Intensifying competition leading to margin contraction for CFS players at JNPT: CARE Ratings

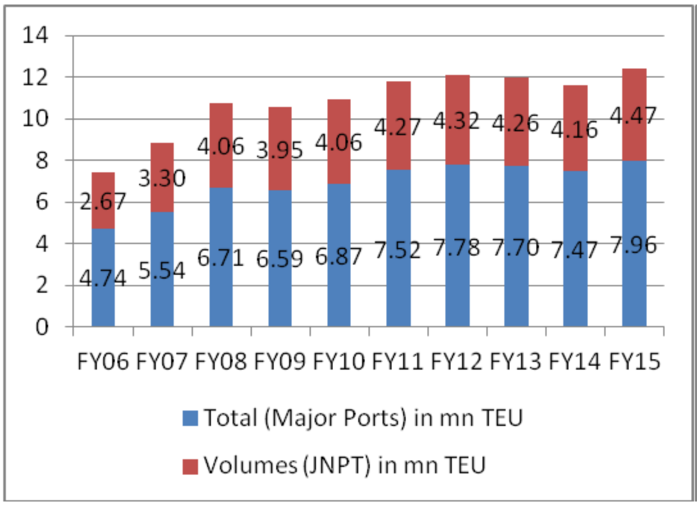
With stagnating volumes in the Jawaharlal Nehru Port Trust (JNPT) port and significant increase in capacity, the JNPT area is expected to have overcapacity of` Container Freight Station's (CFS's) in the medium term. CARE Ratings expects the credit profile of some of the CFS operators to be impacted in medium term on account of declining volumes and realization. CFS operators who are a part of a larger logistics conglomerate having linkages with top container shipping companies and have diversified operations are expected to report stable performance.

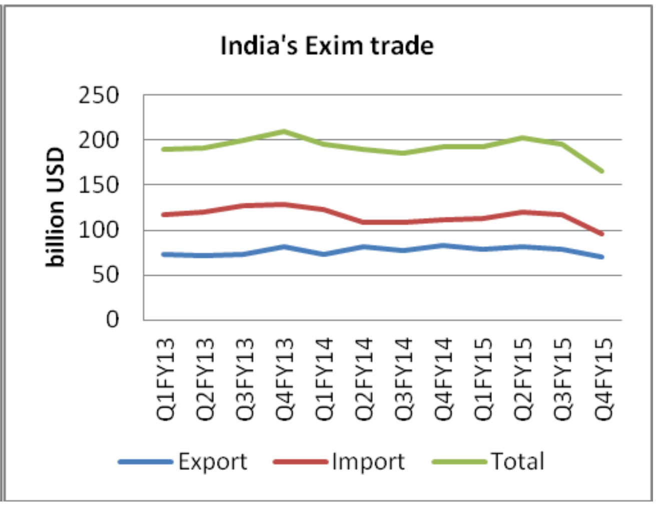
JNPT: the largest container port in India

JNPT is the largest container port in India and handled around 4.47 million TEUs of container traffic during the financial year 2014-15 which approximately formed 56% of the total container cargo handled at major ports. More than 40% of up-country cargo meant for aggregation is containerized at CFS and transported to JNPT for loading on the vessels. Furthermore, a significant percentage of import cargos catering to the western and northern regions are kept at CFS's to be consumed as and when required. This has led to significant market potential for CFS's around JNPT leading to large capacity addition in the recent past.

Stagnation of container volumes handled at JNPT port

The volumes handled at JNPT increased at a CAGR of 5.89% from 2.37 TEU's to 4.47 TEU's over the period FY06-FY15. However, much of this growth has come in the initial 5 years with the growth stagnating in the second half (increasing at a CAGR of 1.15% over the period FY11-FY15). Major reason for this is stagnation in India's Exim trade volumes. The total trade volumes have started stagnating from Q1FY13 onwards. Furthermore, diversion of traffic from JNPT to nearby ports like Mundra and Pipvav has also led to stagnating volumes for the CFS players. The current container handling capacity at JNPT port is 3.80 million TEU's/annum and is currently operating at more than 100% capacity leading to significant congestion. The capacity at JNPT port is not expected to increase in the next 4-5 years with the fourth container terminal development project with capacity to handle additional 4.8 million TEU's, delayed due to regulatory and procedural hurdles.





Source: Indian Ports Association and JNPT

Source: Reserve Bank of India

Expected overcapacity in medium term

The JNPT area has seen tremendous increase in development of new CFS's in the past 5 years (FY10-FY15). In addition to that, the existing CFS operators in the area have also increased their capacity many fold over the same period. The rationale behind such expansion is expected increase in volumes handled at JNPT port. The Maritime Agenda 2010-20 estimated a 19% CAGR increase in traffic from 4.06 mn TEU's as on FY10. As at the end of FY15, there are more than 30 CFS operators around JNPT with total capacity of around 3 mn TEU's per annum with more than 16 CFS to begin operations in the next 2-3 years. The CFS capacities in the past 5 years have grown at a much faster pace than the growth in volumes at JNPT resulting in an overcapacity situation in the medium term.

Volumes and realization of CFS players is expected to dip

The volumes and realization of CFS players around JNPT has already started stagnating. The main drivers of CFS business is the relationship with shipping lines, as globally, the container line business is highly consolidated and top 20 liners control nearly 94% of the world's container business. With the global shipping industry going through a rough space since the global economic slowdown in FY09, the shipping lines are demanding a nomination premium from the CFS operators for getting the import containers nominated to their CFSs. On the contrary, the CFS operators are not able to pass on this nomination premium to their end customer due to increasing competition and global slowdown. The smaller players with non-integrated operations have already been impacted with capacity utilization falling to 40-50% from 60-70% earlier. Even for the established players with integrated operations and established relationship with major shipping lines the utilization has dropped to around 60-70% as compared with 90-95% earlier (during FY09-FY11). The competition is expected to intensify in the medium term with around 25-30% incremental capacity expected to be added in the next 2-3 years. This may lead to further decline in volumes and realization per TEU and thus sub-optimal utilization and contraction in profitability margins.

Credit profile of some of the CFS operators to be affected

The credit profiles of some of the CFS operators in the area are expected to be impacted in the medium term considering the large debt-funded infrastructure investments made in the recent past. The cost of land in and around JNPT has increased by around 400-500% in the past seven years and this has led to substantial increase in the project cost for players willing to set-up CFS's around JNPT. Land cost contributes to around 40-50% of the total project cost in order to set up a green-field CFS near JNPT. Thus, the smaller players who have set-up the CFS's in recent past majorly funded by debt are expected to be more affected.

CARE rated CFS players in JNPT (as on June 15, 2015)

Company Name	Rating	
	Long Term	Short Term
Allcargo Logistics Ltd	AA	A1+
Hind Terminals Pvt Ltd	A	A1
JWC Logistics Park Pvt Ltd	BBB	A3+
LCL Logistics Ltd	BBB-	A3
Sea Bird Marine Services Ltd	A+	A1+

All the CFS players in JNPT rated by CARE has investment grade ratings ('BBB-' and above). However, the credit profiles of the CFS operators in the BBB bracket are expected to be impacted on account of the geared capital structure considering the large debt-funded capex made in the recent past. In some cases, lower than expected cash flow on account of dip in the volumes and margins contraction may force them to opt for debt restructuring. However, the credit profile of the players having superior ratings is expected to remain stable as these ratings derive comfort from the diversified operations spanning end to end logistics chain, strong linkages with international container lines along with comfortable solvency and liquidity position.

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