

Paradip International Cargo Terminal Private Limited

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	382.44	CARE A (RWD)	Placed on Rating Watch with Developing Implications
Long-term / Short-term bank facilities	34.00	CARE A / CARE A1 (RWD)	Placed on Rating Watch with Developing Implications
Short-term bank facilities	15.00	CARE A1 (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the rating of Paradip International Cargo Terminal Private Limited (PICTPL) on "Credit watch with developing implications" following composite scheme of demerger ("**Scheme**") with National Company Law Tribunal Mumbai ("**NCLT**") dated August 22, 2024 by its parent entity J M Baxi Ports and Logistics Private Limited (JMBPL; rated CARE A+ (RWD) / CARE A1 (RWD)) dated August 22, 2024. The transaction is subject to completion of certain corporate and regulatory approvals applicable for respective assets. The Scheme has been filed in furtherance to certain transaction documents that JMBPL has executed with Hapag Lloyd Terminal Holding B.V. ("**HLTH**") (part of Hapag Lloyd Group (HLTH group)) for consummating a series of steps pursuant to which HLTH becomes a shareholder of JMBPL.

As per the scheme, JMBPL proposes to demerge its container businesses (comprising container terminals, container train operations, Inland container depot [ICD], Container Freight Station [CFS] and related services) into a new entity i.e. J M Baxi Container Holdings Private Limited (JM Baxi Container, Resulting Company 1) and its corporate services division into another entity i.e. J M Baxi Port Services Private Limited (JM Baxi Port Services, Resulting Company 2) while retaining its other non-container businesses (comprising bulk terminal, cold chain, cruise terminal and services) into JMBPL itself. HLTH had acquired 40% shareholding in JMBPL during FY24. Pursuant to the Scheme and the transaction documents executed amongst JMBPL and HLTH, it is intended that (a) the Kotak Family (Promoters) and HLTH will hold 51 percent and 49 percent shareholding in JMBPL, (b) Promoters and HLTH will hold 50 percent shareholding, each in JM Baxi Port Services, and (c) Promoters and HLTH will hold 49 percent and 51 percent shareholding in JM Baxi Container.

The scheme also proposes the continued extension of support structures by JMBPL along with support to be extended by in JM Baxi Container towards the existing lending arrangements of the group entities for a duration of three years from its date of effectiveness. The specific implications of the scheme on the JMBPL's risk profile and financial position and demerged entities (Including PICTPL) remains unclear. CARE Ratings shall be monitoring developments in this regard and take a view once more clarity emerges.

Reaffirmation in ratings of bank facilities of PICTPL continues to factor in operational and financial linkages derived from strong promoter group with extensive experience and track record in maritime sector and the benefits from the synergies with HLTH. Ratings factor in robust debt coverage metrics aided by long-term concession, and structured repayment schedule, which has supported cashflows and provided financial flexibility. Ratings continue to derive strength from favorable location of port terminal, good hinterland prospects, and benefit of existing port infrastructure to handle large-sized ships, moderate revenue share agreements with Paradip Port Trust (PPT), adequate liquidity, and favorable industry outlook.

Ratings also take cognisance of the modest operational and financial performance in FY24 (refers to April 01 to March 31) considering lower exports of steel products and reconversion of aluminum cargo into container segment. However, with management focused and increased efforts to handle container cargo has reportedly shown positive ramp up in container volumes in Q1FY25, offsetting the impact to an extent. Going forward, ramp up of cargo and improvement in operating income and margins will be crucial from a credit perspective.

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

However, ratings' strengths are tempered by revenue volatility risk associated with absence of firm long-term off-take agreements and presence of Minimum Guaranteed Tonnage (MGT) clauses with PPT, regulatory risk associated with determining tariffs for major ports, leveraged capital structure, high susceptibility to economic cycles, and competition from existing berths of Paradip port and other ports on the eastern coast.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Steady revenue growth with scale up of operations and improvement/maintenance of profitability margin around 45% on sustained basis.
- Firm off-take agreements, minimizing revenue volatility risk.
- Improvement in Total debt to profit before interest, lease, depreciation, and tax (TD/PBILDT) to below 3.5x.

Negative factors

- Reduction in throughput capacity to below 60% on continuous basis
- Any significant deterioration in the credit profile of the parent company i.e. JMBPL

Analytical approach: Standalone, factoring in financial and operational linkages with the parent company i.e. JMBPL.

Outlook: Not applicable

Detailed description of the key rating drivers:

Key strengths

Business synergies derived from strong promoter group

PICTPL is a wholly owned subsidiary of JMBPL, which is the flagship entity of J M Baxi group. PICTPL has strong financial and business linkages with JMBPL. By virtue of parent subsidiary relationship, JMBPL provides management and operational support. The company has access to common group treasury, enabling it to raise resources at competitive rates from banks and financial institutions.

In April 2023, HLTH acquired 40% stake in JMBPL. HLTH is one of the leading global container shipping companies and this strategic acquisition is expected to result in operational synergies for JMBPL's existing terminals and newly awarded terminals. HLTH's comfortable financial and credit profile also strengthened financial flexibility for the group. For CY23, revenue and profit after taxes (PAT) of HLTH was €17,929 million and €2,951 million respectively with net worth of €18,767 million as on December 31, 2023.

Long-term concession and loan tenor supporting debt coverage

PICTPL entered a Concession Agreement (CA) with Paradip Port Trust (PPT) on behalf of Paradip Port on March 07, 2015, to undertake construction and development of a multipurpose berth at Paradip port on built, operate, transfer (BOT) basis, which commenced operation from July 2018. The CA is for 30 years from April 2016 to April 2046. Per the CA, PICTPL has fixed payments in terms of revenue share/royalty, annual license fee, and land lease payment to PPT. The revenue share is relatively on the lower side, which supports the company's profitability.

PICTPL's tariff is determined by the Major Port Adjudicatory Board (earlier Tariff Authority for Major Ports) of India every year, based on indexed Scale of Rates and Performance Standards per the CA.

The long-term concession has been complemented by long-tenor debt financing of 22 years and ballooning repayment structure, which provides support to cashflows in the initial years of operation and stabilisation phase. The project has long-term tail period of eight years, which provides financial flexibility.

Favourable location and established hinterland

PICTPL operates multipurpose clean cargo terminal at Paradip port (major port), which is a natural, all-weather, deep-water port on the east coast of India with draught ranging from 11 to 16 meters, which facilitates handling of cape-sized vessels up to 1,25,000 DWT. Paradip port also has its own railway system, having a route length of about 7.4 kms and track length of 84 kms with 19 full rake length railway sidings and six half rake length railway sidings to handle rail borne traffic. Similarly, the terminal operated by PICTPL has berth length of 450 meters with rail siding for loading and unloading of containers and cargo, which enhances last mile connectivity. Paradip railway station in the vicinity of the port that connects the East-Coast Railway via Cuttack on the Howrah-Chennai main line. Commissioning the Paradip-Haridaspur Rail link, which connects major industrial hinterlands of Odisha, will further aid last mile connectivity.

Modest operating and financial performance during FY24 albeit improvement in Q1FY25.

Since commercial operations in FY19, the multipurpose terminal witnessed steady ramp up in volumes handled from 1.38 MMT in FY19 to 3.78 MMT in FY22 with capacity utilisation of 70% in FY22. In FY23 and FY24, the throughput has been moderated marked by capacity utilisation to ~55-60% considering Russia-Ukraine war, imposition of duty on iron ore, steel products, lower exports of steel products and reconversion of aluminum cargo into container segment. However, with management focused and increased efforts to handle container cargo has reportedly shown positive ramp up in container volumes in Q1FY25, which will offset this impact to an extent.

Due to moderate growth in cargo volume in FY24, PICTPL's operating income remained at ₹205 crore in FY24 against ₹199 crore in FY23. Operating margins declined from 40% in FY23 to 38% in FY24 considering increase in operating cost. In Q1FY25, PICTPL reported operating income of ₹64 crore with an PBILDT margin of 34%. Hence, ramping of cargo and scaling up of total operating income (TOI) and increase in margins will be important from credit perspective going forward.

Favorable Industry outlook

Overall cargo throughput at Indian ports is at its all-time peak at 1539 MMT for the financial year ended March 31, 2024, representing ~7% growth in FY23. With the revival in economic activity, increasing demand and consumption of major commodities and declining shipping freights, traffic re-gained from FY22 and reported healthy compound annual growth rate (CAGR) of 7% for FY21-24. Increasing investment and cargo traffic suggest a healthy outlook for the Indian ports sector. Per the maritime India Vision 2030, over 150 initiatives identified across ports, shipping, and waterways with prime focus on world class port infrastructure, reducing logistics cost and enabling multi-modal shift. The industry's long-term prospects remain favourable due to huge potential pertaining to containerisation of cargo in India, container train operations, growing port capacity at Indian major and minor ports, and huge demand for ancillary services and economic growth.

Key weaknesses

Revenue volatility risk

PICTPL operates clean cargo and container traffic at Paradip Port. It caters to a large renowned client base comprising major steel players, Steel Authority of India Limited (SAIL), Tata Steel Limited, Jindal Steel & Power Limited, Bhushan Power, and Steel Limited, among others. However, PICTPL does not have long-term off-take agreement, resulting in risk associated with volatile cargo volumes and revenue. Currently, PICTPL has short-term contracts of one year with these companies, which is renewed annually on mutual consent. Open cargo volumes and presence of MGT clauses in the CA subjects revenue and profitability to risk associated with unprecedented slowdown. However, PICTPL is fulfilling the MGT clause.

Leveraged capital structure

The company commenced operations in July 2018, and hence, with debt funded capex completion, debt is higher. Overall gearing remained at 2.72x as on March 31, 2024 (2.40x as on March 31, 2023). Moderation is due to net worth from IND-AS adjustment of non-convertible preference shares. Net debt to PBILDT remains high at 4.88x in FY24. (FY23: 4.85x).

High competition from existing terminals and other ports at the eastern coast

Due to the presence of major and non-major ports on the eastern coast of India, PICTPL faces tough competition from other existing and upcoming neighbouring terminal operators in Dhamra, Kakinada, Visakhapatnam, Krishnapatnam, Kolkata/Haldia, Gopalpur, and Gangavaram ports, which is also susceptible to competitive tariffs as tariffs are capped and governed by Major Port Adjudicatory Board (earlier Tariff Authority for Major Ports). Further, terminals operating at Paradip port leads to direct competition for PICTPL.

High susceptibility to economic cycles

The port terminal's performance is linked to cargo traffic, which depends on the health of the economy and trade imbalance. The industry is mainly driven by increase in trade, rise in domestic consumption, growing exports, opening of new ports, and increased government spending in infrastructure, among others. The sector is susceptible to a downturn in the economy and local government policies regulating trade. In the absence of long-term contracts for cargo and container off-take by customers, PICTPL remain exposed to risks arising from macroeconomic headwinds and variations in EXIM trade, which may impact the company's overall revenue profile and profitability. Volumes handled also remain susceptible to economic downturn and cyclicity in global and domestic trade exports.

Liquidity: Adequate

The company's liquidity position is adequate, generating sufficient cash accrual to meet debt repayment obligations. It also has sanctioned working capital demand loan (WC DL) of ₹10 crore, which remains unutilised. The company had unencumbered cash and bank balance of ₹30 crore as on as on March 31, 2024.

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Port & Port services](#)

[Financial Ratios – Non financial Sector](#)

[Infrastructure Sector Ratings](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Transport infrastructure	Port & port services

PICTPL was incorporated on February 14, 2015, as an SPV of JMBPL (formerly known as International Cargo Terminal and Infrastructure Private Limited) to undertake construction and development of a multipurpose berth at Paradip port on BOT basis. This multipurpose berth caters to container traffic and clean cargo at Paradip port. The CA between Paradip Port Trust (PPT) and PICTPL was signed on March 07, 2015, for 30 years from April 2016 to April 2046. PICTPL achieved commercial operations for the berth in July 2018, with cargo handling capacity of 5.40 MMT or container handling capacity of 3,85,714 TEUs.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	199	205	64
PBILDT	80	77	22
PAT	17	21	NA
Overall gearing (times)	2.40	2.72	NA
Interest coverage (times)	1.42	1.40	NA

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 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
Fund-based - ST-Working Capital Demand loan		-	-	-	10.00	CARE A1 (RWD)
Non-fund-based - LT/ ST-BG/LC		-	-	-	34.00	CARE A / CARE A1 (RWD)
Non-fund-based - ST-Forward Contract		-	-	-	5.00	CARE A1 (RWD)
Term Loan-Long Term		-	-	31-10-2038	382.44	CARE A (RWD)

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 2024-2025	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST	34.00	CARE A / CARE A1 (RWD)	1)CARE A; Stable / CARE A1 (05-Apr-24)	1)CARE A; Stable / CARE A1 (07-Apr-23)	1)CARE A-; Stable / CARE A2+ (06-Apr-22)	1)CARE A2+ (21-May-21)
2	Fund-based - ST-Working Capital Demand loan	ST	10.00	CARE A1 (RWD)	1)CARE A1 (05-Apr-24)	1)CARE A1 (07-Apr-23)	1)CARE A2+ (06-Apr-22)	1)CARE A-; Stable (21-May-21)
3	Non-fund-based - ST-Forward Contract	ST	5.00	CARE A1 (RWD)	1)CARE A1 (05-Apr-24)	1)CARE A1 (07-Apr-23)	1)CARE A2+ (06-Apr-22)	1)CARE A2+ (21-May-21)
4	Term Loan-Long Term	LT	382.44	CARE A (RWD)	1)CARE A; Stable (05-Apr-24)	1)CARE A; Stable (07-Apr-23)	1)CARE A-; Stable (06-Apr-22)	1)CARE A-; Stable (21-May-21)

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 - ST-Working Capital Demand loan	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple
3	Non-fund-based - ST-Forward Contract	Simple
4	Term Loan-Long Term	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:

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