

Adani Ports and Special Economic Zone Limited

September 07, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based facilities	10020	10020	[ICRA]AA+ (Stable); Reaffirmed
Non Convertible Debentures	7000	7000	[ICRA]AA+ (Stable); Reaffirmed
Commercial Paper Programme	6700	6700	[ICRA]A1+; Reaffirmed

Rating action

ICRA has reaffirmed the [ICRA]AA+ (pronounced ICRA double A plus) rating on the Rs 7000 crore Non-Convertible Debenture programme and the Rs 10020 crore bank facilities of Adani Ports and Special Economic Zone Limited (APSEZL). The outlook on the long term rating is 'Stable'. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating on the Rs 6700 crore Commercial Paper programme of APSEZL.

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of APSEZL and its subsidiaries, as the latter form an integral part of the management's long term growth strategy and which are increasingly being funded by debt raised at the parent level.

The ratings continue to factor in the strong business risk profile of APSEZL characterised by its favorable operating characteristics, geographically spread-out footprint, diversified cargo / geographic mix and long-term customer tie-ups. Consolidated cargo growth would continue to be supported by growth in share of container volumes, especially with the addition of volumes at Mundra CT-4, CT-3 extension, Ennore and Katupalli in the cargo mix going forward. Further, proceeds from the monetisation of assets supported the improvement in coverage indicators and debt protection metrics in FY2018, despite nearly flat gross debt levels. The ratings also continue to factor in the robust profitability metrics and large cash accruals of APSEZL which enable it to maintain a comfortable liquidity position.

While OPBDITA margins of APSEZL continue to remain at strong levels (63% in FY2018) and overall credit metrics continue to improve from earlier levels, gross leveraging (Total Debt/OPBDITA) continues to remain moderate at 3.1x in FY2018 (4.1x in FY2017), 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. While ICRA expects leveraging and credit metrics to continue to be influenced by the substantial capex/acquisition plans, the same would benefit from higher cash flow generation and the anticipated reduction in debt levels going forward as the cargo volumes ramp up in its various ports/terminals. The rating also takes into account the bond covenants restricting the company from entering into any related party transactions other than those undertaken for permitted business and as undertaken in the ordinary course of business. ICRA maintains that any material breach of covenants related to related party transactions will be a rating sensitivity.

Outlook: Stable

With a favourable long-term outlook for growth in cargo volumes and the upside potential from completed capex programmes in its various SPVs, APSEZL's revenue and profitability growth is expected to be robust thereby supporting its overall credit profile and debt servicing ability. The outlook may be revised to 'Positive' if leveraging and return metrics continue to improve as per the anticipated trajectory over the medium term. The scale, phasing and funding pattern of further capex/investment plans would be some of the key rating sensitivity factors. Further, any material

breach of covenants which have been considered while assigning the ratings, related to related party transactions will also be a rating sensitivity. The outlook may be revised to 'Negative' if there is significant deviation in the performance or capex/investment plans or any material breach of covenants.

Key rating drivers

Credit strengths

- **Proven ability and strong track record in the ports and logistics business; strong operating and competitive profile of APSEZL** - While assigning the ratings, ICRA derives comfort from APSEZL's demonstrated ability to execute port and associated infrastructure projects in a timely manner. The company has witnessed significant growth in its scale of operations over the years and is now carrying out profitable port operations at several private/major port locations along both the eastern and western coastline. The ratings also continue to factor in the strong business risk profile of APSEZL characterised by its favourable operating characteristics, geographically spread out footprint, diversified cargo / geographic mix and long term customer tie-ups which have enabled it to somewhat off-set the slowdown in coal cargo volumes in some recent quarters by higher crude and container volumes. Further, APSEZL also has flexibility in tariff determination with Mundra(Gujarat); Hazira(Gujarat), Vizhinjam(Kerala), Dhamra(Orissa), Kattupalli(Tamil Nadu) and Dahej(Gujarat) being non-major ports and at the terminal at the Ennore Port. ICRA notes that APSEZL has also been generating healthy cash flows through monetisation of infrastructure assets at the Mundra port. In FY2018, APSEZL reported 7% growth in consolidated volumes and 34% growth in consolidated revenues in FY2018. In FY2018, the asset monetisation income for CT-4 and CT-3 extension supported the growth in revenues. Going forward as well, cargo growth is expected to remain robust and monetization of assets at various ports will continue to support revenue growth.
- **Projects at SPV level witnessing a gradual ramp up in volumes; long term growth to be supported by ongoing capex** – APSEZL has been in the midst of continuing capex plans over the years. Many of the port projects commissioned in recent years are witnessing a gradual ramp up in cargo volumes amidst a challenging external trade environment. In addition to its existing capex requirements to expand its current operations, APSEZL would also have capital requirements for construction of the Vizhinjam port (Total Project cost of Rs 4168 crore, including VGF of 40%). In FY 2016, APSEZL had commenced construction at the Vizhinjam port project in Kerala which would be executed in phases over the next 2-3 years. In terms of other capex plans and execution risks, APSEZL currently has ongoing projects at Mundra, Kattupalli and Dhamra ports to enhance capacity which will boost cargo volumes in the long term. Overall, the above projects would entail a total capex of about Rs 2500-2800 crore annually over FY2019-FY2021 as per current estimates. At the same time, APSEZL has a track record of timely project execution as well as the flexibility to link its capex to its cargo growth and hence some capex is planned to be discretionary to cargo growth prospects.
- **Strong financial flexibility** - ICRA expects the financial profile to improve steadily due to expected improvement in cash flows from the ramp up of operations at the newly commissioned and operational ports, receipt of upfront income from asset monetisations at its landlord ports similar to the CT 4, CT-3 extension or the LNG terminal at Mundra. Furthermore, the company has refinanced some of its debt with borrowings of longer tenor at lower interest rates which have supported liquidity due to the lower interest costs and repayments.
- The ratings continue to factor in the robust profitability metrics and large cash accruals of APSEZL which enable it to maintain a comfortable liquidity position, also supported by un-used working capital limits. From the accumulated cash balances resulting from the surplus cash generation and low-cost long term funding raised at parent level, APSEZL continues to largely fund the projects at SPV level. The ratings also continue to factor in the superior refinancing and fund raising ability of the company from the domestic/ global banks as well as the domestic and international capital markets.

Credit challenges

- **High leverage levels, albeit on a declining trend; moderate credit metrics despite healthy cargo growth and EBITDA margins due to high debt levels** - ICRA notes that while the OPBDITA margins of APSEZL have remained at strong levels (63% in FY2018), leveraging (Total debt/OPBDITA), although improving over the years, continues to remain at moderate (3.1x for FY2018). This is due to 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 Dhamra and SPVs like Ennore, Vizag, etc – that are currently in the cargo ramp-up stage. APSEZL’s leveraging improved to 3.1x of OPBDITA in FY 2018 (4.1x for FY 2017), primarily on account of the improvement in OPBDITA levels and lower debt addition towards capex during the year. Further APSEZL also has surplus cash balances of about Rs 3400 Crore which is a source of comfort in the near term. ICRA expects leveraging and credit metrics to be influenced by the substantial capex/acquisition plans, however, given the strong profitability of operations and some asset monetisation proceeds expected in FY2019 and FY2020, they should improve in the medium term. ICRA further derives comfort from covenants in the foreign debt issuance of the company restricting all transactions with related parties other than those permitted under the ordinary course of business, which would ensure protection of cash flows for internal requirements and debt servicing of APSEZL. ICRA notes that any material breach of covenants related to related party transactions will be a rating sensitivity.
- **Concerns over weakness in coal volumes would be partly mitigated for APSEZL by way of increasing share of container cargo and diversification in cargo mix** – The container cargo handled at APSEZ operated ports have grown at a healthy CAGR of 20% during FY 2008 to 2018. As on FY 2018, the share of container in total cargo mix increased to 41% from 37% in FY 2017. Over time, APSEZ has also expanded its container handling capacity at Mundra and now has three port operations on the eastern coast at its Ennore terminal Kattupalli Port and Dhamra Port. Further, addition of the transshipment hub at Vizhinjam, Kerala over the long term will add to the diversification in cargo mix. ICRA also notes that APSEZL could witness some pressure on coal volume growth in the near term due to changes in domestic coal market dynamics. It now has nine operational port assets with many of them largely dependent on coal volumes for growth. Nonetheless, a significant proportion of APSEZL cargo volume is either supported by committed import volume contracts with thermal power/steel plants or benefits from superior delivered integrated logistics cost for users, which should ensure retention of significant user base in the respective port’s hinterland. Other bulk cargo including, iron ore exports, fertiliser imports and coastal cargo movement would also support cargo volumes. Consolidated cargo growth would be further supported by growth in share of container volumes, especially with the addition of volumes at Mundra CT-4, CT-3 extension, Ennore and Katupalli in the cargo mix going forward, albeit competition could intensify in the West Coast following expansion in capacity at JNPT, which might lead to some moderation in margins.
- **Event risks related to any large scale acquisition given the acquisitive growth strategy of the company** - Further, ICRA notes that APSEZL may bid for port projects on a pan India basis under the PPP mode or acquire assets inorganically. Pending finalisation, the capex/investment outgo on these has not been factored in the current ratings and shall be assessed as and when the concerned plans materialise. 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 recognised as a contingent liability.

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

Links to applicable criteria:

[Rating Methodology for Ports](#)

[Corporate Credit Rating Methodology](#)

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 the group restructuring initiated in FY2015, the majority equity holding in APSEZL, earlier held by Adani Enterprises Limited was replaced by direct holding of the Gautam Adani family, while the balance continues to remain with the institutional investors and public.

APSEZL commenced trial operations at Mundra port in 1998 and commercial operations in 2001. Since then, 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 its 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 and associated infrastructure developments and operations in Dahej, Hazira, Mormugao, Dhamra, Kandla, Vizag, Kattupalli, Ennore and Vizhinjam.

During FY 2018 the company handled 180.3 million tonnes of cargo and reported an OI of Rs 11,323 crore with a PAT of Rs 3,690 crore. In FY2017, at a consolidated level, the company handled 168.9 million tonnes of cargo and reported operating income (OI) of Rs 8,439 crore and profit after tax (PAT) of Rs 3,892 crore.

Key Financial Indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	8,439	11,323
PAT (Rs. crore)	3892	3690
OPBDIT/ OI (%)	64.2%	63.1%
RoCE (%)	16.4%	18.5%
Total Debt/ TNW (times)	1.27	1.06
Total Debt/ OPBDIT (times)	4.11	3.14
Interest coverage (times)	3.89	4.78

Status of non-cooperation with previous CRA: Not applicable

Any other information:

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.

Rating history for last three years:

S. No	Name of Instrument	Type	Current Rating		Chronology of Rating History for the past 3 years										
			Rated amount (Rs crore)	Amount Outstanding (Rs crore)	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017					Date & Rating in FY2016			
					September 2018	September 2017	March 2017	February 2017	August 2016	April 2016	January 2016	November 2015	August 2015	June 2015	April 2015
1	Non Convertible Debentures	Long Term	7000	6246	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund Based facilities	Long Term	10020	0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Commercial Paper	Short Term	6700	0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilities	06-04-2014	LIBOR+0.15% -	February 2022	6805	[ICRA]AA+ (Stable)
NA	Unallocated	-	-	-	3215	[ICRA]AA+ (Stable)
INE742F07171	Non Convertible Debentures	30-06-2016	10.50%	Three annual equal instalments commencing from February 25, 2021	494	[ICRA]AA+ (Stable)
INE742F07361	Non Convertible Debentures	26-05-2016	9.35%	July 4, 2026	252	[ICRA]AA+ (Stable)
INE742F07346 & INE742F07353	Non Convertible Debentures	23-03-2016	9.35%	Two annual instalments of Rs. 100 Cr on May 26, 2023 & May 27, 2026 respectively.	200	[ICRA]AA+ (Stable)
INE742F07312	Non Convertible Debentures	11-4-2016	9.05%	May 22, 2019	150	[ICRA]AA+ (Stable)
INE742F07338	Non Convertible Debentures	29-03-2016	9.05%	April 10, 2019	500	[ICRA]AA+ (Stable)
INE742F07304	Non Convertible Debentures	29-11-2016	9.05%	April 18, 2019	750	[ICRA]AA+ (Stable)
INE742F07411	Non Convertible Debentures	27-02-2013	8.24%	Three annual equal instalments commencing from 29th November 2024.	1300	[ICRA]AA+ (Stable)
INE742F07429	Non Convertible Debentures	08-03-2017	8.22%	Redeemable at three annual equal instalments commencing from 07th March 2025	1000	[ICRA]AA+ (Stable)
INE742F07437	Non Convertible Debentures	30-10-2017	7.65%	Redeemable in three equal instalments in October 2025, October 2026 and October 2027.	1600	[ICRA]AA+ (Stable)
NA	Non Convertible Debentures (Proposed)	-	-	-	754	[ICRA]AA+ (Stable)
NA	Commercial Paper	-	-	1-365 days	6700	[ICRA]A1+

Source: Adani Ports and Special Economic Zone Limited

ANALYST CONTACTS

K.Ravichandran

+91 44 45964301

ravichandran@icraindia.com

Ankit Patel

+91 79 4027 1509

ankit.patel@icraindia.com

Aashay Choksey

+91 79 4027 1526

aashay.choksey@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents