Kamarajar Port Limited

December 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Infrastructure bonds	94.65	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Infrastructure bonds	365.47	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total long-term instruments	**460.12 (₹ Four hundred sixty crore and twelve lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed 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; the ability to handle diverse cargo types; the landlord port model and autonomy in tariff fixation, resulting in strong profit margins and return indicators; the revenue visibility from well-established coal handling operations; the concession agreements (CAs) entered with other berth operators; and the 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 performance for FY22 (refers to the period from April 01 to March 31) as envisaged, and the continued satisfactory performance during H1FY23. The throughput volume handled registered strong growth during FY22 on account of uplifting in trade restrictions and rebounding of the global economy post-COVID-19. KPL's capacity utilisation improved to 64% in FY22 from 43% in FY21, with the total cargo handled at 38.70 million metric tonne (MMT) in FY22 as against 25.80 MMT in FY21. While coal cargo continues to dominate the cargo composition, there has been a steady increase in container volumes, with the share of the same increasing from 3% in FY19 to 24% in FY22 and further to 27% in H1FY23.

The ratings strengths are tempered by the delayed commencement of the expanded capacities, the significant cash outflow in the form of dividend payments to Chennai Port Trust (ChPT), the moderate cargo mix, and the competition from nearby ports.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant scale-up of operations with cargo diversifications and maintaining comfortable leverage.

Negative factors – Factors that could lead to negative rating action/downgrade:

- 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.

Detailed description of the key rating drivers

Key rating strengths

Government ownership and established track record of operations: KPL commenced operations in 2001 and has a presence of close to two decades in the port infrastructure segment. The port is ultimately held by the GoI through ChPT. KPL is the only corporatised major port 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 Tamil Nadu Generation and Distribution Corporation Limited (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.

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

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 2021-22 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 Tamil Nadu Generation and Distribution Corporation (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 wrt tariff fixation. These structural features have resulted in superior profitability and return indicators for KPL. The PBILDT margin has remained in the range of 75-80% for the last three years and is expected to be continued in the same range only. The return on capital employed (ROCE) has been increased to 19.76% for FY22 (FY21: 12.02%).

Long-term revenue visibility: Income from handling coal is the major contributor to the revenue, accounting for 55% of the revenue in FY22 (FY21: 52%). 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, 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 a 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 FY22, to 64% from 43% in FY21, due to the uplifting of trade restrictions and rebounding of the global economy post-COVID-19. It handled a total cargo of 38.70 MMT in FY22 as against 25.80 MMT in FY21. All the cargo mix of KPL has reported an increase in the capacity utilisation levels. The majority of the growth and utilisation is driven by container terminals, coal cargo, and general-purpose cargo (mainly automobile). However, coal throughput cargo is still short of the pre-COVID levels of FY19 due to lower production at the state power generation units. During H1FY23, KPL handled a total cargo of 22.10 MMT, which is on similar levels vis-à-vis H1FY22.

Backed by growth in cargo volume, the revenue has also registered a growth of above 40% during FY22. The profit level and cash accruals have also increased accordingly.

The vessel turnaround time for the port has also improved in the past few years 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 64.90 hours in FY17 to 42.97 hours in FY21. However, during FY22, it had marginally increased to 46.34 hours, mainly on account of an increase in waiting time at the coal handling berth and petroleum, oil and lubricants (POL) berth.

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. The company has completed repayment of its foreign currency loan in the entirety in FY22, thereby resulting in further improved solvency parameters. The overall gearing ratio was below unity at 0.28x as on March 31, 2022 (0.33x as on March 31, 2021). The debt coverage metrics have also been at a comfortable level, with the net debt/PBILDT below unity in FY22. The net worth position, although strong, has been impacted due to large dividend pay-outs to ChPT.

KPL plans to incur capex during FY23-FY25 towards setting up a new RoRo-cum-general cargo berth, which includes capital dredging and parking yard, enhancing the rail and road connectivity, and administrative building and miscellaneous works. The project-related capex over the next three years (FY23-FY25) is estimated to cost around ₹650 crore. KPL is expecting to fund these capex requirements mainly through internal accruals and the balance through bank borrowings.

Key rating 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. CB4 was expected to commence operations by Q1FY23 but the same is delayed and is expected to commence by Q4FY23 while CB-3 is expected to commence operations by Q1FY24.

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). The berth will be kept as an idle asset until the outcome of the tribunal. The said idle capacities, in turn, have blocked the capital employed.

The entity also has an under-construction 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 ChPT: In March 2020, ChPT, 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 ChPT through ₹1,775 crore of structured term loan (15 years – with a ballooning repayment structure) and the rest through cash available with ChPT. Given the moderate financial position of ChPT, KPL has been extending support in the form of dividend payouts (higher than the minimum dividend payment guidelines as per the Department of Public Enterprises) for servicing the debt obligations of ChPT. The dividend outflow during FY22 was ₹240 crore.

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 55% of the total cargo handled in FY22 is from coal cargo. 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 increased from 3% in FY19 to 24% in FY22 and further to 27% in H1FY23.

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, ie, Krishnapatnam Port and Kattupalli Port. Adani Kattupalli Port is located within a few kilometres radius of KPL. The port currently has two berths including a container 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 car and container cargo. However, there is assured revenue to KPT from the captive customer, ie, 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 a free cash and bank balance of ₹165 crore as on November 30, 2022 (₹94 crore as on March 31, 2022).

Analytical approach: Standalone

Applicable criteria

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

About the company

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 the only 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 ChPT. However, to optimise the capacity usage of KPL and eliminate the competition between KPL and ChPT, the Cabinet Committee on Economic Affairs approved the strategic disinvestment of 100% equity shares of the GoI in KPL to ChPT in a single stage process. As on March 31, 2022, ChPT held 100% stake in KPL.

The port is located about 24 km from Chennai. The port has nine berths (three coal handling, one iron ore handling, one liquid handling, one container handling, one multi cargo handling, one general purpose berth, and one LNG cargo handling berth) with an aggregate capacity of 60.44 MMTPA of cargo (operating capacity 54.44 MTPA).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	581	833	480
PBILDT	440	673	390
PAT	153	440	222
Overall gearing (times)	0.33	0.28	0.27
Interest coverage (times)	6.76	10.80	13.00

A: Audited; UA: Unaudited.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Infrastructure Bonds	INE363O07046	March 26, 2013	7.17%/ 7.67%	March 25, 2028	11.72	CARE AA; Stable
	INE363O07020	March 26, 2013	7.01%/ 7.51%	March 25, 2023	82.93	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	CARE AA; Stable
	INE363O07095	March 25, 2014	9.00%	March 25, 2029	119.24	CARE AA; Stable
	INE363O07061	March 25, 2014	8.75%	March 25, 2029	72.41	CARE AA; Stable
	INE363O07079	March 25, 2014	8.75%	March 25, 2034	18.71	CARE AA; Stable
	INE363O07103	March 25, 2014	9.00%	March 25, 2034	75.61	CARE AA; Stable

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Bonds-Infrastructure Bonds	LT	94.65	CARE AA; Stable	-	1)CARE AA; Stable (28-Dec-21)	1)CARE AA; Negative (30-Dec-20) 2)CARE AA; Stable (08-May-20)	1)CARE AA; Positive (03-Jan-20)
2.	Bonds-Infrastructure Bonds	LT	365.47	CARE AA; Stable	-	1)CARE AA; Stable (28-Dec-21)	1)CARE AA; Negative (30-Dec-20) 2)CARE AA; Stable (08-May-20)	1)CARE AA; Positive (03-Jan-20)

*Long term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Nil

Annexure-4: Complexity level of the various instruments rated for this company

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

Annexure-5: Bank lender details for this company

Not applicable

To view the lender-wise details of the 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Puja Jalan
Phone: +91-40-6793 9400
E-mail: puja.jalan@careedge.in

Relationship contact
Name: Pradeep Kumar V
Phone: +91-98407 54521
E-mail: pradeep.kumar@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 the detailed Rationale Report and subscription information,
please visit www.careedge.in