

February 14, 2020

Essar Bulk Terminal Limited: Ratings assigned to bank Lines

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	1350.0	[ICRA]A (Stable); Assigned
Fund based- Working Capital Facilities	18.0	[ICRA]A (Stable); Assigned
Non-fund Based – Working Capital Facilities	32.0	[ICRA]A1; Assigned
Total	1400.0	

*Instrument details are provided in Annexure-1

Rationale

The rating factors in the highly integrated operations of Essar Steel India Limited (ESIL)'s Hazira steel plant with Essar Bulk Terminal Limited (EBTL)'s terminal which reduces cargo volume risks to a large extent given the long-term 'Take-or-Pay' agreement between both entities that ensures minimum cargo off-take and revenues generated from the ancillary services. Furthermore, the lean cost structure of the terminal along with ownership of critical elements like stackyards by EBTL reduces the possibility of any termination of the agreement. The competition from other nearby ports is expected to remain limited owing to the significant cost advantage built into the take-or-pay agreement. The rating also factors in acquisition of ESIL by Arcelor Mittal which has mitigated counter-party credit risk to a large extent. ICRA further believes that the expected increase in third party cargo that can be handled by EBTL would help in mitigating customer concentration risk in the long term as demand outlook from the port's hinterland for third party cargo remains healthy, given that Hazira is located closer to the major trade hubs in western India.

The rating is, however, constrained by the high dependence on ESIL's operations for EBTL's cargo volumes (expected to be 80%~85% of total cargo handled by the terminal for the near to medium term), and thus any major outages or demand slowdown in the long run would impact the performance of EBTL's terminal. Nonetheless, Arcelor Mittal is expected to enhance its plant utilization level from the current levels of ~70% and further expand the production capacity in the near to medium term which would provide a potential upside for cargo volumes of EBTL. Any sizeable debt-funded capex in the future would be a rating sensitivity.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that EBTL will continue to benefit from acquisition of ESIL by Arcelor Mittal and receive timely payments

Key rating drivers and their description

Credit strengths

Port operations highly integrated with Hazira steel plant owned by Essar Steel Limited which reduces cargo volume risks -

EBTL's terminal is located in close proximity of the steel plant of ESIL and hence, has direct dependence from the latter for the handling of input cargo as well as export of finished. It has established long term 'Take-or-Pay' agreements for cargo of ESIL. EBTL has mechanized stackyards with a capacity of 1 million MT for coal storage and another 1.5 million MT capacity dedicated towards storing iron ore. Apart from these stackyards, the terminal has an additional non-mechanized stackyard capacity of 0.5 million MT for cargo storage. These stackyards store raw material cargo being

received for its anchor customer. The stackyard facilities of EBTL remain vital for ESIL's operations. These stackyards as well as the berths are connected to the steel plant through conveyor belts for transportation of the raw materials.

Healthy demand outlook from the port's hinterland given that Hazira is located closer to the major trade hubs in western India -Cargo throughput for third-parties increased to 3.2 million MT in FY2019 from 0.6 million MT in FY2016; management expecting to achieve more than 5 million MT in FY2020 based on the current run rate. Supported by the healthy demand, going forward, EBTL is expected to handle a higher proportion of third party cargo volumes at Hazira port which will reduce its high customer concentration risk.

Low counterparty credit risk to arise from anchor customer (Essar Steel Limited) -Arcelor Mittal has completed acquisition of ESIL. The Acquisition of ESIL is expected to mitigate counter party credit risk going ahead. Further Arcelor Mittal is expected to enhance the capacity of Essar Steel which will further boost volume growth at Hazira port.

Healthy financial risk profile– With the implementation of the resolution plan, EBTL has received around 144.08 crore from ESIL which has boosted its liquidity position. ICRA expects EBTL to generate healthy net cash accruals from business of over Rs 450 crore annually. Debt servicing indicators are expected to remain very comfortable with projected DSCR of over 2.5 times. The capex plan also remains limited to about 1000-1200 crore spread over the next 4-5 years which is likely to be funded via internal accruals. With healthy profitability and regular payments, financial risk profile of EBTL should remain healthy over the medium term.

Credit challenges

Operations to remain highly exposed to the utilisation levels of the Hazira steel plant of Essar Steel Limited– Any major outages or demand slowdown in Steel demand would impact volumes from ESIL and currently around 80% of cargo handled by EBTL is from ESIL which will have impact on revenues of EBTL.

Uncertainty around the continuity of agreements with ESIL–ESIL's plant was conceptualised with EBTL's port as a captive asset, integrated into the steel plant's operations, providing critical services (enabling import and export of raw materials and finished goods respectively) such as handling and storage facilities. ICRA believes that the current services like mechanization and dedicated handling for its steel plant are difficult for ESIL to immediately replicate as it would require approvals and creation of additional infrastructure. Hence, ESIL may continue with the cargo and handling agreement with EBTL going forward. Any change in this understanding shall be a rating sensitivity factor.

Competition from nearby port facilities for third party cargo–For attracting third party cargo, EBTL faces competition from nearby ports like Adani group's Dahej and Hazira ports as well as other lighterage ports in Gujarat.

Liquidity position: Adequate

EBTL has maintained cash and liquid investments worth amount Rs. 22.71 crores by the end of FY 2019 after scheduled repayment of debt, incurring capital expenditure. The liquidity profile of the company remained adequate supported by steady cash accruals and sizeable unutilised working capital bank limits. In FY 2020 Company has recovered past dues worth Rs. 144.08 crores from Essar Steel after acquisition by Arcelor Mittal resulting in cash reserve equal to 12-month debt servicing. As of H1 FY 2020 end, the company has cash and liquid investments worth amount Rs. 46.59 crores after making a prepayment of Rs. 9.56 crores in H1 FY2020 along with scheduled repayment of long term debt.

Rating sensitivities

Positive triggers –ICRA could upgrade EBTL’s rating if the company demonstrates a healthy track record of cargo performance. Sustained ramp up in third party cargo would also be considered for rating upgrade. Further improvement in operating profitability and debt protection metrics would boost ratings going ahead.

Negative triggers– Negative pressure on EBTL’s rating could arise if there are any material changes to the cargo handling agreement, and non-conformation on continuation of tariff. Sustained increase in receivables, resulting in pressure on liquidity could also exert negative pressure on the company's rating. Higher than expected debt-funded capital expenditure will also put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Ports
Parent/Group Support	NA
Consolidation/Standalone	For Arriving at the rating, ICRA has considered the standalone approach

About the company

Essar Bulk Terminal Limited (EBTL) is an-all weather, deep-draft terminal which is located on the mouth of Tapi estuary along the western side of Hazira peninsula in Gulf of Khambhat, under Magdalla Port of Gujarat Maritime Board (GMB). Magdalla port is a non major port, wherein waterfront & onshore areas have been leased which have been leased to different parties such as for captive use (Essar Steel, RIL, L&T, KRIBHCO, Gujarat Ambuja Cement, GMB), private shipyards (L&T, ABG) and private port (Hazira Port Pvt Ltd-LNG terminal operated by Shell). EBTL’s terminal is capable of handling dry bulk, liquid and break-bulk cargo. Currently, the terminal is operating a total of five berths with a total quay length of 1,650 mtrs with operational draft of 12 mtrs. This consists of two Mechanised bulk berths and three multipurpose berths for handling bulk and break bulk cargo. The terminal has a port back up area of 178 hectare for cargo storage

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	854	976
PAT (Rs. crore)	0	163
OPBDIT/OI (%)	69.9%	68.9%
RoCE (%)	7.1%	17.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.0
Total Debt/OPBDIT (times)	2.5	2.1
Interest Coverage (times)	3.0	3.4
DSCR	1.3	2.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	FY2017
					14-Feb-2020				
1	Term Loan	Long Term	1350.0	1331.6	[ICRA]A(Stable)	-	-	-	-
2	Fund Based Limits – Cash Credit	Long Term	18.0	-	[ICRA]A (Stable)	-	-	-	-
3	Non-Fund Based Limits	Short Term	32..0	-	[ICRA]A1	-	-	-	-

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 www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	1 st March 2015		1 st March 2030	1350.0	[ICRA]A(Stable)
	Fund Based Limits – Cash Credit				18.0	[ICRA]A(Stable)
	Non-Fund Based Limits				32.0	[ICRA]A1

Source: Essar Bulk Terminals Limited

Annexure-2: List of entities considered for consolidated analysis

NA

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