Kamarajar Port Limited (Revised)
December 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Infrastructure bonds	11.71 (Reduced from 94.65)	CARE AA; Stable	Reaffirmed
Infrastructure bonds	365.47	CARE AA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the debt instruments of Kamarajar Port Limited (KPL) continues to factor in the established track record of operations, the state-of-the-art port facilities along with the ability to handle diverse cargo types. The ratings also factor the landlord port model and autonomy in tariff fixation resulting in strong profit margins and return indicators, revenue visibility from well-established coal handling operations, the concession agreements (CAs) entered with other berth operators, robust financial position, and comfortable liquidity profile. The ratings also factor in the strength of the ultimate ownership held by the Government of India (GoI) and the importance of the port being one of the 12 major ports of India.

The ratings also take cognisance of the improved operational and financial performance for FY23 (refers to the period from April 01 to March 31) and H1FY24. The throughput volume handled registered strong growth during FY23 on account of rebounding of the global economy post-COVID-19. KPL's capacity utilisation improved to 72% in FY23 and further to 74% during H1FY24 (from 64% in FY22) with the total cargo handled at 43.5 million metric tonne (MMT) as against 38.80 million metric tonne (MMT) in FY22. The coal and container cargo continues to dominate the cargo composition with share of 56% and 24%, respectively, during FY23.

The rating strengths are tempered by the delayed commencement of the expanded capacities, significant cash outflow in the form of dividend payments to Chennai Port Trust (ChPT), the moderate cargo mix, and the competition from nearby ports. Also, CARE Ratings Limited (CARE Ratings) notes that there are contingent liabilities in the form of disputed claims under revenue contract with PPP concessionaire which as per the management articulation are not likely to crystallise. Any impact of such liabilities on the liquidity profile of KPL shall remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant-scale up of operation with cargo diversifications while maintaining comfortable leverage.

Negative factors

- Reduction in throughput to below 40% with de-growth in the scale of operations.
- Higher-than-envisaged debt-funded capex, leading to net debt/profit before interest, lease, depreciation and tax (PBILDT) exceeding 3x.
- Adverse outcome of the ongoing dispute with the existing berth operators impacting the liquidity position of the company.

Analytical approach: Standalone while factoring in the likely support from ultimate parent, Government of India. KPL is one of the 12 major ports and thus assumes strategic importance for the GoI.

Outlook: Stable

The company's operating and financial performance is expected to remain stable with efficient operations, favourable location of the port, long-term revenue share agreements with reputed players for handling of berths and presence of sticky customer in the form of Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO).

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

Detailed description of the key rating drivers:

Key strengths

Government ownership and established track record of operations

KPL commenced operations in 2001 and has a presence of more than two decades in the port infrastructure segment. The port is ultimately held by the GoI through Chennai Port Authority (CPA). KPL is one of the corporatised major ports and remains strategically important to the GoI, being one of the 12 major ports in India under the Ministry of Shipping.

The port was originally conceived to handle thermal coal to meet the coal requirements of TANGEDCO. The scope was expanded taking into account the subsequent development plans in Tamil Nadu, including the addition of coal-based power plants of large capacities within the vicinity of the port.

Vast hinterland and state-of-the-art port facilities

The port has a vast hinterland comprising the inland regions of Tamil Nadu and Andhra Pradesh to the north and Karnataka to the west of the port. The port has adequate road and rail links with roads connected to NH-4, NH-5, and NH-45, while the rails are linked to the Southern Railway main lines.

KPL is one of the fastest-growing Indian sea ports. It started with a port capacity of 12 MMTPA, which has grown to 60.44 MMTPA in 2022-2023 through the development of a state-of-the-art new cargo terminal under the public-private partnership (PPP) or captive models. KPL has the capacity to develop 20 berths for handling a variety of bulk, liquid, automobile, and container cargo. The existing coal terminal at KPL consists of two berths for accommodating two 280-m-long coal carriers of up to 77,000 DWT for the exclusive handling of coal required by TANGEDCO.

Landlord port model and autonomy in tariff fixation

KPL operates under the landlord port model, wherein the port's functions are limited to overall planning, development, mobilisation of investments for the development of the port, and other infrastructure activities. Hence, the capital investment is on the lower side. KPL also has a distinctive feature of autonomy in fixing tariffs and is not regulated by guidelines applicable to major ports w.r.t tariff fixation. These structural features have resulted in superior profitability and return indicators for KPL. The PBILDT margin has remained in the range of 75%-85% for the last three years and is expected to be continued in the same range itself. The return on capital employed (ROCE) has also improved to 24.74% for FY23 (FY22: 19.76%).

Long-term revenue visibility

The income from handling coal is the major contributor to the revenue, accounting for 60% of the revenue in FY23 (FY22: 55%). This can be attributed to the fact that the port was originally conceived to primarily handle coal for thermal power plants of TNEB (presently TANGEDCO). Notably, the North Chennai Thermal Power Station (NCTPS) of TANGEDCO is located adjacent to the boundary of KPL. Coal from both the coal berths, CB1 and CB2, are moved through conveyers to the storage yard of NCTPS. Factors such as cost advantages and close proximity result in the optimal utilisation of these terminals by TANGEDCO. As per this arrangement, KPL is paid composite coal tariff (cargo handling and vessel charges) on a per tonne basis with a revision in tariffs every three years. The last revision was done in June 2022.

This apart, KPL has signed a 30-year CA with Ennore Coal Terminal Private Limited (ECTPL) and Ennore Tank Terminals Private Limited (ETTPL) for the construction and operation of a coal terminal (common user coal berth) and a marine liquid terminal, respectively. KPL also has an agreement with Adani Ennore Container Terminal Private Limited for a container terminal, specifying minimum guarantee clauses. The agreements stipulate a fixed revenue sharing, which provides a stable revenue stream.

Improvement in operational and financial performance

KPL's capacity utilisation has witnessed a strong growth in FY23, to 72% from 64% in FY22, due to rebounding of the global economy post-COVID-19. Majority of the growth and utilisation is driven by coal cargo, container terminals, and general-purpose cargo (mainly automobile). The coal throughput during FY23 has surpassed pre-COVID-19 levels due to increase in the production at the state power generation units. During H1FY24, the company reported cargo throughput of 22.48 MTPA (almost similar at H1FY23 level).

Backed by growth in cargo volume, the revenue has also registered y-o-y growth of above 17% during FY23 with PBILDT margin of 83% (FY21: 81%). However, the profit after tax (PAT) margin remained lower during FY23 on account of provision of ₹147 crore towards shore conservation at Ennore creek, in line with requirement of The Ministry of Environment and Forests.

The vessel turnaround time for the port continues to show improvement with the increase in efficiency of the movement of containers at the port and the increased capacity of the productivity of cranes and berths. It improved from 46.38 hours in FY22 to 45.40 hours in FY23 which further improved to 45.06 hours during H1FY24.

Robust financial position

The capital structure of KPL has been comfortable, with low debt in the books of account. With the landlord model, the port has to provide basic infrastructure like road and rail connectivity, dredged basin and channel, marine services and other common utilities, and leases out terminals on long-term arrangements for development. Hence, the overall capex has been moderately low. During FY23, the company had redeemed bonds amounting to ₹82.93 crore. The overall gearing ratio was below unity at 0.22x as on March 31, 2023 (0.28x as on March 31, 2022). The debt coverage metrics have also been at a comfortable level, with the net debt/PBILDT below unity in FY23. The net worth position, although strong, has been impacted due to large dividend pay-outs to CPA.

KPL plans to incur capex during FY24-FY26 towards capital dredging, training wall at Ennore Creek, breakwater rehabilitation works, construction of Roll On Roll Off (RoRo)-cum-general cargo berth, etc. The project-related capex over the next three years (FY24-FY26) is estimated to cost around ₹880 crore. CARE Ratings observes that KPL is expecting to fund these capex requirements entirely through internal accruals.

Key weaknesses

Delayed commencement of the expanded capacity

The company has proposed expansion of the capacity by 44.58 MMTPA. It has also completed the construction of two additional new coal berths (CB3 and CB4) of 9 MTPA each, exclusively for TANGEDCO, in Q3FY18 and Q1FY19, respectively. However, the berths have not commenced operations due to pending infrastructure set up by TANGEDCO. CB-4 was expected to commence operations by June 2022; however, has been further delayed. While CB-3 was expected to commence operations by Q1FY24, the same is also expected to be delayed.

The iron ore terminal of 6 MTPA has also been non-operational since FY11 and the contract with the built-operate-transfer (BOT) operator has been terminated and the said operator is under the National Company Law Tribunal (NCLT) and is under resolution process (RP).

The entity also had entered into PPP for construction of container terminal (Phase-II) with Adani Ennore Container Terminal Private Limited, which is under dispute with the matter subjudiced. Any adverse outcome of the same, thereby impacting the liquidity profile of KPL, will be important from the credit perspective.

Dividend payouts to CPA

In March 2020, CPA, which held a 33.33% stake in KPL until then, acquired the remaining 66.67% stake from the GoI at a cost of ₹2,383 crore. The same was funded by CPA through ₹1,775 crore of structured term loan (15 years – with a ballooning repayment structure) and the rest through cash available with CPA. Given the moderate financial position of CPA, KPL has been extending support in the form of dividend payouts for servicing the debt obligations of CPA. The dividend outflow during FY23 and H1FY24 stood at ₹270 crore and ₹240 crore, respectively.

Moderate cargo mix

KPL is an all-weather port and can handle diverse cargo comprising petroleum (including LPG), oil, lubricants, coal, iron ore, cars, as well as container cargoes. KPL has nine berths with a total capacity of 60.44 MTPA (operational capacity 54.44 MTPA). This includes three coal berths of 26 MMTPA, of which two are exclusively for TANGEDCO. The remaining six 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 the thermal power plants of TANGEDCO, and hence, the concentration on coal cargo has been high. Around 56% of the total cargo handled in FY23 pertains to coal. However, gradually, the port set up various terminals for handling different cargoes, thereby reducing the dependability on coal. The container terminal, which commenced operations in FY18 and was handled by the Adani group, plays a significant role in diversification. KPL’s container cargo share stood at 24% during FY23 (24% during FY22) which increased to 28% during H1FY24. CARE Ratings notes that the ability to further diversify the cargo mix will drive growth prospects.

Competition from nearby ports

KPL faces competition from the nearby ports of Adani, i.e., Krishnapatnam Port and Kattupalli Port. Kattupalli Port is located within a few kilometre radius of KPL. The port currently has three berths including a container terminal as well as Bulk and Automobile terminal run by the Adani group, which also runs a container terminal in KPT on a BOT basis. Nearby ports are likely to compete in respect of major cargoes like automobile and container cargo. However, there is assured revenue to KPT from the captive customer, i.e., TANGEDCO, as it has made significant investments in coal handling equipment in the jetty and setting up of conveyer system to move coal directly from the vessel to TANGEDCO’s stockyard.

Liquidity: Adequate

The liquidity position is characterised by a sufficient cushion in accruals vis-à-vis repayment obligations. KPL has not availed any working capital limits. The company receives revenue share and composite tariffs in advance, which is on a fixed contract basis. The company receives advance payments 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 utility. The company has free cash and bank balance of ₹258 crore as on September 30, 2023 (₹88 crore as on March 31, 2023).

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)
[Factoring Linkages Government Support](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Infrastructure Sector Ratings](#)
[Ports Project](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Port & port services

KPL was incorporated in October 1999 and was declared as a major port under the Indian Ports Act 1908. KPL's commercial operations started on June 22, 2001, and is one of the corporatised major port with Miniratna Category I status. KPL was initially held by the GoI through the Ministry of Shipping representing 67% share, while the remaining 33% was held by CPA. However, to optimise the capacity usage of KPL and eliminate the competition between KPL and CPA, the Cabinet Committee on Economic Affairs approved the strategic disinvestment of 100% equity shares of the GoI in KPL to CPA in a single stage process. As on March 31, 2023, CPA held 100% stake in KPL.
The port is located about 24 km from Chennai. The port has nine berths with an aggregate capacity of 60.44 MMTPA of cargo (operating capacity 54.44 MTPA).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (U/A)
Total operating income	844	984	525
PBILDT	684	820	431
PAT	440	374	238
Overall gearing (times)	0.28	0.22	0.19
Interest coverage (times)	10.97	13.97	13.16

A: Audited U/A: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds-Infrastructure bonds	INE363O07046	26-03-2013	7.17%/ 7.67%	March 25, 2028	11.71	CARE AA; Stable
Bonds-Infrastructure bonds	INE363O07087	March 25, 2014	8.61%	March 25, 2024	44.44	CARE AA; Stable
	INE363O07053	March 25, 2014	8.36%	March 25, 2024	35.06	
	INE363O07095	March 25, 2014	9.00%	March 25, 2029	119.24	
	INE363O07061	March 25, 2014	8.75%	March 25, 2029	72.41	
	INE363O07079	March 25, 2014	8.75%	March 25, 2034	18.71	
	INE363O07103	March 25, 2014	9.00%	March 25, 2034	75.61	

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds-Infrastructure bonds	LT*	11.71	CARE AA; Stable	-	1)CARE AA; Stable (23-Dec-22)	1)CARE AA; Stable (28-Dec-21)	1)CARE AA; Negative (30-Dec-20) 2)CARE AA; Stable (08-May-20)
2	Bonds-Infrastructure bonds	LT	365.47	CARE AA; Stable	-	1)CARE AA; Stable (23-Dec-22)	1)CARE AA; Stable (28-Dec-21)	1)CARE AA; Negative (30-Dec-20) 2)CARE AA; Stable (08-May-20)

*Long term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Infrastructure bonds	Simple

Annexure-5: Lender details: Not applicable

Note on the complexity levels of the rated instruments: CARE Ratings 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	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Rajashree Murkute Senior Director **CARE Ratings Limited** Phone: +91-22-6837 4474 E-mail: Rajashree.Murkute@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Maulesh Desai Director **CARE Ratings Limited** Phone: +91-79-40265605 E-mail: maulesh.desai@careedge.in Puja Jalan Associate Director **CARE Ratings Limited** Phone: +91-40-40020131 E-mail: puja.jalan@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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