Hind Terminals Private Limited

May 26, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	415.75 (Enhanced from 173.43)	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	100.00	CARE A; Positive / CARE A1 (Single A; Outlook: Positive/ A One)	Reaffirmed; Outlook revised from Stable
Total Bank Facilities	**515.75 (Rs. Five Hundred Fifteen Crore and Seventy-Five Lakhs Only)**		

Details of instruments/facilities in Annexure[1]

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hind Terminals Private Limited (hereinafter referred to as 'HTPL' or the 'Company') continue to derive strength from its parentage being a part of a UAE based conglomerate i.e. Sharaf Group, wide spectrum of services offered in the logistics domain with its' Container Freight Stations (CFS) present at major Indian ports and Inland Container Depots (ICD) present at major business hubs in India. The ratings also factor HTPL's established relationship with leading shipping lines and reputed clientele profile, comfortable debt coverage indicators and strong liquidity. CARE also takes cognizance of the fact that after a flattish operating performance in FY21 due to covid related trade slowdown, the revenue FY22 has been resilient with y-o-y growth of 29%, supported by higher EXIM cargo volumes with economic recovery post easing of covid. However, PBILDT margin witnessed a y-o-y dip of 3% on account of recurrence of haulage charges and transport costs of empty containers.

HTPL operates its largest CFS facility at Jawaharlal Nehru Port Trust (JNPT) in a strategic alliance with Central Warehousing Corporation (CWC) which is known as CWC Logistics Park. This agreement with CWC is expiring in May 2022. This agreement shall not be renewed mutually post May 2022 due to high operating and lease rental costs incurred by HTPL. The CWC Logistics park contributes to ~15% of HTPL's total revenues and is loss making at operating level. CARE notes that alternatives in lieu of CWC logistics park have been finalized. HTPL has taken a CFS on exclusive lease since March 2022 and has also embarked on the construction of its own warehouse within Nhava Sheva (NHS) region (within proximity of JNPT). Entire cargo of JNPT will now be diverted to these facilities and Takecare park. The leased facility has commenced operations since last 3 months. CARE expects migration to be seamless in view of vast expertise of HTPL in CFS operations and improved infrastructure at JNPT. Further, CARE also expects HTPL's profitability margins to improve over a period of time, in view of operationalization of logistics park at Kila Raipur (Punjab) and lower lease outflow due to CWC discontinuation and revenue share component.

The ratings continue to remain tempered on account of increasing competition in CFS business around various ports where HTPL operates, risk inherent in the logistics industry in terms of vulnerability to a slowdown in trade volumes on account of several global and macro-economic factors Project execution risk is also factored in view of proposed debt-funded capex in Nhava Sheva & parts of North India.

Outlook: Positive (revised from Stable)

The positive outlook reflects the improvement in y-o-y operating performance of HTPL for FY22 and expectation of the same to continue in the medium term. The growth is expected to be aided by a recovering trade scenario and healthy capacity utilisation of its capacities across the business segments, thus leading to sustained healthy operating profitability margins and debt coverage indicators.

Rating Sensitivities

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

- The ability of the company to significantly grow its scale of operations over the medium term, aided by improved performance across each of its business segments and asset base, resulting in improvement in its PBILDT margin to over 20%
- Improvement in capital structure with Overall Gearing < 0.25x.
- Successful ramp up of alternate CFS's at JNPT.

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

- Fall in annual revenue to below Rs. 900 crore with PBILDT margin falling below 15%
- Any sizeable time and cost overruns in the planned capex and further capex undertaken by the company adversely impacting its capital structure with Overall Gearing>1.00x

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

[2] 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 Rating Strengths

Strong parentage of the Sharaf Group:

Sharaf Group is one of UAE's largest business houses. It comprises of over 60 operating companies in various business sectors like Information Technology, Shipping, Retail, Real Estate, Financial Services, Consumer Products, Travel & Tourism and Constructions. The Group has experienced the sustained growth for years since its inception in 1976. Being headquartered in Dubai, currently the Sharaf Group operates in 40 countries across the Middle East, Africa, India and other Asian countries and has worldwide employee strength of over 9500 people.

Broad spectrum of services offered by the company in logistics domain:

HTPL's business can be broadly classified into two categories: Container Freight Station(CFS)/Inland Container Depot (ICD) and Rail Operations (PAN India). The CFS/ICD operations are spread across multiple ports and business hubs viz. JNPT, Mundra, Hazira, Chennai, Palwal, and Kila Raipur. HTPL offers a broad spectrum of CFS services such as import-export cargo handling services, bonded warehousing, LCL/FCL services, hazardous cargo & tank container handling, last mile connectivity and other value added services. Cargo profile handled also ranges from steel & metal products, automobiles, agro products, hazardous cargo etc. HTPL has a railway siding within its JNPT facility. HTPL is amongst the few private players to be granted pan India License for container train operations. The rail ops commenced operations in April 2007. HTPL is a Category -1 license holder with flexibility to operate across India and is amongst earliest private rail operators in India to run its own rakes.

Long term relationship with customers, shipping lines and custom house agents:

The Sharaf group, being a global conglomerate, has diversified business spanning from shipping and logistics to supply chain management. Over the period of years, they have established relationship with leading shipping lines and custom house agents which helps in attracting traffic for the HTLP's CFS facilities. Some of the prominent clientele handled by HTPL are Mediterranean Shipping Company, Maersk, Hapag Lloyd etc.

Satisfactory financial risk profile:

HTPL's capital structure remained comfortable as on March 31, 2022 as the company had not embarked upon any aggressive debt funded capex during the year, on account of uncertainty caused by covid pandemic. The same has helped contain the interest costs for the company to a certain extent. The Overall Gearing remained low at 0.28x as for March 31, 2022 vis-à-vis 0.36x as on March 31, 2021. Going forward, on account of planned capex for proposed CWC alternative and DFC linked Common Rail Terminals in North India and drawdown of debt to be availed for executing the same, the overall debt levels is expected to increase. Nevertheless, better profitability & accretion to networth arising from healthy utilization of capacities are expected to keep debt metrics at comfortable levels. Newly commissioned projects such as Kila Raipur (Punjab) also expected to scale up company's operations in coming year now that it has stabilised its operations during 2021-22. This facility was commissioned timely despite several hurdles on account of covid lockdowns and farmer agitations and has been cash positive in FY22. Contribution from newly commissioned locations & business verticals is expected to cushion any adverse impact of proposed transition from CWC.

Supportive policies towards logistics sector:

Indian logistics sector is witnessing significant changes because of supportive regulatory policies, government focus on modal shift and transparency. Most notable among these are the implementation of GST, corporate tax reforms, interest rate cuts, 'Make in India' initiatives as well as creating a favourable market environment for listing of real estate portfolios through REITs and InVITs. Indian logistics sector was granted infrastructure status in 2017. Some initiatives announced in Union Budget 2022 such as expansion of National Highways network by 25,000 km, contracts for multimodal logistics parks through PPP in 4 locations to be awarded, 100 cargo terminals to be developed in next three years are favourable for logistics sector.

Blend of leased & owned facilities at JNPT expected to add flexibility and aid margins:

HTPL operates CWC Logistics Park at Dronagiri Node which is one of the largest Container Freight Station (CFS) in Nhava Sheva JNPT. This is under a Strategic Alliance Agreement for development and management of the CFS with Central Warehousing Corporation (CWC) on for 15 years which is expiring in May 2022. This facility is one of the largest private sector facilities at Nhava Sheva and one of the few equipped with a rail siding. HTPL has maintained constant average market share of 10%-15% among all CFS players at JNPT. Although the CWC facility has a higher capacity, but due to lower utilization and high operating costs, this agreement will not be renewed post May 2022. HTPL has taken a CFS on exclusive lease since March 2022 and has also embarked on the construction of its own warehouse within NHS region (in proximity of JNPT). The cargo handled by the company in CWC CFS will now be handled from the above facilities. The leased facility has commenced operations since last 3 months. HTPL has also been successfully operating another CFS named Takecare Park at NHS region for 7 years which has been catering to JNPT cargo.

This blended mix of operating arrangement as well as own facility arrangement will help HTPL retain existing customer base and at the same time ensure continuity of the company's presence and operation. CARE draws comfort on HTPL's ability to run this facility, given the established track record of HTPL in operating CFS's and assured cargo volumes which are generated from a global shipping company. Further logistical challenges also remain lower, given the improved road infrastructure in this region. Cost savings are expected due to reduction in large payouts to CWC and higher labour costs/union problems associated with operating CWC Logistics Park. HTPL management articulated that clients have also been apprised of this transition and have received favourable responses.

Key Rating Weaknesses

Risks inherent to CFS operations:

The CFS business, which is directly linked to the Indian EXIM trade, is exposed to risks arising from variations in EXIM trade and customs policies. Sluggishness in Indian EXIM trade, in case of a steep fall in global trade, could impact utilisation levels and profitability of HTPL. Further challenges have emerged on account of high global inflation and geopolitical tensions involving Russia-Ukraine. The low entry barrier has encouraged the implementation of new CFS facilities by new and existing players, leading to a build-up of surplus facilities; this could intensify price-based competition in the long term, thereby restricting profitability.

Moderate threat from DPD model continues to exist:

The volume handled by CFS agents has been showing fluctuating trend partially due to the impact of direct port delivery (DPD) which was introduced by central government in late 2016 which allowed the importers/consignees to take delivery of the containers directly from the port terminals and haul them to factories without taking them first to a CFS and from there to factories. CARE believes that while the implementation of the DPD model at several major ports from 2016 onwards led to temporary dip in volumes handled by CFSs, the CFS industry has largely recovered since then and have adjusted themselves and responded well to the changing business dynamics. However any similar regulation if introduced in future could potentially impact volumes and revenues of CFS companies.

Capex risk:

CARE notes that HTPL is embarking upon a few debt-funded projects entailing a capital outlay of Rs. 300 crore over the next 2-3 years. Although financial closure risk is low in view of adequate undisbursed credit lines available, timely completion with no cost and time overrun will be monitorable.

Liquidity: Adequate

The liquidity position of HTPL is adequate, marked by consistent cash generation vis-à-vis scheduled debt repayment obligations of Rs. 55 crore for the next 4 quarters. Against this, company generates an annual GCA in excess of Rs. 125 crore which is adequate. The debt repayment obligations going forward may increase depending upon the quantum of debt drawn by HTPL for the capex in the next 2-3 years. Further, HTPL maintains free cash and liquid investments of Rs. 114 crore as on March 31, 2022. The cash balance is expected to be partly deployed for acquisition of land for capex with the rest acting as liquidity buffer.

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
Short Term Instruments
Service Sector Companies

About the Company

Hind Terminals Private Limited (HTPL) is a part of the Sharaf Group of Companies, based out of UAE. The Sharaf Group is a diversified group having its business operations spread across various business segments from Shipping & Logistics to Supply Chain Management, Tourism, Hospitality & Real Estate, Information Technology and Financial Services. HTPL is primarily engaged in cargo handling services, warehousing and transportation of containerized cargo and the movement of goods to and from port to various locations in containers by rail. The company has presence across major ports in the country such as JNPT, Mundra, Hazira etc. The company has a strategic alliance arrangement with Central Warehousing Corporation (CWC) to develop, operate and maintain CWC Logistics Park for 15 years near JNPT upto May 2022 which is not going to be renewed. The company is in process of finalization of alternatives in lieu of non-renewal of this agreement. HTPL is also amongst the few private players to be granted pan India License for container train operations. The company has built and operates Container Freight Stations (CFS) at JNPT, Mundra, Hazira, Chennai and Inland Container Depots (ICD's) at various locations across the country such as Palwal, Kila Raipur etc.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (Prov.)
Total operating income	1041.77	1021.82	1319.70
PBILDT	179.84	199.71	217.40
PAT	66.08	59.42	85.40
Overall gearing (times)	0.53	0.36	0.28
Interest coverage (times)	4.62	6.81	-

A: Audited; Prov: Provisional

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 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
Non-fund-based - LT/ ST-BG/LC		-	-	-	100.00	CARE A; Positive / CARE A1
Term Loan-Long Term		-	-	July-26	415.75	CARE A; Positive

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	100.00	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (04-Mar-22)	1)CARE A; Stable / CARE A1 (18-Feb-21)	1)CARE A; Stable / CARE A1 (03-Mar-20)
2	Term Loan-Long Term	LT	415.75	CARE A; Positive	-	1)CARE A; Stable (04-Mar-22)	1)CARE A; Stable (18-Feb-21)	1)CARE A; Stable (03-Mar-20)

* Long Term / Short Term

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

Sl no	Financial Covenant	Detailed explanation
1	External Gearing	Should be <= 1.25x
2	Total Debt/PBILDT	Should be <= 3.50x
3	Debt Service Coverage Ratio	Should be > 1.35x
4	Fixed Asset Coverage Ratio	Should be >= 1.20x

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

Sr. No	Name of instrument	Complexity level
1	Non-fund-based - LT/ ST-BG/LC	Simple
2	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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