

August 14, 2024

## Chennai International Terminals Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term, non-fund based - Working capital facilities	98.00	98.00	[ICRA]A1; reaffirmed
Short term, unallocated limits	2.00	2.00	[ICRA]A1; reaffirmed
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	

### Rationale

The rating reaffirmation takes into consideration the strong parentage of Chennai International Terminals Private Limited (CITPL), which is owned by PSA International Pte. Ltd. (PSA, rated Aa1/Stable by Moody's). CITPL has a long track record of operations with financial and operational support from PSA, which is one of the largest container terminal operators in the world. CITPL had availed an external commercial borrowing (ECB) facility from PSA few years ago to support its capex requirements. The ECB repayment is due in December 2024, which is likely to be either rolled over or refinanced, and the resulting impact on the coverage metrics would be a key monitorable. The rating also factors in the terminal infrastructure and advantages of Chennai port and the favourable long-term demand prospects of containerisation in India. ICRA also notes CITPL's low working capital intensity, given the high creditor days and low debtor days.

CITPL's container volumes witnessed some improvement in FY2024 with higher number of containers from the existing clientele. The company has also inducted new clients in FY2025. The throughput levels, and hence the financial performance, remain susceptible to competition from another terminal at Chennai port as well as from other container terminals at the Kattupalli and Kamarajar (Ennore) ports, which have been ramping up their marketing efforts in recent years, and the overall growth in container volumes in the Chennai cluster. The actual impact of the competition will depend on the overall traffic growth in the region and the competitors' ability to absorb additional capacities. 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 a large hinterland with a diverse manufacturing base. Moreover, efforts are underway to revive some of the projects, like the Maduravoyal elevated highway to reduce the congestion outside the Chennai port which has faced significant delays and any developments on the same will be monitored.

The rating also notes the high revenue share payable by CITPL to ChPA (45.801% of CITPL's gross revenues), which adversely impacts its profitability vis-à-vis the competing terminals. CITPL doesn't have the flexibility to determine its own tariff rates as it was set up by the Tariff Authority for Major Ports (TAMP) and it is following the TAMP 2019 guidelines. However, for new PPP terminals, the tariff setting may be done by the port authority itself with the enactment of the Major Port Authorities Act 2021. The company has an ongoing legal dispute with TAMP over the regulator's decision to cut the tariff by 12.23% in March 2012. CITPL had received an interim stay from the high court and continued to operate at old tariff levels before moving to the new tariffs under the 2019 TAMP guidelines in January 2020. At present, there is status quo on this dispute, but the contingent liability related to this has now been capped at the amount outstanding during the transition to the new tariff regime. Any unfavourable outcome would have an adverse impact on the terminal's cash flows and liquidity profile. Further, ICRA notes the favourable outcome on the lease-related disputes with ChPA, reducing the overall contingent liabilities as on March 31, 2024.

## Key rating drivers and their description

### Credit strengths

**Strong support from parent 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 the liners. CITPL's board of directors has representation from PSA; the key managerial personnel are appointed by PSA for support and oversight. CITPL had availed an external commercial borrowing (ECB) facility from PSA a few years ago to support its capex requirement.

**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 seven twin lift quay cranes ensure better productivity and access to the rail terminal. CITPL has so far been able to meet all the operational conditions set in the licence agreement (LA), such as minimum traffic and mainline vessel calls. The 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, the 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. 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 upshoots, such as an increase in coastal and transshipment cargo due to policy initiatives, will aid a higher-than-projected volume growth from Exim trade in the long term.

### Credit challenges

**Higher revenue share and tariff risks** - CITPL has to pay a high revenue share of 45.801% of its gross revenues to ChPA, which adversely impacts its profitability vis-à-vis the competing terminals. ICRA notes that during the tariff ruling by TAMP in 2012, the regulator cut the tariff by 12.2% against a tariff hike request by CITPL. While CITPL got an interim stay from the high court and continued to operate at the old tariff levels, it shifted to the new tariff regime under TAMP 2019 guidelines in January 2020. The contingent liabilities arising out of the TAMP disputes, which have been increasing in the last few years, have now been capped at an amount outstanding as on the transition date. However, there is status quo 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 capital structure is characterised by high gearing, comprising ECB from the parent. The ECB's repayment is due in December 2024, which is likely to be rolled over or refinanced, and the resulting impact on the coverage metrics would be a key monitorable. ICRA notes that in the near to medium term, the company will undertake capex to refurbish the cranes, which is expected to be funded from internal accruals. However, any debt funding towards the purchase would put pressure on the capital structure and coverage indicators.

**Competition from other terminal and ports** - The company faces high competition from other terminals in the Chennai port and other ports along the eastern coast of South India. The company also faces competition from other terminals at the Kattupalli and Kamarajar (Ennore) ports in the vicinity. CITPL's throughput levels remain susceptible to the overall volume growth of the port. The containers handled increased to 0.85 million TEUs in FY2024 from 0.81 million TEUs in FY2023 despite the competition owing to higher volumes by the existing clientele. Further, congestion on the roads from the port to the city outskirts has also been a constraint. Nonetheless, the impact of competition from other ports on the eastern coast 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 a large hinterland with a diverse manufacturing base. Further, PSA's strength in the market and its relationship with the liners also partly mitigates 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

The company's liquidity profile has been adequate, supported by cash & liquid investments of ~Rs. 64.31 crore as on March 31, 2024, of which ~Rs. 15 crore is the margin against bank guarantee. CITPL has debt outstanding of ~Rs. 240 crore from the parent as on March 31, 2024. The free cash flow remained healthy in FY2024 and is expected to remain positive over FY2025-2027. The company incurred ~Rs. 10-crore capex in FY2024, funded through internal accruals. The RTGs are expected to be refurbished in FY2025 and FY2026 at a total cost of ~Rs. 75 crore, expected to be funded via internal accruals.

## Rating sensitivities

**Positive factors** – The rating can be upgraded if there is any significant improvement in the company's revenues and profitability margins, backed by growth in throughput on a sustained basis, leading to sustained improvement in RoCE.

**Negative factors** – The rating could be downgraded if the revenue and profitability decline due to a significant reduction in the throughput or tariffs, or if the interest cover/DSCR deteriorates on a sustained basis. The rating could also witness downward pressure if a large debt-funded capex puts pressure on the capital structure or an unfavourable verdict in the ongoing litigation leads to the devolvement of contingent liability, consequently putting pressure on the company's liquidity profile.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Ports</a>
Parent/Group support	Parent/Group Company: PSA International Pte Ltd.  The rating factors in the implicit support of the parent - PSA International Pte Ltd - and ICRA expects it to be willing to provide financial support to CITPL, if needed, given CITPL's strategic importance as one of the four container terminals of the Group in India. The rating also considers the company's financial flexibility with lenders by virtue of its strong parentage
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 the Chennai port. 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. In March 2007, CITPL entered into a 30-year, build-operate-transfer (BOT) licence agreement with Chennai Port Authority (ChPA) 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 licence period. Commercial operations at the terminal began from September 2009; the company handled 0.85 million TEUs in FY2024. The yard capacity is 1.25 million TEUs per annum.

## Key financial indicators

CITPL	FY2023	FY2024*
Operating income	311.7	351.7
PAT	-3.9	7.9
OPBDIT/OI	22.3%	23.6%
PAT/OI	-1.3%	2.2%
Total outside liabilities/Tangible net worth (times)	3.3	2.5
Total debt/OPBDIT (times)	4.5	2.9
Interest coverage (times)	2.5	2.8

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 (FY2025)			Chronology of rating history for the past 3 years					
	Type	FY2025		FY2024		FY2023		FY2022	
		Amount rated (Rs Crore)	Aug 14, 2024	Date	Rating	Date	Rating	Date	Rating
Working capital facilities	Short Term	98.00	[ICRA]A1	June 13, 2023	[ICRA]A1	-	-	March 31, 2022	[ICRA]A1
Unallocated limits	Short Term	2.00	[ICRA]A1	June 13, 2023	[ICRA]A1	-	-	-	[ICRA]A1
Term loans	Long Term	-	-	-	-	-	-	-	[ICRA]AA(CE) (Stable); Withdrawn

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term – Non-fund-based working capital	Very Simple
Short-term – Unallocated limits	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 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
-	Bank guarantee	NA	NA	NA	98.00	[ICRA]A1
-	Unallocated limits	NA	NA	NA	2.00	[ICRA]A1

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

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