required in the future. Despite the high capex plans and the likely increase in the net working capital owing to the expected increase in scale operations, Ind-Ra believes the financial resourcefulness of DP World and strong financial flexibility of the company would continue to support liquidity during the business expansion stage.

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

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.

Key Financial Indicators

DPW Rail- STANDALONE

Parameters	FY24	FY23
Revenue (INR billion)	7.5	5.8
EBITDA (INR billion)	0.5	0.4
EBITDA margin (%)	6.3	6.7
Adjusted interest coverage (x)	1.7	1.9
Adjusted net leverage (x)	6.6	7.9
Source: DPW Rail, Ind-Ra		

DPW Multimodal*- CONSOLIDATED

Particulars	FY24	FY23
Revenue (INR billion)	22.6	19.0
EBITDA (INR billion)	0.9	1.3
EBITDA margin (%)	3.8	7.0
Adjusted Interest coverage (x)	1.1x	2.0x
Adjusted net leverage (x)	8.2	5.2
Source: DPW Multimodal, Ind-Ra *Based on Ind-Ra consolidation		

Correction in Previous Rating Action Commentary

Ind-Ra updates the maturity date for the term loan to 30 June 2032 from FY32 in the details of instruments table for the rating action commentary published on 23 October 2023.

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Outlook			
				23 October 2023	20 October 2023	25 July 2022	1 September 2021
Issuer rating	Long term	-	-	-	WD	IND A+/Stable	IND A+/Stable

Fund-based working capital limit	Long-term	INR 978	IND A+/Stable	IND A+/Stable	-	IND A+/Stable	IND A+/Stable
Non-fund based working capital limit	Short-term	INR430	IND A1+	IND A1+	-	IND A1+	IND A1+
Term loan	Long-term	INR2,292	IND A+/Stable	IND A+/Stable	-	IND A+/Stable	IND A+/Stable

Bank wise Facilities Details

Complexity Level of the Instruments

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

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

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Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process