

March 31, 2022

Chennai International Terminals Private Limited: Ratings Reaffirmed and Long-term rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term, Fund based-Term Loan	48.49	0.00	[ICRA]AA (CE) (Stable); Reaffirmed and Withdrawn
Short term, Non-fund based-Working Capital Facilities	98.00	98.00	[ICRA]A1; Reaffirmed
Short term, Unallocated	265.15	313.64	[ICRA]A1; Reaffirmed
Total	411.64	411.64	

Rating Without Explicit Credit Enhancement	[ICRA]A+; reaffirmed and withdrawn
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*Instrument details are provided in Annexure-1;

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The long term rating of [ICRA]AA(CE) (Stable) on the term loans was based on the strength of an undertaking from PSA International Pte Ltd (PSA; rated Aa1/Stable by Moody's), the parent of Chennai International Terminals Private Limited (CITPL), to provide cash deficiency support (CDS) to CITPL under certain conditions for the rated long-term term loans programme. The rating has been reaffirmed and withdrawn, since the loan has been repaid, in accordance with ICRA's policy on withdrawal and suspension.

The short-term rating has been reaffirmed and considers the strong parental support from PSA, which has 99.99% stake in CITPL. The rating draws comfort from CITPL's long track record of operations, and the financial and operational support from PSA, which is one of the largest container terminal operators in the world. CITPL has availed external commercial borrowing (ECB) facility, from PSA in the last few years, to support debt repayments and repay capex creditors. The ECB was subordinated to the rated senior debt, which was prepaid in October 2021 and there hasn't been any incremental debt from banks, leading to some improvement in capital structure and coverage indicators. The rating further takes note of the company's low working capital intensity given the high creditor days backed by a favourable credit period from Chennai Port Trust (ChPT). Going forward, the company may incur some debt funded capex in the medium term, which may put some pressure on capital structure and coverage indicators.

ICRA takes note of some moderation in volumes in FY2021 due to impact of Covid-19, which coupled with no export incentives led to some moderation in revenue and profitability. However, in current fiscal, there has been some recovery in throughput and financial performance. The volumes are expected to recover further going forward and the long-term outlook remains favorable. Nonetheless, the throughput levels, and hence the financial performance, remain susceptible to competition from another terminal at Chennai port as well as from new terminals at Katupalli and Kamarajar (Ennore) ports, which have been ramping up their marketing efforts in the recent years, and the overall growth in container volumes in Chennai cluster. The actual impact of competition will depend on the overall traffic growth in the region and the competitors' ability to absorb additional capacities. The company also faces competition from existing/upcoming ports in the vicinity, along the eastern coast. Nonetheless, the impact of competition from these ports will be partly mitigated by the inherent advantages of the Chennai port, such as being an all-weather port with deep draft, access to a well-developed container freight station (CFS)

network and large hinterland with a diverse manufacturing base. Moreover, efforts are underway to revive some of the projects to reduce congestion outside the port, which has faced significant delays and any updates on the same will be monitored.

The rating also notes the high revenue share payable by CITPL to ChPT (45.801% of CITPL's gross revenues), which adversely impacts its profitability vis-à-vis competing terminals and the lack of flexibility to determine its own tariff rates, since they were set up by Tariff Authority for Major Ports (TAMP). While, with the enactment of Major Port Authorities Act 2021, the tariff setting going forward will be done by the Port Trust itself, it is still expected to follow the 2019 guidelines. ICRA will be following the developments and any transition to market based tariffs, which are available for new PPP terminals to be set up at Major Ports will be favorable. The company has an ongoing legal dispute with Tariff Authority for Major Ports (TAMP), related to 12.23% tariff cut effected by the regulator in March 2012. CITPL received an interim stay from the High Court and continued to operate at old tariff levels, but has moved to new tariffs under the 2019 TAMP guidelines in January 2020. Currently, status quo is being maintained on this dispute; however, the contingent liability related to this has now been capped at the levels during the transition to new tariff regime. However, any unfavourable outcome would have an adverse impact on the terminal's cash flows and liquidity profile. Further, there has been some favourable outcome on the lease-related disputes with ChPT; however, they are subject to further appeal and ICRA continues to monitor the developments on this front.

Key rating drivers and their description

Credit strengths

Strong parentage support from PSA International Pte. Ltd. – CITPL is a 99.99% subsidiary of PSA and derives operational benefits as part of the PSA Group, which is one of the largest container terminal operators in the world and enjoys healthy relationship with liners. The company has also availed ECB extended by the parent to support its debt repayments and repay capex creditors, which were subordinate to senior debt. The senior debt was also backed by cash deficiency support by PSA under certain conditions, but the loans have been completely prepaid in current fiscal.

Terminal infrastructure and advantages of Chennai Port - CITPL benefits from the favourable yard layout, which allows it to deploy higher number of cranes. The port's eight twin lift quay cranes ensure better productivity and access to the rail terminal. CITPL has so far been able to meet all operational conditions set in the license agreement such as minimum traffic and mainline vessel calls. Chennai port has a well-developed primary and secondary storage and handling infrastructure and enjoys being closer to a large hinterland with a diverse end-user base. Moreover, Chennai Port is an all-weather port with deep draft and handles high container volumes.

Low working capital intensity – CITPL's working capital intensity remains low owing to higher creditors backed by a favourable credit period from ChPT. CITPL also enjoys low debtors as the liners make immediate payments to the company.

Favorable long-term demand outlook - The long-term demand prospects for containerisation in India is favourable. Additional up-shoots such as an increase in coastal and transshipment cargo due to policy initiatives will aid in higher than-projected volume growth from the exim trade in the long-term.

Credit challenges

Higher revenue share and tariff risks – The revenue share payable by CITPL to ChPT is high at 45.801% of CITPL's gross revenues, which adversely impacts its profitability vis-à-vis competing terminals. ICRA notes that during the tariff ruling by TAMP in 2012, a 12.2% cut was affected by the regulator as against an increase in tariff requested by CITPL. While CITPL got an interim stay from the High Court and continued to operate at old tariff levels, it shifted to a new tariff regime under TAMP 2019 guidelines in January 2020. The contingent liabilities arising out of TAMP disputes, which have been increasing in the last few years is now capped at amount outstanding as on transition date. However, status quo is maintained on the legal dispute with TAMP's 2012 tariff ruling, and any unfavourable outcome will have an adverse impact on the terminal's cash flows.

Moderate financial risk profile –The revenue witness some moderation and operating profitability reduced to 22.0% in FY2021 from 27.1% in FY2020 due to lower throughput and absence of export incentives. The company also reported net loss, although it had positive cash accruals. While, in current fiscal with some recovery in throughput leading to revenue growth and improved operating profits, the net margin are expected to remain subdued. The capital structure is characterized by high gearing, although with the prepayment of external debt in Oct 2021, the remaining debt comprise of ECB from parent and gearing and coverage indicators have witnessed some improvement. ICRA notes that in the near to medium term, company may undertake some debt funded capex which may put some pressure on capital structure and coverage indicators. Though the company has a large unhedged debt exposure (from PSA), the CITPL has a natural hedge in partial Dollar billings.

Competition from other terminal and ports – The company faces high competitive intensity from other terminals in the Chennai Port and other ports along the eastern coast of South India. The company also faces competition from newer terminals at Katupalli and Kamarajar (Ennore) ports in the vicinity. CITPL’s throughput levels remains susceptible to the overall volume growth of the port. The containers handled reduced to 0.85 TEUs in FY2021 from 0.90 TEUs in FY2020 and 0.96 TEUs in FY2019 given the lockdown imposed with outbreak of Covid-19 pandemic and decline in market share given the increased competition. Further, congestion on the roads from the port to city outskirts has also been a constraint. Nonetheless, the impact of competition from other eastern coast ports will be partly mitigated by the inherent advantages of the Chennai port such as being an all-weather port with deep draft, access to a well-developed CFS network and large hinterland with a diverse manufacturing base. Further, PSA’s strength in the market and relationship with liners also partly mitigate the impact. The actual impact of competition, going forward, will depend on the overall traffic growth in the region and the ability to absorb additional capacities.

Liquidity position: Adequate

CITPL’s liquidity position is strong with unencumbered cash balance of Rs. 47.33 crore as on March 31, 2021. The cashflow from operation is expected to remain positive at 45-50 crore over FY2022-23 against debt repayment of Rs. 19.87 crore in FY2022 and yearly capex of Rs. 30-40 crore in FY2022-23. The company has prepaid the external debt in current fiscal and repayment of ECBs from PSA is falling due only in Q3FY2024.

Rating sensitivities

Positive Factors – The rating can be upgraded if there is any significant improvement in the revenues and profitability margins backed by growth in throughput on a sustained basis, leading to sustained improvement in RoCE. Further, a favourable outcome of the ongoing litigation would also help in an upward rating revision.

Negative Factors - Ratings could be downgraded if revenue and profitability decline due to significant decline in throughput or tariffs, or if the interest cover deteriorates on sustained basis. The rating could also witness downward pressure if larger-debt-funded capex puts pressure on the capital structure or a unfavorable verdict in ongoing litigation leads to devolvement of contingent liability, consequently putting pressure on the liquidity profile of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology For Ports Policy On Withdrawal Of Credit Ratings
Parent/Group Support	Parent/Group Company: PSA International Pte Ltd. Rating is based on standalone credit profile of CITPL as well as implicit support from PSA
Consolidation/Standalone	Standalone

About the company

CITPL is a special purpose vehicle (SPV) incorporated in 2006 to develop and operate the second container terminal at Chennai Port. It was formed as a joint venture (JV) between PSA International Pte Ltd of Singapore (PSA), one of the world's leading port operators, and Sical Logistics Limited (SLL), part of the Sical Group, which has interests in transportation and logistics businesses. In June 2010, SLL sold most of its stake in CITPL to PSA, thereby making CITPL a 99% subsidiary of PSA. In March 2007, CITPL entered into a 30-year, build-operate-transfer (BOT) license agreement with Chennai Port Trust (ChPT) to design, develop, finance, operate and market the second container terminal. As per the agreement, CITPL is required to share 45.80% of its gross revenues with ChPT during the license period. Commercial operations at the terminal began from September 2009; the company handled 0.90 million TEUs in CY2021.

Key financial indicators (Audited)

CITPL	FY2020	FY2021
Operating Income (Rs. crore)	321.2	307.4
PAT (Rs. crore)	7.3	-8.0
OPBDIT/OI (%)	27.1%	22.0%
PAT/OI (%)	2.3%	-2.6%
Total Outside Liabilities/Tangible Net Worth (times)	3.0	2.9
Total Debt/OPBDIT (times)	4.2	4.4
Interest Coverage (times)	2.7	2.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					March 31, 2022	Dec 21, 2020	Nov 11, 2019	Oct 23, 2018
1	Term Loan	Long Term	0.00	0.00	[ICRA]AA (CE) (Stable); Withdrawn	[ICRA]AA(CE) (Stable)	[ICRA]AA(CE) (Stable)	[ICRA]AA(SO) (Stable)
2	Working Capital Facilities	Short Term	98.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Unallocated	Short Term	313.64	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term, Fund based-Term Loan	Simple
Short term, Non-fund based-Working Capital Facilities	Very Simple
Short term, Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Term Loan	April 2010	8.15%-8.65%	Sept 2023	48.49	[ICRA]AA (CE) (Stable); Withdrawn
-	Bank Guarantee	NA	NA	NA	98.00	[ICRA]A1
-	Unallocated	NA	NA	NA	313.64	[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis: NA

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