Hind Terminals Private Limited

March 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities-Term Loan	415.75 (reduced from Rs.482.90 crore)	**CARE A; Stable (Single A; Outlook: Stable)**	**Ratings Reaffirmed; Outlook revised to Stable from Positive**
Long Term/Short term Bank Facilities (Bank Guarantee)	100	**CARE A; Stable/CARE A1 (Single A; Outlook: Stable/A One Plus)**	**Ratings Reaffirmed; Outlook revised to Stable from Positive**
Total	**515.75 (Rs. Five hundred Fifteen crores and seventy five lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of hind terminals private limited (HTPL) takes into account strong parentage of the company, diversified revenue profile with container rail and CFS/ICD (Container Freight Station/Inter Continental Depot) operations at multiple ports, established relationship with leading shipping lines and comfortable financial risk profile with strong liquidity.

The ratings are however tempered on account of increasing competition in CFS business around various ports where HTPL operates /plans to operate and risk inherent in the logistics industry in terms of vulnerability to a slowdown in trade volumes on account of several macro-economic factors.

The outlook was revised from positive to stable on account of expected moderation in profitability and gross cash accruals due to lower than anticipated volumes and heightened competitive intensity, particularly at Jawaharlal Nehru Port Trust (JNPT) CFS facility coupled with an increase in with increase in competitive intensity following the implementation of DPD (Direct Port Delivery). Further it also takes into account lower than expected revenue generation from the newly commissioned facilities.

Rating Sensitivities

Positive Factors

- Improvement in profitability margin with gross cash accruals of Rs. 130 crore and above.
- Optimum utilization of the newly set up facilities leading to higher revenue generation with healthy profitability margin

Negative Factors

- Higher than envisaged debt drawdown
- Lower than anticipated profit margins leading to lower cash accruals
- Non-renewal of the Concessionaire agreement with Central Warehousing Corporation (CWC) for the JNPT CFS facility coupled with delay in setting up alternate operations.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage of the Sharaf Group

Sharaf Group is one of UAE's leading 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 Construction. The Group has experienced sustained growth 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.

Diversified revenue profile

HTPL business can be broadly classified into two categories: Container Freight Station/Inland Container Depot 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. Thus the company is not affected by volume slowdown in any particular port.

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

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

agents which helps in attracting traffic for the CFS facility. However over the years HTPL has reduced its business exposure to its leading customer Mediterranean Shipping Company (MSC).

Strong revenue generation with stable operating margins and cash accruals

HTPL's revenue has grown at a CAGR of 8.87% during the period FY17 to FY19. The income from operations for FY19 stood at Rs. 1088.37 crores. The company has registered a decline in the PBILDT margin by 97 bps in FY19 which stood at 13.06% as against 14.03% in FY18. The gross cash accruals for FY19 improved marginally to Rs. 106.61 crores as against Rs. 101.35 crores in FY18. The company in 9M FY20 has registered a TOI of Rs. 799.60 crores with a PBILDT margin of 11.50%.

Comfortable Financial Risk Profile

The capital structure and debt coverage indicators of the company have remained comfortable over the years due to healthy cash flow generation and lower than envisaged reliance of debt to fund the capital expenditure. Capex to a significant extent was funded by internal accruals. However the capital structure is expected to moderate in the next 2 years if the company draws down the remaining sanctioned term loan. CARE however notes that the increase in leverage would be transitory and expects it to reduce thereafter due to ramp up of volumes from the newly commissioned facilities.

Key Rating Weaknesses

Intensifying competition in CFS/ICD business and risk from adverse changes in government regulations

The volume handled by the HTPL 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. There are more than 35 CFS facilities in and around the JNPT port competing against each other. It continues to remain crucial for HTPL to maintain its share in volumes handled at the JNPT port. With the 4th terminal coming up at JNPT the capacity of the port has been enhanced by over 40%. The volumes however have not increased substantially owing to global trade slow down. The CFS's are likely to benefit by enhanced volumes once the trade picks up which will result in enhanced volumes at the port too.

Susceptibility of the operations to decline in EXIM trade volumes

The CFS business is directly linked to India's export-import trade and, thus, remains susceptible to risks arising from variations in shipping rates, trade volumes, and customs policies. Thus any slowdown in exim trade is expected to directly affect the company.

Risk of non-renewal of the Concessionaire agreement with CWC

The agreement with CWC is expiring in May 2022. The facility is currently the largest of the available facilities in the JNPT area and one among the only two facilities having a railway siding. The facility is also complaint with US CTPAT, GSV Certified and also ISO14001:2015 certifications. The company is currently evaluating options such as setting up its own facility in the area or typing up with another CFS vide a revenue sharing arrangement. CARE believes that while the non-renewal of the concessionaire agreement will not necessarily disrupt operations for HTPL at JNPT, any delay in establishing alternate arrangements with comparable infrastructure and certifications could be detrimental from a cash flow perspective.

Liquidity: Strong

The liquidity position of the company is expected to remain healthy with strong cash flow generation. The company has free cash and bank balance of Rs. 124.18 crores as on March 31, 2019. The cash balances was partially used towards completion of on-going projects. The company is expected to generate sufficient cash accruals in the current year to cover its debt repayment obligations and fund its working capital requirements. A substantial amount of free cash balance will be utilized for expansion activities in the near future. The company has a nil reliance on fund based working capital limits owing to negative working capital cycle.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Service Sector Companies
Financial ratios – Non-Financial Sector

About the Company
Hind Terminals Private Limited (HTPL) is a part of the Sharaf Group of Companies. 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 commenced its commercial operations at Nhava Seva (Navi Mumbai) in December 2005. HTPL is engaged in the business of container freight station, Inland container depot, Multi modal logistics park, road transportation, container rail transportation and multi-purpose warehousing.

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

Brief Financials (Rs. crore)	**FY18 (A)**	**FY19 (A)**
Total operating income	1039.28	1088.37
PBILDT	145.80	142.16
PAT	70.99	62.67
Overall gearing (times)	0.49	0.41
Interest coverage (times)	4.73	5.67

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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; Stable / CARE A1
Term Loan-Long Term	-	-	June, 2026	415.75	CARE A; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	100.00	CARE A; Stable / CARE A1	-	1)CARE A; Positive / CARE A1 (04-Dec-18)	1)CARE A; Stable / CARE A1 (13-Feb-18) 2)CARE A; Stable / CARE A1 (04-May-17)	1)CARE A / CARE A1 (20-Apr-16)
2.	Term Loan-Long Term	LT	415.75	CARE A; Stable	-	1)CARE A; Positive (04-Dec-18)	1)CARE A; Stable (13-Feb-18) 2)CARE A; Stable (04-May-17)	1)CARE A (20-Apr-16)

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Mr. Arunava Paul
Group Head Contact no.- 022-67533667
Group Head Email ID- Arunava.paul@careratings.com

Relationship Contact
Name: Mr. Saikat Roy
Contact no. : 022-67543404
Email ID : saikat.roy@careratings.com

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