July 25, 2024

Kakinada Seaports Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based – Cash credit	10.00	25.00	[ICRA]A- (Stable); reaffirmed
Long term – Unallocated facilities	25.00	0.00	-
Short term – Non-fund based facilities	165.00	175.00	[ICRA]A2+; reaffirmed
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of Kakinada Seaports Limited (KSL) factors in the operating strengths of the Kakinada Deep Water Port (KDWP), including its advantageous location and all-weather conditions, its strategic proximity to the KG basin that results in high-margin offshore supply vessel (OSV traffic) and the tariff flexibility. ICRA also takes into consideration KSL's strong financial risk profile, characterised by stable revenues, healthy operating margins, comfortable gearing and debt protection metrics. KDWP also has the benefit of a well-developed primary industrial hinterland, which gives it assured volumes of captive cargo, namely, fertiliser raw materials (FRM), crude edible oil, and raw and bagged sugar.

The ratings are, however, constrained by the sizeable advances extended to third-party entities which are estimated to be ~56% of the net worth as on March 31, 2024. KSL extended inter-corporate deposits (ICDs)/inter-corporate loans (ICLs) of Rs. 1,068.53 crore as on March 31, 2024, up from Rs. 872.89 crore as on March 31, 2023. Any further increase in the advances and the recoverability of the same, as and when due, will remain a key rating sensitivity.

The ratings are also constrained by the vulnerability of the cargo volume to the broader economic trend and the commodity demand cyclicality. ICRA also notes the high competition for bulk cargo on the eastern coast. The competition is expected to intensify with the development of a third commercial port at the Kakinada special economic zone by Aurobindo Realty & Investments Pvt Ltd. Nevertheless, the risk is partly mitigated by KSL's tie-ups with major cargo handling agents and the lead time for setting up a new port.

KSL has also extended corporate guarantee to the debt availed by Kalinga International Coal Terminal Paradip Private Limited (KICTPPL), along with the other JV partners, where the partners are severally liable to discharge their respective obligations in case of default. The corporate guarantee extended is expected to reduce significantly with the release of 90% of this CG by the consortium lenders in the current financial year.

The Stable outlook on the long-term rating reflects ICRA's opinion that KSL's revenues and profitability is expected to remain healthy in the near to medium term, supported by benefits arising from the port's favourable location, a diversified cargo profile and its tie up with major cargo handling agents.

Key rating drivers and their description

Credit strengths

Favourable location and all-weather port conditions support operational performance – The Kakinada Deep Water Port (KDWP) is a non-major port on the eastern coast of India in Andhra Pradesh. The deep water port has the natural advantage offered by the Godavari sand spit (Hope Island), further enhanced by the construction of a short island breakwater of 1,050-metre length. As a result, the port enjoys tranquil weather conditions, enabling smooth vessel movement throughout the year and is not prone to cyclonic or monsoon-related disruptions that are common on the eastern coast. Moreover, its strategic proximity to the KG basin ensures high-margin offshore supply vessel (OSV traffic).

Established hinterland – KDWP has the benefit of a well-developed primary industrial hinterland, which gives it assured volumes of captive cargo. The cargo includes fertiliser raw materials (FRM) for the manufacturing facilities of Coromandel International in Kakinada that make diammonium phosphate (DAP); crude edible oil imported by the various refineries in Kakinada; and the import of raw sugar and export of bagged sugar from sugar refinery of the Murugappa Group-owned EID Parry (India) Ltd. A well-established multi-modal connectivity by road, rail and pipelines (for liquid cargo) for cargo evacuation further supports the port's competitive positioning. Apart from the core port operations, Kakinada has been the hub of action for the last few years as a transit base for exploration and production (E&P) majors prospecting oil and gas in the KG basin and this business has resulted in high-margin income from the OSV traffic.

Healthy financial risk profile – The financial risk profile of the company remains healthy. The operating income declined slightly to Rs. 706 crore in FY2024 from Rs. 726 crore in FY2023 because of the decrease in revenues in the OSV segment. However, the operating income is expected to improve in FY2025. The throughput volumes increased to 17.93 million tonnes in FY2024 from 16.20 million tonnes in FY2023 owing to increased demand. The operating profitability remained healthy in the range of 50-60% in the last three years. The capital structure remained comfortable with a gearing of 0.14 times as on March 31, 2024. The company does not have external debt as on March 31, 2024. The interest coverage ratio has been healthy at 13.37 times for FY2024.

Credit challenges

High investments and ICDs/ICLs to unrelated parties – The company extended ICDs/ICLs of Rs. 1,068.53 crore as on March 31, 2024 to third-party corporate groups, up from Rs. 872.89 crore as on March 31, 2023 which was Rs. 535.04 crore as on March 31, 2022. The ICDs/ICLs are estimated to be ~56% of the net worth as on March 31, 2024. The investment has also increased to Rs. 184.56 crore as on March 31, 2024 from Rs. 169.17 crore as on March 31, 2023. Any further increase in the advances and the recoverability of the same, as and when due, will remain a key rating sensitivity.

Cargo vulnerable to broader economic trend and commodity demand cyclicality – KSPL handles a mix of bulk cargos like fertilisers (~18-20% of sales), followed by coal, alumina and sugar. The remaining revenue is driven by granite block, edible oil, diesel, sulphuric acid, etc. The cargo handled and, consequently, the financial performance remains vulnerable to the broader economic trend and its impact on export/import traffic at the ports and the demand cyclicality for specific commodities.

High competition from existing and upcoming ports – KSPL faces intense competition, particularly for bulk cargo such as coal and iron ore, on the eastern coast due to the presence of a number of major ports such as Visakhapatnam, Ennore and non-major ports such as Krishnapatnam, Gangavaram and Dhamra. The competition is expected to intensify with the development of a third commercial port at the Kakinada special economic zone by Aurobindo Realty & Investments Pvt Ltd. Nevertheless, the risk is partly mitigated by KSPL's tie-ups with major cargo handling agents and the lead time for setting up a new port. Nonetheless, the risk is partly mitigated by some protective factors for KSPL such as competitive tariffs attributable to its depreciated asset base; a well-established hinterland offering assured demand for certain cargoes, tie-ups with cargo handling agents and a well-established multi-modal connectivity. Further, the new port project will entail significant lead time for the construction and commencement of operations and no near-term impact is expected.

Liquidity position: Adequate

KSL's liquidity position is expected to be adequate with healthy cash flow from operations, free cash and bank balances and liquid investments of ~Rs. 173.00 crore as on June 30, 2024, and comfortable buffer in the working capital limits from banks. KSL has nil debt repayment obligations and minimal capex plans in the future, which are expected to funded from internal accruals.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company reduces/recovers its investments in unrelated companies in a timely manner. Further, a considerable increase in the overall cargo throughput from the current levels on a sustained basis would lead to a sustained improvement in profitability and return indicators and could result in an upgrade.

Negative factors – Pressure on KSPL's ratings may arise if there are any large write-offs on unrelated investments or significant increase in advances extended to third parties, or any large dependence on the debt-funded capex that may impact the credit profile or liquidity. Further, any significant reduction in cargo volumes, lowering the revenue and profitability on a sustained basis, would deteriorate the credit metrics and exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Ports
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken the standalone financials of KSL. ICRA has also considered the corporate guarantee given to the SPV, KICTPL. ICRA has also taken into cognisance the presence of other JV partners who, along with RSHPL, are jointly and severally liable to discharge the guaranteed obligations in case of default

About the company

Kakinada Seaports Limited (KSPL; the company), incorporated on December 16, 1998, is an SPV engaged in the operation of the Kakinada Deep Water Port (KDWP) in Andhra Pradesh, under a concession agreement with the Government of Andhra Pradesh (GoAP) which is valid till March 2029 with an option to extend in two blocks of 10 years each. The revenue share with the GoAP is 22%. The port handles a mix of bulk, break bulk, liquid and project cargo, in addition to providing port services to offshore supply vessels (OSV) and other vessels.

As per the current shareholding structure, Aurobindo Reality and Infrastructure Pvt. Ltd. holds 41.12% in KSPL. Besides this, Konsortium Ports Pte Ltd holds a 17.35% stake and V.R. Investments (a group of NRIs) holds 30% which are held by relatives and friends of Mr. K. V. Rao. The other promoter group - South India Infrastructure Development Co. Pvt Ltd - holds the balance 11.13%. KSPL's operations are headed by Mr. K. V. Rao as its Chairman and Managing Director.

In March 2021, Hyderabad-based Aurobindo Realty & Investments Pvt Ltd acquired a 41.12% stake in Kakinada Infrastructure Holdings Pvt. Ltd (Mr. K. V. Rao was the major shareholder). Post the acquisition, Mr. Rao continues to be the Chairman and Managing Director.

Key financial indicators (audited)

	FY2023	FY2024*
Operating income	726.17	705.95
PAT	242.03	291.07
OPBDIT/OI	60.5%	59.2%
PAT/OI	33.3%	41.2%
Total outside liabilities/Tangible net worth (times)	0.24	0.22
Total debt/OPBDIT (times)	0.57	0.63
Interest coverage (times)	18.64	13.37

*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*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025 July 25, 2024	Date & rating in FY2024 May 16, 2023	Date & rating in FY2023 April 29, 2022	Date & rating in FY2022 -
1	Cash credit	Long term	25.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A (Negative)	-
2	Unallocated limits	Long term	0.00	-	[ICRA]A-(Stable)	[ICRA]A (Negative)	-
3	Non-fund based facilities	Short term	175.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Short-term – Non-fund based facilities	Very Simple

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term fund-based – Cash credit**	NA	NA	NA	25.00	[ICRA]A-(Stable)
NA	**Short -term – Non-fund based facilities**	NA	NA	NA	175.00	[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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