

December 16, 2019^(Revised)

Kakinada Seaports Limited (KSPL): ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	311.60	281.76	[ICRA]A (Stable); reaffirmed
Long-term fund-based facilities	50.00	50.00	[ICRA]A (Stable); reaffirmed
Long-term unallocated	71.31	85.70	[ICRA]A (Stable); reaffirmed
Short-term, non-fund based facilities	109.55	125.00	[ICRA]A1; reaffirmed
Total	542.46	542.46	

Rationale

The rating reaffirmation considers the operating strengths of the Kakinada deep water port (KDWP), including its advantageous location and all-weather conditions; its strategic proximity to the KG basin that result in high-margin offshore supply vessel (OSV traffic); and the flexibility in tariff determination being a non-major port. ICRA also takes into consideration the strong financial risk profile characterised by comfortable gearing and debt protection metrics, which had witnessed further improvement in FY2019. ICRA takes note of the healthy growth in cargo volumes in FY2019 due to the increase in coal volumes and the spike in OSV traffic, which resulted in revenue growth and margin improvement. The improvement in coal volumes was driven by increased demand for imported coal by power companies and higher coastal coal movement. ICRA expects the throughput to be sustained in the near term, although the volumes in the medium to long term remain susceptible to demand volatility and changes in transportation pattern. ICRA also takes note of the port service agreement (PSA) signed with H-Energy group, which will develop and operate a liquified natural gas (LNG) terminal at the Kakinada port. The project once completed will aid revenue growth and provide diversification benefits. However, timely completion of project and commencement of operations remain a sensitivity factor.

The ratings, however, are constrained by the high competitive intensity for bulk cargo on the eastern coast. Further, the competitive intensity is expected to increase, given that the GMR Group had signed a concession agreement with the Government of Andhra Pradesh in November 2018 for the development of a third commercial port at the Kakinada special economic zone. Nevertheless, the risk is partly mitigated by the tie-ups entered by KSPL with major cargo handling agents and the lead time for setting up a new port.

ICRA also notes that in 2010-11, KSPL had taken significant investment exposure to some of its promoter group companies. Further, the company has also extended large inter corporate deposits (ICDs) to third party corporate groups over the last two years. The timeliness of recovery of the investments and advances and any further increase in exposure to group companies are key rating sensitivities. ICRA also takes note of several claims raised by GoAP, including payment of revenue share on port dues for the period of 1999-2005. Any adverse outcome may put some pressure on credit metrics and the developments will be monitored.

KSPL as part of a consortium had won the contract for setting up a coal terminal at Paradip Port in 2017 and is currently developing the terminal through a SPV. The company had invested around Rs.29.90 crore in the SPV as on March 31, 2019 and has a total equity commitment to the tune of ~Rs.63 crore, with the remaining investment to be made over the next two years. Further, the company has also extended corporate guarantee to the debt availed by the SPV amounting to Rs.209.00 crore. Given that the debt is of long tenure and has a substantial moratorium, the support required in the medium term is expected to be limited to the budgeted equity contribution and cost overruns, if any. However, over the long term, the return indicators of KSPL would hinge on the volume ramp-up at the new terminal and the achievement of

projected profitability, which will mitigate the risk of devolvement of corporate guarantee. ICRA will be monitoring the project and any significant time and cost overrun remains a sensitivity factor.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that KSPL's credit profile is expected to remain healthy in the near to medium term, supported by benefits arising from the port's favourable location and its tie up with major cargo handling agents.

Key rating drivers and their description

Credit strengths

Strong operational profile attributable to favorable location and all-weather port conditions - Kakinada Deep Water Port (KDWP) is a non-major port located on the eastern coast of India in the Godavari district of Andhra Pradesh. The deep-water port has the natural protection advantage afforded by the Godavari sand spit (Hope Island), further enhanced by the construction of a short island breakwater of 1,050 m length. As a result, the port enjoys tranquil weather conditions, enabling smooth vessel movement throughout the year and is not prone to cyclonic or monsoon-related disruptions that are common on the eastern coast.

Established hinterland – KDWP also enjoys the benefit of a well-developed primary industrial hinterland, which gives it assured volumes of captive cargo, namely, fertiliser raw materials (FRM) for manufacturing facilities of Nagarjuna Fertilisers- Urea and Coromandel International - Diammonium phosphate (DAP), located in Kakinada; crude edible oil imported by various refineries in Kakinada; and import of raw sugar and export of bagged sugars from a 1 million metric tonnes sugar refinery of the Murugappa Group-owned EID Parry (India) Ltd. The port's competitive positioning is further supported by its well- established multi-modal connectivity by road, rail and pipelines (for liquid cargo) for cargo evacuation and its moderate draft levels. Apart from the core port operations, Kakinada has been in prominence in the last few years as a transit base for exploration and production (E&P) majors prospecting oil and gas in the KG basin and this business has resulted in high margin income from the OSV traffic.

Tariff setting flexibility – KSPL enjoys tariff setting flexibility as per current applicable regime for non-major ports.

Healthy financial profile and credit metrics - The company's financial profile is characterised by healthy profit margins, comfortable capital structure and coverage indicators. In FY2019, the financial profile witnessed further improvement, following the increase in profitability margins and return indicators aided by benefits arising from increase in scale. After three continuous years of decline in volumes handled between FY2016 and FY2018, KSPL's cargo handling volumes witnessed considerable increase by over 32% to ~16.1 MTPA from ~12 MTPA in FY2017 and FY2018, majorly due to increase in coal volumes. Further, in the offshore segment, KSPL handled 995 calls of offshore supply vessels in FY2019 (against 641 calls during FY2018), which further added to the revenue growth.

Credit challenges

Cargo handled is vulnerable to broader economic trend and commodity demand cyclicality – KSPL mainly handles bulk cargo such as coal (~23-27% of sales), followed by fertilizer and fertilizer raw materials (~25-29%). The remaining revenue is driven from alumina, granite blocks, sugar, edible oil etc. The cargo handled and consequently, the financial performance remains vulnerable to broader economic cycle and its impact on the exim traffic at the ports and demand cyclicality for specific commodities such as coal.

High competition from existing and upcoming ports – Despite the locational advantages, KSPL faces intense competition, particularly for bulk cargo such as coal and iron-ore on the eastern coast due to the presence of a number of major ports such as Vizag, Ennore and non-major ports such as Krishnapatnam, Gangavaram and Dhamra. Even within

the Kakinada region, the competitive intensity is expected to increase following the awarding of a concession to Kakinada SEZ Ltd (GMR Group entity with significant minority shareholding with promoters of KSPL) for development of a new port. Nonetheless, the risk is partly mitigated by some of the protective factors for KSPL such as competitive tariffs attributable to its depreciated asset base; well-established hinterland that offers assured demand for certain cargoes; tie-ups with cargo handling agents and well-established multi-modal connectivity. Further, the new port project will entail significant lead time for construction and no near-term impact is expected.

Project risks with respect to Paradip coal terminal project – KSPL as part of a consortium along with Ripley & Co. Stevedoring & Handling Pvt. Ltd. (rated [ICRA]A- (stable)/ [ICRA]A2+) and Bothra Shipping Services Private Limited is setting up a coal terminal at Paradip Port through a SPV—Kalinga International Coal Terminal Paradip Pvt. Ltd(KICTPPL). The company had investment of Rs.29.90 crore in the SPV as on March 31, 2019 and has a total equity commitment to the tune of ~Rs.63 crore; the remaining investment would be made over the next two years. Further, the company has also extended corporate guarantee to the debt availed by the SPV amounting to Rs.209.00 crore. Given that the debt is of long tenure and has a substantial moratorium, the support required in the medium term is expected to be limited to the budgeted equity contribution and cost overruns, if any. However, over the long term, the return indicators of KSPL would hinge on the volume ramp-up at the new terminal and the achievement of projected profitability, which will mitigate the risk of devolvement of corporate guarantee. ICRA will be monitoring the project and any significant time and cost overrun remains a sensitivity factor.

High unrelated investment exposure - In 2010-11, KSPL had taken significant investment exposure to some of its promoter group companies. Further, the company has also extended large inter corporate deposits (ICDs) to third party corporate groups. The timeliness of recovery of the investments and advances, and any further increase in exposure to group companies are key rating sensitivities.

Claims from GoAP- While, in the normal course of business there have been several disputes related to various changes between the company and GoAP, the implication of these on the company's credit profile is not expected to be material. However, in FY2016, GoAP had raised Rs. 63.4 crore claim of revenue share to be paid on port dues collected for the period of 1999-2015, which is being disputed by the company. In case of adverse outcome there may be some pressure on the credit metrics and the development will be monitored.

Liquidity position: Strong

KSPL's liquidity profile is strong, supported by healthy unencumbered cash balances and liquid investments amounting to ~Rs 87 crore as of March 2019, availability of unutilised fund-based working capital limits and healthy annual fund flow from operations of around Rs. 260.00 crore in FY2019. Given the low annual debt repayments of Rs. 53.0 crore and the moderate capex plans relative to the healthy expected cash accruals, the available liquidity buffer is healthy

Rating sensitivities

Positive triggers – ICRA could upgrade KSPL's rating if the company recovers its investments in promoter group companies in a timely manner. Further, the ratings could also be upgraded if there is considerable increase in overall cargo throughput from the current levels of ~15-16 mn MT on a sustained basis, which will result in sustained improvement in profitability and return indicators (ROCE more than 20%).

Negative triggers – Negative pressure on KSPL's ratings may arise if there is significant reduction in cargo volumes, resulting in reduction in profitability on a sustained basis or any higher-than-expected debt-funded acquisition or capex.

These apart, any significant delays/cost overrun in projects being implemented under JV or any adverse outcome regarding the claims raised by GoAP would also exert a negative rating pressure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Ports
Parent/Group Support	-
Consolidation / Standalone	For arriving at the ratings, ICRA has also considered the investments and corporate guarantee extended by KSPL to Kalinga International Coal Terminal Paradip Pvt. Ltd

About the company

Kakinada Seaports Ltd. (KSPL) is involved in the operations of the Kakinada Deep Water Port (KDWP) in Andhra Pradesh, under a Concession Agreement with the Government of Andhra Pradesh (GoAP), valid until March 2029 with an option for further extension in two blocks of 10 years each. As per the current shareholding structure, Kakinada Infrastructure Holdings Pvt Ltd. (KIHPL), which is an investment vehicle of Mr. K.V. Rao, an industrialist, holds 41% stake; the Konsortium Group holds 29% (includes 17.35% stake of Konsortium Ports Pte Ltd. (Mauritius); and 11.13% stake is of South India Infrastructure Development Co. Pvt Ltd) while V.R. Investments (a group of NRIs) holds the balance 30%. KSPL's operations are headed by Mr. K.V. Rao as its Chairman & Managing Director.

Key financial indicators

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	425.6	555.3
PAT (Rs. crore)	130.5	197.0
OPBDIT/OI (%)	55.7%	60.3%
RoCE (%)	16.0%	21.6%
Total Debt/TNW (times)	0.33	0.25
Total Debt/OPBDIT (times)	1.32	0.84
Interest Coverage (times)	10.76	16.02

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 16-Dec 2019	Date & Rating in FY2019 31-Dec 2018	Date & Rating in FY2018 24-Nov 2017	Date & Rating in FY2017 04-Jul 2016	
1 Term Loans	Long Term	281.76	NA	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
2 Fund based facilities	Long Term	50.00	NA	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
3 Proposed	Long Term	85.70	NA	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
4 Non fund-based facilities	Short Term	125.00	NA	[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	Term Loans	NA	NA	Dec 2025	281.76	[ICRA]A (Stable)
NA	Fund based facilities	NA	NA	NA	50.00	[ICRA]A (Stable)
NA	Proposed	NA	NA	NA	85.70	[ICRA]A (Stable)
NA	Non fund-based facilities	NA	NA	NA	125.00	[ICRA]A1

Source: KSPL

Corrigendum

The rationale document dated December 16, 2019 has been corrected with revisions as detailed below:

- Incorrect rating modifier mentioned at the outlook description paragraph in page 2.

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