

November 24, 2017

## Kakinada Seaports Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term Loans	339.43 (revised from 433.01)	[ICRA]A(stable) reaffirmed
Long term unallocated	93.48(earlier nil)	[ICRA]A(stable) reaffirmed
Non Fund Based Working Capital Limits	109.55	[ICRA]A1 reaffirmed
<b>Total</b>	<b>542.46</b>	

\*Instrument details are provided in Annexure-1;

### Rating action

ICRA has reaffirmed the long-term rating at [ICRA]A (pronounced ICRA A) for the Rs. 339.43 crore (revised from Rs. 433.01 crore) long term loan facilities and Rs. 93.48 long term unallocated facilities of Kakinada Seaports Limited (KSPL). ICRA has also reaffirmed the short-term rating at [ICRA]A1 (pronounced ICRA A one) assigned to Rs. 109.55 crore short-term non-fund bank facilities of Kakinada Seaports Limited (KSPL). The outlook on the long-term rating is 'Stable'.

### Rationale

The ratings reaffirmation reflects the operating strengths of the Kakinada deep water port including its advantageous location and all weather conditions; strategic proximity to the KG basin resulting in high margin Off-shore vessels (OSV) traffic and income and flexibility in tariff determination being a non-major port. ICRA notes that the cargo volumes at the port continued to witness moderation during FY2017, due to decline in coal volumes and OSV traffic also declined due to subdued E&P activity in the region. However, financial risk profile remained steady as can be seen from the healthy return indicators, healthy cash accruals, comfortable gearing levels and robust debt protection metrics. During the first half of current fiscal, while the coal volumes continued to remain constrained, there has been some improvement in other cargo segments leading to moderate throughput improvement on annualized basis. The OSV segment is expected to remain flat in the near term, supported by fixed contracts with several customers and will ensure minimum guaranteed income. However, some of the potential upside expected from other developments at the port and its hinterland including proposed R-LNG terminals over the medium to longer term, may witness delays. In ICRA's view, ability to sustain the volumes in the face of challenging macro economic conditions and high competition remain critical for generation of cash in line with the debt servicing obligations. The ratings are constrained by the large capex undertaken by the company for setting up the seventh berth for handling bulk and container cargo which entails market risks for the new capacity; however, despite the large capex, ICRA expects the credit metrics to remain satisfactory due to long tenure of the loans. Further ICRA notes that the company is in talks with a third party to lease out part of berth 7 for a fixed annual rental, which will mitigate the impact. The timeliness of finalization of agreement and quantum of rental income remains a sensitivity factor. The ratings are also constrained by the high competitive intensity for bulk cargo on the eastern coast which results in high commercial risks for the company's augmented capacity. However, the risk is partly mitigated by the tie-ups entered into with a major cargo handling agent. ICRA also notes that in 2010-11, KSL had taken significant investment exposure to some of its promoter group companies and while there has been decrease in these investments in the past few years, timeliness of recovery of balance investments, as indicated by the company would be crucial from credit perspective. Further, any new direct/indirect exposure to group companies will continue to be a key rating sensitivity.

KSL as part of a consortium has won the contract for setting up a coal terminal at Paradip Port in current fiscal. This project may entail equity investment of ~Rs. 60 crore over next three years by the company and will not have adverse impact on credit profile, ICRA further notes that KSL, as part of its expansion strategy, may participate in future bidding rounds for setting up new ports or PPP projects at the major ports. These event based risks for the company have not been factored while assigning the ratings and ICRA shall evaluate the impact of the same on its credit risk profile as and when they materialise. ICRA also takes note of several claims raised by GoAP, which includes a Rs. 63.4 crore claim raised in FY16 related to payment of revenue share on port dues for the period of 1999-2005. Any adverse outcome on this contingent liability could put pressure on credit metrics and will be

## Key rating drivers

### Credit strengths

- **Strong operational profile attributable to favourable location and all-weather port conditions** - Kakinada Deep Water Port (KDWP) is a non-major port located on the eastern coast of India in the Godavari district of Andhra Pradesh. The deep-water port has the natural advantage of protection afforded by the Godavari sand spit (Hope Island), further enhanced by the construction of a short island breakwater of 1,050 m length. As a result, the port enjoys tranquil weather conditions, enabling smooth vessel movement throughout the year and is not prone to cyclonic or monsoon related disruptions that are common on the eastern coast.

KDWP also enjoys the benefit of a well-developed primary industrial hinterland, which gives it assured volumes of captive cargo, namely, fertiliser raw materials-FRM (for manufacturing facilities of Nagarjuna Fertilisers- Urea and Coromandel International - DAP, located in Kakinada) , crude edible oil imported by various refineries in Kakinada (around 11 in number with cumulative refining capacity of 3000 tpd) and import of raw sugar and export of bagged sugars from a 1 million metric tonnes sugar refinery of the Murugappa Group-owned EID Parry (India) Ltd. The port's competitive positioning is further supported by its well established multi-modal connectivity by road, rail and pipelines (for liquid cargo) for cargo evacuation and its moderate draft levels (13.5m). Apart from the core port operations, Kakinada has been in prominence in the last few years as a transit base for exploration and production (E&P) majors prospecting oil and gas in the KG basin and this business has resulted in high margin income from the OSV traffic..

- **Tariff setting flexibility** – KSL enjoys tariff setting flexibility as per current applicable regime for non major ports
- **Healthy financial profile and credit metrics** – The Company's financial profile is characterized by healthy profit margins. The capital structure and coverage indicators have also been healthy despite high capex undertaken in the recent past.

### Credit weaknesses

- **Vulnerability of cargo volumes to cyclicity /demand risk** – While the company benefits from proximity to industrial hinterland, the company’s cargo volumes remains vulnerable to cyclicity /demand risk for specific industries. The company witnessed moderation in cargo volumes in last two years (from 17.96 million tons in FY15 to 12.48 million tons in FY17) mainly on account of reduction in coal volumes due to lower demand from APGENCO<sup>1</sup> and TSGENCO<sup>2</sup>, owing to lower industrial demand and direct power purchase from neighboring states and coal requirement of MAHAGENCO<sup>3</sup> being catered to by Mumbai Port. The company also witnessed moderation in certain other cargo segments like cement clinkers, while the impact was partly off-set by growth in volumes of other cargo segments for fertilizer raw materials (FRM), alumina and granite. Similarly, the demand from OSV segment depends on the E&P activity in the region, which has been subdued in last two years leading to decline in OSV traffic from around 1404 vessels in FY15 to ~677 vessels in FY17. However, the impact is partly mitigated by long term contracts with certain customers in the OSV segment which ensures minimum guaranteed income from these customers irrespective of actual usage.
- **High competition and market risk associated with augmented capacity** – Despite the locational advantages, KSL faces intense competition, particularly for bulk cargo such as coal and iron-ore, on the eastern coast due to the presence of a number of major ports such as Vizag, Ennore and Paradip (most of whom are in the midst of/have lined up large-scale expansion plans through the BOT route) and non-major ports such as Krishnapatnam, Gangavaram and Dhamra (with further large-scale subsequent phases planned over the medium-to-long term) and the large number of proposed greenfield port ventures in Andhra Pradesh and Orissa (although with most of them being in early stages, the competitive risk would be relevant only over the longer term). As a result, the market risk for the company is expected to be of a high order particularly in light of its expanded capacity. Some of the protective factors for KSL include its competitive tariffs attributable to its depreciated asset base; well-established hinterland, which offers assured incremental demand for certain cargoes; tie-ups with cargo handling agents and well established multi-modal connectivity. The company is in talks with a third party to lease out part of berth 7 for a fixed annual rental, which will mitigate the impact. The timeliness of finalization of agreement and quantum of rental income remains a sensitivity factor.
- **Unrelated investment exposure** – In 2010-11, KSL had taken significant investment exposure to some of its promoter group companies. While there has been decrease in these investments in the past few years, timeliness of recovery of balance investments, as indicated by the company and any other new exposure to group companies will continue to be key rating sensitivities.
- **Claims from GoAP** – While in the normal course of business there are several disputes related to various claims between the company and GoAP, the implication of these on the company’s credit profile is not expected to be material. However, during FY16, GoAP had raised claims of Rs. 63.4 crore of revenue share to be paid on port dues collected for the period of 1999-2015, which is being disputed by the company. In case of adverse outcome on this, there may be some pressure on the credit metrics and the development will be monitored.

### Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

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<sup>1</sup> Andhra Pradesh Power Generation Corporation

<sup>2</sup> Telangana State Power Generation Corporation Limited

<sup>3</sup> Maharashtra State Power Generation Company

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

**About the company:**

Kakinada Seaports Ltd. (KSL) is engaged in the operations of the Kakinada Deep Water Port (KDWP) in Andhra Pradesh, under a Concession Agreement with the Government of Andhra Pradesh (GoAP) valid until March 2029 with an option for further extension in two blocks of 10 years each. As per the current shareholding structure, Kakinada Infrastructure Holdings Pvt Ltd. (KIHPL), which is an investment vehicle of Mr. K.V. Rao, an industrialist, holds 41% stake; the Konsortium Group holds 29% (includes 17.35% stake of Konsortium Ports Pte Ltd. (Mauritius) and 11.13% stake of South India Infrastructure Development Co. Pvt Ltd) while V.R. Investments (a group of NRIs) holds the balance 30%. KSL's operations are headed by Mr. K.V. Rao as its Chairman & Managing Director.

During fiscal year 2016-17, the company reported profit after tax (PAT) of Rs. 111.3 crore on an operating income of Rs. 415.4 crore.

**Key Financial Indicators**

	FY2016	FY2017
Operating Income (Rs. crore)	417.9	415.4
PAT (Rs. crore)	114.9	111.3
OPBDIT/ OI (%)	57.1%	55.1%
RoCE (%)	19.6%	16.1%
Total Debt/ TNW (times)	0.5	0.4
Total Debt/ OPBDIT (times)	1.6	1.5
Interest coverage (times)	9.1	9.2
NWC/ OI (%)	24.8%	28.5%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);*  
*NWC: Net Working Capital;*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**
**Table:**

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
					November 2017	July 2016	September 2015	July 2014	
1	Term Loans	Long Term	339.43	339.43	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A- (stable)	
2	Long term unallocated	Long Term	93.48	93.48	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A (stable)	[ICRA]A- (stable)	
3	Non Fund Based Working Capital Limits	Short Term	109.55	109.55	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	

@Rating watch with negative implications

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1  
Instrument Details**

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	-	-	June 2018	9.12	[ICRA]A(stable)
	Term Loan 2	-	-	June 2017	3.33	[ICRA]A(stable)
	Term Loan 3	-	-	September 2019	49.90	[ICRA]A(stable)
	Term Loan 4	-	-	September 2018	39.18	[ICRA]A(stable)
	Term Loan 5	-	-	December 2025	130.28	[ICRA]A(stable)
	Term Loan 6	-	-	December 2025	107.62	[ICRA]A(stable)
NA	Long term unallocated	-	-	-	93.48	[ICRA]A(stable)
NA	Non Fund Based Working Capital Limits	-	-	-	109.55	[ICRA]A1

Source: KSL;

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### About ICRA Limited:

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