February 17, 2023

International Seaports (Haldia) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based Cash credit	10.00	10.00	[ICRA]BBB+(Stable); reaffirmed
Short-term non-fund based	10.00	10.00	[ICRA]A2+; reaffirmed
Long-term/Short-term unallocated	50.10	50.10	[ICRA]BBB+(Stable)/[ICRA]A2+; reaffirmed
Total	**70.10**	**70.10**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings considers ISHPL's healthy financial risk profile, reflected in its low gearing with nil debt and an adequate liquidity position. ISHPL witnessed a healthy revenue growth of 21% in FY2022, aided by 19% volume growth to 3.2 million MT in FY2022 (2.7 million MT in FY2021). Further, the volumes remained healthy at 2.3 million MT in 8M FY2023. The ratings continue to favourably factor in the long-term take-or-pay arrangement with Steel Authority of India Limited (SAIL) at competitive tariffs, which provides revenue visibility for the company. Going forward, with no debt-funded expansion plans over the medium term, the company's balance sheet is expected to remain healthy.

The ratings consider the increasing competition from the Dhamra Port and other berths in the Haldia Dock Complex (HDC). However, the relatively low tariffs, mechanised coal handling, location-specific advantage in terms of proximity to SAIL's plants and established rail linkages strengthen ISHPL's competitive position. Thus, there is limited incentive to shift the existing coking coal import arrangement from ISHPL to other facilities. The ratings also remain tempered by the low draft at HDC, which requires consistent Government support for dredging to maintain the draft and ensure the port's navigability. In the event of insufficient draft, the traffic at HDC and ISHPL's cargo volumes may be adversely impacted. However, such a probability is low, as the Haldia port is of strategic importance to the Government of India.

The ratings also remain constrained by the substantial contingent liabilities arising out of the claims levied by Syama Prasad Mookerjee Port, Kolkata (SMPK; erstwhile known as Kolkata Port Trust) through HDC for royalty and other charges. ICRA notes that in August 2021, the arbitration case between ISHPL and SAIL on underloading charges was awarded in favour of ISHPL. The matter of claims levied by SMPK is sub-judice. Any adverse development with regard to the contingent liabilities arising out of claims levied by SMPK will remain a key rating monitorable. ICRA also notes the high dividend payout by the company in the recent past.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that ISHPL will continue to benefit from the long-term take-or-pay agreement with SAIL and the competitive advantages, given its mechanised coal handling facilities and proximity to SAIL's plants.

Key rating drivers and their description

Credit strengths

Take-or-pay agreement for 30 years and increase in coking coal requirement by SAIL minimise demand risks – In 2002, ISHPL entered into a take-or-pay agreement with SAIL for 30 years. The agreement mandates SAIL to import a minimum quantity of

2.30 MTPA of coking coal using berth 4A operated by ISHPL. This, combined with the increasing coking coal requirements of SAIL on the back of the ongoing capacity expansion, is expected to minimise the demand risks faced by ISHPL.

Robust financial metrics – ISHPL remained debt free as on September 30, 2022, resulting in robust capitalisation and coverage indicators. ISHPL also continues to record healthy operating margins, resulting in positive cash accruals. In the medium term, with minimal capital expansion plans and a steady cash flow from operations, the financial profile is expected to remain healthy.

Established track record of promoters in handling port operations – ISHPL is promoted by three shareholders viz. S.S. Global Group, Precious Shipping Public Company Limited (PSL), Bangkok, and L&T Infrastructure Development Projects Limited (LTIDPL). S.S. Global Group has over 120 years of experience in port handling operations in major eastern ports of India such as Haldia, Visakhapatnam, Paradip and Chennai. LTIDPL is a subsidiary of L&T Ltd. and acts as a holding company of L&T's initiatives in the infrastructure industry.

Credit challenges

High recurring dredging requirement at Haldia port – The Haldia port requires consistent dredging to maintain draft and navigability, which can impact ISHPL's volumes. However, the risk is mitigated by the continuous Central Government support in the form of subsidies for dredging and the measures taken by Haldia Dock Complex to speed up the dredging process at the Haldia port. Also, the draft levels have improved in recent times, supported by regular dredging activities at the port, further mitigating the risk.

Increase in competition – The competition increased at the Haldia port due to mechanisation of berth 4B, resumption of operation at berths 2 and 8 and competition from ports like Dhamra. However, the risk is partly mitigated by ISHPL's overall cost-competitive tariff, aided by end-to-end mechanised operations at berth 4A, guaranteed efficiency parameters, established rail linkages and lower integrated logistics cost for coal imports at the Haldia port for some of the SAIL's plants. Also, SAIL's coking coal import trends indicate that only the incremental cargo demand by SAIL is being handled by other berths, while the utilisation levels of ISHPL have remained healthy.

Exposure to customer concentration risk – ISHPL's long-term viability is contingent on SAIL's ability to honour the contractual commitments, especially in the context of increasing competition.

Substantial contingent liabilities due to claims by SMPK through HDC– ISHPL has substantial contingent liabilities due to disputes with HDC over royalty and other charges. ISHPL contested the claims and the matter is sub-judice at present. In August 2021, the arbitration case between ISHPL and SAIL towards underloading charges was awarded in favour of ISHPL. Any adverse development with regard to contingent liabilities arising out of claims levied by SMPK will remain a key rating monitorable.

Liquidity position: Adequate

The liquidity is adequate, supported by healthy cash flow from operations given the healthy profitability levels, no long-term repayment obligations and minimal capex plans. However, devolvement of the contingent liability will have an adverse impact on the liquidity profile and is an important sensitivity factor. ISHPL's unencumbered cash and liquid investments stood at ~ Rs. 25.8 crore as on September 30, 2022. The liquidity was partly impacted by the higher dividend declared in FY2022 and 9M FY2023. Any significant dividend payout in the future could impact its liquidity position.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a notable reduction in contingent liabilities along with a material improvement in ISHPL's net worth position while maintaining healthy coverage indicators.

Negative factors – Pressure on the ratings could arise if there is devolvement of contingent liabilities, leading to weakening of the credit profile. The ratings could also witness pressure if there is a substantial decline in revenue and profitability or a stretch in the working capital cycle, leading to weakening of the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Port Industry](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

Note (for analyst reference only):

About the company

ISPHL is an SPV promoted by the S.S. Global Group, Precious Shipping Public Company Limited (PSL) of Thailand and L&T Infrastructure Development Projects Ltd. (LTIDPL), which have equity stakes of 55.3%, 22.4% and 22.3%, respectively, in the company. ISHPL had set up mechanised coking coal handling facilities at berth no. 4 A on a build, operate and transfer (BOT) basis, with a cargo handling capacity of 3-3.2 million tonnes at a total cost of Rs. 127 crore, and commercially commenced operations on January 15, 2004. The facilities at the berth include two grab type unloaders, conveyor system, stackers, reclaimers and automatic wagon loading system. The company has a licence to operate the berth for 30 years from the date of award of the licence (May 14, 2002) by HDC of SMPK. ISHPL committed a minimum guaranteed cargo of 1.25 million tonnes in its first year operation to SMPK and increased it steadily to 1.75 million tonnes in its fifth year of operation and further to 1.9 million tonnes from its 24th year of berth operation. ISHPL also has a take-or-pay agreement (tenure of 30 years, operational since 2002) with SAIL for using the berth to import coking coal with a minimum guaranteed quantity of 2.30 million tonnes. ISHPL receives a composite charge - terminal throughput charge from SAIL at the agreed rates over the tenure of the agreement, which incorporates a certain escalation rate.

Key financial indicators

	FY2021	FY2022	H1 FY2023*
Operating income	97.2	117.5	72.3
PAT	15.8	23.5	20.1
OPBDIT/OI	20.5%	24.6%	34.4%
PAT/OI	16.2%	20.0%	27.9%
Total outside liabilities/Tangible net worth (times)	0.1	0.2	0.1
Total debt/OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	351.9	2706.3	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 17, 2023	Dec 21, 2021	Oct 19, 2020	Nov 11, 2019
1	Fund based CC	Long-term	10.0	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Non-fund based	Short-Term	10.0	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
3	Unallocated	Long-Term/ Short-Term	50.1	--	[ICRA]BBB+ (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Short-term non-fund based	Very Simple
Unallocated limits	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Proposed cash credit**	NA	NA	NA	10.0	[ICRA]BBB+(Stable)
NA	**Bank guarantee**	NA	NA	NA	8.06	[ICRA]A2+
NA	**Proposed bank guarantee**	NA	NA	NA	1.94	[ICRA]A2+
NA	**Unallocated limits**	NA	NA	NA	50.10	[ICRA]BBB+(Stable)/ [ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

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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.

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