September 20, 2022

Kamarajar Port Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Tax-free bonds	500.0	500.0	[ICRA]AA- (Stable); reaffirmed
Total	**500.0**	500.0	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Kamarajar Port Limited (KPL), along with its parent, Chennai Port Authority (ChPA) along with its wholly-owned subsidiary Kamarajar Port Limited (KPL) given the financial and operational linkages between the two entities, although KPL operates as a separate limited company.

The rating reaffirmation factors in the strategic importance of ChPA and its subsidiary, KPL, as they are among the 12 major ports in India, and the sovereign ownership of ChPA, which is under the direct administrative control of the Ministry of Shipping (MoS). Although KPL was acquired by ChPA in March 2020, KPL continues to operate as a limited company and remained outside the purview of the Tariff Authority for Major Ports (TAMP). As per the Major Ports Authority Act dated November 3rd, 2021, Chennai Port Trust has been renamed Chennai Port Authority and it no longer falls under the purview of TAMP, giving it tariff flexibility.

The rating considers the cargo profile of ChPA and KPL, with ChPA being the second-largest container handler among the major ports. Together with KPL, it accounts for ~24% of India's container share in FY2022. The container terminals at ChPA and KPL are operated by reputed global and domestic port logistics players with revenue share and minimum guaranteed volume clauses in their contracts. The other key cargoes handled at ChPA are crude oil and automobiles, while KPL handles coal.

While ChPA operates the other non-container cargo berths on its own, KPL operates mainly on landlord port basis. The performance of the consolidated entity improved with the increase in cargo volumes in FY2022. The cargo volumes continued to be healthy in 4M FY2023. The rating also factors in the vast industrial hinterland catered to by the two ports and the operational synergies between the ports that have lowered competition and streamlined capacity planning in the Chennai region.

The rating continues to be constrained by the impact of a debt taken by ChPA to acquire KPL on the capital structure and debt coverage indicators of the consolidated entity. ChPA had availed a Rs. 1,775-crore debt in FY2020 to acquire KPL for a total consideration of Rs. 2,380 crore. In view of the limited cash generation from operations, ChPA's debt will be serviced by the dividend payments from KPL, although the liquidity profile is supported by a 15-year repayment tenure.

ChPA also maintains a 3-month DSRA and ~Rs. 200-crore reserve fund for debt servicing, and all dividend payments from KPL will be routed through an escrow account for debt servicing. Further, due to the high pension obligations and salary outgo for ChPA, the profit margins of the consolidated entity are constrained. ICRA also notes that ChPA's adjusted net worth is negative because of large unfunded pension and other retirement liabilities, which weaken the consolidated entity's net worth.

Further, there is high competition and overcapacity in the container segment at the Chennai cluster; although the risk is partly mitigated by captive customers for certain cargo segments as well as by the minimum guaranteed volume commitment and revenue share from container terminal operators. ICRA also notes the congestion issues at ChPA. However, the risk should be mitigated by the completion of some of the connectivity projects currently under implementation. ICRA also notes the significant increase in KPL's contingent liability due to the claims raised by one of the BOT operators and any developments on the same will be monitored.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the consolidated entity will continue to benefit from the sovereign ownership of the parent entity and its strategic importance to the Government of India (GOI), the favourable location of the ports, the long-term revenue share contracts with reputed global and domestic BOT concessionaries and the high captive cargo of KPL.

Key rating drivers and their description

Credit strengths

Strategic importance and Government linkages – ChPA, together with KPL, is strategically important to the GoI for the economic growth of the country as they are among the 12 major ports in India. The GoI earlier held a 66.7% stake in KPL and the remaining was held by ChPA. In March 2020, ChPA acquired the GoI's stake in KPL, making it a wholly-owned subsidiary. Despite the change in ownership, KPL is expected to operate as a limited company, with its management and operational independence remaining outside the purview of TAMP, giving it tariff flexibility. The acquisition provided operational synergies in the form of lower competition and streamlined capacity planning. Further, ChPA is under the direct administrative control of the Ministry of Shipping (MoS) with board representation from the ministry, the Department of Customs, Government of Tamil Nadu (GoTN) and Mercantile Marine Department, which reflects strong Government linkages. Besides administrative linkages, the trust has also received moderate financial support in the form of grants from MoS to part fund some of the capex programmes undertaken by the authority.

Favourable location of ports with adequate draft and access to large hinterland - Both the Chennai and Kamarajar ports are all-weather ports on the south-east coast of India and the north-east corner of Tamil Nadu. Present along the international shipping route, both ports operate as an attractive port of call. Further, the draft available at the ports are adequate in the range of 15-17m, which allow them to handle bigger vessels with higher economies of scale, resulting in significant cost advantages for the end-users. Both the ports have access to the vast hinterland of Tamil Nadu, and parts of Karnataka and Andhra Pradesh, handling a variety of cargo comprising containers, coal, liquid and break-bulk cargo.

The Chennai Port had traditionally been a bulk port handling coal, iron ore, liquid and dry bulk and catering to the needs of power generators, oil refineries and the steel/ aluminium plants. However, after the commissioning of the container terminals in 2001 and 2009 along with the shift of coal and iron ore cargo to Kamarajar Port in 2012, following the High Court's orders citing pollution and hazardous risks for citizens living near the port, ChPA has become predominantly a container handling port, while KPL mainly handles coal and other break-bulk cargo.

Hybrid operating model - While KPL operates mainly on landlord port basis, ChPA functions under the hybrid concept, wherein the port operates the berths on its own, handling general cargo, including liquid, dry bulk and break-bulk. The container terminals, meanwhile, are operated though the build-operate-transfer (BOT) route by private operators. With the major cargo generating terminals operating under the landlord model, investment from the consolidated entity towards the container terminals are restricted to common infrastructure, capital/maintenance dredging and connectivity projects.

Credit challenges

Credit profile of consolidated entity impacted by large debt-funded acquisition of KPL - In March 2020, ChPA had acquired the remaining 66.7% stake in KPL for a total consideration of Rs. 2,380 crore. The acquisition was funded through a debt of Rs. 1,775 crore and the remaining from internal resources, including cash and large advances from its customers. While the acquisition is expected to provide operational synergies to ChPA by reducing the common expenses, lowering competition and streamlining capacity planning in Chennai, the large interest and principal obligation have put some pressure on the capital structure and coverage indicators of the consolidated entity.

The repayments at ChPA are supported through the dividends received from KPL as the cash accruals generated at ChPA at a standalone level is insufficient to service the debt obligations. ChPA also maintains a 3-months DSRA and ~Rs. 200-crore reserve account during the period of debt. The repayment period is spread over 15 years with a ballooning structure and the dividend payments from KPL will be routed through an escrow account. The financial profile of KPL has remained strong on the back of healthy profitability over the years, driven by its landlord port model and high revenue share from its concessionaires. KPL paid a dividend of Rs. 240 crore for FY2022.

Further, while the capex plans for ChPA is limited, KPL has lined up large capital expenditure towards a second general cargo berth, capital dredging and breakwater strengthening projects., which is planned to be funded by internal accruals.

Further, KPL's contingent liability increased to Rs 2,113.6 crore as on March 31, 2022, against Rs 1,351.4 crore as on March 31, 2021, due to arbitration proceedings by one of the BOT operators claiming various delays by KPL. In addition, contingent liabilities also include claims raised by contractors towards contract/supply work. The developments on such liabilities will be monitored.

Impact on profitability on account of large pension liabilities and high employee expense of ChPA – ChPA is one of the oldest operating major ports in India; at the standalone level, it has a large employee base of 3,486 and 14,653 pensioners as of March 2022. The large annual employee and pension expenses adversely impact the operating profitability of the consolidated entity. In addition, the large deficit position of Rs. 2,480 crore as of March 2022 in the pension fund of ChPA (compared to actuarial estimates of liabilities) necessitates regular contribution from the P&L account to these funds, which further impacts the operating profitability. Moreover, the net worth position adjusted for the deficit is negative, impacting the capital structure. Although the pension payment to retirees and employee expenses is expected to moderate gradually in the medium to long term, the deficit position in the pension fund of ChPA is likely to continue over the next 10-15 years and reduce gradually upon regular contribution from the revenue account.

High competition and cargo volatility - ChPA and KPL face competition from other ports in the vicinity, such as the Kattupalli and Krishnapatnam ports. Further, in recent years, the container handling capacity at KPL and Kattupalli has increased, which has also impacted container segment growth at ChPA. Nonetheless, the risk is mitigated for the consolidated entity by expected synergies, presence of captive cargo (like Tamil Nadu Generation and Distribution Corporation Limited for KPL and Chennai Petroleum Corporation Limited for ChPA) and the long-term contracts with reputed domestic and global container terminal operators with minimum guaranteed volumes and revenue share. Further, with coal accounting for nearly 55% of cargo of KPL, the performance of the port and consolidated entity remains susceptible to the volatility in coal demand.

Congestion issues - ChPA faces congestion issues, which impact cargo evacuation from the ports and in some cases have also resulted in diversion of cargo to competition. However, the congestion is expected to reduce over the next few years upon the completion of road connectivity projects that are currently under construction.

Liquidity position: Adequate

At the standalone level, KPL has a healthy track record of strong fund flow from operations, although the free cash flows were impacted by the large capex incurred and the dividend paid. The company has a large capex plan in the near term, with a large dividend payment to ChPA (Rs. 240 crore in FY2022) as well as repayment obligation of ~Rs. 116 crore in FY2023 and ~Rs. 113 crore in FY2024. However, the liquidity is expected to remain adequate, supported by unencumbered cash balances and liquid investments (~Rs. 13 crore as on March 2022).

At a consolidated level (including ChPA), cash flows improved in FY2022 and are expected to improve in FY2023 and FY2024 as well, aided by increased volumes and the healthy profitability of KPL. The free cash flow is expected to remain constrained by debt repayment of ~Rs. 115 crore in FY2023 and Rs. 160 crore in FY2024 along with the large capex requirements (mainly at KPL). However, the Group's liquidity profile is likely to remain adequate, supported by healthy fund flow from operations and unencumbered cash balances.

Rating sensitivities

Positive factors – KPL's rating could be upgraded if the consolidated entity can demonstrate a steady cargo growth, leading to higher revenues and cash accruals on a sustained basis, while maintaining profitability and a stable working capital intensity. A specific credit metric that could lead to upgrade is TD/OPBDITA <2.00 times for the consolidated entity on a sustained basis.

Negative factors – Negative pressure on KPL's ratings may arise if the consolidated entity's financial profile weakens due to lower cash accruals with a significant drop in volumes or margins, on a sustained basis, owing to competition or adverse economic trends. A larger-than-expected debt-funded capex weakening the liquidity profile will also affect the ratings. Moreover, reduction in sovereign ownership of the authority or dilution in strategic importance may trigger a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Ports Rating Approach – Implicit Support from Parent or Group
Parent/Group support	The rating derives comfort from the sovereign ownership of ChPA and its strategic importance to GoI
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of Chennai Port Authority and Kamarajar Port Limited. The rating is based on the consolidated financial profile of ChPA and KPL.

Note (for analyst reference only):

About the company

Chennai Port Authority:

Formerly known as Madras Port, Chennai Port Authority (ChPA) officially commenced operations in 1881, although maritime trade started much earlier in 1639 on the undeveloped shore. An artificial and all-weather port with wet docks, Chennai Port is the third-oldest port among the 12 major ports of India and is a major hub for containers, cars and project cargo in the eastern coast of India. While the port had traditionally been a bulk port catering to the needs of power generators, oil refineries and the steel/aluminium plants in the primary hinterland of southern India, it handled coal, iron ore, liquid and dry bulk as majority of its overall cargo mix. However, in the last decade, following a shift of coal and iron ore cargo to the Kamarajar Port and the commissioning of container terminals, the port has predominantly become a container handling port followed by liquid and other break-bulk cargo. At present, the port has two container terminals operating under the landlord concept, run separately by DP World Pvt. Ltd. and Singapore's PSA International Pte Ltd., with a combined capacity to handle 2.5 million TEUs a year. The port trust also functions as a terminal operator for some its berths handling general cargo, including liquid, dry bulk and break-bulk.

Subsequent to the Major Ports Authority Act, Chennai Port Trust has been renamed Chennai Port Authority and the act vests the administration, control and management upon the board of ChPA.

Kamarajar Port Limited:

Kamarajar Port Limited (KPL; erstwhile Ennore Port Limited), incorporated in 1999, is a major port located 24km north of Chennai. It was declared a major port under the Indian Ports Act in March 1999 and was the first major port to be incorporated under the Companies Act, 1956. The port was dedicated to the nation in February 2001 and commenced operations from June 2001 with two dedicated coal berths handling thermal coal for the power stations of Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). The Ennore Port was originally conceived as a satellite port to the Chennai Port, primarily to handle thermal coal to meet the requirements of TNEB (now TANGEDCO); subsequently, its scope was expanded to enable KPL to handle other cargo. The port largely functions under the landlord concept, wherein new terminals are developed through the BOT model by private operators. Earlier, the GoI held 66.7% stake in KPL with the remaining stake held by ChPA. However, on March 27, 2020, ChPA acquired the entire stake from GoI, and KPL became a wholly-owned subsidiary of ChPA.

Key financial indicators (audited)

KPL Standalone	FY2021	FY2022
Operating income	581.09	832.62
PAT	152.7	440.2
OPBDIT/OI	75.6%	80.9%
PAT/OI	26.3%	52.9%
Total outside liabilities/Tangible net worth (times)	0.36	0.29
Total debt/OPBDIT (times)	1.76	1.05
Interest coverage (times)	6.3	10.8

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

Chennai Port Authority Consolidated	FY2021	FY2022
Operating income	1,375.42	1,666.37
PAT	-21.5	313.3
OPBDIT/OI (%)	25.6%	38.1%
PAT/OI	-1.6%	18.8%
Total outside liabilities/Tangible net worth (times)	0.86	0.74
Total outside liabilities/Tangible net worth (times)#	8.07	4.97
Total debt/OPBDIT (times)	6.58	3.31
Interest coverage (times)	1.9	4.0

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3" colspan="2">Instrument</th><th colspan="4">Current rating (FY2023)</th><th colspan="5">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount rated (Rs. crore)</th><th rowspan="2">Amount outstanding as of March 31, 2022 (Rs. crore)</th><th>Date & rating in FY2023</th><th>Date & rating in FY2022</th><th colspan="2">Date & rating in FY2021</th><th>Date & rating in FY2019</th></tr>
<tr><th>Sep 20, 2022</th><th>Sep 30, 2021</th><th>Sep 16, 2020</th><th>Apr 24, 2020</th><th>Mar 28, 2019</th></tr>
<tr><td>1</td><td>Bonds</td><td>Long-term</td><td>500.0</td><td>376.05</td><td>[ICRA]AA- (Stable)</td><td>[ICRA]AA- (Stable)</td><td>[ICRA]AA- (Stable)</td><td>[ICRA]AA (Stable)</td><td>[ICRA]AA (Positive)</td></tr>
</table>

&= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bonds	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE363O07020	**Bond**	Mar 2013	7.01%	Mar 2023	82.9	[ICRA]AA-(Stable)
INE363O07046		Mar 2013	7.17%	Mar 2028	11.7	
INE363O07053		Mar 2014	8.36%	Mar 2024	35.1	
INE363O07087		Mar 2014	8.61%	Mar 2024	44.4	
INE363O07061		Mar 2014	8.75%	Mar 2029	72.4	
INE363O07079		Mar 2014	8.75%	Mar 2034	18.8	
INE363O07095		Mar 2014	9.00%	Mar 2029	119.2	
INE363O07103		Mar 2014	9.00%	Mar 2034	75.6	
NA		Yet to be placed	NA	NA	40.0	

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	KPL Ownership	Consolidation Approach
Kamarajar Port Limited	100.00% (rated entity)	Full Consolidation
Chennai Port Authority	-	Full Consolidation

Source: KPL annual report

Note: ICRA has taken a consolidated view of KPL and its parent Chennai Port Authority (100% ownership)

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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.

For more information, visit www.icra.in

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