March 07, 2022

Simar Port Private Limited: Ratings reaffirmed at [ICRA]BBB- (Negative)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	2,872.00	2,872.00	[ICRA]BBB- (Negative); reaffirmed
Total	**2,872.00**	**2,872.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation of Simar Port Private Limited (SPPL) considers parentage of the company, being part of the Shapoorji Pallonji Group (SP Group); the group has a strong operational profile and well-established presence in construction, real estate and infrastructure business with demonstrated execution capabilities. The rating also factors in the contract for the construction of the breakwater awarded to Shapoorji Pallonji Infrastructure Capital Company Pvt Ltd (SP Infra) which in turn has awarded it to Afcons Infrastructure Limited (AIL; rated [ICRA]A+(Negative)/[ICRA]A1) that has an established track record of executing several complex infrastructure projects in the country as well as overseas. The contract has been awarded on a fixed-price basis thereby eliminating risks of any adverse movement in input prices during construction period. The delays and change in scope resulting in increased land requirement have resulted in cost overrun from Rs. 3590 crore to Rs. 4085 crore in the project (~14%), however, the same has been approved by majority of the lenders. ICRA also notes that the promoters have infused in Rs. 642 crore equity into the project as on date, however Rs. 723 crore is yet to be infused (including Rs. 359 crore of shareholders loan). The company has proposed to raise Rs. 200 crore from AIL, Rs. 75 crore upfront from parents towards land acquisition, Rs. 208 crore from sale of land and stake sale in LNG terminal while the remaining would be through asset monetisation programme of SP Infra. The rating also factors in the cash flow visibility from the sub-concession arrangement for the 5 million metric tonne per annum (MMTPA) LNG terminal, which is being developed HPCL LNG Limited (HLNG, rated [ICRA]AA+(CE) (Stable)/[ICRA]A1+(CE)). ICRA will also be monitoring the development of the LNG terminal.

The ratings are, however, constrained by the significant delay in project execution with the proposed scheduled commercial operations date (SCOD) is now expected to be revised from October 2020 to October 2023, compared to earlier expectation of April 2022, mainly on account of Covid-19 and cyclones. The rating is further constrained by the execution risk associated with the overall project given the moderate stage of physical progress and the long construction period in addition to the initial delays in the project execution leading to expected delay in proposed COD, however, the LNG terminal (which forms ~39% of the project revenue) is at advanced stage of completion. Further, the project being located in the proximity of other well-established competing ports viz. Pipavav and Dahej, it will also be exposed to market risk post commencement of operations, however, the risk is mitigated to certain extent with limited competition within the port hinterland. The company proposes to meet the requirements of cement and chemical manufacturing plants in its hinterland, though the competitiveness of its pricing terms would remain critical to ensure ramp up of bulk cargo post-commissioning. The rating also considers the return indicators for the project which are expected to remain modest, on account of significantly higher capital cost as compared to other greenfield port projects. The company is undertaking the construction for the breakwater structure keeping in view the long-term master plan of setting up of additional terminals at Chhara and hence, the capital cost for the project is comparatively higher.

The Negative outlook reflects the moderate physical progress till date and pending equity infusion requirements and ICRA notes that any delay in ramp up in pace of project execution or incremental equity infusion may have adverse impact on company's ability to meet the revised SCOD. ICRA will be monitoring the developments on these fronts.

Key rating drivers

Credit strengths

Part of Shapoorji group and well-recognised brand - SPPL is a part of the SP Group, which has a strong operational profile and a well-established presence in construction, real estate and infrastructure businesses. SPICCPL, which is a wholly-owned subsidiary of SPCPL, is the infrastructure holding company of the SP Group having strong presence in roads, port, power and resource segment. The port projects are operated under its wholly-owned subsidiary, SP Ports Private Limited (SPPPL).

Fixed-price contract reduces the risk of cost overrun to some extent – SPPL has appointed SPICCPL as the contractor for construction of the breakwater who has further subcontracted it to AIL. AIL has demonstrated track record of executing several complex infrastructure projects including marine works for R-LNG projects. Furthermore, the fixed-price contract entered into by the company with SPICCPL protects the company from any adverse movement in input prices during construction period.

Financial closure has been achieved with Rs. 642 crore equity being infused - The project cost for the initial phase of setting up of the bulk terminal has been estimated at Rs. 4,085 crore (including cost overrun), which is to be funded in a debt-shareholder loan-equity ratio of 67:9:24. The company has tied-up the funding for the entire debt portion (including increased debt for cost-overrun) with an elongated repayment tenure of 19 years, post 2 years moratorium after SCOD. As on November 30, 2021, the company has already infused ~47% out of the initial proposed total equity commitment of Rs. 1,365 crore, however Rs. 723 crore is yet to be infused (including Rs. 359 crore of shareholders loan).

Sub-concession for the LNG terminal – HPCL through its subsidiary HLNG is setting up of a 5 MMTPA LNG terminal at Chhara Port. HPCL has guaranteed part off-take from this terminal and SPPL in turn, benefits from this arrangement as its revenues from the LNG terminal would be linked to the R-LNG off-take. ICRA will also be monitoring the development of the LNG terminal.

Credit challenges

Exposed to high execution risk given the initial stages of the project – There has been significant delay in project execution with the proposed scheduled commercial operations date (SCOD) now expected to be revised from October 2020 to October 2023, compared to earlier expectation of April 2022. The rating is further constrained by the high execution risk associated with the overall project given of its current physical progress and the long construction period in addition to the initial delays in project execution. Even though, the proposal for revision in SCOD along with increase in cost has been approved by most of the lenders, As on January 2022, the physical progress is ~31%. The project includes construction of the 3.90 km (changed from 4.5 Km) breakwater structure (which forms ~35% of the project cost). Though company has concluded acquisition of certain land area allocated for the project, timely acquisition of the remaining land would also remain important.

High market risk given strong competition from neighbouring ports – The port at Chhara being located in the proximity of other established ports viz. Pipavav faces strong competitive pressures in terms of cargo off-take and hence, is exposed to market risks. The port would largely be catering to the cement manufacturers in its targeted hinterland and would provide cost advantage to certain cement units over other ports due to its closer proximity, which is, however, being off-set partially due to the presence of captive jetties owned by major cement manufacturers. Nonetheless, the company has entered into long-term binding contract with a cement manufacturer and a chemical plant and is in process of entering into few more contracts. The pricing terms proposed by the company along with its competitiveness would remain important for the overall profitability of the project.

Return indicators to remain modest on account of significant capital cost – The company is undertaking the construction for the breakwater structure keeping in view the long-term master plan of setting up of additional terminals at Chhara and hence, the capital cost for the project is comparatively higher. As a result, the return indicators for the project are expected to remain modest in the initial years.

Liquidity position: Stretched

SPPL is still in project stage and has access to its sanctioned term loans for it funding requirements. For its equity requirements, SPPL is dependent on SPICCPL's liquidity position, which is stretched. SPICCPL has free cash balance and unutilised overdraft limits of ~Rs 15 crore as on September 2021. Given its status as a holding entity with limited engineering, procurement and engineering (EPC) related operations, there remains a high dependence on timely realisation of divestment proceeds to meet the debt servicing obligations.

Rating sensitivities

Positive factors – The outlook may be revised to Stable if there is significant progress in project execution leading to timely achievement of proposed SCOD as well as timely infusion of required equity.

Negative factors – Further delay in project execution or deterioration of parent's credit profile or delay in meeting the equity requirement may lead to downward revision of the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ports Industry
Parent/Group Support	Parent Company: SP Infra (Immediate Parent) Ultimate Parent: SPCPL The rating assigned to SPPL factors in the very high likelihood of its ultimate parent, SP Infra and Shapoorji Pallonji and Company Private Limited (SPCPL), extending financial support to it because of close business linkages between them. We also expect SP group to be willing to extend financial support to SPPL out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

In May 2007, Gujarat Maritime Board (GMB) invited bids for development of a multi user, multi-purpose all weather greenfield port on a Build, Own, Operate and Transfer (BOOT) basis in Gujarat. A consortium led by Shapoorji Pallonji and Company Private Limited, along with Afcons Infrastructure Limited and Forbes and Company Limited (all the three companies are part of SP Group) was selected through a competitive bidding process for development of a port at Chhara, Gujarat. Simar Port Private Limited (SPPL) was subsequently incorporated on July 17, 2008, as a separate SPV by the SP consortium for the development of the port. On January 29, 2015, a concession agreement was executed between the company and GMB for development of the Chhara Port. As on March 31, 2017, SP Ports Private Limited (SPPPL), a wholly-owned subsidiary of Shapoorji Pallonji Infrastructure Capital Company Private Limited holds 99.98% equity shares of the company, while balance 0.02% stake is held by Afcons Infrastructure Limited and Forbes and Company Limited equally.

SPPL proposes to develop 10 berths which includes 4 bulk cargo berths, 3 container berths, 2 LNG berths and 1 liquid bulk cargo berth in multiple phases. As per present development plan, the company envisages development of two terminals (i.e. 15 MMTPA bulk terminal (8 MMTPA in first phase) and 5 MMTPA LNG terminal) along with common infrastructure and back-up areas at Chhara, Gujarat. SPPPL had entered into a 50:50 JV with HPCL to set up a 5 MMTPA land-based LNG storage and regasification terminal at the Chhara Port through a sub-concession (to be executed) with the company, however, SPPPL has exited from the project at a consideration of Rs. 397 crore in March 2021.

Key financial indicators (audited)

Not applicable as company is in project stage

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Nov 30, 2021 (Rs. crore)	Date & Rating on Mar 7, 2022	Date & Rating in FY2021 04-Nov-2020	Date & Rating in FY2020 30-Dec-2019	Date & Rating in FY2019 21-Feb-2019
1	Term Loan	Long Term	2,872.0	709.7	[ICRA] BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	Oct-2016	NA	Oct-2041	2872.0	[ICRA]BBB- (Negative)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 12 4454 5304
sabyasachi@icraindia.com

Prashant Vasisht
+91 99 7102 2710
prashant.vasisht@icraindia.com

Sai Krishna
+91 44 4596 4304
sai.krishna@icraindia.com

Ravish Mehta
+91 79 4027 1522
ravish.mehta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches