Hind Terminals Private Limited

March 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[2]	Rating Action
Long Term Bank Facilities	173.43 (Reduced from 415.75)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	100.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Reaffirmed
Total Bank Facilities	**273.43 (Rs. Two Hundred Seventy-Three Crore and Forty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hind Terminals Private Limited (hereinafter referred to as 'HTPL' or the 'Company') continue to derive strength from its parentage being a part of a UAE based conglomerate i.e. Sharaf Group, wide spectrum of services offered in the logistics domain with its' Container Freight Stations (CFS) present at major Indian ports and Inland Container Depots (ICD) present at major business hubs in India. The ratings also factor HTPL's established relationship with leading shipping lines and reputed clientele profile, comfortable debt coverage indicators and strong liquidity. CARE also takes cognizance of the fact that after a flattish operating performance in FY21 due to covid related trade slowdown, the operating performance for 9MFY22 has been resilient, supported by higher cargo volumes with economic recovery post partial easing of covid.

HTPL operates its largest CFS facility at Jawaharlal Nehru Port Trust (JNPT) in a strategic alliance with Central Warehousing Corporation (CWC). This agreement with CWC is expiring in May 2022. As articulated by HTPL management, this agreement shall not be renewed mutually post May 2022 due to high operating costs. The CWC logistics park contributes to ~15% of HTPL's total revenues and is loss making at operating level. CARE notes that alternatives in lieu of CWC logistics park are on the verge of finalization, the migration is in process and the operations are expected to commence shortly. CARE does not foresee any major business disruption/discontinuity for HTPL owing to this migration, given the established track record of HTPL in operating CFS's and assured cargo volumes which are generated from a global shipping company. CARE also factors the expected cost savings to accrue from this migration. However, CARE would be closely monitoring this entire transition process and due importance/weightage would be given in accordance with the extent of success achieved from these operations.

The ratings continue to remain tempered on account of increasing competition in CFS business around various ports where HTPL operates, risk inherent in the logistics industry in terms of vulnerability to a slowdown in trade volumes on account of several macro-economic factors. Project execution risk is also factored in view of proposed debt-funded capex in Nhava Sheva & parts of North India.

Rating Sensitivities

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

- Steady revenue growth with scale up of operations above Rs. 1200 crore and improvement in PBILDT margins above 20% resulting from cost benefits of not renewing CWC contract
- Smooth transition to proposed new facilities at JNPT without disruption in business or revenue streams

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

- Fall in annual revenue to below Rs. 900 crore/loss in market share at JNPT
- Any delay or obstruction in smooth transition from CWC to other alternatives impacting the revenues and margins

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage of the Sharaf Group

Sharaf Group is one of UAE's largest business houses. It comprises of over 60 operating companies in various business sectors like Information Technology, Shipping, Retail, Real Estate, Financial Services, Consumer Products, Travel & Tourism and Constructions. The Group has experienced the sustained growth for years since its inception in 1976. Being headquartered in Dubai, currently the Sharaf Group operates in 40 countries across the Middle East, Africa, India and other Asian countries and has worldwide employee strength of over 9500 people.

---

[1] Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Broad spectrum of services offered by the company in logistics domain
HTPL's business can be broadly classified into two categories: Container Freight Station(CFS)/Inland Container Depot (ICD) and Rail Operations (PAN India). The CFS/ICD operations are spread across multiple ports and business hubs viz. JNPT, Mundra, Hazira, Chennai, Palwal, and Kila Raipur. HTPL offers a broad spectrum of CFS services such as import-export cargo handling services, bonded warehousing, LCL/FCL services, hazardous cargo & tank container handling, last mile connectivity and other value added services. Cargo profile handled also ranges from steel & metal products, automobiles, agro products, hazardous cargo etc. HTPL has a railway siding within its JNPT facility. HTPL is amongst the few private players to be granted pan India License for container train operations. The rail ops commenced operations in April 2007. HTPL is a Category -1 license holder with flexibility to operate across India and is amongst earliest private rail operators in India to run its own rakes.

Long term relationship with customers, shipping lines and custom house agents
The Sharaf group, being a global conglomerate, has diversified business spanning from shipping and logistics to supply chain management. Over the period of years, they have established relationship with leading shipping lines and custom house agents which helps in attracting traffic for the HTLP's CFS facilities. Some of the prominent clientele handled by HTPL are Mediterranean Shipping Company, Maersk, Hapag Lloyd etc.

Satisfactory financial risk profile
HTPL's capital structure remained comfortable as on March 31, 2021 as the company had not embarked upon any aggressive debt funded capex during the year, on account of uncertainty caused by covid pandemic. The same has helped contain the interest costs for the company to a certain extent. The Overall Gearing remained low at 0.36x as for March 31, 2021 vis-à-vis 0.53x as on March 31, 2020. Going forward, on account of planned capex for proposed CWC alternative and DFC linked Common Rail Terminals in North India and drawdown of debt to be availed for executing the same, the overall debt levels is expected to increase. Nevertheless, better profitability & accretion to networth arising from cost savings from non-renewal of CWC are expected to keep debt metrics at comfortable levels. Newly commissioned projects such as Kila Raipur also expected to scale up its operations in coming year now that it has stabilised its operations during 2021-22. Contribution from newly commissioned locations & business verticals is expected to cushion any adverse impact of proposed transition from CWC.

Supportive policies towards logistics sector
Indian logistics sector is witnessing significant changes because of supportive regulatory policies, government focus on modal shift and transparency. Most notable among these are the implementation of GST, corporate tax reforms, interest rate cuts, 'Make in India' initiatives as well as creating a favourable market environment for listing of real estate portfolios through REITs and InVITs. Indian logistics sector was granted infrastructure status in 2017. Some initiatives announced in Union Budget 2022 such as expansion of National Highways network by 25,000 km, contracts for multimodal logistics parks through PPP in 4 locations to be awarded, 100 cargo terminals to be developed in next three years are favourable for logistics sector.

Alternatives to CWC park at JNPT on the verge of finalization; operations expected to commence shortly HTPL operates CWC Logistics Park at Dronagiri Node which is one of the largest Container Freight Station (CFS) in Nhava Sheva JNPT. This is under a Strategic Alliance Agreement for development and management of the CFS with Central Warehousing Corporation (CWC) on for 15 years which is expiring in May 2022. This facility is one of the largest private sector facilities at Nhava Sheva and one of the few equipped with a rail siding. HTPL has maintained constant average market share of 10%-15% among all CFS players at JNPT. Although the CWC facility has a higher capacity, but due to lower utilization and high operating costs, this agreement will not be renewed post May 2022. HTPL has finalized alternative locations for JNPT cargo whose operations expected to commence shortly.

The alternatives include operating existing CFS/logistics parks exclusively and constructing own warehouse all within Nhava Sheva region (approx. 25 km from the port). Land parcel is already acquired for own facility and after completion of capex, its operations are expected to commence operations from end of FY23. This blended mix of operating arrangement as well as own facility arrangement will help HTPL retain existing customer base and at the same time ensure continuity of the company's presence and operation. CARE does not foresee any major business disruption/discontinuity for HTPL owing to this migration, given the established track record of HTPL in operating CFS's and assured cargo volumes which are generated from a global shipping company. Further logistical challenges also remain lower, given the improved road infrastructure in this region. Cost savings are expected due to reduction in large payouts to CWC and higher labour costs associated with operating CWC Logistics Park. HTPL management articulated that clients have also been apprised of this transition and have received favourable responses. CARE would be closely monitoring this entire transition process and due importance/weightage would be given in accordance with the extent of success achieved from these operations.

Key Rating Weaknesses
Risks inherent to CFS operations
The CFS business, which is directly linked to the Indian EXIM trade, is exposed to risks arising from variations in EXIM trade and customs policies. Sluggishness in Indian EXIM trade, in case of a steep fall in global trade, could impact utilisation levels and profitability of HTPL. The low entry barrier has encouraged the implementation of new CFS facilities by new and existing players, leading to a build-up of surplus facilities; this could intensify price-based competition in the long term, thereby restricting profitability.

Moderate threat from DPD model continues to exist

The volume handled by CFS agents has been showing fluctuating trend partially due to the impact of direct port delivery (DPD) which was introduced by central government in late 2016 which allowed the importers/consignees to take delivery of the containers directly from the port terminals and haul them to factories without taking them first to a CFS and from there to factories. CARE believes that while the implementation of the DPD model at several major ports from 2016 onwards led to temporary dip in volumes handled by CFSs, the CFS industry has largely recovered since then and have adjusted themselves and responded well to the changing business dynamics. However any similar regulation if introduced in future could potentially impact volumes and revenues of CFS companies.

Capex risk

CARE notes that HTPL is embarking upon a few debt-funded projects entailing a capital outlay of Rs. 300 crore over the next 2-3 years. Although financial closure risk is low in view of adequate undisbursed credit lines available, timely completion with no cost and time overrun will be monitorable.

Liquidity: Adequate

The liquidity position of HTPL is adequate, marked by consistent cash generation vis-à-vis scheduled debt repayment obligations of Rs. 55 crore for the next 4 quarters. Against this, company generates an annual GCA in excess of Rs. 125 crore which is adequate. The debt repayment obligations going forward may increase depending upon the quantum of debt drawn by HTPL for the capex in the next 2-3 years. Further, HTPL maintains free cash and liquid investments of Rs. 180 as on December 31, 2021. The cash balance is expected to be partly deployed for acquisition of land for capex with the rest acting as liquidity buffer.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies

About the Company

Hind Terminals Private Limited (HTPL) is a part of the Sharaf Group of Companies, based out of UAE. The Sharaf Group is a diversified group having its business operations spread across various business segments from Shipping & Logistics to Supply Chain Management, Tourism, Hospitality & Real Estate, Information Technology and Financial Services. One of the largest global shipping companies viz. Mediterranean Shipping Company (MSC-SA) indirectly holds stake in HTPL. HTPL is primarily engaged in cargo handling services, warehousing and transportation of containerized cargo and the movement of goods to and from port to various locations in containers by rail. The company has presence across major ports in the country such as JNPT, Mundra, Hazira etc. The company has a strategic alliance arrangement with Central Warehousing Corporation (CWC) to develop, operate and maintain CWC Logistics Park for 15 years near JNPT upto May 2022 which is not going to be renewed. The company is in process of finalization of alternatives in lieu of non-renewal of this agreement. HTPL is also amongst the few private players to be granted pan India License for container train operations. The company has built and operates Container Freight Stations (CFS) at JNPT, Mundra, Hazira, Chennai and Inland Container Depots (ICD's) at various locations across the country such as Palwal, Kila Raipur etc.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	Apr-Dec'21 (UA)
Total operating income	1,041.77	1,021.82	971.30
PBILDT	179.84	199.71	163.33
PAT	66.08	59.42	-
Overall gearing (times)	0.53	0.36	-
Interest coverage (times)	4.62	6.81	-

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	100.00	CARE A; Stable / CARE A1
Term Loan-Long Term	-	-	-	July-26	173.43	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 20212022	Date(s) & Rating(s) assigned in 20202021	Date(s) & Rating(s) assigned in 20192020	Date(s) & Rating(s) assigned in 20182019
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	100.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (18-Feb21)	1)CARE A; Stable / CARE A1 (03-Mar20)	1)CARE A; Positive / CARE A1 (04-Dec18)
2	Term Loan-Long Term	LT	173.43	CARE A; Stable	-	1)CARE A; Stable (18-Feb21)	1)CARE A; Stable (03-Mar20)	1)CARE A; Positive (04-Dec18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Sl no	Financial Covenant	Detailed explanation
1	External Gearing	Should be <= 1.25x
2	Total Debt/PBILDT	Should be <= 3.50x
3	Debt Service Coverage Ratio	Should be > 1.35x
4	Fixed Asset Coverage Ratio	Should be >= 1.20x

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Non-fund-based - LT/ ST-BG/LC	Simple
2	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please [click here]

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Arti Roy
Contact no.: +91-22-67543456
Email ID: arti.roy@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer
The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**