

July 27, 2022

Karanja Terminal & Logistics Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]B (Stable); assigned
Total	-	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating considers the strategic location of Karanja Terminal and Logistics Private Limited's (KTLPL/the company) facility in proximity to the industrial hinterland and two major ports (JNPT and Mumbai Port Trust) that provide a good catchment area for cargo handling and logistics services, and its good connectivity to the national and state highways. Further, being a non-major port, the facility will also have the flexibility to set tariffs based on market rates. However, ICRA notes that the facility is in early stages of operations, after witnessing significant delays in project completion. While there has been a moderate ramp-up in cargo volumes handled since the commencement of operations, currently there are only a few contracted customers with committed volumes.

ICRA notes that the company is in talks with several customers for contracts and is also in the process of starting a container freight station (CFS) facility. The finalisation of such contracts, the volumes committed and the company's ability to attract container cargo at the CFS facility once all approval are in place will be the key monitorables. The company has also leased part of the land to a customer for 40 months since April 2021, which has been giving stable rental income. Due to the subdued ramp-up in volumes, the financial performance remains weak with modest revenue growth and operating losses.

ICRA also note that the company had witnessed delays in debt servicing in the past due to liquidity issues arising from cost escalations and delays in project completion. Subsequently, as part of the RBI's one-time restructuring (OTR) scheme related to Covid-19, the company got its debt restructured in June 2021. Under the OTR, the company got loan tenure extension and reduction in interest rates. However, ICRA notes that the moratorium on interest payments has ended and the principal repayments are also increasing in the current fiscal, leading to high repayment obligations.

The company's promoters infused equity worth Rs. 27.5 crore in FY2022 against the OTR requirement of Rs. 7.0 crore, which was used to meet the repayment obligations and create a DSRA for one quarter. However, ICRA notes that inability to adequately scale up operations and generate sufficient cash to meet the large and increasing debt servicing obligations will necessitate additional support from the promoters; hence, the timeliness and quantum of such support remains critical. Further, the company may also have to incur additional capex at the facility, although it may have some flexibility to align the same with the ramp-up in operations. ICRA notes that the promoter entity has periodically raised funds to support KTLPL. However, depending on the pace of ramp-up in financial performance, the promoter entity might have to raise additional funds to provide continued support and is a sensitivity factor.

The Stable outlook on the [ICRA]B rating reflects ICRA's opinion that the company's financial performance will improve in the medium term, benefiting from its strategic location.

Key rating drivers and their description

Credit strengths

Strategic location of the terminal with good connectivity - KTLPL's port and logistics facility is strategically located at Karanja Creek, in Navi Mumbai, in proximity to the industrial hinterland and two major ports – JNPT and Mumbai Port. Further, the facility comes under the Jawahar Lal Nehru Customs House (JNCH), which does the clearing for JNPT. This, coupled with good connectivity to the state and national highways, with no evacuation restrictions and less congestion should help attract bulk and container cargo. Further, there are also several infrastructure projects which are going on/planned in the vicinity, which will provide opportunity for bulk/project cargo related to these projects.

The facility has currently leased around 25 acres out of 100 acres of reclaimed land developed for phase 1 of the project for 40 months, which provides a stable rental income. KTLPL has approvals in place to develop 200 acres of reclaimed land and the lease with Maharashtra Maritime Board (MMB) is till 2059. The company is currently in the process of getting approval for additional land reclamation, which should aid future expansion of the project.

Tariff flexibility from being a non-major port – The company is a non-major port and has the flexibility to set the tariff based on market conditions and competition. The tariff charged will depend on the services provided and may include any discounts for committed volumes with specific customers.

Credit challenges

Weak financial profile - The facility commenced operations since September 2019, when it achieved CoD after facing several delays and cost escalations in project execution. The ramp-up in volumes has been subdued and the financial performance remains weak with a moderate revenue growth of Rs. 22.6 crore in FY2022 against Rs. 10.2 crore in FY2021, with major contribution from rental income from leased land. The company also continued to report operating losses. In the current fiscal, during the first quarter, while there has been some ramp-up in cargo volumes and revenue, it remains subdued.

Risk of stabilisation of operations and ability to attract cargo volumes - Post commencement of operations, the ramp-up in cargo volumes has been subdued. It is crucial for the company to achieve a healthy ramp-up in cargo volumes and service contracts to improve its financial profile and meet its debt servicing obligations. However, while the company is in talks with several customers, it now has only a few contracted customers with committed volumes. Its ability to attract new customers and the quantum of volume and profitability from such contracts remain key monitorables.

CFS facility yet to commence operations - The facility will also operate a container freight station. The operations are yet to start as some approvals are pending, although the management expects to get them shortly. Timely commissioning of the CFS operations and a ramp-up in container volumes remain sensitivity factors.

Liquidity position: Poor

The company had witnessed liquidity constraints in the past due to delays in project execution and cost overruns, leading to instances of delays in debt servicing. However, post OTR, the company got relief in terms of an extended repayment tenure, moratorium on interest and principle payment and reduction in interest rates. The moratorium, coupled with the creation of DSRA for one quarter of repayment obligation backed by a fund infusion of ~Rs. 27.5 crore by promoter entity in FY2022, has provided some support and the company has been regular in debt servicing since then. However, the liquidity position remains constrained due to inadequate improvement in financial performance. The debt servicing obligations have increased in the current fiscal with interest moratorium being over from March 2022 and principal repayment obligations on terms loans to commence from Q3 FY2023. The overall long-term loan repayment obligation is expected to be Rs. 10.4 crore in FY2023 and Rs. 26.7 crore in FY2024. To meet the high repayment obligations, the company will have to achieve significant growth in revenue and profits in the current fiscal, and in case of an inadequate ramp-up in financial performance, it will have to depend on timely support from the promoter entity. ICRA notes that the promoter entity has periodically raised funds to support

KLTPL; however depending on the pace of ramp-up in financial performance, the promoter entity might have to raise additional funds to provide continued support and is a sensitivity factor.

Rating Sensitivities

Positive factors – ICRA could upgrade the rating if KTLPL shows a healthy ramp-up in revenue and cash accruals on a sustained basis. A specific credit metric that can lead to an upgrade includes the interest coverage improving to more than 1 time on a sustained basis.

Negative factors – ICRA could downgrade the rating if KTLPL shows a slower-than-expected ramp-up in operations due to lower-than-expected profitability and revenue or a stretch in the working capital cycle, further weakening liquidity.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Ports
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the Company

Karanja Terminal & Logistics Private Limited (KTLPL, the company) is an SPV formed by Mercantile Ports and Logistics Limited (MERCPL) (erstwhile SKIL Ports and Logistics Limited) to develop an all-weather port and a logistics facility at Karanja Creek, Chanje Village, Raigad district, Maharashtra. A concession agreement (CA) was entered into between KTLPL and Maharashtra Maritime Board (MMB) on August 31, 2009, granting KTLPL the right to develop the Karanja port on a built-own-operate-transfer (BOOT) basis for a total lease period of 30 years (including two years construction period). Subsequently, in May 2018, MMB gave an in-principle approval to extend the concession to 50 years. The approvals are for 200 acres of reclaimed land and 1000m waterfront. However, currently 100 acres of land have been reclaimed and developed, with 800m of berthing space. The port has a draft of 6m and can accommodate vessels of up to 5,000 DWT at the port and 60,000 DWT at anchorage.

Key financial indicators

	FY2021	FY2022*
Operating income (Rs. crore)	10.2	22.6
PAT (Rs. crore)	-65.7	-87.2
OPBDIT/OI	-32.1%	6.0%
PAT/OI	-642.1%	-385.1%
Total outside liabilities/Tangible net worth (times)	0.9	1.0
Total debt/OPBDIT (times)	-161.8	417.9
Interest coverage (times)	-0.1	0.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

(*) – Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Jul 27, 2022	-	-	-
1 Issuer rating	Long-term	-	-	[ICRA]B (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable

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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Issuer Rating	-	-	-	-	[ICRA]B (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar

+91 124 4545 304

sabyasachi@icraindia.com

Prashant Vasisht

+91 124 4545 322

prashant.vasisht@icraindia.com

Sai Krishna

+91 22 6114 3435

sai.krishna@icraindia.com

Chirag Mehta

+91 22 6114 3423

chirag.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



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.