

## Adani Ports and Special Economic Zone Limited

	Amount	Rating Action
Bank Lines	Rs 10020 crore (enhanced from Rs 6281.57 crore)	[ICRA]AA+ (Stable) assigned / outstanding

ICRA has assigned the long term rating of [ICRA]AA+ (pronounced ICRA double A plus) to the Rs 10020 crore (enhanced from Rs 6281.57 crore) enhanced bank facilities of Adani Ports and Special Economic Zone Limited (APSEZL). The outlook on the long term rating is 'Stable'. ICRA also has outstanding ratings of [ICRA]AA+ with Stable outlook on the Rs. 6884 crore Non Convertible Debenture (NCD) programme and [ICRA]A1+(pronounced as ICRA A one plus) on the Rs. 6700 crore Commercial Paper programme/short term debt programme of APSEZL.

For the purpose of arriving at the ratings, ICRA has taken a consolidated view of APSEZL and its subsidiaries. The full consolidation approach takes into account the increasing scale of business activities at the SPV level, which are integral to the management's growth strategy and which APSEZL continues to support through various funding means.

The ratings also continue to factor in the strong business risk profile of APSEZL supported by robust cargo volumes, albeit some slowdown in growth has been witnessed in recent months due to fall in coal imports, achieved by the flagship – Mundra port as well as the commissioned port facilities in its various SPVs – Dahej & Hazira as well as the Dhamra Port Co. Ltd which APSEZL acquired last year. ICRA notes that APSEZL now has seven operational port assets and has been consistently registering cargo growth at rates superior to the industry trend even in the midst of a challenging business and economic environment, driven by their favorable operating characteristics; diversified cargo profile and long term customer tie-ups. The ratings also continue to factor in the reduced project risks on account of completion as well as commencement of cargo handling at all planned capacity addition projects at Mundra Port and at SPV ports/terminals – Adani International Container Terminal Pvt Ltd (AICTPL,CT-3 at Mundra), Mormugao, Vizag and Kandla during the last few quarters. All projects have been completed before/within the projected timelines, indicating superior project execution capabilities. The ratings also take into account the undertaking from the company on the restrictions with regard to related party transactions with group entities (other than subsidiaries and associates).

Further, the ratings draw comfort from the increasing diversification in terms of cargo category and geographical diversification for the company with the inclusion of two new operational entities – Dhamra port and Vizag terminal on the eastern coast to complement the already strong presence on the western coast. A majority of the operational SPVs of APSEZL, (except Mormugao, Vizag and Kandla) are non-major ports, allowing them to enjoy flexibility in tariff determination.

The ratings continue to also factor in the robust profitability metrics and large cash accruals of APSEZL which enable it to maintain a comfortable liquidity position despite the absence of a working capital line of credit. Further, from the accumulated cash balances resulting from the surplus cash generation in the past, APSEZL has loaned out surplus funds as interest bearing advances to its subsidiaries for their funding requirements, with the purpose of reducing the funding costs at APSEZL consolidated level. The Interest bearing advances are available on call as the advances to subsidiaries are backed by sanctioned term loans available to be availed by the SPVs, which further support APSEZL's financial flexibility. The ratings also factor in the superior refinancing and fund raising ability of the company from the domestic/ global banks as well as the capital markets.

ICRA notes that while the EBITDA margins of APSEZL have remained at significantly high levels (65% in FY15 and 66% in 9MFY16), however, leveraging continues to remain moderate at 1.7x times, given the large debt funded project expenditures incurred by the company over the last few years and the relatively nascent stages of operation of some of the completed projects at SPVs like Mormugao, Vizag and Kandla – which are currently in the cargo ramp-up stage. ICRA expects the leveraging to come down over FY17-18 as all the completed projects start generating optimal returns.

APSEZL's indirect exposure by way of a corporate guarantee to the group's Australian business continues, however, the same is largely mitigated by way of a counter indemnity guarantee provided by the new promoter



entity of Mundra Port Pty Ltd (MPPL), Australia and hence the same is not recognized as a contingent liability. Also, the Australian entity has partly refinanced its outstanding debt, giving relief to cash flows for debt servicing.

In terms of capex and pending project execution risks, APSEZL currently has three projects under execution – Container Terminals (CT-4, assets for which will be transferred to JV with CMA-CGM after completion, and CT-5) at Mundra, the Ennore container terminal and the capacity expansion at Dhamra together entailing a total capex of about Rs 4000 Cr over FY16-18. Further, APSEZL has also signed the concession agreement for the Rs 4089 crore Vizhinjam port project in Kerala (to be funded through state and central support of 30% project cost) which would be executed in phases over the next 3-4 years. While assigning the ratings, ICRA has taken comfort from APSEZL's demonstrated ability to execute port projects in a timely manner and the fact that most of the projects being executed through SPVs have adequate funding tie-ups in place at project level. Despite the likely addition to debt towards the planned capex, ICRA expects the financial profile to improve steadily due to expected improvement in cash flows from the ramp up of operations at the recently commissioned and operational ports. Furthermore, the company has refinanced some of its debt with borrowings of longer tenor and has plans to further re-finance its existing debt in the near term which will further improve liquidity due to the lower repayments in the next few years.

APSEZL has also entered into an agreement to acquire Kattupalli Port from L&T; however, completion of the acquisition would be subject to various state approvals, clearances and other condition precedents being met. Further, ICRA notes that APSEZL may bid for port projects on a pan India basis under the PPP mode or acquire assets inorganically. Pending finalization, the capex/investment outgo on these has not been factored in the current ratings and shall be assessed as and when the concerned plans materialize. The company's operations also remain exposed to event based risks emanating from pending litigations on the container terminal operations (CT-1) and SEZ development; corporate governance concerns emanating from past litigations against lead promoters/promoter group companies although reprieve has been received in some of these matters. ICRA further notes that any material breach of covenants related to related party transactions will be a rating sensitivity.

### **About the Company**

APSEZL is the developer and operator of the Mundra port located in the Kutch district of Gujarat on the west coast of India, under a 30-year Concession Agreement with the Gujarat Maritime Board (GMB), valid till February 2031. As per a recently initiated group restructuring, the majority equity holding in APSEZL, earlier held by Adani Enterprises Limited is now replaced by direct holding of the Gautam Adani family, while the balance would continue to remain with the public.

APSEZL commenced trial operations at Mundra port in 1998 and commercial operations in 2001 and in a decade's time the port has grown to become the largest port in the country by cargo handling capacity. The port offers handling services for all kinds of cargoes viz. bulk- dry and liquid, crude and containers. Apart from the port operations, APSEZL is also the approved developer of a multi-product SEZ at Mundra and its surrounding areas. Further through its majority/wholly owned SPVs, APSEZL has a presence in the logistics business (container trains and ICDs) and is associated with port/terminal developments in Dahej, Hazira, Mormugao, Dhamra, Kandla, Vizag, Ennore and Vizhinjam and is the operator for the Kattupalli port in India.

### **Recent Results**

In 9M 2015-16, at consolidated level, the company handled 114.0 million tonnes of cargo and reported an OI of Rs 5309 crore with a PAT of Rs 1921 crore. In 2014-15, the company had handled 144.3 million tonnes of cargo and reported an OI of Rs 6152 crore with a PAT of Rs 2324 crore.

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**Disclosure:** A Member of the Board of Directors of ICRA Limited is also an Independent Director on the Board of Directors of Adani Ports and Special Economic Zone Limited (APSEZL). This Director was not involved in any of the discussions and processes related to the Rating of the instrument(s) mentioned herein.

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