

May 18, 2020

Adani Hazira Port Private Limited: Rating placed on watch in line with the Guarantor's rating

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	600.00	600.00	[ICRA]AA+(CE)@; rating placed on watch with negative implications
Total	600.00	600.00	

* - Instrument details are provided in Annexure-1; @ - watch with negative implications

Rating Without Explicit Credit Enhancement

[ICRA]AA

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in suffix is not to be construed as a change in rating. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The rating of Adani Hazira Port Private Limited (AHPPL) is based on the strength of the corporate guarantee provided by Adani Ports and Special Economic Zone Limited (APSEZL or the guarantor) for the rated bank facilities. ICRA has placed the rating of AHPPL on watch with negative implications, following the rating action on the guarantor which was placed on watch with negative implications in January 2020.

For detailed rating rationale on APSEZL, [click here](#).

The rating of AHPPL continues to take into consideration the strong credit profile of its parent company, APSEZL. The rating also takes into account the status of Hazira Port as a multi-purpose port capable of handling diversified cargo including container, coal, other bulk and liquid cargo. It also enjoys the pricing flexibility available due to its status as a non-major port. The rating also factors in the strong growth (~15% CAGR) in cargo volume handled at Hazira over the past five years with 21.6 million MT cargo handled in FY2020. ICRA also notes AHPPL's cargo handling arrangements with several reputed customers including the take-or-pay contracts signed for part of its coal and liquid cargo.

The rating, however, notes the weak demand outlook for container cargo volumes with the ongoing global economic slowdown as well as the risk of non-sustenance of bulk cargo volumes subject to comparative pricing advantage for end-customers. The rating also takes into consideration the intense competition for all cargo types with addition of large capacities in the vicinity.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by APSEZL in favour of the said bank facility. While the guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument, it does not have a well-defined invocation and payment mechanism. Taking cognizance of the above, ICRA has assigned a rating of [ICRA]AA+(CE) to the said facility against the Unsupported Rating of [ICRA]AA. In case the

rating of the guarantor or the Unsupported Rating of AHPPL were to undergo a change, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this facility may also undergo a change in a scenario whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » *The guarantee is unconditional and irrevocable*
- » *The guarantee is a continuing one for all the amounts advanced to the borrower under the said facilities as also for all interest, commission, costs, charges, expenses and/ or other monies which may become due and payable by the Borrower to the bank*
- » *In the event of the Guarantor's failure to pay to the Bank the said dues forthwith on demand made by the Bank then in such event, the aforesaid amount shall bear and carry interest at the rate of 2% per annum or such other rate as the Bank may in its absolute discretion stipulate, from the date of demand till payment by the Guarantor*
- » *The Guarantor has waived the rights available to it as surety under applicable provisions of the Indian Contract Act, 1872*
- » *The bank shall be entitled to act as if the guarantor is the principal debtor to the Bank for all payments and covenants hereby guaranteed*

Key rating drivers

Credit strengths

Strong profile of the guarantor – APSEZL, the guarantor and parent company of AHPPL, is currently the largest private-sector port operator in the country in terms of cargo volume handled. APSEZL's strong business profile is marked by its favourable operating characteristics, geographically spread out footprint, diversified cargo / geographical mix and long-term customer tie-ups.

Capability of handling diverse cargo; significant growth in cargo volume handled – AHPPL is a multi-purpose port capable of handling container cargo, bulk cargo, project cargo and liquid cargo. In FY2020, AHPPL handled 21.6 MMT of cargo, a 10% growth over FY2019, mainly attributable to the growth in liquid cargo volume. The largest driver of the overall cargo volume is the container cargo segment, which generated 41% of the total volume in FY2020.

Reputed clientele for all cargo types; take-or-pay contracts for part of its liquid and coal cargo capacity – AHPPL has contracts with several reputed customers such as Reliance Industries, Cairn India, Maersk, etc. for its liquid, container and coal cargo. Volume handled for these reputed customers accounted for about 44% of the total volume handled at Hazira Port in FY2019. AHPPL also has take-or-pay contracts for 15-20% of its liquid and coal cargo capacity, assuring fixed revenue for the company.

Credit challenges

Weak demand outlook for container cargo volumes; risk of non-sustenance of bulk cargo volumes – The demand outlook for container cargo remains weak in the near-term, affected by the ongoing global economic slowdown. Also, for

the throughput based bulk cargo, there exists a risk of non-sustenance of volumes subject to comparative pricing advantage for end customers.

Competitive pressure from ports in the vicinity – The volume growth for AHPPL can be constrained by the high competitive pressure in the area, given the capacity addition at Jawaharlal Nehru Port Trust (JNPT) as well as the available capacities at other smaller ports for all cargo types.

Liquidity position: Strong

As on March 31, 2020, the liquidity position of AHPPL remained strong with surplus free cash and bank balance of Rs. 856 crore. The liquidity is also supported by the available long-term loans from its guarantor, APSEZL, to the tune of Rs. 1,435 crore as on March 31, 2020, whose scheduled repayment will commence from FY2022.

Also, as on March 31, 2020, APSEZL's consolidated liquidity position remained strong with cash and liquid investments of Rs. 7,326 crore and significant unutilised working capital facilities (fund-based and non-fund based). Its liquidity is supported by the inter-corporate deposits of about Rs. 1,785 crore available on call. ICRA notes that while the completion of acquisition of Krishnapatnam Port Company Ltd. over next the 3–6 months will result in about Rs. 5,500 crore reduction in liquidity, it will still continue to remain strong. APSEZL has significantly high financial flexibility arising from its strong cash accruals and a proven track record in raising low-cost debt funds from international/domestic lenders with long tenures.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings if the credit profile of the guarantor company, APSEZL, improves.

Negative triggers – Negative pressure on the ratings can arise if AHPPL's standalone financial profile materially deteriorates, or if the linkage between APSEZL and AHPPL weakens, or if there is a deterioration in credit profile of APSEZL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Ports Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent company: APSEZL The ratings are based on the unconditional and irrevocable corporate guarantee from APSEZL
Consolidation/Standalone	Not applicable, since the ratings are based on the unconditional and irrevocable corporate guarantee from APSEZL

About the guarantor

APSEZL is the developer and operator of the Mundra port in Gujarat, 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 Ltd (AEL), was replaced by the direct holding of the Gautam Adani family. Meanwhile, the balance remains with institutional investors and the public. APSEZL commenced trial

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

About the company

AHPPL, a wholly owned subsidiary of APSEZL, is responsible for the operations and maintenance of all non-LNG (liquefied natural gas) facilities at Hazira Port. AHPPL handles all types of cargo including bulk, break bulk, liquid chemicals, petroleum products, edible oil, containers and crude. Six berths have been developed for cargo handling, of which two currently cater to container volumes and the other four are used as multi-purpose berths for bulk and liquid cargo.

During FY2019, AHPPL handled 19.6 million MT of cargo and reported an operating income (OI) of Rs. 1,106 crore with a profit after tax (PAT) of Rs. 470 crore. In FY2018, at a consolidated level, the company handled 16.9 million MT of cargo and reported OI of Rs. 962 crore and PAT of Rs. 420 crore. During FY2020, AHPPL handled 21.6 million MT of cargo.

Key financial indicators - AHPPL (Audited*)

	FY2018	FY2019
Operating Income (Rs. crore)	962	1,106
PAT (Rs. crore)	420	470
OPBDIT/ OI (%)	72.1%	72.7%
RoCE (%)	16.5%	18.9%
Total Outside Liabilities/ Tangible Networth (times)	1.4	1.0
Total Debt/ OPBDIT (times)	2.7	2.2
Interest coverage (times)	6.2	6.6
DSCR (times)	3.9	3.4

Source: Adani Hazira Port Private Limited; *FY2020 financials yet to be published

Key Financial Indicators - APSEZL (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	10,925	11,873
PAT (Rs. crore)	4,045	3,789
OPBDIT/ OI (%)	64.7%	63.7%
RoCE (%)	15.4%	12.3%
Total Outside Liabilities/ Tangible Network (times)	1.2	1.4
Total Debt/ OPBDIT (times)	3.9	3.9
Interest coverage (times)	5.1	4.2
DSCR (times)	3.1	2.4

Source: Adani Ports and Special Economic Zone Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No.	Instrument	Type	Current Rating (FY2021)			Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					18-May-2020	23-Aug-2019	-	-
1	Term Loan	Long Term	600.00	600.00	[ICRA]AA+(CE)@; rating on watch with negative implications	[ICRA]AA+(SO) (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

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	April 2019	-	March 2024	600.00	[ICRA]AA+(CE)@; rating on watch with negative implications

Source: Adani Hazira Port Private Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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