Gopalpur Ports Limited

April 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,327.95	CARE BBB (RWP)	Placed on Rating Watch with Positive Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the rating of Gopalpur Ports Limited (GPL) on "Credit watch with positive implications" on account of proposed acquisition of major shareholding in the company by Adani Ports and Special Economic Zone Limited (APSEZ). GPL has entered into definitive agreement with APSEZ, the largest port developer and operator in India wherein the latter will acquire 95% stake in GPL from its existing shareholders, 56% from SP Port Maintenance Private Limited (SP Group) and 39% stake from Orissa Stevedores Limited (OSL). While the management of GPL has not articulated about the enterprise value (EV) of the transaction, however, as per the BSE Announcement by APSEZ dated March 26, 2024, the equity consideration for 95% stake has been signed with an EV of ₹3,080 crore, subject to closing adjustment. Furthermore, as per the announcement, in addition to the EV, there is a contingent consideration of ₹270 crore estimated to be payable after 5.5 years which is subject to fulfilment of certain conditions as agreed with the sellers. The entire transaction is subject to statutory approvals and fulfilment of other condition precedents. The acquisition is expected to bring in operational and financial synergies with APSEZ and aid in debt reduction at the group level. CARE Ratings is monitoring developments in this regard and shall review the rating when greater clarity emerges.

APSEZ, a part of the globally diversified Adani Group, is India's largest port operator, with the Mundra Port being the largest commercial port in India in terms of cargo handling. Over the past years, APSEZ's market share in terms of port cargo handled across India has increased to 23-24% and has a market share of more than 40% in terms of container cargo handling. APSEZ owns and operates 13 ports in India well-diversified into east-west coast parity as well as cargo mix. APSEZ has already consummated multiple acquisitions during FY23 i.e. Gangavaram Port, Karikal Port, Ocean Sparkle, Indian Oil tanking besides overseas acquisition of Haifa Port, Israel. APSEZ as an integrated transport utility company, has persistently built up its logistics assets base comprising of Trains, Multi Modal Logistics Park (MMLP), Rail Tracks, Grain Silos, Warehousing, Inland Container Depot and Tugs. The large land bank at Mundra, Dhamra, and Krishnapatnam also enhances the prospects of additional cash flow upon monetisation for industrial purposes/SEZ.

The rating assigned to bank facilities of GPL derives strength from the experienced promoter group, the Shapoorji Pallonji (SP) group, the favourable location of the port, tariff flexibility, the reputed client base, and the potential to handle large capacity cargo ships. It also factors in satisfactory operational and financial performances in H1FY24 (H1 refers to the period from April 01 to September 30) on account of the improvement in the cargo volumes handled. The throughput increase was fuelled by the reversal in temporary hikes on export duty in November 2022, which resulted in the ramp-up of cargo volumes from January 2023, supporting cash flows. The rating also factors in the well-rounded evacuation infrastructure with the presence of railways siding and the adequate liquidity profile with the creation of a debt service reserve account (DSRA) for one quarter of the debt servicing.

However, the rating strength is tempered by the cargo and client concentration risks, the recent debt-funded capital expenditure (capex) completion resulting in a leveraged capital structure, which along with the slower-than-expected volume ramp-up, has resulted in moderate debt coverage metrics. However, CARE Ratings expects the coverage metrics to improve going forward, with the gradual ramp-up of volumes. The rating also factors in the competition from nearby ports and the susceptibility of the cargo volumes to economic cycles and the exposure to volatile weather conditions.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ramping up of cargo volumes above 75% while maintaining a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin exceeding 40% on a consistent basis.

Negative factors

- Inability to ramping up the cargo volumes, leading to continued reliance on sponsor support.
- Significantly elongating receivable days beyond 90 days.

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

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of the key rating drivers:

Key strengths

Experienced promoter group

GPL belongs to the SP group, with Shapoorji Pallonji and Company Private Limited (SPCPL) holding a stake in the company through its subsidiary, SP Ports Maintenance Private Limited (SP Ports). SPCPL, the ultimate holding company of GPL, benefits from the legacy of more than 155 years of operations in various businesses of the group. SPCPL is one of the leading construction companies of India and is a holding-cum-operating and the flagship company of the SP group.

The SP group is an extensive conglomerate with business interests in several sectors such as real estate, power, ports, roads, floating production storage and offloading (FPSOs) and textiles, among others. Most of the businesses of the SP group are held by SPCPL as subsidiaries, joint ventures (JVs), and associates. The SP group is the largest private shareholder of Tata Sons Private Limited (TSPL; holding company of the Tata group) with 18.37% stake, thereby providing financial flexibility to various group companies. The group has supported the project with capital creditors comprising a group entity, which is expected to be funded out of project cash flows gradually.

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Moderate operational and financial performances in FY22 and FY23, but significantly improving in H1FY24

In FY22 and FY23, the capacity utilisation (CU) at Gopalpur Port moderated due to the stress in the global steel industry and a temporary levy of export duty on iron-ore and steel by the Government of India (GoI) in H1FY23, impacting the cargo volumes. The port is equipped to handle a throughput of 20 million metric tonne per annum (MMTPA) and there had been a drop in the CU from 53% in FY21 to 41% in FY22 and 37% in FY23. This drop is mainly attributable to the curb in steel production in China, which led to a decreased demand for iron-ore. There was a temporary levy of export duty by the GoI to the counter-rising steel prices. However, with the reversal of the imposition of the export duty in November 2022, the iron-ore cargo volumes at the port have ramped up and the port is expected to witness a growth in its overall cargo traffic from FY24 onwards. This is also evident from the throughput of 5.38 million metric tonne (MMT) handled in H1FY24 compared to the 3.84 MMT of throughput handled in H1FY23 and 7.43 MMT handled in FY23.

The financial performance has also been impacted with lower volumes, resulting in a revenue degrowth by 7.74% in FY23 along with reduced gross cash accruals (GCA). However, the same has improved, with the company reporting a revenue of ₹241 crore in H1FY24, which is 65% of the total revenue of ₹373 crore reported in FY23.

Port hinterland, tariff flexibility, and ability to handle large ship sizes

The hinterland comprises the states of Odisha, Jharkhand, and Chhattisgarh, which are mineral-rich belts and have high mining intensity. Majority of the coal and iron-ore mines are located in these regions. The traffic at Gopalpur Port is mainly for iron-ore and limestone.

Gopalpur Port is located along the Bay of Bengal between the two busiest ports on the East Coast of India, south of Paradip Port (distance of 270 km) and north of Vizag Port (distance of 285 km). The port is connected to the Golden Quadrilateral (NH-5) through NH-516, which is 6 km from the port. Gopalpur Port also has two railway sidings, which are connected to the Howrah-Chennai Trunk Line, accessible to both, the East and South of India. GPL has been handling capsize and mini-capsize vessels at its port.

Gopalpur Port is not a major port, and hence, does not have tariffs regularised by the Tariff Authority for Major Ports (TAMP) and is free to charge competitive market rates. The tariff flexibility allows the port to also have flexibility in providing and pricing additional value-added services.

Reputed clientele with medium-term agreements

SP took up an expansion project to increase the potential capacity of the port to 20 MMTPA. The company achieved the commercial operations date (COD) for the expansion project in December 2021. However, GPL had already started using berths as and when built. Post development of the infrastructure facilities at the port and based on the business connect of the SP group, the port started receiving cargoes, with various steel majors diverting their cargo to Gopalpur port. GPL mainly handles coastal cargo for limestone and overseas cargo for iron-ore and coal. The clientele comprises reputed names, Jindal Steel & Power Ltd, Steel Authority of India Limited, Bhushan Power & Steel Limited, Vedanta Limited, Grasim Industries Limited and IREL (India) Limited, among others.

In FY23, GPL also signed a three-year firm agreement with a public-sector undertaking (PSU) for a throughput of 1 MMTPA (5% of the total capacity of the port). The company, in H1FY24, has signed a long-term agreement with Smartchem Technologies for setting up an ammonia nitrate plant at Gopalpur. These facilities are expected to get operationalised by FY25 or FY26, and will then start contributing to the overall revenue profile of the company.

Stable industry outlook

The overall cargo throughput at Indian ports is at its all-time peak at 1,433 MMT in FY23. The throughput has shown year-on-year growth from FY16 to FY33, with a compounded annual growth rate (CAGR) of around 4% in major ports and around 5% in minor ports. The overall CAGR remained at 4.3% as against the GDP growth of 10%. The overall capacity at major ports has been increased from 965 MMTPA in FY16 to 1,598 MMTPA in FY23, with a CAGR growth of around 9% as against a GDP growth of 10%. The increasing investments and cargo traffic point towards a healthy outlook for the Indian ports sector. Providers of services such as operations and maintenance (O&M), pilotage and harbouring, and marine assets such as barges and dredgers are benefiting from these investments. In FY23, coal traffic witnessed a sharp growth of around 26% over FY22. This is primarily due to the higher coal imports on the rise of higher power demand and insufficient supply from the domestic market to fulfil the requirements. Going forward, higher domestic production, led by import substitution, will lead to a decline in coal imports, resulting in flat growth in traffic.

Key weaknesses

Cargo concentration

The major cargo handled by the company has been iron-ore, which constitutes 45-51% of the overall cargo volume handled in FY23-H1FY24. The cargo concentration had impacted the volumes handled in FY22 and FY23, with increased export duty on iron-ore. However, the same picked up post the reversal of the imposition of export duty. Besides cargo concentration, the revenue derived from clients is also concentrated, with almost 22% and 17% of revenue from a single client in FY23 and H1FY24. Although the company has signed a three-year firm agreement with a PSU in FY23, this contributes to a miniscule portion of the total capacity handled by the port.

Any significant volatility in the business operations may severely impact the coverage and liquidity position. Hence, the diversification of cargo and clientele will be important from the growth perspective.

Leveraged capital structure

The company undertook a debt-funded capacity expansion, which was completed in December 2021. Hence, the leverage has been on a higher side due to the increased debt, with the overall gearing ratio at 3.20x as on March 31, 2023. With the commencement of revenue generation from the expanded capacity and the timely repayment of term debt, the leverage level is expected to improve, going forward. The debt/earnings before interest, taxes, depreciation, and amortisation (EBITDA), while improving, has been high. The gradual improvement in cargo volumes, along with the high debt repayment obligation, has resulted in moderate debt coverage metrics. Hence, the ability to ramp-up the cargo volumes and cash accruals, as envisaged, to support the coverage metrics will be a key rating sensitivity.

High competition from nearby ports and susceptibility of cargo volumes to economic cycles

GPL faces competition from the other ports nearby, like Paradip and Vizag, among others, all having a longer operational track record compared to GPL. The performance of the port is also linked to cargo traffic, which consequently depends on the health of the economy. Any slowdown in the economy is likely to result in subdued volume growth.

Exposure to volatile weather conditions

Being located on the Eastern coast of India, Gopalpur Port is exposed to volatile weather conditions like heavy monsoons and the possibility of cyclones. The monsoons and cyclones impact the operations of the port and the prolonged monsoons in FY20 resulted in a delay in the development activities of the port. Gopalpur Port is an all-weather port, and it has been designed in a way so as to withstand disruption from cyclones. In case of a cyclone, the operations are generally suspended for two to three days, but this suspension is common at all nearby ports, and so, it does not lead to substantial revenue loss. During monsoons, cargoes like limestone cannot be handled, however, some cargoes like coal can still be handled.

Liquidity: Adequate

The liquidity position is adequate, with the expectation of sufficient cash accrual generation in FY24 given the ramp-up of cargo volumes since January 2023. The liquidity is also supported by a free cash balance of ₹136 crore as on March 27, 2024. According to the stipulated sanctioned terms for the creation of a DSRA, the company has been maintaining one-quarter interest and principal instalment to the tune of ₹55.49 crore in the form of fixed deposits (FDs) as on October 31, 2023.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Port & Port services
Financial Ratios – Non-financial Sector
Infrastructure Sector Ratings

About the company and industry

Industry classification

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

GPL is owned by the SP group through SP Ports, a wholly owned subsidiary of SP Imperial Star Private Limited. Gopalpur Port is a deep-sea port located on the East Coast of India. The concession for the port was signed in September 2006 and is valid for 30 years and extendable by another 20 years, based on the mutual consent between the Government of Odisha and the concessionaire. According to the concession agreement (CA), GPL has revenue sharing of 7.5% of the total revenue with the Government of Odisha.
The port was commissioned in March 2013, but became non-operational after being hit by a severe cyclone (Phailin) in October 2013. Post reconstruction works, the port subsequently became operational in December 2015. The SP group acquired a major shareholding in the port in 2017 and undertook the development and expansion of the port infrastructure for developing the port from a fair-weather port to an all-weather port and also increased the cargo handling capacity to 20 MMTPA. The project included construction of three berths with mobile cranes facility and material handling systems, breakwaters, roads, railway sidings, power sub-station, and other engineering, procurement, and construction (EPC) works. The expansion work has been completed with a project attaining COD as on December 15, 2021.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (U/A)
Total operating income	404	373	375
PBILDT	117	106	150
PAT	12	-70	NA
Overall gearing (times)	2.94	3.20	3.48
Interest coverage (times)	1.79	0.75	1.21

A: Audited, UA: Unaudited, NA: Not Available; 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 to 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: Please refer to Annexure-4

Lender details: Please refer to 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
Fund-based - LT-Cash Credit	-	-	-	-	10.00	CARE BBB (RWP)
Fund-based - LT-Term Loan	-	-	-	12-10-2032	1282.95	CARE BBB (RWP)
Non-fund-based - LT-Bank Guarantee	-	-	-	-	35.00	CARE BBB (RWP)

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	Fund-based - LT-Term Loan	LT	1282.95	CARE BBB (RWP)	1)CARE BBB; Positive (06-Dec-23)	1)CARE BBB; Stable (14-Feb-23)	1)CARE BBB; Stable (08-Feb-22)	1)CARE BBB; Stable (17-Feb-21) 2)CARE BBB (CE) (CW with Negative Implications) (14-Oct-20)
2	Non-fund-based - LT-Bank Guarantee	LT	35.00	CARE BBB (RWP)	1)CARE BBB; Positive (06-Dec-23)	1)CARE BBB; Stable (14-Feb-23)	1)CARE BBB; Stable (08-Feb-22)	1)CARE BBB; Stable (17-Feb-21) 2)CARE BBB (CE) (CW with Negative Implications) (14-Oct-20)
3	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB (RWP)	1)CARE BBB; Positive (06-Dec-23)	1)CARE BBB; Stable (14-Feb-23)	1)CARE BBB; Stable (08-Feb-22)	1)CARE BBB; Stable (17-Feb-21) 2)CARE BBB (CE) (CW with Negative Implications) (14-Oct-20)
4	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	-	-	1)Withdrawn (17-Feb-21) 2)CARE BBB- (14-Oct-20)

LT: Long term; ST: Short term; LT/ST: Long term/Short 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	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

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.

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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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