

August 05, 2020 <sup>Revised</sup>

## Essar Ports Limited: [ICRA]BB+(Stable)/[ICRA]A4+ assigned

### Summary of rating action

| Instrument*                      | Current Rated Amount<br>(Rs. crore) | Rating Action                |
|----------------------------------|-------------------------------------|------------------------------|
| Long-Term – Fund Based Term Loan | 35.00                               | [ICRA]BB+ (Stable); Assigned |
| Short Term – Interchangeable     | (30.00)                             | [ICRA]A4+; Assigned          |
| <b>Total</b>                     | <b>35.00</b>                        |                              |

\*Instrument details are provided in Annexure-1

### Rationale

The ratings favourably factor in revenue and cashflow visibility of Essar Ports Limited (EPL) due to presence of long-term lease agreements with Essar Bulk Terminal Limited (EBTL; rated [ICRA]A(Stable)/ [ICRA]A1) as well as the unconditional and irrevocable corporate guarantee provided by EBTL for the term loan availed by EPL. The ratings also consider the low counterparty credit risk arising out of the healthy financial risk profile and liquidity position of EBTL which remains the anchor customer for the company. Further, the ratings also take into account the criticality of EPL's services for the smooth functioning of EBTL's operations, the extensive experience of EPL's management team and the strong foothold of its promoter group, Essar, across different sectors including energy, infrastructure, metals & mining and services.

The ratings, however, are constrained by EPL's modest scale of operations over the years coupled with negative profitability margins over the last 4 years which has, in turn, led to weak coverage ratios. ICRA notes that the company's financial position remains exposed to high risk related to contingent liabilities on its books which are in the form of corporate guarantees provided for bank loans availed by its subsidiary – Essar Vizag Terminals Limited (EVTL) and group companies. EPL has also made substantial investments in its group companies in the form of equity, quasi-equity and debt. Any further investments and advances to its group concerns could lead to strain on liquidity; however, any outflow of funds is expected to be restricted to the surplus funds available after repayment of debt obligations through escrow account monitored by the lenders. The ratings also take into consideration the company's high customer concentration risk with top 2 customers contributing more than 90% of the revenues in FY2020 and the vulnerability of its profitability margins to adverse fluctuations in foreign exchange rates.

The stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that EPL will continue to benefit from the extensive experience of its promoters in the ports services industry.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in the ports industry** – Essar Ports Limited belongs to the Essar Group, which has presence across different sectors such as energy, infrastructure, metals & mining and services. EPL's proven track record and its experienced management team with about 20 years of experience in the ports services sector has enabled the company to establish its position in the industry.

**Revenue and cash flow visibility due to presence of long-term lease agreement for its dredger with EBTL**- The company has entered into a lease agreement on a bareboat charter basis for its dredger with EBTL for a tenure of 10 years which expires in 2027. As per the lease contract, EPL receives USD 5250 per day which provides a long-term fixed source of revenue for the company.

**Corporate guarantee from EBTL in place for the term loan availed towards the purchase of dredger** – EPL availed a term loan of Rs 40 crore from Yes Bank in July 2017 for the purchase of dredger. ICRA derives comfort from the fact that the company has received corporate guarantee for the loan from EBTL which is unconditional, irrevocable and absolute and covers the entire loan amount which shall remain in force till all dues under the facility are met.

**Low counterparty credit risk to arise from its anchor customer, EBTL** – With positive demand outlook, EBTL's financial risk profile and liquidity position remains healthy. Hence, with EBTL being the company's anchor customer, the counterparty credit risk for EPL remains low.

## Credit challenges

**Modest scale of operations coupled with low profitability margins** – EPL's scale of operations have remained modest with the company registering operating income of Rs 19.34 crore (prov) in FY2020. Led by stagnant growth in its revenues coupled with high operating and financial expenses, the company has incurred losses over the last 5 years on net levels with its net profitability turning positive only in FY2020.

**High risk related to contingent liabilities in the form of substantial corporate guarantees given to its group companies** - EPL has provided corporate guarantees which include financial and performance guarantees for term loans availed by its group companies resulting into high contingent liabilities which stood at Rs 3168.69 crore while its tangible net worth stood at Rs 375.07 crore as on March 31, 2020. Thus, the company's financial and liquidity position remains exposed to high risk in case any of these corporate guarantees are invoked.

**Any outflow of funds to support group companies could further lead to strain on liquidity** – The company has made sizeable investments in its subsidiary, EVTL and its group companies in the form of equity, cumulative compulsorily convertible preference shares, compulsorily convertible debentures and intercorporate deposits. Any further investments and advances to its group companies could lead to strain on its liquidity position. However, the company maintains an escrow for the term loan and any outflow of funds is expected to be restricted to the surplus funds available after repayment of debt obligations through escrow account monitored by the lenders.

**High customer concentration risk** – EPL's customer base remains highly concentrated with top two customers contributing more than 90% of its revenues in FY2020 with EBTL alone contributing to more than 75% of the revenues. However, the fact that the customer profile consists of reputed companies with healthy operational and financial profile, provides some comfort.

## Liquidity position: Stretched

EPL's liquidity position remains stretched with minimal cash flow from operations due to low profitability and ballooning repayments on its outstanding term loan (Rs 30.14 crore as on March 31, 2020). The company has minimal free cash balance of Rs 0.75 crore as on March 31, 2020 while it has not availed any fund based working capital bank facility. ICRA expects pressures on liquidity to sustain over the near to medium term given the low cash accruals, unavailability of buffer in the form of fund based working capital limits and ballooning term debt repayments in the near term.

## Rating sensitivities

**Positive triggers** - The ratings may be upgraded if the company demonstrates growth in its scale of operations as well as profit margins on a sustained basis.

**Negative triggers** - The ratings may be downgraded if the company's revenues witness significant de-growth or if profitability levels deteriorate further. Moreover, in case, any corporate guarantees given to its group companies are invoked, it would also be considered as a negative trigger for the rating.

## Analytical approach

| Analytical Approach             | Comments                                                                                            |
|---------------------------------|-----------------------------------------------------------------------------------------------------|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Ports</a> |
| Parent/Group Support            | Not Applicable                                                                                      |
| Consolidation/Standalone        | Standalone                                                                                          |

## About the company

Incorporated in 1975, Essar Ports Limited specializes in development and operations of ports and terminals for handling liquid, dry bulk, break bulk and general cargo. Prior to 2016, EPL was the holding company of all port operations of the Essar group in India which consisted of four operational terminals across India, at Hazira and Salaya, Gujarat on the west coast, and one each in Visakhapatnam and Paradip on the east coast. In 2016, the company underwent a demerger and as on date, EPL has one subsidiary – Essar Vizag Terminal Limited, which operates the terminal at Visakhapatnam. In its standalone operations, EPL has leased out a tug and dredger to its group company – EBTL. It also provides key management personnel services to group companies.

In FY2020 (provisional), the company registered a net profit of Rs. 4.36 crore on an OI of Rs. 19.34 crore, against a net loss of Rs. 3.61 crore on an OI of Rs. 34.86 crore in FY2019.

## Key financial indicators

|                                                      | FY2018  | FY2019  | FY2020      |
|------------------------------------------------------|---------|---------|-------------|
|                                                      | Audited | Audited | Provisional |
| Operating Income (Rs. crore)                         | 22.88   | 34.86   | 19.34       |
| PAT (Rs. crore)                                      | -1.43   | -3.61   | 4.36        |
| OPBDIT/OI (%)                                        | 8.9%    | 11.6%   | 37.1%       |
| RoCE (%)                                             | -0.4%   | 1.8%    | 2.4%        |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.22    | 0.38    | 0.47        |
| Total Debt/OPBDIT (times)                            | 34.87   | 23.64   | 15.05       |
| Interest Coverage (times)                            | 0.82    | 0.37    | 1.42        |
| DSCR                                                 | 0.90    | 1.15    | 1.65        |

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed

Source: Financial statements of EPL and ICRA research

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**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: None**

### Rating history for past three years

|   | Instrument           | Current Rating (FY2021) |              |                                         |                    | Rating History for the Past 3 Years |        |        |
|---|----------------------|-------------------------|--------------|-----------------------------------------|--------------------|-------------------------------------|--------|--------|
|   |                      | Type                    | Amount Rated | Amount Outstanding as on March 31, 2020 | Rating             | FY2020                              | FY2019 | FY2018 |
|   |                      |                         |              |                                         | 05-August-2020     |                                     |        |        |
| 1 | Fund Based Term Loan | Long Term               | 35.00        | 30.14                                   | [ICRA]BB+ (Stable) | -                                   | -      | -      |
| 2 | Interchangeable      | Short Term              | (30.00)      | -                                       | [ICRA]A4+ (Stable) | -                                   | -      | -      |

Amount in Rs. Crore

### 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 [click here](#)

### Annexure-1: Instrument details

| ISIN | Instrument Name  | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA   | Term Loan        | Jul-2017                    | -           | Jul-2027      | 35.00                    | [ICRA]BB+ (Stable)         |
| NA   | Letter of Credit | Jul-2017                    | -           | -             | (30.00)                  | [ICRA]A4+                  |

Source: EPL

### Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|--------------|-----------|------------------------|
| NA           | NA        | NA                     |

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## Corrigendum

Document dated August 05, 2020 has been corrected with revision as detailed below –

- Analyst and Relationship contact details updated.

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