

June 13, 2023 <sup>(Revised)</sup>

## Chennai International Terminals Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term, non-fund based - Working capital facilities	98.00	98.00	[ICRA]A1; reaffirmed
Short term, unallocated limits	313.64	2.00	[ICRA]A1; reaffirmed
<b>Total</b>	<b>411.64</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation takes into consideration the strong parentage of Chennai International Terminals Private Limited (CITPL), which is owned by PSA International Pte. Ltd. (PSA, rated Aa1/Stable by Moody's). CITPL has a long track record of operations with financial and operational support from PSA, which is one of the largest container terminal operators in the world. CITPL has availed an external commercial borrowing (ECB) facility from PSA few years ago, to support capex requirements. The ECB's repayment is due in December 2023, which is likely to be either rolled over or refinanced, and the resulting impact on the coverage metrics would be a key monitorable. The rating also factors in the terminal infrastructure and advantages of Chennai port and the favourable long-term demand prospects of containerisation in India. ICRA also notes CITPL's low working capital intensity, given the high creditor days and low debtor days.

CITPL's container volumes witnessed some moderation in FY2023 owing to competition. The throughput levels, and hence the financial performance, remain susceptible to competition from another terminal at Chennai port as well as from other container terminals at the Kattupalli and Kamarajar (Ennore) ports, which have been ramping up their marketing efforts in recent years, and the overall growth in container volumes in the Chennai cluster. The actual impact of competition will depend on the overall traffic growth in the region and the competitors' ability to absorb additional capacities. Nonetheless, the impact of competition from these ports will be partly mitigated by the inherent advantages of the Chennai port, such as being an all-weather port with deep draft, access to a well-developed container freight station (CFS) network and a large hinterland with a diverse manufacturing base. Moreover, efforts are underway to revive some of the projects like Maduravoyal elevated highway to reduce congestion outside the Chennai port, which has faced significant delays and any developments on the same will be monitored.

The rating also notes the high revenue share payable by CITPL to ChPA (45.801% of CITPL's gross revenues), which adversely impacts its profitability vis-à-vis the competing terminals and the lack of flexibility to determine its own tariff rates as it was set up by the Tariff Authority for Major Ports (TAMP) and is following the TAMP 2019 guidelines. However, for new PPP terminals, the tariff setting going forward may be done by the port authority itself with the enactment of the Major Port Authorities Act 2021. The company has an ongoing legal dispute with TAMP over the regulator's decision to cut the tariff by 12.23% in March 2012. CITPL had received an interim stay from the high court and continued to operate at old tariff levels before moving to the new tariffs under the 2019 TAMP guidelines in January 2020. At present, there is status quo on this dispute, but the contingent liability related to this has now been capped at the levels during the transition to the new tariff regime. Any unfavourable outcome would have an adverse impact on the terminal's cash flows and liquidity profile. Further, there has been some favourable outcome on the lease-related disputes with ChPA, though they are subject to further appeal and ICRA continues to monitor the developments on this front.

## Key rating drivers and their description

### Credit strengths

**Strong support from parent PSA International Pte. Ltd.** – CITPL is a 99.99% subsidiary of PSA and derives operational benefits as part of the PSA Group, which is one of the largest container terminal operators in the world and enjoys healthy relationship with the liners. The board of directors has representation from PSA; the key managerial personnel are appointed by PSA for support and oversight. CITPL has availed external commercial borrowing (ECB) facility from PSA few years ago, to support capex requirement.

**Terminal infrastructure and advantages of Chennai Port** - CITPL benefits from the favourable yard layout, which allows it to deploy higher number of cranes. The port's seven twin lift quay cranes ensure better productivity and access to the rail terminal. CITPL has so far been able to meet all the operational conditions set in the licence agreement (LA) such as minimum traffic and mainline vessel calls. The Chennai port has a well-developed primary and secondary storage and handling infrastructure and enjoys being closer to a large hinterland with a diverse end-user base. Moreover, the Chennai port is an all-weather port with deep draft and handles high container volumes.

**Low working capital intensity** - CITPL's working capital intensity remains low owing to higher creditors. CITPL also enjoys low debtors as the liners make immediate payments to the company.

**Favorable long-term demand outlook** - The long-term demand prospects for containerisation in India is favourable. Additional up-shoots such as an increase in coastal and transshipment cargo due to policy initiatives will aid a higher-than-projected volume growth from exim trade in the long term.

### Credit challenges

**Higher revenue share and tariff risks** - The revenue share payable by CITPL to ChPA is high at 45.801% of CITPL's gross revenues, which adversely impacts its profitability vis-à-vis the competing terminals. ICRA notes that during the tariff ruling by TAMP in 2012, the regulator cut the tariff by 12.2% against a tariff hike request by CITPL. While CITPL got an interim stay from the high court and continued to operate at old tariff levels, it shifted to the new tariff regime under TAMP 2019 guidelines in January 2020. The contingent liabilities arising out of the TAMP disputes, which have been increasing in the last few years, have now been capped at an amount outstanding as on the transition date. However, there is status quo on the legal dispute with TAMP's 2012 tariff ruling, and any unfavourable outcome will have an adverse impact on the terminal's cash flows.

**Moderate financial risk profile** - The revenue witnessed slight moderation, though the operating profitability improved, aided by an increase in the scale of rates and a non-proportionate rise in costs. The company also reported net loss, although it had positive cash accruals. The capital structure is characterised by high gearing, comprising ECB from the parent. The ECB's repayment is due in December 2023, which is likely to be rolled over or refinanced, and the resulting impact on the coverage metrics would be a key monitorable. ICRA notes that in the near to medium term, the company will undertake capex to purchase cranes, which is expected to be funded from internal accruals. However, any debt funding towards the purchase would put pressure on the capital structure and coverage indicators.

**Competition from other terminal and ports** - The company faces high competition from other terminals in the Chennai port and other ports along the eastern coast of South India. The company also faces competition from other terminals at the Kattupalli and Kamarajar (Ennore) ports in the vicinity. CITPL's throughput levels remain susceptible to the overall volume growth of the port. The containers handled reduced to 0.81 million TEUs in FY2023 from 0.87 million TEUs in FY2022 owing to competition. Further, congestion on the roads from the port to the city outskirts has also been a constraint. Nonetheless, the impact of competition from other eastern coast ports will be partly mitigated by the inherent advantages of the Chennai port such as being an all-weather port with deep draft, access to a well-developed CFS network and a large hinterland with a diverse manufacturing base. Further, PSA's strength in the market and its relationship with the liners partly mitigate the impact. The actual impact of competition, going forward, will depend on the overall traffic growth in the region and the ability to absorb additional capacities.

## Liquidity position: Adequate

The company's liquidity profile has been adequate, supported by cash balances of ~Rs. 82.7 crore as on March 31, 2023. The cash flows from operations are expected to remain positive in FY2024. The company's capex plans in the near to medium term are expected to be funded by internal accruals.

## Rating sensitivities

**Positive factors** – The rating can be upgraded if there is any significant improvement in the revenues and profitability margins, backed by growth in throughput on a sustained basis, leading to sustained improvement in RoCE.

**Negative factors** – The rating could be downgraded if the revenue and profitability decline due to a significant decline in throughput or tariffs, or if the interest cover/DSCR deteriorates on sustained basis. The rating could also witness downward pressure if a large debt-funded capex puts pressure on the capital structure or an unfavourable verdict in the ongoing litigation leads to the devolvement of contingent liability, consequently putting pressure on the liquidity profile of the company.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Ports</a>
Parent/Group support	Parent/Group Company: PSA International Pte Ltd.  The rating factors in the implicit support of the parent - PSA International Pte Ltd - and ICRA expects it to be willing to provide financial support to CITPL, if needed, given CITPL's strategic importance as one of the four container terminals of the Group in India. The rating also considers the company's financial flexibility with lenders by virtue of its strong parentage
Consolidation/Standalone	Standalone

## About the company

CITPL is a special purpose vehicle (SPV) incorporated in 2006 to develop and operate the second container terminal at Chennai port. CITPL is a 99.99% subsidiary of PSA and derives operational benefits as part of the PSA Group, which is one of the largest container terminal operators in the world. In March 2007, CITPL entered a 30-year, build-operate-transfer (BOT) licence agreement with Chennai Port Authority (ChPA) to design, develop, finance, operate and market the second container terminal. As per the agreement, CITPL is required to share 45.80% of its gross revenues with ChPT during the licence period. Commercial operations at the terminal began from September 2009; the company handled 0.81 million TEUs in FY2023. The yard capacity is 1.25 million TEUs per annum.

## Key financial indicators (audited)

CITPL	FY2021	FY2022
Operating income	307.4	310.4
PAT	-8.0	-6.3
OPBDIT/OI	20.3%	19.1%
PAT/OI	-2.6%	-2.0%
Total outside liabilities/Tangible net worth (times)	2.9	3.1
Total debt/OPBDIT (times)	4.8	4.9
Interest coverage (times)	2.7	3.2

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Jun 13, 2023	Mar 31, 2022	Dec 21, 2020	Nov 11, 2019
1 Working capital facilities	Short term	98.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
2 Unallocated limits	Short term	2.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3 Term loans	Long term	0.00	0.00	-	[ICRA]AA (CE) (Stable); Withdrawn	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Stable)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term – Non-fund-based working capital	Very Simple
Short-term – Unallocated limits	NA

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
-	<b>Bank guarantee</b>	NA	NA	NA	98.00	[ICRA]A1
-	<b>Unallocated limits</b>	NA	NA	NA	2.00	[ICRA]A1

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**
**Corrigendum**

Document dated June 13, 2023 has been corrected with revisions as detailed below:

The complexity indicator of the Short-term – Non-fund-based working capital has been corrected.

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