

February 23, 2017

PSA Sical Terminals Limited

Instrument	Amount	Rating Action
	In Rs Crore	
Short term: Non fund based facilities	100.0	[ICRA]A3+; assigned

* Instrument Details are provided in Annexure I

Rating Action

ICRA has assigned a short term rating of [ICRA]A3+ (pronounced ICRA A three plus) to the Rs 100.0 crore¹ non fund based bank facilities of PSA Sical Terminals Limited (PSA Sical/'the Company')².

Rationale

The assigned rating reflects the strong parentage, with the company being jointly owned by PSA India Pte Limited and Sical Logistics Limited (rated BBB+(Stable)/A2 by ICRA); and the operational benefits arising out of being part of the PSA group (rated Aa1 by Moody's) which is one of the largest container terminal operators in the world. The rating also considers the established operational profile of the terminal having been operational for close to 17 years in Tuticorin port with a robust primary hinterland (South Tamil Nadu, Kerala), strong connectivity with lack of any congestion and access to a well developed CFS network. The rating also considers the favourable long term prospects for the container trade given the lower levels of containerization in India compared to developed economies. The rating further reflects the moderate financial risk profile with absence of any borrowings, low interest/financing costs and a negative working capital intensity which provides the company with substantial float money. The rating is nevertheless constrained by the stagnation in the container volumes over the past couple of years following the general slowdown in trade and the commissioning of a second container terminal in the port which has captured the incremental cargo. Going forward, competitive intensity is set to increase following setting up of / proposal to set up green-field transshipment ports in South TN/Kerala (Enayam & Vizhinjam) to cater to the transshipment traffic which is the primary cargo for PSA Sical.

The rating also considers the weak profitability driven by non-revision of tariff, following litigations with Tariff Authority for Major Ports (TAMP), and the high amount of royalty being paid to Tuticorin Port Trust as per the License Agreement. Though the operating profitability has been constrained by the tariff and royalty related issues, the company's net profits have been supported by the interest income earned on the cash balances.

ICRA takes note of the large contingent liabilities towards the outstanding litigations against TAMP and the Tuticorin Port Trust. Though the liabilities are high (Rs 231 Crore as on March 31, 2016) as compared to the net worth position of the company (Rs 45 Cr as on March 31, 2016), status quo is expected to be maintained in the near term as there has been no movement in these cases over the years. ICRA is also of the view that the current regulatory structure may undergo a substantial change following the passing of the legislation – "The Central Port Authorities Act 2016". As per the new Act, the Boards of the Major Ports will be provided more powers and autonomy to determine the scale of rates at their terminals unlike the current TAMP regime.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key Rating Drivers

Credit Strengths

- Established operations with the terminal being operational for close to 17 years; Tuticorin port being an all-weather port with a good primary hinterland and a strong connectivity provides a good cargo potential for the terminal
- Strong sponsor profile with PSA Group owning 62.5% stake in the company and Sical Logistics Limited owing 37.5%
- Relatively good volume growth over the years driven by trade growth in the primary hinterland and lack of any significant competition till 2014
- Comfortable financial profile characterized by nil borrowings, sizeable cash balances and negative working capital intensity

Credit Weakness

- De-growth in TEUs handled in the year 2015 and modest revenue growth rate thereon following the commissioning of the second competing container terminal in Tuticorin port in 2014
- Large greenfield transshipment ports and container terminals being constructed/proposed in the vicinity of Tuticorin port could result in diversion of traffic in the long term considering the favourable logistic costs anticipated for the trade
- Weak profitability following from the stagnant tariff level and the high royalties payable to the Tuticorin Port Trust
- Large contingent liabilities arising from the litigations with TAMP on the tariffs and Tuticorin Port Trust on the royalties payable to the Port; adverse litigation outcome on either would result in significant impact on the financial profile of the company considering the modest net worth position

Description of key rating drivers highlighted above:

PSA Sical terminal's container throughput has increased over the years driven by the increase in trade in the primary hinterland and competitive advantage the terminal offers to its end users due to its proximity to Colombo port, to which it acts a feeder port. Also, the strong sponsor profile has also resulted in relatively healthy operational efficiency and a robust relationship with the trade and the shipping liner. Nevertheless, the traffic levels have stagnated over the past couple of years following the general slowdown in trade and the

The terminal's tariff rates are governed by TAMP guidelines and the company's repeated claims for upward tariff revisions have been rejected and TAMP has in turn ruled that the tariff has to be revised downwards – the company has received a stay order against these rulings and continues to operate at the initial scale of rates. Also, as per the License Agreement, the company is required to pay a per TEU (Twenty-Foot Equivalent Unit) royalty, to Tuticorin Port Trust – the company has been paying royalty based on the rates set out for the year 2011/12 citing non-revision of tariff and disallowance of royalty as pass through cost during tariff fixation. The non-revision of tariff and the high royalty payments (albeit at lower rate than stipulated in the License Agreement) has resulted in depressed profitability. Also, the ongoing litigations on both the tariff and royalty fronts (with TAMP & Tuticorin Port Trust respectively) have resulted in large contingent liabilities relative to the net worth of the company.

Analytical approach:

Links to applicable criteria

Corporate Credit Rating – A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

About the Company

PSA Sical Terminals Limited was formed as a Joint Venture between PSA India Pte Limited, Singapore and South India Corporation (Agencies) Limited (currently Sical Logistics Limited) in 1997 to develop and operate the first container terminal in Tuticorin Port. In March 1997, the Tuticorin Port Trust issued a global tender for the development of the Seventh berth in the port as a container terminal and its operation and maintenance for a period of 30 years. PSA Sical emerged as the bid winner and entered into a license agreement with Tuticorin Port Trust on July 15, 1998. During the period of license, PSA Sical is required to share a per TEU royalty payment (increasing through the license period) with the Port Trust, which was finalised as part of the initial bidding. PSA Sical's quay line is 370m long in a linear fashion and the container stacking yard comprises 1,800 ground slots capable of static storage capacity of 9,000 TEUs of containers. Currently the capacity of the terminal is around 0.42 million TEUs, with flexibility to go upto 0.50-0.55 million TEU depending on the business re-engineering initiatives, effective utilization of the terminal and infrastructure.

For the 15-month period ended March 2016, the company handled 0.64 million TEUs and reported a net profit of Rs. 0.3 crore on an income of Rs. 185.7 crore. In CY 2014, the company had handled 0.52 million TEUs of cargo and reported a net profit of Rs. 0.01 crore on an income of Rs. 147.5 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in 2016	Month-year & Rating in 2015	Month- year & Rating in 2014
				February 2017	-	-	-
1	Bank Guarantee	Short Term	100.0	[ICRA]A3+	-	-	-

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

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Bank Guarantee	-	-	-	100.0	[ICRA]A3+

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About ICRA Limited:

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