

Kamarajar Port Limited

March 28, 2019

Summary of rated 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 (Positive); reaffirmed
Total	500.0	500.0	

Rationale

The rating reaffirmation takes into consideration the strong business profile of KPL; its status as the first corporatized major port, which gives it greater autonomy to decide financial and administrative matters; and the flexibility to determine its tariff levels as it does not fall under the purview of the Tariff Authority for Major Ports (TAMP). The rating also considers the stable revenue streams of the company in the form of revenue shares from build-operate-transfer (BOT) concessionaires and the captive coal handling arrangement with TANGEDCO. The recent commissioning of the container, multi-cargo and the Liquefied Natural Gas (LNG) terminals are expected to result in healthy growth in volumes and revenues going forward. The rating also factors in the comfortable financial profile characterized by healthy profitability, low gearing levels and strong debt coverage metrics

The rating is however constrained by the large planned capital expenditure outlay towards development of new terminals, capital dredging and connectivity projects, which will have a long payback period and hence will impact the company's return on capital employed in the medium term. The rating also takes into account the significant competition from nearby ports for cargo such as container, non-TANGEDCO coal, cars and POL; and, the large delay in commencement of operations of the iron ore terminal, resulting in notional loss of revenues and profits. The competition has been especially high for the container cargo with significant overcapacity in the Chennai cluster; however, the management has indicated that the BOT concessionaire is expected to handle significantly higher volumes from FY 2020 given the proposal of certain liners to shift their services to Ennore port. The rating also considers the connectivity issues, with significant congestion on the roads from Ennore Port to its immediate hinterland which could impact the future growth of cargo volumes at the port. However, the risks are currently limited as most of the cargo is transported through specialized conveyors, rail links and pipelines. The rating further factors in the crystallization of the contingent liabilities of ~Rs 180 crore towards the construction contractors; the port has paid out these amounts in FY 2019 and this has had an impact on the net profitability.

ICRA also takes note of the recent Cabinet Committee on Economic Affairs (CCEA) 'in principle' approval for transfer of Government of India's (GoI) stake in KPL to Chennai Port Trust (ChPT). Currently GoI holds 66.67% stake in the company whereas ChPT holds 33.33%. The stake transfer would be concluded after the valuation process is completed and this is expected to entail some lead time. GoI's rationale for the disinvestment is avoid duplication of capacity and improve the operational efficiency. As per KPL's management, no major changes are expected in the operational profile of the entity. However, given the high employee liabilities and operating expenditure of Chennai Port and the low cash balances, the funding pattern for the acquisition and the resultant impact on the credit profile of KPL will be ascertained by ICRA post the finalization of the terms of the transaction.

Outlook: Positive

The 'Positive' outlook reflects the growth in revenues and cash accruals of KPL over the past few years and the expectation that the cargo growth will continue to be favourable. The container and LNG terminals are expected to

meaningfully contribute to revenues from FY 2020 and the idling iron ore terminal is being converted to handle coal imports after receipt of all approvals. ICRA also expects the company to maintain its healthy profitability and financial profile considering that the capex is expected to be phased out and met out of internal cash generation. The rating will be upgraded if the newly commissioned terminals report healthy cargo growth leading to higher revenues and cash accruals for KPL. Conversely, the outlook may be revised back to 'Stable' or 'Negative' if competitive pressures lead to very low utilisation levels at the common user cargo terminals leading to lower cash accruals and higher proportion of debt to fund the planned capex programme.

Key rating drivers

Credit strengths

Strong sponsor profile with GoI (~67%) and ChPT (~33%) as the promoters currently – Ennore port is one of the 12 major ports in India and majority shareholding rests with the GoI. The port also enjoys high operational autonomy as it is India's only corporatized major port and a Mini Ratna Public Sector Undertaking. Since the company does not fall under the purview of Tariff Authority for Major Ports (TAMP) it enjoys flexibility with respect to tariff determination as well.

As discussed earlier, GoI now proposes to divest its entire stake to ChPT which would make KPL a wholly owned subsidiary of ChPT. This is expected to provide operational synergies in the form of lower competition and streamlined capacity planning. KPL will continue to operate outside the purview of TAMP given its constitution as a Limited Liability Company.

Favourable location of Ennore port, being an all-weather port with adequate draft - Ennore Port, situated 24 km north of Chennai, lies on the international shipping route and is thus an attractive alternative port of call. The draft available of 15 meter at the port also allows it to handle bigger vessels with higher economies of scale thus resulting in significant cost advantages for end users.

Considerable cargo potential in primary hinterland – Ennore Port was conceived as a coal port to handle the current and projected coal requirements of TANGEDCO. Dedicated conveyor belts and rail links have been established with the plants thereby restricting competition. Also, environmental concerns arising out of ChPT handling bulk cargo has led to increasing traffic for other ports in East Coast. Despite the dominance of coal in the overall mix, the cargo and revenue profile has undergone significant change following the commissioning of new terminals over the years. Recent commissioning of the large container terminal and the general cargo terminal are expected to diversify the revenues further.

Stable revenue streams through landlord port model – EPL operates on a landlord model wherein its investments are restricted to common infrastructure, capital/maintenance dredging and connectivity projects. The high revenue share from the operational terminals and the strong performance of these entities has contributed to KPL's revenue growth.

Financial profile characterised by healthy cash accruals and strong debt coverage metrics - The Company has reported healthy profitability over the years driven by its landlord port model and high revenue share from its concessionaires. Though the debt levels have increased in the recent years to fund the capex programme, the accruals to reserves have led to healthy gearing levels. The coverage indicators have also improved considerably with an increase in the tenor of debt (KPL had prepaid the term loans from banks in 2013 and raised long term funding in the form of tax free bonds). KPL has recently availed a \$100 million foreign currency term loan to fund its capex and the loan is projected to be repaid over the next three years through the forex receipts earned by the company, thereby reducing the forex risks

Credit challenges

Large development plans in the long term entailing substantial capital expenditure – KPL has an approved master plan wherein it proposes to increase the overall capacity to 95 MTPA from the current capacity of 55 MTPA. This is expected to entail significant capex towards common infrastructure, such as capital dredging and equity investments in connectivity projects. However, the capex would be staggered over a period of time given that KPL's capex will have to be in tandem with the concessionaries. Development of some terminals such as the second car export terminal are also expected to be postponed given the subdued demand environment. The operational cash accruals of KPL would fund majority of the requisite capex in the medium term and hence the capital structure is not expected to be impacted significantly.

Decline in overall coal demand resulted in stagnant cargo levels – KPL has traditionally reported healthy cargo growth year on year driven by robust demand for coal from TANGEDCO/private users and the increase in the operational capacity following the commissioning of the new terminals. However, the cargo growth was modest in FY 2018 (30.5 MTPA as against 30.0 MTPA in FY 2017 & 32.2 MTPA in FY 2016) following the decline in demand for thermal coal from the power plants in the hinterland. However, increasing diversification of cargo will partially delink the port's performance from the demand for thermal coal going forward.

Delays in commissioning of iron ore, container and general cargo terminals – The iron ore terminal operated by Sical Iron Ore Terminal Limited (SIOTL) has been idle post construction in 2010 due to regulatory issues. Also, there have been minor delays in commissioning of the container and general cargo terminals by the concessionaires. This has resulted in lower than forecasted revenue share as these terminals have not contributed to revenues of the port. However, with the SIOTL terminal currently being converted to handle coal and with the other two terminals operational, the revenues are expected to increase significantly.

High competitive intensity for common user cargo among ports – KPL's primary customer, TANGEDCO, assures it of steady revenues due to the captive nature of the terminals and the logistical linkages with TANGEDCO's plants. However, common user terminals for coal, liquid cargo and container being operational in KPL are in direct competition with ports/terminals in the region. Especially the container terminal is witnessing high competition due to the current oversupply prevalent in the region in terms of handling capacity and the general trade downturn. However, KPL's risk is limited as the revenue share payable by the operators are partially protected due to the presence of Minimum Guaranteed Revenues / Volumes.

Large investments proposed to be made in greenfield projects especially with regards to connectivity – Significant congestion on the roads from the port to the city, due to delays in the connectivity projects, restricts port's ability to handle common user cargo. Currently, though, most of the cargo is transported through specialized conveyors, rail links and pipelines and this mitigates the risk to a large extent. KPL has budgeted a capex outgo of upwards of Rs 300 crore towards new road and rail connectivity projects to enhance smooth movement of containers and other private cargo.

Settlement of the reported contingent liabilities to the contractors involved in construction of the port – KPL has had large contingent liabilities arising out of disputes with original contractors and TANGEDCO. The company has settled these claims in the current fiscal and the total outgo towards this is Rs 180 crore with Rs 100 crore being capitalised. Though this represents a sizeable outgo and has impacted the profitability, settlement of these claims has removed the uncertainty with regards to the litigations / arbitration rulings.

Liquidity Position:

The company's cash accruals have remained robust over the years, though there was a moderate reduction in FY 2018 due to higher dividend payments. This has resulted in only a moderate amount of incremental debt towards the capex projects being undertaken. Given the staggered capex programme and the healthy projected cash accruals, the liquidity

profile of the company is expected to be adequate. In addition, the company has substantial unavailed sanctioned debt limit (FCNR loans) and has high financial flexibility with respect to access to capital markets which will aid in refinancing any liabilities or funding higher than projected capex.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Ports
Parent/Group Support	NA
Consolidation / Standalone	Standalone

About the company:

Kamarajar Port Limited (KPL; erstwhile Ennore Port Limited), incorporated in 1999, is a major port located 24 km north of Chennai. It was declared a major port under the Indian Ports Act in March 1999, and is the first major port to be incorporated under the Companies Act, 1956. The port was dedicated to the nation in February 2001 and operations commenced in June 2001 with two dedicated coal berths handling thermal coal for the power stations of Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). 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 has been expanded to enable KPL to handle other cargo. The port largely functions under the landlord concept, wherein new terminals are being developed through build-operate-transfer (BOT) model by private operators. The Govt of India holds 66.7% stake in EPL with the remaining stake being held by ChPT.

Key financial indicators (audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	620.1	630.4
PAT (Rs. crore)	472.4	394.2
OPBDIT/ OI (%)	79.5%	79.9%
RoCE (%)	31.1%	23.1%
Total Debt/ TNW (times)	0.37	0.48
Total Debt/ OPBDIT (times)	1.40	1.94
Interest coverage (times)	6.33	7.90
NWC/ OI (%)	-20.0%	-25.0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Mar 2019	Date & Rating in FY2018 Dec 2017	Date & Rating in FY2017 Aug 2016	Date & Rating in FY2016 April 2015
1 Bonds	Long Term	500.0	458.1	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)

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

Source: KPL

ISIN	Instrument Name	Date of issuance	Coupon rate	Maturity Date	Amount Rated (Rs. Cr)	Current Rating and Outlook
INE363O07020,	Bonds	Mar 2013	7.01%	Mar 2023	500.0	[ICRA]AA (Positive)
INE363O07046,		Mar 2013	7.17%	Mar 2028		
INE363O07053,		Mar 2014	8.36%	Mar 2024		
INE363O07087,		Mar 2014	8.61%	Mar 2024		
INE363O07061,		Mar 2014	8.75%	Mar 2029		
INE363O07079,		Mar 2014	8.75%	Mar 2034		
INE363O07095,		Mar 2014	9.00%	Mar 2029		
INE363O07103		Mar 2014	9.00%	Mar 2034		

ANALYST CONTACTS

K.Ravichandran

+91 44 4596 4301
ravichandran@icraindia.com

Sai Krishna

+91 44 4596 4304
sai.krishna@icraindia.com

Raghunath.T

+91 44 4596 4304
raghunath.t@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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) 2556 0194/ 6606 9999

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