

July 29, 2022

## Bharat Kolkata Container Terminals Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	15.00	15.00	[ICRA]A(Stable); reaffirmed;
Long-term/Short-term Non Fund Based	50.00	15.00	[ICRA]A(Stable)/[ICRA]A1; reaffirmed;
Long-term/ Short-term – Interchangeable	(5.00)	-	-
Long Term – Unallocated	15.00	50.00	[ICRA]A(Stable); reaffirmed;
<b>Total</b>	<b>80.00</b>	<b>80.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the ratings continues to derive comfort from the strong parentage of the company as Bharat Kolkata Container Terminals Private Limited (BKCT) is wholly owned by PSA International Pte Ltd. (PSA; rated Aa1/Stable by Moody's) through PSA Bharat Investments Pte. Ltd. and PSA India Pte Ltd.

The ratings derive comfort from BKCT's exclusive right to supply, operate and maintain the container handling operations at five berths of Netaji Subhas Dock (NSD) at Syama Prasad Mookerjee Port, Kolkata (SMP, erstwhile known as Kolkata Port Trust), till November 2024. ICRA also notes that the accepted handling rate/TEU, with escalation factors, has been fixed for the 10-year contract and there is adequate cushion between the accepted rate and the scale of rates of SMP, which mitigates the tariff risks for the company.

ICRA favourably considers the company's healthy capitalisation. Further, despite the moderation in the operating profit margins (OPM) in FY2022 impacting the coverage indicators, ICRA expects the coverage indicators to be comfortable with the improvement in OPM, going forward. The increase in volume throughput and absence of any major O&M is likely to support the recovery in OPM.

ICRA notes that the company has mobilised a part of the required equipment like tractor trailers and reach stackers on a long-term operating lease, which has reduced the upfront capital investment and debt-funding requirement. Adjusted for the lease rentals, the gearing would be higher.

The ratings also take note of the periodic congestion issues faced by the SMP and the inability of the company to deploy its equipment optimally because of the congestion at the yard, imposition of traffic restrictions by Kolkata police and poor yard conditions, which limit its ability to increase its revenue/TEU. However, some steps have been taken in recent years by the port to mitigate these issues.

The company had initiated arbitration proceedings against SMP regarding disputes related to performance measures, losses due to yard congestion and diversion of some empty containers to third-party players. The disputes with SMP also led to a build-up of receivables as the port was deducting some receivables, citing performance issues. Nonetheless, ICRA notes that the outcome of some of the arbitration proceedings has been favourable for BKCT. The company has received partial payment from the port as interim payments to the tune of ~ Rs 10 crore in FY2021 and FY2022 and is likely to receive a similar amount in FY2023.

The ratings continue to favourably consider SMP's access to the vast hinterland in eastern and north-eastern India and countries like Bhutan and Nepal, good rail and road connectivity and proximity to container freight station (CFS) facilities. However, ICRA also notes the issue of low draft faced by SMP as it is a riverine port, which necessitates frequent dredging to

maintain navigability and dependence on Central Government funds for the same. Any reduction in such funds may impact the throughput of the port. Nonetheless, considering the strategic importance of the port, the availability of such funds is not expected to reduce in the near term. ICRA further notes the plans to set up a new port/container terminal in proximity to the SMP, which may increase competition for container traffic. However, since the plans are still in the initial stage and given the long gestation period and substantial capital investments for such projects post finalisation, no risk is expected in the near to medium term

The Stable outlook reflects ICRA's expectation that BKCT will continue to benefit from its strong parentage, being a part of the PSA Group, and its exclusive right to supply, operate and maintain container handling operations at five berths of the NSD at SMP till November 2024.

## Key rating drivers and their description

### Credit strengths

**Strong parentage** – PSA International Pte Ltd. wholly owns BKCT, through PSA Bharat Investments Pte. Ltd. and PSA India Pte Ltd. The company has the exclusive rights to supply, operate and maintain container handling equipment at berth numbers 3, 4, 5, 7 and 8 of Netaji Subhas Dock at SMP till November 2024. SMP is a major port in eastern India, with good rail and road connectivity and access to the vast hinterland in eastern and north-eastern India and countries like Nepal and Bhutan.

**Favourable long-term demand outlook** – Although the containerisation of cargo at Indian ports improved during the last few fiscals, it remains low compared with developed countries. Therefore, the long-term demand prospects for containerisation in India remain favourable.

**Financial risk profile characterised by healthy capitalisation**– The financial risk profile is characterised by healthy capitalisation. Further, despite the moderation in the operating profit margins (OPM) in FY2022 impacting the coverage indicators, ICRA expects the coverage indicators to be comfortable with an improvement in OPM, going forward. The increase in volume throughput and absence of any major O&M is likely to support the recovery in OPM. The OPM impact in FY2022 was due to a one-time major O&M and consequent unavailability of equipment.

The company continued to witness an improvement in the gearing, which stood at 0.1 times as on March 31, 2022 and 0.2 times as on March 31, 2021 compared with 0.3 times as on March 31, 2020 on the back of scheduled repayments as well as healthy accruals. The interest cover was also comfortable at 7.7 times in FY2022 and 8.7 times in FY2021 compared to 6.4 times in FY2020.

### Credit challenges

**Suboptimal usage of equipment** – The tariff has been fixed by SMP in the contract for a 10-year period with a limited escalation provision for inflation and price adjustment for fuel price movement. The current revenue/TEU is much lower than the maximum revenue/TEU possible, mainly on account of the volume mix (20-ft/40-ft/ load/empties, RST/RTG and MHC/nonMHC mix) handled at SMP, which is not under the control of BKCT as it is a captive service provider. It is further impacted by the sub-optimal utilisation of certain equipment (RTGs) because of yard congestion and other issues at the port.

**Ongoing disputes with SMP; favourable arbitration outcome for some claims** – BKCT had earlier initiated arbitration proceedings against SMP to address the losses arising from the port's inability to address the yard congestion issue. The company has also raised a dispute regarding the methodology used by SMP to calculate some of the performance measures, using which SMP has made some deductions citing underperformance. In FY2018, BKCT initiated separate proceedings against SMP, contesting the handling of some empty containers by third parties at the other berths of NSD, citing violation of its exclusivity. The disputes led to a build-up of receivables due to partial deductions by SMP. However, in March 2020, the company received a favourable arbitration outcome for some of the disputes.

**Dependence on Central subsidy for periodic dredging at SMP** – Being a riverine port, SMP faces draft issues due to siltation and requires periodic dredging to maintain navigability. The port is dependent on an annual Central subsidy for dredging and

a reduction in the same could severely impact the operations and volumes at the port. However, considering the strategic importance of the port, such a reduction is not anticipated in the near term. However, in FY2021, for a few months, traffic was diverted from Kolkata Dock System (KDS) to Haldia Dock Complex due to draft issue faced by KDS, which also had some impact on BKCT's volumes.

**Potential competition from new ports** – Several new ports/terminals are planned to be set up in the vicinity of SMP, which may result in increased competition. However, the plans are still in the initial stage and given the long gestation period for such projects, post finalisation, no risk is expected in the near to medium term.

### Liquidity position: Adequate

The liquidity position is expected to remain adequate, supported by expected cash accruals and no major capex plans. BKCT has repayment obligations of Rs. 6.4 crore in FY2023 and Rs. 8.6 crore in FY2024. BKCT also enjoys a healthy financial flexibility with lenders due to its parentage and its strategic importance as one of the four container terminals of the Group in India. ICRA expects the parent to provide financial support to the company, should the need arise.

### Rating sensitivities

**Positive factors** – The ratings may be upgraded if the volumes and revenues witness significant growth on a sustained basis coupled with an improvement in the profitability and liquidity position.

**Negative factors** – The ratings may be downgraded if the volumes and revenues witness a substantial decline on a sustained basis or the margins reduce further. Pressure on the ratings may also arise on a stretch in the working capital intensity, leading to liquidity pressure, or weakening of the linkages with the PSA Group.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Parent/Group Company: PSA International Pte Ltd. through PSA Bharat Investments Pte. Ltd. and PSA India Pte Ltd.  The ratings factor in the implicit support of the PSA Group and ICRA expects it to be willing to provide financial support to BKCT, if needed, given BKCT's strategic importance as one of the four container terminals of the Group in India. The ratings also consider the company's financial flexibility with lenders by virtue of the strong parentage
Consolidation/Standalone	The rating is based on the standalone financials of the company.

### About the company

Bharat Kolkata Container Terminals Private Limited (BKCT) is a special purpose vehicle (SPV), incorporated on April 1, 2014, to supply, operate and maintain container handling equipment at berths 3, 4, 5, 7 and 8 of Netaji Subhas Dock at SMP. The SPV is held by PSA International Pte Ltd. of Singapore (PSA) through its subsidiaries. The contract period is for 10 years and the company has to deploy and operate the required equipment. This includes four mobile harbour cranes and four rubber tyre gantry cranes, which are owned by BKCT, and at least nine reach stackers and 30 tractor trailers, which are leased by the company. Apart from the equipment mentioned above, the company is required to provide manpower for (a) vessel operations like loading/unloading of containers and transport between the quay and the yard, and (b) yard operations like yard planning, loading/unloading of containers and transport between the yard and the CFS. The accepted rate/TEU has been fixed by SMP for the contract period, with price escalation and fuel adjustment factors, and is the maximum rate that can be charged per fully loaded container. BKCT commenced its commercial operations in November 2014. The company handled throughput of 0.56 million TEUs in FY2022 (PY: 0.53 million TEUs).

### Key financial indicators (audited)

	FY2021	FY2022 (Prov.)
<b>Operating income</b>	65.5	64.5
<b>PAT</b>	0.6	-8.9
<b>OPBDIT/OI</b>	22.6%	11.6%
<b>PAT/OI</b>	0.8%	-13.8%
<b>Total outside liabilities/Tangible net worth (times)</b>	0.4	0.4
<b>Total debt/OPBDIT (times)</b>	1.4	1.3
<b>Interest coverage (times)</b>	8.7	7.7

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
								July 29, 2022
1	Term loans	Long term	15.0	15.0	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	-
2	Non-fund Based facilities	Long term/ Short term	15.0	--	[ICRA]A(Stable)/[ICRA]A1	[ICRA]A(Stable)/[ICRA]A1	[ICRA]A(Stable)/[ICRA]A1	-
3	Interchange able	Long term and short term	-	-	-	[ICRA]A(Stable)/[ICRA]A1	[ICRA]A(Stable)/[ICRA]A1	-
4	Unallocated limits	Long term	50.0	-	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Non-fund based facilities	Simple
Unallocated limits	Not applicable

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 analysing 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 are available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	July 2022	NA	January 2024	15.0	[ICRA]A(Stable)
NA	Non fund based facilities	NA	NA	NA	15.0	[ICRA]A(Stable)/[ICRA]A1
NA	Unallocated limits	NA	NA	NA	50.0	[ICRA]A(Stable)

**Source:** Company

### Annexure II: List of entities considered for consolidated analysis

Not applicable

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