Hind Terminals Private Limited

February 18, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities-Term Loan	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 Plus)**	**Reaffirmed**
Total	**515.75 (Rs. Five hundred Fifteen crores and seventy five 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 (HTPL) continue to derive strength from its parentage being a part of a UAE based conglomerate, 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, comfortable debt coverage indicators and adequate liquidity. The ratings are however tempered on account of increasing competition in CFS business around various ports where HTPL operates and risk inherent in the logistics industry in terms of vulnerability to a slowdown in trade volumes on account of several macro-economic factors. CARE also expects a moderation in HTPL's operating performance for FY21 in the backdrop of economic slowdown triggered by the corona virus pandemic.

HTPL operates its largest CFS facility is at Jawaharlal Nehru Port Trust (JNPT) where it has entered into a strategic alliance with Central Warehousing Corporation (CWC). CARE notes that this agreement with CWC is expiring in May 2022. Currently HTPL management is evaluating various alternatives in the event of non-renewal of the agreement CWC which is more likely. Based on discussions with HTPL management, CARE understands that finalization of alternatives is at progressive stages and are expected to start functioning before expiry of the above agreement with CWC, thereby ensuring no disruption in business or loss in revenue.

Key Rating Sensitivities

Positive

- Steady revenue growth with scale up of operations above Rs. 1200 crore and sustenance of PBILDT margin above 15%[2]
- Significant contribution from the newly commissioned facilities at Palwal and Kila Raipur

Negative

- Overall Gearing exceeding 0.75x as against existing Overall Gearing of 0.31x could act as a negative trigger
- Scale of operations declining below Rs. 900 crore and PBILDT margins falling below 11% could act as a negative trigger

Detailed description of key rating drivers

Key Rating Strengths

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.

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, reefer container handling, last mile connectivity and other value added services. Cargo profile handled also ranges from steel & metal products, automobiles, agro

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

[2] *As per Ind-AS 17*

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.

Established position at JNPT; alternatives being setup as current tie up with CWC expires in May 2022

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 8%-10% among all CFS players at JNPT. The company is currently evaluating alternatives and would arrive at a decision of renewal or otherwise based on judicious cost benefit analysis. In case the proposed tie-up with CWC does not work out favourably, HTPL has alternatives in place in terms of another CFS of 11 acres at Panvel (approx. 25 km away from JNPT) on lease which it has been managing since 2015. Additionally, it is also in advanced stage of discussion with other CFSs for similar tie-up. Although the CWC facility has a higher capacity, but due to lower utilization, diversion of entire existing CWC volumes to these facilities is not a foreseeable challenge and would also not result in any capacity constraint. Other CFSs with whom HTPL ties up are also expected to benefit from this as HTPL would help in generating substantial cargo volumes. HTPL is also contemplating to set up its own non-bonded warehouse facility at NHS region, for which land acquisition is in process. In view of the foregoing and on expectations that the alternatives will start functioning before the expiry of the lease with CWC, CARE believes that non-renewal of the concessionaire agreement is unlikely disrupt its business operations.

Comfortable credit metrics; planned capex could lead to moderation

The capital structure and debt coverage indicators of the company have remained comfortable over the years due to healthy cash flow generation and lower than envisaged reliance of debt to fund the capital expenditure which to a significant extent was funded by internal accruals. As on March 31, 2020, HTPL's Overall Gearing stood at 0.31x[3] (P.Y. 0.41x). Due to subdued macroeconomic factors, HTPL deferred its planned capex in FY20-21 to the next few years. The quantum of capex would largely be in tandem with recovery of overall economic scenario. Post drawdown of indicative debt of approx Rs. 225 crore during FY22-FY23 for proposed capex, the Overall Gearing is expected to moderate slightly but not expected to exceed 0.75x (considering only bank borrowings and excluding capitalisation of lease rentals from total debt) due to existing strong net-worth base. The capex is expected to be incurred towards setup of a new warehouse at Panvel and augmentation of its existing ICDs. HTPL's operating performance is expected to remain stagnant in FY21 on account of subdued macroeconomic scenario and deferment of capacity addition planned earlier. CARE notes that company in the past few years have undertaken major capital expenditure. The project consisted of construction of CFSs/ICDs at various locations across the country. Though majority of the facilities are already commissioned they are yet to contribute significantly to the revenue of the company. Thus, the stabilization of operations and ability of the company to generate significant revenue from those facilities is one of the key rating monitorables.

Key Rating Weaknesses

Operations in CFS business exposed to economic downturns

The business prospects of CFS operators like HTPL remains vulnerable to economic cycles which affects the amount of trade inflows and outflows from the country. The profitability is also impacted by fluctuations in global economic scenario. The volume of cargo traffic handled at the Indian ports has witnessed a considerable decline since March'20 on account of the synchronized global economic slowdown and lockdowns brought about by the Corona virus pandemic

Intense competition in CFS segment due to large no. of players and threat from DPD model

There are more than 35 CFS facilities in and around the JNPT port competing against each other. In view of the intense competition, it is critical for HTPL to maintain its share in volumes handled at JNPT and also to ensure that there are no operational challenges encountered in transferring exim cargo volumes to its upcoming facilities at Panvel once the tie-up with CWC expires. 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 Ratings believes that while the implementation of the DPD model at several major ports from 2016 onwards led

[3] *Debt includes only external borrowings; adjusted for impact of Ind-AS 116*

to temporary dip in volumes handled by CFSs, the CFS industry has largely recovered since then. However any similar regulation if introduced in future could potentially impact volumes and revenues of CFS companies.

Liquidity analysis

Adequate: The liquidity position is adequate marked by consistent cash generation vis-à-vis repayment obligations of Rs. 36 crore in FY22. The debt repayment obligations going forward may increase depending upon the quantum of debt drawn by HTPL for the capex in FY22-FY23. Further, the company has unencumbered fixed deposits of Rs. 110 crore as on January 31, 2021 which provides significant liquidity support. HTPL also does not use any external borrowing for managing its working capital requirement. Due to a strong net-worth base and healthy cash accruals, company also has sufficient headroom to raise the planned term loans of Rs.240 crore in the next 2-3 years with Overall Gearing not expected to exceed 0.75x

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition
Rating Methodology: Notching by factoring linkages in Ratings
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology - 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. 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. HTPL is also amongst the few private players to be granted pan India License for container train operations. The company has built and also operates Container Freight Stations (CFS) and Inland Container Depots (ICD's) at various locations across the country such as Palwal, Kila Raipur etc.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1088.37	1041.77
PBILDT	142.16	179.84
PAT	62.67	66.08
Overall gearing (times)	0.41	0.31
Interest coverage (times)	5.67	4.62

A: Audited

*(**Note:** PBILDT & Interest Coverage are not comparable with prior periods due to Ind-AS 116 w.e.f. April 1, 2019. Only bank borrowings considered in total debt during computation of Overall Gearing).*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil.

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

Annexure-1: Details of Instruments/Facilities:

Name of the Instrument	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-2026	415.75	CARE A; Stable

Note: *Maturity date is given for the current o/s debt of Rs. 171.25 crore as on December 31, 2020; the balance debt is undisbursed*

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	100.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (03-Mar-20)	1)CARE A; Positive / CARE A1 (04-Dec-18)	1)CARE A; Stable / CARE A1 (13-Feb-18) 2)CARE A; Stable / CARE A1 (04-May-17)
2.	Term Loan-Long Term	LT	415.75	CARE A; Stable	-	1)CARE A; Stable (03-Mar-20)	1)CARE A; Positive (04-Dec-18)	1)CARE A; Stable (13-Feb-18) 2)CARE A; Stable (04-May-17)

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 the Instrument	Complexity Level
1.	Non-fund-based - LT/ ST-BG/LC	Simple
2.	Term Loan-Long Term	Simple

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

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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