

Rating Rationale

16 Nov 2022

Kamarajar Port Limited

Brickwork Ratings reaffirms the ratings and revises the Outlook for the Non-Convertible Debenture Issue of ₹ 94.64 Crores of the Kamarajar Port Limited.

Facilities/ Instrument**	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (30 July 2021)	Present
Bonds	82.93	82.93	Long Term	BWR AA/Negative (Reassigning the rating on a standalone basis without CE and Reaffirmation of standalone rating at BWR AA with a change in outlook from ‘Stable’ to ‘Negative’)	BWR AA/Stable (Reaffirmation with Revision in Outlook from ‘Negative’ to ‘Stable’)
Bonds	11.71	11.71			
Total	94.64	94.64	INR Ninety-Four Crores and Sixty-Four Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of NCD/Bonds are provided in Annexure-I

RATING ACTION/OUTLOOK

The rating assigned to the debt instruments of Kamarajar Port Limited (KPL) continues to derive strength from the strong business profile of KPL and its status as the first corporatised port, established track record of operations, state-of-the-art port facilities, ability to handle diverse cargo types, landlord port model and autonomy in tariff fixation resulting in strong profit margins and return indicators, revenue visibility from well-established coal handling operations and concession agreements entered with other berth operators.

The rating also factors in significant improvement in the throughput handled during FY22 and H1FY23 after witnessing moderation in operations during FY21 due to impact of the pandemic.

The rating strengths are tempered by the competition faced by the company in varied cargo segments, significant cash outflow in the form of dividend payments to Chennai Port Authority (ChPA), delays in the operationalization of the terminals resulting in revenue losses and the dominance of coal, though improving, in the overall composition of revenue.

The revision in the Outlook from 'Negative' to 'Stable' considers the significant improvement in operational and financial performance, generation of sufficient cash accruals resulting in reduced dependence on external debt to fund capex and comfortable financial and liquidity position. The

financial profile is expected to remain comfortable going forward given the change in borrowing plans with majority of capex proposed to be funded through internal accruals.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil

KEY RATING DRIVERS

Credit Strengths:-

- **Government ownership and established track record of operations:**

KPL commenced operations in 2001 and is held by ChPA. KPL is strategically important to GOI since it is one of the 12 major ports in India under the Ministry of Ports, Shipping and Waterways (MoPSW). KPL was originally conceived to handle thermal coal to meet the coal requirements of Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). Subsequently its scope has widened to handle other cargoes.

- **Strong Financial Performance:**

During FY22, the company registered a y-o-y increase of 43.03% by Rs. 249.62 crores in revenues mainly on account of 49.63% y-o-y increase in cargo throughput handled due to rebound of economy and better performance by container terminal and common user coal terminal. The improvement in the financial performance is evidenced in FY23 as well with KPL generating revenue of Rs. 480.18 crores and PBT of Rs. 340.55 crores in HIFY23.

With a landlord business model, the port has to provide the basic infrastructure like road and rail connectivity, dredged basin/channel, marine services and other common utilities and leases out terminals on long-term arrangements to the operators for development of top loading and other facilities towards commercial operationalization of the port.

Hence, overall capex has been on the lower side ensuring adequate cash accruals for meeting opex, high dividend payments to ChPA and portion of the routine capex from internal accruals. The company has repaid its foreign currency loan in entirety in FY22, thereby resulting in further improved solvency parameters.

The debt coverage metrics have been at a comfortable level with gearing low at 0.28 times as on March 31, 2022 (FY21: 0.33 times). KPL plans to incur capex of ~ Rs. 600 crores during FY23-FY25 towards setting up of new RoRo-cum-general cargo berth, which includes capital dredging and parking yard, capital dredging for the new IOCL jetty, enhancing rail and road connectivity and administrative building & miscellaneous works.

- **Vast regional coverage and excellent infrastructure facilities:**

The port has a vast regional coverage, including regions of Tamil Nadu, Andhra Pradesh, in the north and Karnataka to the west of the port. The port is adequately connected vide road and rail links with roads connected to NH 4, NH5 and NH45 while the rails are linked to southern railway main lines. Presently, KPL has 8 operational terminals in operation, out of which 4 terminals are BOT terminals, 3 are captive users terminals and

1 is owned by KPL for export and import of automobiles. All the terminals are equipped with state of the art infrastructure facilities with fully mechanised cargo handling capabilities. The existing coal terminal at Kamarajar Port consists of 2 berths for accommodating each of its 280m long coal carriers of upto 77,000 DWT for exclusively handling coal requirements of TANGEDCO.

The following mentioned berths/ terminals are underway in the port, and, are as follows: 1) 3 additional berths to handle Coal cargoes, 30 MTPA; 2 additional berths to handle Liquid Cargoes, 6 MTPA; 1 berth to handle Containers cargoes, 11.58 MTPA (600,000 TEUs) and 1 berth for handling Automobile units/project cargoes, 3 MTPA. The aforesaid 7 additional berths/terminals will add 50.58 MT to the existing capacity of 54.44 MT, thereby, taking the total capacity to 105.02 MT.

- **Handling of Diversified Cargoes:**

Over the years, KPL has developed it to be an all-weather port and can handle diverse cargoes, comprising, petroleum (including LPG), oil, lubricants, coal, iron ore, cars and other clean cargoes. KPL has 8 operational berths with total capacity of 59.44 MTPA (operational capacity 54.44 MTPA). This includes three coal berths of 26 MMTPA, out of which two are exclusively for TANGEDCO. The remaining 6 berths are one each for liquid cargo, multi cargo, container terminal, LNG, general and iron ore terminal. Originally, the port was conceived only to handle coal for thermal power plants of TANGEDCO and hence the concentration on coal cargo has been high. Cargo contribution under the coal segment has witnessed reduction whilst still dominating its share (~55%) in the overall volumes. KPL handled cargo throughput aggregating to 38.74 million tonnes in FY22 which is 49.63% higher than cargo handled during the previous year 2020-21. (25.89 MT) and the improving trend was witnessed in H1FY23 as well.

The ability of the company to reduce the share of coal cargoes, and grow volumes from other cargo segments will continue to remain a key monitorable.

- **Landlord port model and freedom in tariff fixation:**

KPL operates under landlord port model wherein the port's functions are limited to overall planning, development, mobilisation of investments for the development of port and other infrastructure activities. Hence, the capital investment is on the lower side. KPL also has the distinctive feature of autonomy in fixing tariffs and is not regulated by TAMP. These structural features have resulted in superior profitability and return indicators for KPL.

Credit Risks:-

- **Risks related to delays in operationalisation of terminals and improvement in utilisation of new capacity:**

Over the past 2-3 years, delays caused due to commissioning of new facilities constrained significant pick-up in the operational capacities. Under the first case, TANGEDCO was handed over coal berths (CB#3 and CB#4) in June 2019 and August 2018, respectively, wherein, KPL had already undertaken its scope of work in the port area, however,

commissioning was stretched on account of delay in installation of top-loading and allied facilities by TANGEDCO. The terminals (CB#3 and CB#4) are expected to be operational by FY24. The delay in operations have resulted in opportunity loss for KPL.

Under the second case, offtake in the newly operational capacities of container terminal phase I (9.6 MTPA, October 2017) and LNG terminal (5 MTPA; February 2019) is yet to pick-up to the optimal level of utilisation. The ability to commission ongoing capacities and increase capacity utilisation of newly operational terminals in a timely manner are key rating sensitivity factors.

- **Competition from nearby ports:**

KPL faces competition from nearby ports namely, Krishnapatnam Port and Adani Kattupalli Port. The ports are located within a few kilometres radius of KPL. Nearby ports are likely to compete in respect of major cargos like car and container cargo. The ability of the company to diversify from coal cargoes and ensure improved capacity utilisation from the container and liquid cargo terminals on a sustained basis will be a key monitorable.

- **Regular Dividend payouts to Chennai Port Authority (ChPA) and High Contingent liabilities**

In March 2020, ChPT acquired the remaining 66.7% stake in the company for an value amounting to Rs. 2,380 crore. The acquisition was funded through a debt of Rs. 1,775 crore and the remaining from internal resources. On account of the moderate financial position of ChPA, KPL is needed to continually support its parent vide regular dividend payments (~Rs 300.0 crore annually) for meeting ChPA's term commitments.

Further, KPL's contingent liability increased to Rs 1,811.5 crore as on March 31, 2022, (FY21: Rs 1,351.4 crore) due to arbitration proceedings by one of the BOT operators claiming various delays by KPL. Additionally, contingent liabilities also include claims raised by contractors towards contract/supply work.

The developments on such liabilities will be monitored. Alongside, ability of the company to manage the high amount of dividend payments along with a portion of the capex from internal accruals without dampening the liquidity position and capital structure of the company will be an key monitorable.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale). BWR has taken a standalone view on the company's operational and financial performance while arriving at the rating.

RATING SENSITIVITIES:

Going forward, KPL's utilisation of its built-up capacities, while continuing to implement its capital expenditure plan and ensuring timely implementation of ongoing capital projects and generating adequate cash accruals to meet its debt obligation and dividend payments will be the

key rating sensitivities.

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Continuous improvement in throughput levels on sustained basis
- Substantial growth in scale of operations with sustained improvement in revenues while maintaining the profit margins
- Diversification of revenue with improvement in share of other cargoes and reduced dependence on coal cargo.

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Significant reduction in throughput with de-growth in the scale of operation
- Higher than envisaged debt for funding capex/extending support to group thereby impacting the financial position.

LIQUIDITY - Strong

The liquidity position is characterised by adequate cushion in accruals vis-à-vis repayment obligations and dividend payments. The company has not availed working capital limits. The company receives revenue share and composite tariff in advance which is on a fixed contract basis. The company receives advance payment from its major customer (TANGEDCO) in most cases and in some cases before the ship sails out, thus negating the risk of receivables from the Discom.

The company had cash and bank balance of Rs. 93.71 crore as on March 31, 2022. The liquidity of the company remains strong supported by healthy cash accruals of Rs. 536.51 crore for FY22 with CPLTD of Rs 110.95 crore and total debt outstanding of Rs 722.16 crore as on March 31, 2022. Despite payment of dividend to the extent of 100% of its share up capital (~ Rs 300.00 crore annually), cash accruals are expected to be sufficient to cater to majority of KPL's capex requirements of around Rs 200.0 crores on annual basis from internal accruals. The ISCR and DSCR were adequate at 10.81 times and 3.35 times for FY22.

COMPANY PROFILE

KPL was incorporated in October 1999 and was declared as a major port under the Indian Ports Act 1908. KPL's commercial operation started on June 22, 2001 and full-fledged operations started by December 2002. KPL is the only corporatized major port and has Mini Ratna Category I status. KPL was initially held by GOI, through MoPSW representing 67% share, while the remaining 33% was held by Chennai Port Authority.

However, to optimize the capacity usage of KPL and eliminate the competition between KPL and ChPA, the cabinet committee on Economic Affairs approved the strategic disinvestment of 100% equity shares of Government of India in Kamarajar Port Limited to Chennai Port Trust in a single stage process. As on March 31, 2021, ChPA held 100% stake in KPL. The port is located about 24 km from Chennai. The port has eight operational berths with aggregate capacity of 59.44 MTPA of cargo (operating capacity 54.44 MTPA).

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY21-22	FY20-21
Result Type		Audited	Audited
Operating Income	₹ Cr	832.62	581.09
Operating Profit	₹ Cr	674.20	439.50
PAT	₹ Cr	440.20	152.71
Tangible Networkth	₹ Cr	2,553.51	2,347.35
Total Debt / Tangible Networkth	Times	0.28	0.33

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: The Tax Free redeemable non-convertible bonds were raised by KPL towards the funding of its new project/development plan having a tenor up to 15 years.

NON COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: NIL

Rating History for the previous three years

S.No	Instrument /Facility	Current Rating (2022)			Rating History		
		Type (Long Term/ Short Term)	Amount (Rs. Crs)	Rating	5 Oct 2021	04 Sept 2020	16 Sept 2019
1	Bonds	Long Term	94.64	BWR AA/Stable (Reaffirmation with Revision in Outlook from 'Negative' to 'Stable')	BWR AA/ Negative (Discontinuing the CE rating and reaffirmation of standalone rating at BWR AA with change in outlook from 'Stable' to 'Negative')	BWR AA+ (CE) /Stable (Reaffirmation)	BWR AA+ (CE) /Stable (Reaffirmation)
Total			94.64				

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

For more information, visit [www.brickworkratings.com / download /ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf).

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)

For any other criteria obtain [hyperlinks](#) from website

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Annexure-I Instrument Details

Instrument	Issue Date	Amount (Rs. Crs)	Coupon Rate	Maturity Date	ISIN Particulars
NCD/Bonds	26.03.2013	82.93	7.01%	25-3-2023	INE363O07020
NCD/Bonds	26.03.2013	11.71	7.17%	25-3-2028	INE363O07046
Total		94.64	INR Ninety-Four Crores and Sixty-Four Lakhs Only		

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