December 01, 2023

Simar Port Private Limited: Ratings downgraded to [ICRA]BB(Negative)/[ICRA]A4; outlook continues to be Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	1415.0	1415.0	[ICRA]BB; rating downgraded from [ICRA]BB+; outlook continues to be Negative
Short -term – Non-fund based-Bank guarantee	100.0	100.0	[ICRA] A4; rating downgraded from [ICRA]A4+
Total	**1,515.0**	**1,515.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating revision for Simar Port Private Limited (SPPL/ the company) is driven by the weakening of the credit profile of its parent i.e., Shapoorji Pallonji Infrastructure Capital company Private Limited {SPICCPL, rated [ICRA]BB+(Negative)/[ICRA]A4+} and the moderation in the financial flexibility of the Shapoorji Pallonji Group (SP Group).

The ratings, however, draw comfort from the SP Group's strong execution capabilities, the extensive experience of the promoters, the expertise of its managerial and technical personnel heading key business verticals, and the track record of timely financial and operational support from promoter entities. The ratings also factor in the contract for the construction of the breakwater awarded to SPICCPL, which in turn has awarded it to Afcons Infrastructure Limited {AIL; rated [ICRA]A+(Stable)/[ICRA]A1} that has an established track record of executing 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 the construction period.

The ratings continue to factor in the extended scheduled commercial operations date (SCOD) of the project, which is within four years of the originally scheduled SCOD of October 2020. If the SCOD stretches beyond October 2024, the company will not be to meet the requirements to be classified as a 'standard' account under the Reserve Bank of India's (RBI) regulations and will remain a key risk for the entity to access any additional funding, if required.

ICRA notes that the company has achieved financial closure for the debt to be tied up for the project and is in advanced stages of receiving approval from the Gujarat Maritime Board (GMB) for the revised scope. The company also remains exposed to residual project execution risk associated with the project, as physical progress of ~61.2% has been achieved as on October 31, 2023. ICRA notes that the parent, SPICCPL, has arranged funds for infusion of equity in Simar Port Private Limited, which will lead to adequate fund availability for completion of the project.

The ratings also consider the modest capitalisation and coverage indicators for the project in the initial years. Further, due to descoping of the project, SPPL will entirely depend on the LNG terminal's capacity utilisation for cash flows, making it vulnerable to the vagaries of global gas prices and the LNG market. The LNG terminal's capacity utilisation will also remain contingent on the timely achievement of pipeline connectivity with Gujarat State Petronet Limited's (GSPL) gas pipeline network. The pipeline connectivity is expected to be achieved by December 2023 and will remain a key monitorable.

After the descoping of the project, the proposed revised cost now stands at ~Rs. 1,957 crore. ICRA notes that the balance equity infusion for the project remains around Rs. 205 crore and the parent SPICCPL has tied up funds for infusing the equity which largely mitigates the funding risks. The ratings also factor 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 by HPCL LNG. ICRA will be monitoring the development of the LNG terminal.

The Negative outlook reflects the outlook on the sponsor's ratings. The outlook also reflects the weakening of the financial flexibility of the Group which may impact the ability of Simar Port to access additional funding, if required, going forward.

Key rating drivers and their description

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 the construction, real estate and infrastructure businesses. SPICCPL, which is a wholly-owned subsidiary of Shapoorji Pallonji and Company Private Limited {SPCPL; rated [ICRA]BBB- (Negative)/ [ICRA]A3} and also the parent company for Simar Port, is the infrastructure-holding company of the SP Group having strong presence in the roads, port, power and resource segments.

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

Sub-concession agreement for LNG terminal with a strong counterparty– HPCL, through its subsidiary HLNG, is setting up a 5-MMTPA LNG terminal at Chhara port. HPCL has guaranteed part offtake from this terminal. SPPL, in turn, benefits from this arrangement as its revenues from the LNG terminal would be linked to the R-LNG offtake. ICRA will also be monitoring the development of the LNG terminal. ICRA expects HPCL to meet its captive LNG requirements majorly through this terminal, which should benefit Simar Port as well.

Credit challenges

Delays in project execution and cost overruns lead to muted debt servicing metrics - There has been significant delays in project execution with the proposed SCOD now expected to be revised from October 2023 (originally October 2020) to June 2024, along with the descoping of the project. The ratings are further constrained by the high execution risk associated with the overall project, given its current physical progress and the long construction period, in addition to the initial delays in project execution. As on October 31, 2023, the physical progress was ~61.2%. The project includes construction of the 1.95-km (changed from 3.9 km) breakwater structure (which forms ~42% of the project cost).

Entire dependence of cash flows on LNG terminal capacity utilisation, which remains exposed to vagaries of the LNG market - After the descoping of the bulk terminal, the focus of the project is on completing the breakwater (reduced length to 1,950 metres) and the associated infrastructure only for the LNG terminal. This makes SPPL dependent on the LNG terminal capacity's utilisation, which again is exposed to the vagaries of the LNG market. Gas prices, which were higher in H1 CY2022, have moderated and may remain volatile, impacting natural gas demand and thus the capacity utilisation at the LNG terminal level. ICRA also notes that the pipeline connectivity for the HPCL LNG terminal with the gas grid network of Gujarat State Petronet Limited (GSPL) is yet to be achieved although it is expected to be completed by December 2023. Any material delay in completing the pipeline connectivity may adversely impact the operations of the LNG terminal and in turn affect SPPL's cash flows. Thus, the achievement of pipeline connectivity for the HPCL LNG terminal will remain a key monitorable.

Return indicators to remain modest on account of significant capital cost – The company is undertaking construction of the breakwater structure, keeping in view the proposed LNG terminal at Chhara. The company had incurred a substantial amount towards the descoped project which is currently not part of the revised project plan. Even excluding the cost incurred towards the descoped project, the return indicators are expected to remain modest in the initial years.

Liquidity position: Stretched

SPPL's liquidity is expected to remain stretched, given the pending financial closure for the incremental debt required for the project and the pending equity infusion from the promoter. For its equity requirements, SPPL is dependent on SPICCPL's liquidity position, which is stretched. SPICCPL has free cash balance of Rs. 26.9 crore and investments in liquid mutual funds of Rs. 8.6 crore as on September 30, 2023. Given SPICCPL's status as a holding entity, it remains dependent on the timely realisation of divestment proceeds to meet the debt servicing obligations and equity commitments.

Rating sensitivities

Positive factors – The outlook may be revised to Stable if the project is completed as per the revised project cost estimates and timelines.

Negative factors – Further delay in project execution, and/or deterioration of the parent's credit profile, and/or weakening of the linkages with the parent may lead to a downward revision of the ratings.

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 : SPICCPL (Immediate Parent) Ultimate Parent: SPCPL The rating assigned to SPPL factors in the very high likelihood of its ultimate parent, SPICCPL, and Shapoorji Pallonji and Company Private Limited (SPCPL) extending financial support to itbecause of the close business linkages between them. ICRA also expects the 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, the Gujarat Maritime Board (GMB) invited bids for the 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 to develop the 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 the development of the Chhara Port. Earlier, SP Ports Private Limited (SPPPL), a wholly-owned subsidiary of Shapoorji Pallonji Infrastructure Capital Company Private Limited (SPICCPL), held 99.99% equity shares of the company. SPPPL has now been merged with SPICPL and the 99.99% stake is held by SPICCPL. The balance stake is held by Afcons Infrastructure Limited and Forbes & Company Limited equally.

The scope of the project being executed by SPPL was reduced, as discussed during the last surveillance exercise. At present, the company will be executing project activities related to the LNG project only i.e. setting up of the breakwater. As a result, the project cost had been revised to ~Rs. 1,957 crore from Rs. 4,085 crore earlier. Additionally, due to delays caused by the acquisition of certain key land parcels, the CoD of the project has been shifted to July 2024 from October 2023.

Earlier, SPPL had proposed to develop two terminals - a 15-MMTPA bulk terminal (8 MMTPA in first phase) and a 5-MMTPA LNG terminal - along with the common infrastructure and backup areas at Chhara. 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 sold its stake in 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 (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 1, 2023	Apr 19, 2023	Mar 07, 2022	04-Nov-2020	30-Dec-2019
1	Term loans	Long term	1415.0	780.0	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA] BBB- (Negative)	[ICRA] BBB- (Negative)	[ICRA] BBB- (Negative)
2	Bank guarantee	Short term	100.0	-	[ICRA] A4	[ICRA] A4+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Short-term – Non-fund based bank guarantee	Very 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 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	Term loan	Oct-2016	NA	Jun-2045	1415.0	[ICRA]BB (Negative)
NA	Bank guarantee	NA	NA	NA	100.0	[ICRA]A4

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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