Gujarat Chemical Port Limited

December 27, 2022

Ratings

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	130.00	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Assigned**
Short-term bank facilities	20.00	**CARE A1+ (A One Plus)**	**Revised from CARE AAA; Stable / CARE A1+ (Triple A; Outlook: Stable / A One Plus)**
Total bank facilities	**150.00 (₹ One hundred fifty crore only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Gujarat Chemical Port Limited (GCPL) take into account the experienced, strong and resourceful promoter group backing wherein the majority stake is held by Reliance Industries Limited (RIL, rated 'CARE AAA; Stable/ CARE A1+') at 41.80% and the remaining stake is held by various public sector undertakings of Government of Gujarat (GoG). The ratings also factor in the strategic importance of GCPL to RIL as the latter uses the port infrastructure for sourcing, handling and storing of key raw materials for its facilities at Dahej, Gujarat. The strategic importance of GCPL's port infrastructure for RIL is also reflected from the fact that RIL has funded the entire capex of seven storage tanks through interest-free advances and has signed a long-term usage agreement for the same thereby providing cash flow stability to GCPL. The ratings also continue to factor in the favourable infrastructure of the port owing to its dedicated facility to handle liquid cargo falling under "A", "B" &" General" class categories including petroleum products aided by the port's strategic location due to its proximity to the industrial area of Dahej and South Gujarat. The ratings further derive comfort from the company's improved financial risk profile supported by higher cargo volumes, which have resulted in its strong profitability and comfortable capital structure. Additionally, the ratings are supported by its flexibility in tariff determination being a non-major port as well as long-term service relationship and offtake agreements with major domestic oil marketing entities thereby providing good revenue visibility to GCPL.
The above rating strengths, largely offset the small scale of its operations with moderating return indicators, viz., return on capital employed (ROCE) on account of achieving peak utilisation of its single birth jetty, susceptibility to competition from the neighbouring ports and inherent risks associated with its large-size planned capex, which is proposed to be partly debt funded.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: Not Applicable

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

- Any deterioration in the credit profile of RIL.
- Any debt-funded capex which materially impacts GCPL's financial risk metrics, viz., overall gearing exceeding unity on a sustainable basis.
- Decline in RIL's ownership in GCPL below 25% or any change in the strategic importance of GCPL for RIL or it group entities.

Detailed description of the key rating drivers

Key rating strengths

Experienced, strong management and resourceful promoter group backing: GCPL was promoted as a captive port for handling of chemicals by seven leading public sector companies of Gujarat in 1992, and subsequently, GCPL was converted to a commercial port in 2005. As on September 30, 2022, GCPL is majorly held by RIL (41.80%), whereas the remaining stake is held by other public sector undertakings (PSUs) of State Government of Gujarat with a strong credit risk profile. The operations of the company are managed and supervised by RIL through its three nominee directors appointed on the board of the company including its Managing Director, Hemant Desai. RIL and other promoters extend support in strategic planning, future growth plans, funding requirements and investments, ensuring the profitability, solvency and compliance management of GCPL.

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

Strategic importance of the port to its promoter group (especially RIL) and its favourable geographic location: The port facilities and storage terminals of GCPL are utilised by the promoter group entities for receipt, handling and storage of their raw materials. RIL uses the port infrastructure for sourcing, handling and storing of key feedstock for its ethane-handling facilities at Dahej, Gujarat. To fund the capex for construction of storage tanks, RIL had provided security deposits of ₹143 crore to GCPL in FY17 (refers to the period April 1 to March 31; *₹66.31 crore outstanding as on March 31, 2022)* and had also signed long-term usage agreement for the same. RIL is also the major revenue contributor for GCPL and contributed around 52% of GCPL's revenue in FY22. (PY: 51%).
Furthermore, GCPL has a favourable geographical presence at Dahej, Gujarat. It is in proximity to industrial area of Dahej and South Gujarat with the Petroleum, Chemicals & Petrochemicals Investment Region (PCPIR), Dahej Special Economic Zone (SEZ) and Delhi Mumbai Industrial Corridor (DMIC) located in its close vicinity. Hence, by virtue of the promoter group investments in the company and its favourable geographical location, GCPL remains strategically important to the promoter group (especially RIL).

Long-term usage agreement with RIL and other PSUs providing cash flow stability: GCPL has signed a long-term usage agreement with its clients for its port facilities, majority of which are centre/state PSUs and some promoter group entities. Additionally, GCPL also has a minimum guaranteed revenue arrangement with some clients, on the basis of which it can charge these clients irrespective of whether they utilise the facilities of GCPL or not. Such fixed revenue consists of around 25% of the total operating income (TOI) (excluding other income) of GCPL during FY22. Hence, by virtue of long-term usage agreement and minimum guaranteed monthly revenue agreement, GCPL derives long-term revenue visibility and cash flow stability.
During FY22, out of the TOI (excluding other income), 52% was contributed by RIL, 2% by the six promoter group entities and balance 46% was contributed by its other customers, which primarily includes leading Central oil marketing companies which have strong credit profile.

Comfortable financial risk profile: The profitability margins, viz., the PBILDT and profit after tax (PAT) margins of GCPL stood healthy at 75.81% and 54.42%, respectively, during FY22. The company has a robust financial risk profile with a highly comfortable overall gearing of 0.05x as on March 31, 2022. Moreover, its debt coverage indicators stood very comfortable marked by total debt to gross cash accruals (TD/GCA) and PBILDT interest coverage of 0.22x and 101.66x during FY22.

Liquidity: Strong

The liquidity of GCPL is marked by strong annual cash accruals of around ₹300 crore with no external term debt as on September 30, 2022. Furthermore, GCPL has shored up its liquidity marked by free cash and bank balances to the tune of ₹1,008 crore as on September 30, 2022. With an overall gearing of 0.05x as on March 31, 2022, GCPL has sufficient gearing headroom, to raise additional debt for its capex. Moreover, even after completing its planned expansion project by end of FY25, it is expected to have a strong liquidity position.

Key rating weaknesses

Small scale of operations, albeit improving on y-o-y basis: GCPL's scale of operations in terms of TOI remains small compared to many other port infrastructure entities. However, the revenue base of the company has increased at 9% compounded annual growth rate (CAGR) over FY18-FY22 owing to the increased volumes handled by the port aided by the upgradation of the port facilities, which have been supported by investments from the promoter group companies, particularly RIL. The increase in the TOI of GCPL is supported by the incremental volumes of products and the port charges payable by the users. The capacity utilisation of the port has remained above 100% during the past three years, whereas storage tanks utilisation remained high at more than 90% during FY22 and H1FY23.

Susceptibility to competition from neighbouring ports: GCPL faces competition from neighbouring ports in the vicinity handling liquid cargo at Mundra, Hazira, Pipavav and Kandla. Nonetheless, the risk is mitigated to an extent for GCPL due to operational synergies and long-term contracts with reputed clientele along with minimum guaranteed revenue agreement towards the usage of storage tanks. GCPL has been consistently undertaking maintenance capex and debottlenecking operations to augment the efficiency of the port. GCPL has been consistently reaching the peak utilisation level for the single berth jetty resulting in declining ROCE levels over the last four years.

Risks associated with implementation and stabilisation of large-size project which is proposed to be partly debt-funded: GCPL has planned to more than double its cargo handling capacity to 12 million metric tonne from the existing 4.98 million metric tonne by constructing an additional berth. It has also planned to set up additional storage tanks. The total cost of this expansion project is estimated at ₹3,360 crore, which is envisaged to be funded by external debt of ₹1,200 crore, security deposits from the customers amounting to around ₹950 crore and the balance from its available free cash & bank balances as well as internal accruals. The project execution has commenced and is planned to be completed by end-FY25. The capex required

till the end of FY23 is expected to be funded mainly from its available liquidity, internal accruals and deposits from its customers, while bank term loan is expected to be drawn from FY24.
All the existing promoters and customers have shown keen interest in expanding the cargo handling capacity of GCPL and firm agreements for booking of the expanded capacity is expected to happen by the time project is completed. The company has awarded the engineering, procurement, and construction (EPC) contract for installation of the second berth and the construction has also started since Q4FY22. The company is planning to incur major costs in FY24 and FY25.
The size of the project is large at more than 2x the net worth of GCPL, thereby it entails inherent risks of timely implementation and stabilisation. Additionally, return indicators, which are already declining are expected to decline further till the time revenues commence from expanded capacity in FY26. Moreover, as the project is proposed to be partly debt funded, peak overall gearing of GCPL is expected to reach near unity. However, GCPL's cash accruals from the existing operations are expected to be sufficient to take care of its debt servicing requirement pertaining to the proposed bank term loan to be availed for this project, thereby partially reducing the project risk.

Analytical approach: Standalone. Furthermore, the strong management and financial linkages with RIL have been considered. The port is also strategically important for RIL in terms of sourcing and handling of its key feedstock for its manufacturing facilities located at Dahej in Gujarat.

Applicable criteria

Criteria on assigning 'outlook' and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Liquidity Analysis of Non-financial sector
Rating Methodology – Port & Port services
Financial ratios: Non-Financial sector
Criteria for Short Term Instruments
Rating Methodology - Factoring Linkages Parent Sub JV Group

About the company

Incorporated in June 1992, Gujarat Chemical Port Limited (GCPL, formerly known as Gujarat Chemical Port Terminal Company Limited) is a commercial port and storage terminal located along the Gulf of Khambhat at Dahej, Gujarat. GCPL was promoted as a captive port for handling of chemicals by seven leading PSUs of Government of Gujarat, which included erstwhile Indian Petrochemicals Corporation Limited (IPCL, subsequently merged with RIL), Gujarat Maritime Board (GMB), Gujarat Narmada Valley Fertilizers Company Limited (GNFCL), Gujarat Industrial Development Corporation (GIDC), Gujarat State Fertilizers and Chemicals Limited (GSFC), Gujarat Alkalies and Chemicals Limited (GACL) and Gujarat Industrial Investment Corporation Limited (GIIC).
GCPL commenced its commercial operations in 2005 with port's jetty presently capable to handle vessels size ranging from 6,000 dead weight tonne (DWT) to 60,000 DWT, with a single berth designed to handle approximately 4.98 million metric tonnes per annum (MMTPA) of cargo. Additionally, the company owns and operates a network of shore-based tank farms installation with 4.80 lakh kilo litres of storage capacity for the receipt and handling of bulk liquids and gaseous chemicals falling under "A", "B" and "General" classes, including petroleum and cryogenic products.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (Prov.)
Total operating income	462.62	470.94	258.65
PBILDT	362.85	357.02	196.51
PAT	262.97	256.29	125.95
Overall gearing (times)	0.05	0.05	NA
Interest coverage (times)	42.37	101.66	83.62

A: Audited; Prov: Provisional; NA: Not available
Financials are reclassified as per CARE Ratings' standards.

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: Not applicable

Complexity level of the various instruments rated for this company: Annexure-3

Annexure-1: Details of facilities

Name of the Instrument	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT-Bank guarantee	-	-	-	130.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC	-	-	-	20.00	CARE A1+

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	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (25-Nov-21)	1)CARE AAA; Stable (07-Oct-20)	1)CARE AAA; Stable (04-Oct-19) 2)CARE AAA; Stable (01-Apr-19)
2	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (25-Nov-21)	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (04-Oct-19)
3	Non-fund-based - LT-Bank guarantee	LT	130.00	CARE AAA; Stable				

*Long term/Short term.

Annexure-3: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Non-fund-based - LT-Bank guarantee	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-4: Bank lender details for this company

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.

Contact us

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

Analyst contact
Name: Surabhi Nahar
Phone: +91-22-6754 3437
E-mail: surabhi.nahar@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-22-67543404
E-mail: saikat.roy@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