Honnavar Port Private Limited

January 22, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	500.00	CARE BBB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the long-term bank facilities of Honnavar Port Private Limited (HPPL) continues to consider the established promoter group and synergies in business linkages with shared infrastructure and treasury function, besides management and financial support from the parent.

CARE Ratings Limited (CARE Ratings) expects continued sponsor support in the project implementation stage and until the stabilisation of operations. The rating also factors in the favourable port location with proximity to the major mining belts of Karnataka, resolution of litigations, receipt of environmental clearance, and sponsor support in the form of fund infusion to an extent of 30% of the overall commitment at the project's nascent stage.

However, the rating is tempered by the delayed project commencement with prolonged delays in obtaining regulatory approvals, non-achievement of financial closure with debt tie-up still pending, the project's nascent stage, marketing risk associated post completion of the project, and inherent interest rate risk. CARE Ratings notes the company has received environmental clearance in December 2024 and the work on the port is expected to commence from February 2025.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Commencement of project work with substantial project progress.
- Achievement of envisaged cargo volumes at above 70% on a consistent basis.

Negative factors:

- Significant time and/or cost overruns in the project, impacting the credit profile.
- Adverse variations in the credit profile of the sponsor.
- Non-receipt of the envisaged sponsor support in a timely manner.

Analytical approach:

Standalone, factoring in linkages with the parent, GVPR Engineers Limited (GVPREL).

Outlook: Stable

The stable outlook is based on the expectations of project completion within the scheduled timeline as well as business growth, supported by the strong and experienced promoter, GVPREL.

Detailed description of key rating drivers:

Key strengths

Experienced promoter and diversified order book in the construction industry

GVPREL has over 27 years of experience in the construction engineering, procurement, and construction (EPC) business, with focus on projects in water resource management, lift irrigation, sewage treatment plant (STP), electricity, drinking water, and more. It has a robust order book of ₹11,817 crore as on October 31, 2024, which provides medium term revenue visibility. The order book is geographically diversified, with work across nine states, with 99.63% orders in water supply (46%), irrigation (29%), sewage treatment (21%), and pipe works (4%), whereas the balance portion is road works. The order book also derives comfort from the in-built price escalation clauses in almost all orders, which safeguards the company against significantly adverse raw material price movements.

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

GVPREL reported a robust operating performance with growth in total operating income (TOI) at a compound annual growth rate (CAGR) of 43.62% from ₹1,441 crore in FY21 to ₹4,268 crore in FY24. The TOI grew by 63% on a year-over-year (y-o-y) basis in FY24. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin shrunk from 10-10.5% in FY21-FY23 period to 8.53% for FY24. However, this has improved to 13.19% in H1FY25.

Strong linkages with parent entity

HPPL is a subsidiary of GVPREL, with GVPREL holding 94% shares. Considering the parent-subsidiary relationship, GVPREL provides management and operational support. HPPL also has access to a common group treasury, giving it financial flexibility. The promoters have infused ~30% committed equity by way of equity infusion and unsecured loans amounting to ₹61.86 crore as on October 31, 2024. There is a clear articulation of sponsor support in project execution and operational phases by way of proposed sponsor support undertaking likely to be executed in the financial closure, with the sponsor expected to provide support to HPPL in case of cost overrun.

Acquiring necessary clearances and approvals

HPPL has obtained requisite approvals and clearances including coastal regulatory clearances, the no objection certificate (NOC) from the Grama Panchayat Corporation Limited, power sanction from Hubbali Electrical Supply Company Limited, and environmental clearance among others. With the expiry of validity of environmental clearance (EC) in September 2024, the company has subsequently received fresh environmental clearance on December 31, 2024, allowing port construction to commence. With receipt of the EC, the company does not have pending approvals. HPPL is in discussion with banks for debt tie-up, the financial closure of which is expected in the next two-three months.

Strategic location of the port

The port has a locational advantage as it falls on the west coast of India in Karnataka, with proximity to the major mining districts in the state. With a throughput of 4.9 million metric tonne per annum (MMTPA), the port is envisaged to handle bulk solids, such as coal, iron-ore, steel, and granite. The port is closer by road to the iron-ore rich belt of Bellary-Hospet and the granite-rich belt of Chitradurga-Tumkur. These belts have an abundance of steel and thermal plants, which depend on the continuous supply of non-coking and coking coal, respectively. The port is well connected to roadways, with NH-66 (straight distance of ~2.58 km from the port location) connecting mainline to the port's entrance with a four-lane road as part of the Bharatmala project. Considering railways, although the Honnavar railway station is ~5 km from the port location, connectivity to the hinterland through railways was limited due to the lack of viable connect between Konkan railway line and South-Western railway line. The National Highways Authority of India (NHAI) is extending the existing four-lane to connect the port with railways. The company is also in discussion with Konkan Railways for roll-on roll-off (Ro-Ro) services for the port's cargo.

Key weaknesses

Limited port capacity

HPPL is constructing a minor port on the west coast with a capacity of 4.9 MTPA. It is likely to cater coastal cargo with higher dependence on coal, followed by iron-ore, steel, and granite, given the proximity to the Bellary-Hospet belt (at 380 km). The port is envisaged to have a draft of 10 m, restricting the ability to handle large-sized vessels.

Execution risk and pending achievement of financial closure

The port was originally allotted in 2011 by the Government of Karnataka (GoK), but project execution was held back due to regulatory clearances and approvals and the case pending with NGT. HPPL was the first greenfield project initiated by the sponsor, GVPREL, in the build-operate-transfer (BOT) segment.

A considerable degree of construction risk is prevalent as the port is still in its nascent stage, with major port-related work pending, such as dredging, and breakwater construction, among others. The aggregate project cost is estimated at ₹702 crore (increased from ₹625 crore as envisaged earlier), proposed to be financed through a debt-to-equity ratio of 2.33:1. The financial closure is pending in the next two months. With the receipt of fresh environmental clearance on December 31, 2024, and the pending debt tie-up, the project is likely to be completed by September 2027 from the previously envisioned October 2024.

Cargo evacuation risk

There is no rail connectivity from the port, increasing cargo evacuation risk for it. The port's connectivity to the hinterland through railways is weak and is logistically unfeasible, with weak connect between Konkan Railways and South-Western Railways. Therefore, the nearby ports of Mormugao, Krishnapatnam, and New Mangalore are more viable for shuttling cargo to-and-fro the hinterland.

Liquidity: Adequate

The company's liquidity profile is expected to be adequate, given the comfortable financial position and healthy liquidity available with the sponsors with timely contribution for funding the project and articulation of sponsor support in the project execution phase.

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
Project stage companies
Infrastructure Sector Ratings

About the company and industry

Industry classification

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

HPPL is formed under the consortium of GVPREL and North Canara Seaports Private Limited. The company was incorporated on March 30, 2010, having its registered office in Bengaluru. HPPL is setting up a greenfield minor port on the west coast of India (in Uttar Kannada, Karnataka), which is envisaged to handle 4.9 MTPA throughput. HPPL entered a lease agreement with the GoK on March 14, 2018, for usage of the land for port-related activities for 30 years.
The project's cost is ₹702 crore, proposed to be funded through a debt-to-equity ratio of 2.33:1.

Brief financials: Not applicable, as the commercial operations have not commenced.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan*		-	-	NA	500.00	CARE BBB-; Stable

*Proposed

Annexure-2: Rating history for 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	Fund-based - LT-Term Loan	LT	500.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Dec-23)	1)CARE BBB-; Stable (12-Jan-23)	-

LT: Long term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Puja Jalan Director **CARE Ratings Limited** Phone: 914040020131 E-mail: puja.jalan@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Tej Kiran Ghattamaneni Assistant Director **CARE Ratings Limited** Phone: 914040020131 E-mail: tej.kiran@careedge.in Chirag Ronak Das Analyst **CARE Ratings Limited** E-mail: Chirag.Das@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.

For detailed Rationale Report and subscription information,
please visit www.careedge.in