August 23, 2019

Adani Ports and Special Economic Zone Limited – Rating reaffirmed at [ICRA]AA+(Stable)/A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debentures	7,000	7,000	[ICRA]AA+(Stable); Reaffirmed
Fund based facilities	10,020	10,020	[ICRA]AA+(Stable); Reaffirmed
Commercial Paper Programme	6,700	6,700	[ICRA]A1+; Reaffirmed
Total	**23,720**	**23,720**	

*Instrument details in Annexure

Rationale

For arriving at the rating, ICRA has taken a consolidated view of Adani Ports and Special Economic Zone Limited (APSEZL) and its subsidiaries, as the latter form an integral part of the management's long-term growth strategy and are increasingly being funded by debt raised at the parent level.

The rating continues to factor in the strong business risk profile of APSEZL, marked by its favourable operating characteristics, geographically spread-out footprint, diversified cargo mix, long-term customer tie-ups and APSEZL's ability to register high growth in the cargo volumes as compared to its industry peers. Consolidated cargo volume growth continues to be supported by the healthy growth in the container cargo volumes (which drove 40% of the total volume in FY2019 and 39% in Q1 FY2020), especially with the addition of volumes at Mundra (container terminal (CT) 4 and CT-3 extension), Ennore and Kattupalli. Also, going forward, the coal/coke cargo volume, which improved significantly in FY2019 post a drop in FY2017-FY2018, is expected to ramp-up even further given the increasing trading activities at Adani Enterprises Limited (AEL) as well as the favourable central electricity regulatory commission (CERC) and Supreme Court judgments with reference to the coastal power plants in Gujarat, which will ramp up its coal requirements, going forward. ICRA also notes APSEZL's flexibility in terms of tariff determination at its non-major ports (Mundra, Hazira, Dhamra, Dahej, Kattupalli). The rating also continues to factor in the healthy profitability metrics, large cash accruals and robust refinancing capabilities of APSEZL, which enable it to maintain a comfortable liquidity position.

While the OPBDITA margin of APSEZL continues to remain strong (64.7% in FY2019 and 66.1% in Q1 FY2020), gross leveraging (Total Debt/OPBDITA) moderated to 3.9 times in FY2019, given the increased amount of short term capital raised in H2 FY2019 in order to maintain a high liquidity position. The gross leveraging is further affected by the issuance of $750 million bonds by APSEZL in July 2019 to meet its medium-term capex requirement. While ICRA expects gross leveraging and credit metrics to continue to be influenced by the substantial capex/acquisition plans, the same would benefit from higher cash flow generation 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. Also, even though APSEZL is experienced in having successfully developed several ports in a timely and cost-effective manner, any major delays and cost overruns in the ongoing port development at Vizhinjam and Myanmar 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 special purpose vehicles (SPVs)/ subsidiaries, APSEZL's revenue and profitability growth is expected to be robust, supporting its overall credit profile and debt servicing ability. The outlook may be revised to Positive if leveraging and return metrics improve as per the anticipated trajectory over the medium term. The outlook may be revised to Negative if there is significant deterioration in APSEZL's operating performance or higher than anticipated capex or any material breach of covenants related to related party transactions. The scale, phasing and funding pattern of further capex/ investment plans over the medium-term would be some of the key rating sensitivity factors.

Credit strengths

Strong competitive profile with established track record in the port operations and port infrastructure businesses - 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 the eastern as well as western coastline. The rating also continues to factor in the strong business risk profile of APSEZL, marked by its favourable operating characteristics, geographically spread out footprint, diversified cargo / geographic mix and long-term customer tie-ups. Further, APSEZL enjoys 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 port terminal at the Ennore Port. ICRA notes that APSEZL has also been generating healthy cash flows through construction and monetisation of port infrastructure assets at the Mundra port. Going forward, it has plans to follow a similar supplementary revenue stream at one of its other port assets, Dhamra. In FY2019, APSEZL reported 15% growth in consolidated volumes even as overall revenue showed marginal decline, given the significantly lower asset monetisation income during the year. Going forward, cargo growth is expected to remain robust and the monetisation 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 amid a challenging external trade environment. In addition to its existing capex requirements to expand its current operations, APSEZL is also undertaking development of the Vizhinjam port and a container terminal at Yangon (Myanmar) port. 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. 4,000 crore annually over FY2020-FY2022 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. Hence, some capex is planned to be discretionary to cargo growth prospects.

Expected cargo volume ramp-up on the back of improvement in coal volumes - Consolidated cargo volume growth of 15% YoY in FY2019 continues to be supported by the healthy growth in the container cargo volumes (which drove 40% of total volume in FY2019 and 39% in Q1 FY2020), especially with the addition of volumes at Mundra (CT-4 and CT-3 extension), Ennore and Kattupalli. Going forward, the coal/coke cargo volume, which improved significantly in FY2019 post a drop in FY2017-FY2018, is expected to ramp-up even further given the increasing trading activities of AEL as well as the favourable CERC and Supreme Court judgments on the coastal power plants in Gujarat, which will ramp up its coal requirements.

Strong financial flexibility - ICRA expects APSEZL's 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 as well as the receipt of upfront income from asset monetisations. Furthermore, the company has re-financed 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. From the accumulated cash balances resulting from the surplus cash generation and low-cost long-term fund raised at parent level, APSEZL continues to fund a majority of its projects at the SPV level.

Credit challenges

High leveraging levels and moderate credit metrics despite healthy operating margins and cargo growth - ICRA notes that while the OPBDITA margins of APSEZL has remained strong (64.7% in FY2019 and 66.1% in Q1 FY2020), gross leveraging increased to 3.9 times in FY2019 from 3.1 times in FY2018, given the increased amount of short-term capital raised in H2 FY2019 to maintain a high liquidity position. ICRA notes the healthy cash and bank balance of Rs. 6,481 crore as on March 31, 2019, as against Rs. 3,487 crore as on March 31, 2018. The net leveraging, consequently, remained at 3.0 times as on March 31, 2019 as against 2.6 times as on March 31, 2018. 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, they should improve over 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.

Project execution risk for ongoing greenfield development at Vizhinjam and Yangon ports - APSEZL is currently developing the Vizhinjam port (total project cost of Rs. 4,168 crore, including VGF of 40%) and a terminal at Yangon port (total project cost of $275-290 million). The Vizhinjam port project has been affected by natural calamities and is currently running marginally behind schedule. Even though APSEZL has a track record of successfully developing several ports in a timely and cost-effective manner over the past decade, any major delays and cost overruns in the ongoing project at Vizhinjam and Yangon will be a rating sensitivity.

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 public-private partnership (PPP) mode or acquire assets inorganically. The capex/investment outgo on these has not been factored in the current rating and will be assessed as and when the concerned plans materialise.

Liquidity position

As on March 31, 2019, at a consolidated level, APSEZL's liquidity position remained strong with cash and liquid investments of Rs. 6,481 crore and significant unutilised working capital facilities (fund-based and non-fund based). Liquidity is also supported by the inter-corporate deposits of about Rs. 1,275 crore available on call. APSEZL also 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. Furthermore, APSEZL has already commenced refinancing the $650 million bonds falling due in FY2021 by raising a new $650 million bond with a five-year tenor in July 2019, which will reduce the pressure of debt repayments on the liquidity position over the next few years.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Ports Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the rating, ICRA has considered the consolidated financials of Adani Transmission Limited. As on March 31, 2019, the company had 28 direct subsidiaries and 15 stepdown subsidiaries that are enlisted in Annexure-2.

About the company

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 AEL, was replaced by the direct holding of the Gautam Adani family. Meanwhile, the balance continues to remain with the 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 by 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 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 inland container depots) and is associated with port/terminal and associated infrastructure developments and operations in Dahej, Hazira, Mormugao, Dhamra, Kandla, Vizag, Kattupalli, Ennore and Vizhinjam.

During FY2019, the company handled 208 million MT of cargo and reported an operating income (OI) of Rs. 10,925 crore with a profit after tax (PAT) of Rs. 4,045 crore. In FY2018, at a consolidated level, the company handled 180 million MT of cargo and reported an OI of Rs. 11,323 crore and PAT of Rs. 3,690 crore.

Key Financial Indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	11,323	10,925
PAT (Rs. crore)	3,690	4,045
OPBDIT/ OI (%)	63.1%	64.7%
RoCE (%)	18.5%	15.4%
Total Debt/ TNW (times)	1.05	1.11
Total Debt/ OPBDIT (times)	3.11	3.90
Interest coverage (times)	4.78	5.10

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Disclaimer: 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	Current Rating (FY2020)					Chronology of Rating History for the past 3 years						
		Type	Rated amount (Rs crore)	Amount Outstanding (Rs crore)	Date & Rating		Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017			
					August 2019	May 2019	March 2019	September 2018	September 2017	March 2017	February 2017	August 2016	April 2016
1	Non Convertible Debentures	Long Term	7000	4846	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Fund Based facilities	Long Term	10020	4399	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)
3	Commercial Paper	Short Term	6700	5497	[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
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)
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)	-	-	-	2154	[ICRA]AA+ (Stable)
NA	Fund based facilities	April 2014	LIBOR+0.15% - LIBOR+0.25%	February 2022	10020	[ICRA]AA+ (Stable)
NA	Commercial Paper	-	-	1-365 days	6700	[ICRA]A1+

Source: Adani Ports and Special Economic Zone Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Adani Logistics Limited	100.00%	Full Consolidation
MPSEZ Utilities Private Limited	100.00%	Full Consolidation
Mundra SEZ Textile and Apparel Park Private Limited	49.88%	Full Consolidation
Karnavati Aviation Private Limited	100.00%	Full Consolidation
Adani Petronet (Dahej) Port Private Limited	74.00%	Full Consolidation
Adani Murmugao Port Terminal Private Limited	100.00%	Full Consolidation
Mundra International Airport Private Limited	100.00%	Full Consolidation
Adani Hazira Port Private Limited	100.00%	Full Consolidation
Hazira Infrastructure Private Limited	Step-down subsidiary	Full Consolidation
Madurai Infrastructure Private Limited	100.00%	Full Consolidation
Adinath Polyfills Private Limited	100.00%	Full Consolidation
Adani Vizag Coal Terminal Private Limited	100.00%	Full Consolidation
Adani Kandla Bulk Terminal Private Limited	100.00%	Full Consolidation
Adani Warehousing Services Private Limited	100.00%	Full Consolidation
Adani Ennore Container Terminal Private Limited	100.00%	Full Consolidation
Adani Hospitals Mundra Private Limited	100.00%	Full Consolidation
Dhamra Port Company Limited	100.00%	Full Consolidation
Shanti Sagar International Dredging Private Limited	100.00%	Full Consolidation
The Adani Harbour Services Private Limited	100.00%	Full Consolidation
Adani Vizhinjam Port Private Limited	100.00%	Full Consolidation
Adani Kattupalli Port Private Limited	100.00%	Full Consolidation
Adani Petroleum Terminal Private Limited	100.00%	Full Consolidation
Adani Dhamra LPG Terminal Private Limited	Step-down subsidiary	Full Consolidation
Mundra LPG Terminal Private Limited	Step-down subsidiary	Full Consolidation
Dhamra LNG Terminal Private Limited	Step-down subsidiary	Full Consolidation
Dholera Infrastructure Private Limited	49.00%	Full Consolidation
Dholera Port And Special Economic Zone Limited	Step-down subsidiary	Full Consolidation
Abbot Point Operations Pty Limited	100.00%	Full Consolidation
Abbot Point Bulkcoal Pty Limited	Step-down subsidiary	Full Consolidation
Mundra International Gateway Terminal Private Limited	100.00%	Full Consolidation
Adani International Terminals Pte Ltd	100.00%	Full Consolidation
Blue Star Realtors Private Limited	Step-down subsidiary	Full Consolidation
Adani Bhavanapadu Port Private Limited	100.00%	Full Consolidation
Marine Infrastructure Developer Private Limited	97.00%	Full Consolidation
Adani Mundra Port Holding Pte. Limited	100.00%	Full Consolidation

Adani Mundra Port Pte. Limited	Step-down subsidiary	Full Consolidation
Adani Abbot Port Pte. Limited	Step-down subsidiary	Full Consolidation
Adani Yangon International Terminal Company Limited	Step-down subsidiary	Full Consolidation
Adani Agri Logistics Limited	Step-down subsidiary	Full Consolidation
Adani Agri Logistics (Dahod) Limited	Step-down subsidiary	Full Consolidation
Adani Agri Logistics (Samastipur) Limited	Step-down subsidiary	Full Consolidation
Adani Agri Logistics (Darbhanga) Limited	Step-down subsidiary	Full Consolidation
Dermot Infracon Private Limited	Step-down subsidiary	Full Consolidation

Source: APSEZL Annual report 2018-19

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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.

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