September 16 2020

# Kamarajar Port Limited: Ratings downgraded to [ICRA]AA- (Stable) from [ICRA]AA (Stable)

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long term; Tax free bonds | 500.0 | 500.0 | [ICRA]AA- (Stable); downgraded from [ICRA]AA (Stable) |
| **Total** | **500.0** | **500.0** | |

*Instrument details are provided in Annexure-1

## Rationale

For arriving at the rating, ICRA has taken a consolidated view of Kamarajar Port Limited, along with its parent - Chennai Port Trust (rated [ICRA] AA- (Stable)). In the past, ICRA had taken standalone view of Kamarajar Port Limited, as the Government of India (GoI) held 66.7% stake in KPL and remaining stake was held by Chennai Port Trust (ChPT). However, in March 2020, ChPT had acquired GoI's entire stake in KPL, making it a wholly owned subsidiary of ChPT. ICRA, expects increased financial linkages between the two entities post the acquisition, although KPL will continue to operate as a separate limited liability company.

The revision in ratings takes into account the stress on capital structure and debt coverage indicators of the consolidated entity, arising from the Rs. 1775 crore debt availed by ChPT for the acquisition of stake in KPL for a total consideration of Rs. 2380 crore. In view of limited cash generation from operations, the debt at ChPT will be serviced by dividend payments from KPL, although the liquidity profile is supported by 15-year repayment tenure along with ballooning repayment structure. ChPT will also be maintaining 3-month DSRA and ~Rs. 200 crore reserve fund for debt servicing and all dividend payments from KPL will be routed through an escrow account for debt servicing. Further, due to the high pension obligations & salary outgo for ChPT, the profit margins of the consolidated entity are also constrained. ICRA also notes that ChPT's adjusted networth is negative because of large unfunded pension and other retirement liabilities, which weakens the consolidated entity's networth. Furthermore, there is high competition and overcapacity in the container segment at Chennai cluster, although the risk is partly mitigated by captive customers for certain cargo segments and minimum guaranteed volume commitment and revenue share from container terminal operators. Also, ICRA expects the acquisition of KPL to provide operational synergies in the form of lower competition and streamlined capacity planning in Chennai. ICRA also takes note of the congestion issues at ChPT and KPL, however the risk should be mitigated by completion of some of the connectivity projects, currently under implementation.

The rating however, favorably factors in the strategic importance of KPL and its parent, ChPT as two of the twelve major ports in India and the sovereign ownership of ChPT, with the port trust operating under the direct administrative control of the Ministry of Shipping (MoS). Despite the acquisition, KPL will continue to operate as a limited liability company under ChPT and will remain outside the purview of TAMP and have tariff flexibility. The rating considers the moderate cargo profile of ChPT and KPL, with ChPT accounting for second largest container handling among major ports and together with KPL account for ~15% of container share of India in FY2020. The container terminals at ChPT and KPL are operated by reputed global and domestic port logistics players with revenue share and minimum guaranteed volume clauses in the contract. The other key cargo handled at ChPT are crude oil and automobiles, while KPL handles coal and crude oil. While, ChPT operates the other cargo berths and its tariff are regulated by TAMP, KPL operates mainly on landlord port basis. The ratings also favorably note the vast industrial hinterland catered by the two ports.

ICRA also takes note of the adverse impact of novel coronavirus (Covid-19) pandemic and the lockdown undertaken in India on the consolidated entity, with the ChPT witnessing ~30% cargo decline during April-Aug 2020 , and KPL witnessing ~32% cargo decline during the same period. While, there has been slowdown in pace of decline with easing of containment measures, the sustainability of improvement remains to be seen and the full year financial performance in FY2021 is expected to be adversely impacted.

The stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the consolidated entity will continue to benefit from the sovereign ownership of parent entity and their strategic importance to GOI, favorable location of the ports, long term revenue share contracts with reputed global and domestic BOT concessionaries and high captive cargo of KPL.

## Key rating drivers and their description

## Key Strengths

**Strategic importance and Government linkages** – KPL, together with ChPT, are strategically important to the GoI for the economic growth of the country as two of the 12 major ports in India. While, in the past GoI held 66.7% stake in KPL and remaining was held by ChPT, in March 2020, ChPT has acquired GOI's stake in KPL, making it a wholly owned subsidiary. Despite the change in ownership, KPL is expected to operate as a limited liability company, management and operational independence and will remain outside the purview of TAMP and have tariff flexibility. The acquisition is also expected to provide operational synergies in the form of lower competition and streamlined capacity planning.

Further, the parent - ChPT is under the direct administrative control of the Ministry of Shipping (MoS) with board representation from MoS, Department of customs, GoTN and Mercantile Marine department, which reflects strong government linkages. Besides administrative linkages, the trust has also received moderate financial support in the form of grant from MoS to part-fund some of the capital expenditure programmes undertaken by the trust.

**Favourable location of the ports with adequate draft and access to large hinterland** – Both the ports - Chennai and Kamarajar Port are all-weather ports located on the south-east coast of India and in the north-east corner of Tamil Nadu. Present on the international shipping route, both the ports operate as an attractive port of call. Further, the draft available at the ports are adequate in the range of 15m-17.4m which allows it to handle bigger vessels with higher economies of scale thus resulting in significant cost advantages for end users. Both the ports have access to vast hinterland comprising of Tamil Nadu and parts of Karnataka and AP and handle variety of cargo comprising containers, coal, liquid & break bulk cargo.

Chennai port had traditionally been a bulk port handling coal, iron ore, liquid and dry bulk catering to the needs of power generators, oil refineries and the steel / aluminium plants. However, following the commissioning of the container terminals in 2001 in 2009 along with shift of coal and iron ore cargo to Kamarajar port in 2012 following high court orders citing pollution and hazardous risks for the citizens living nearby the port, ChPT has become predominantly a container handling port with KPL predominantly handling coal and other break bulk cargo.

**Hybrid operating model –** While KPL operates mainly on landlord port basis, ChPT functions under the hybrid concept, wherein the port operates berths on its own, handling general cargoes including liquid, dry bulk and breakbulk cargoes while the container terminals are operated though build-operate-transfer route (BOT) by the private operators. With the major cargo generating terminals operating under the landlord model, the investment from the consolidated entity towards the container terminals are restricted to common infrastructure, capital/maintenance dredging and connectivity projects.

## Credit Weaknesses

**Credit profile of the consolidated entity impacted due to large debt funded acquisition of Kamarajar Port Limited -** During March 2020, ChPT had acquired the remaining 66.7% stake in KPL for a total consideration of Rs. 2380 crore. The acquisition was funded through debt of Rs. 1775 crore and remaining through internal resources including cash and large advances received from its customers. While the acquisition is expected to provide operational synergies to ChPT in the form of reduction in common expenses, lower competition and streamlined capacity planning in Chennai; the large interest and principal obligation has put some pressure on the capital structure and coverage indicators of the consolidated entity.

Although, the cash accruals generated by ChPT at the standalone level will be insufficient to service its debt obligations, it is expected to be adequately supported by dividend payments from KPL. The financial profile of KPL has remained healthy on the back of healthy profitability over the years driven by its landlord port model and high revenue share from its concessionaires. ChPT will also be maintaining 3-months DSRA and ~Rs. 200 crore reserve account during the period of debt. The repayment period is spread over 15 years with ballooning structure and the dividend payments from KPL will be routed through an escrow account.

Further, while the capex plans for ChPT is limited, KPL is in midst of undertaking large planned capital expenditure towards development of second general cargo berth, capital dredging and connectivity projects, which will be mainly funded through internal accruals. However, some of the capex plans at KPL are expected to be deferred to FY2022 due to the impact of covid-19 pandemic situation on demand and projection execution.

Furthermore, KPL also had contingent liability of 130.1 as on March 31. 2020, mainly related to fresh claims raised by contractors towards contract/supply work and developments will be monitored.

**Profit margin of the consolidated entity impacted on account of large pension liabilities and high employee expense of ChPT –** Being one of the oldest operating major port in India, ChPT at the standalone level has a large employee base of 3949 and pensioners of 15064 as on March 2020. The large annual employee and pensioners expenses adversely impacts the operating profitability of the consolidated entity. In addition to this, the large deficit position of Rs. 1105 crore as on March 2020 in the pension fund of ChPT (compared to actuarial estimates of liabilities) necessitates regular contribution from the P&L account to these funds which further impacts the operating profitability and also keeps the gearing level of the consolidated entity under stress at ~2.48 times as on March 2020.

Although the pension payment to retirees and employee expense is expected to moderate gradually in the medium to long term, the deficit position in the pension fund of ChPT is likely to continue over the next 10-15 years and reduce gradually upon regular contribution from the revenue account.

**Delays in commissioning of iron ore terminals and slower cargo ramp-up in container and LNG terminals at KPL–** The iron ore terminal operated by Sical Iron Ore Terminal Limited (SIOTL) has been idle post construction in 2010 due to regulatory issues. This has resulted in lower than forecasted revenue share as these terminals have not contributed to revenues of the port. The SIOTL terminal is however facing delays in execution, partly due to impact of Covid-19 pandemix. Also, the cargo ramp-up in the recently commissioned container and LNG terminals has been slower than expected which has further impacted the revenue growth in FY2020.

**High competition and cargo volatility** – ChPT and KPL face competition from other ports in the vicinity like Katupally and Krishnapatnam port. Further, in recent years there has been increase in container handling capacity at KPL and Katupally, which has also impacted the container segment growth at ChPT. Nonetheless, the risk is mitigated for the consolidated entity due to expected synergies, presence of captive cargo (like TANGEDCO at KPL and CPCL at ChPT) and long-term contracts with reputed domestic and global container terminal operators with minimum guaranteed volumes and revenue share. Further, with coal accounting for nearly 70% of cargo of KPL, the performance of the port and consolidated entity remains susceptible to volatility in coal demand.

**Congestion issues –** Both Chennai port and KPL face congestion issues, which impacts the cargo evacuation from the ports and in some cases have resulted in some diversion of cargo to competition. However, the congestion is expected to reduce over the next few years upon completion of road connectivity projects which is currently under construction.

**Impact of novel coronavirus (Covid-19) outbreak and the shutdown undertaken in India in the near term -** In the near term, the consolidated entity's revenue is expected to be adversely impacted on account of the novel coronavirus (Covid-19) outbreak and the shutdown undertaken in India. Despite port operations being considered as an essential service and hence not covered under the lockdown, the overall cargo throughput handled at during April – Aug 2020 witnessed sharp of ~30% and ~32% at ChPT and KPL respectively. While, there has been slowdown in pace of decline with easing of containment measures, the sustainability of improvement remains to be seen and the full year financial performance in FY2021 is expected to be adversely impacted.

## Liquidity position - Adequate

At the standalone level, KPL has a healthy track record of strong fund flow from operations in last few years, although the free cash flow over the past few years has been negative due to large capex incurred. Going forward, although the fund from operations is expected to be impacted in FY2021 on account of Covid-19 pandemic, it is expected to improve gradually in FY2022 an FY2023. Given the higher capex requirements in the range of Rs. 100-150 crore per year in the next three years (although some capex is expected to be deferred to FY2022 from FY2021), KPL's liquidity profile is expected to be adequate supported by unencumbered cash balances and liquid investments (~Rs 99.2 crore as on March 2020) and unutilised fund-based limit of Rs. 50 crore.

At the consolidated level, while the fund flow from operations is expected to moderate in FY2021 on account of impact of Covid-19 pandemic, it is expected to improve gradually in FY2022 and FY2023 aided by healthy profitability of KPL. The free cash flow is expected to be weak and improve gradually due to large repayment obligations of Rs. 82 crore, Rs. 76 crore and Rs. 96 crore in FY2021, FY2022 and FY2023 respectively along with large capex requirements (mainly at KPL). The group's liquidity profile is expected to remain adequate supported by healthy fund flow from operations and unencumbered cash balances.

## Rating sensitivities

**Positive triggers –** KPL's ratings could be upgraded if the consolidated entity (ChPT and KPL) can demonstrate steady cargo growth leading to higher revenues and cash accruals on a sustained basis, while maintaining profitability and stable working capital intensity. Specific credit metrics that could lead to upgrade is TD/OPBDITA < 2.00 times for the consolidated entity on a sustained basis.

**Negative triggers** – Negative pressure on KPL's ratings may arise if the consolidated entity's financial profile weakens due to lower cash accruals on account of significant drop in volumes or margins on sustained basis due to competition or adverse economic trends, or larger than expected debt funded capex, leading to weakening of liquidity profile. Moreover, reduction in sovereign ownership of the trust or dilution in strategic importance may trigger a downward rating revision.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | [Corporate Credit Rating Methodology](#)<br>[Rating Methodology for Ports](#) |
| Parent/Group Support | Rating derives comfort from sovereign ownership of ChPT and its strategic importance to GoI |
| Consolidation/Standalone | While assigning the rating, ICRA has taken a consolidated view of Chennai Port Trust and Kamarajar Port Limited. The rating is based on the consolidated financial profile of the ChPT and KPL |

## Trust profile – ChPT

Formerly known as Madras Port, Chennai Port Trust (ChPT) officially commenced port operations in 1881, although maritime trade started much earlier in 1639 on the undeveloped shore. An artificial and all-weather port with wet docks, Chennai Port is the third-oldest port among the 12 major ports of India and is a major hub port for containers, cars and project cargo in the eastern coast of India. While the port had traditionally been a bulk port catering to the needs of power generators, oil refineries and the steel / aluminium plants in the primary hinterland of Southern India handling coal, iron ore, liquid and dry bulk constituted majority of the overall cargo mix. However, in the last decade, following shift of coal and iron ore cargo to Kamarajar port and commissioning of the container terminals, the port has become predominantly a container handling port followed by liquid and other break bulk cargo.

At present, the port has two container terminals operating under the landlord concept, run separately by DP World Pvt. Ltd and Singapore's PSA International Pte Ltd, with a combined capacity to handle 2.5 million TEUs a year. The trust also functions as a terminal operator for some its berths handling general cargoes including liquid, dry bulk and breakbulk cargoes.

## About the company – KPL

Kamarajar Port Limited (KPL; erstwhile Ennore Port Limited), incorporated in 1999, is a major port located 24 km north of Chennai. It was declared a major port under the Indian Ports Act in March 1999, and is the first major port to be incorporated under the Companies Act, 1956. The port was dedicated to the nation in February 2001 and operations commenced in June 2001 with two dedicated coal berths handling thermal coal for the power stations of Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). Ennore Port was originally conceived as a satellite port to the Chennai Port, primarily to handle thermal coal to meet the requirements of TNEB (now TANGEDCO); subsequently its scope has been expanded to enable KPL to handle other cargo. The port largely functions under the landlord concept, wherein new terminals are being developed through build-operate-transfer (BOT) model by private operators. Earlier, the Government of India held 66.7% stake in KPL with the remaining stake being held by ChPT. However, on March 27, 2020, ChPT had acquired the entire stake held by GoI, and KPL is currently a wholly owned subsidiary of ChPT.

## Key financial indicators – KPL - Standalone (audited)

| | FY2019 | FY2020 |
|---|---|---|
| Operating Income (Rs. crore) | 708.0 | 703.2 |
| PAT (Rs. crore) | 340.4 | 249.0 |
| OPBDIT/OI (%) | 80.9% | 80.4% |
| | | |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.38 | 0.34 |
| Total Debt/OPBDIT (times) | 1.70 | 1.57 |
| Interest Coverage (times) | 6.46 | 6.68 |
| DSCR | 2.15 | 2.68 |

(Amounts in Rs. crore);

## Key fiscal indicators of ChPT - Consolidated

| | FY2019 | FY2020 |
|---|---|---|
| Operating Income (Rs. crore) | - | 1490.7 |
| PAT (Rs. crore) | - | 225.8 |
| OPBDIT/OI (%) | - | 31.6% |
| | - | |
| Total Outside Liabilities/Tangible Net Worth (times) | - | 10.7 |
| Total Debt/OPBDIT (times) | - | 5.1 |
| Interest Coverage (times) | - | 7.9 |
| DSCR | - | 8.2 |

(Amounts in Rs. crore);

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

| | | Current Rating (FY2021) | | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|---|
| | Instrument | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs Crore) | Date & Rating 16-09-2020 | Date & Rating 24-04-2020 | Date & Rating in FY2019 28-Mar-2019 | Date & Rating in FY2018 15-Dec-2017 | Date & Rating in FY2017 05-Aug-2016 |
| 1 | Bonds | Long Term | 500.0 | 458.1 | [ICRA]AA- (Stable) | [ICRA]AA (Stable) | [ICRA]AA (Positive) | [ICRA]AA (Positive) | [ICRA]AA (Positive) |

## 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 |
|---|---|---|---|---|---|---|
| INE363O07020, | Bonds | Mar 2013 | 7.01% | Mar 2023 | 500.0 | [ICRA]AA- (Stable) |
| INE363O07046, | | Mar 2013 | 7.17% | Mar 2028 | | |
| INE363O07053, | | Mar 2014 | 8.36% | Mar 2024 | | |
| INE363O07087, | | Mar 2014 | 8.61% | Mar 2024 | | |
| INE363O07061, | | Mar 2014 | 8.75% | Mar 2029 | | |
| INE363O07079, | | Mar 2014 | 8.75% | Mar 2034 | | |
| INE363O07095, | | Mar 2014 | 9.00% | Mar 2029 | | |
| INE363O07103 | | Mar 2014 | 9.00% | Mar 2034 | | |

Source: KPL

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

| Company name | Ownership | Consolidation Approach |
|---|---|---|
| Chennai Port Trust | Parent -100% | Full consolidation |

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