

September 18, 2024

Kamarajar Port Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Tax-free bonds	297.69	297.69	[ICRA]AA-(Stable); Reaffirmed
Long-term – Tax-free bonds	119.50	0.00	[ICRA]AA-(Stable); Reaffirmed and Withdrawn
Total	417.19	297.69	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the strategic importance of ChPA and its subsidiary, KPL, as they are among the 12 major ports in India. It also reflects the sovereign ownership of ChPA, which is under the direct administrative control of the Ministry of Shipping (MoS), Government of India (GoI).

The rating also factors in the tariff flexibility available to both ChPA and KPL after the notification of the Major Ports Authority Act (MPAA), 2021. Previously, Chennai port's tariff was regulated by the Tariff Authority for Major Ports (TAMP), which restricted the pricing flexibility (KPL was already outside the purview of TAMP, giving it pricing flexibility).

The rating considers the diversified share of cargo, with the ports handling coal, petroleum, oil and lubricants (POL), automobiles, containers and others. Coal remains the major cargo handled at KPL, while POL products are primarily handled at ChPA, apart from the containers handled at both ports. The container terminals at ChPA and KPL are operated by reputed global and domestic port logistics players, with revenue-sharing and minimum guaranteed volume clauses in their contracts. Together, the two ports accounted for ~24% of India's container share in FY2024.

The rating factors in the increasing volumes at KPL (growth of ~4% YoY) and ChPA (growth of ~5% YoY). KPL's volumes are expected to increase further with the completion of dredging, general cargo berth-I (GCB-I) bidding, the takeover of Sical Iron Ore terminal and completion of other capital expenditures. Meanwhile, ChPA's volumes are expected to remain stable in the near to medium term. The rating also factors in the vast industrial hinterland catered to by the two ports and the operational synergies between the ports.

The rating remains constrained by the impact of the debt undertaken by ChPA to acquire KPL, affecting the capital structure and debt coverage indicators of the consolidated entity. ChPA availed a Rs. 1,775-crore debt in FY2020 to acquire KPL for Rs. 2,380 crore. In view of the limited cash generation from operations, ChPA's debt will be serviced by dividend payments from KPL, although its liquidity profile is supported by a 15-year repayment tenure.

ChPA also maintains a 3-month DSRA for debt servicing, and all dividend payments from KPL are routed through an escrow account for the same purpose. Further, the high pension obligations and salary expenses at ChPA constrain the profit margins of the consolidated entity. ICRA notes that ChPA's standalone adjusted net worth remained negative until FY2023 due to the large unfunded pension and other retirement liabilities, weakening the consolidated entity's net worth. In FY2024, the net worth turned positive with the reduction in pensioners and employees; however, the recent 8.5% wage increase following a trade union strike will negatively impact profits and the net worth position in the near-to-medium term.

Further, there is high competition and overcapacity in the container segment at the Chennai cluster. However, the risk is partly mitigated by captive customers in certain cargo segments, as well as the minimum guaranteed volume commitments and revenue-sharing agreements with container terminal operators. ICRA also notes the congestion issues at ChPA, though the risk is expected to be mitigated in the medium term by the completion of some connectivity projects currently under

implementation. Chief among these is the double-decker flyover from the Chennai Port to Maduravoyal, which would facilitate the movement of heavy vehicles to and from the port at all times.

ICRA also notes the large amount of contingent liabilities in KPL's accounts due to the claims raised by one of the BOT operators. The appellate court's decision was against KPL, and KPL has since appealed to the high court by KPL. Any adverse developments would remain key monitorable.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion on the continued stability of operations with improving volumes expected at KPL and ChPA maintaining stable volumes owing to healthy demand in the Chennai cluster. Additionally, the consolidated entity will continue to benefit from the sovereign ownership of the parent entity and its strategic importance to the GoI, the favourable location of the ports, long-term revenue-sharing contracts with reputed global and domestic BOT concessionaries and the high captive cargo of KPL.

ICRA has reaffirmed and withdrawn the ratings of [ICRA]AA-(Stable) on the Rs. 79.5 crore tax free bonds of ISIN INE363O07053 and INE363O07087 and Rs. 40 crore which was yet to be placed, as the bonds were fully redeemed/there is no outstanding amount against the rated instruments. The rating was withdrawn in accordance with the policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strategic importance and Government linkages – ChPA, together with KPL, is strategically important to the GoI for the country's economic growth, as they are among the 12 major ports in India. The GoI earlier held a 66.7% stake in KPL, and the remaining was held by ChPA. In March 2020, ChPA acquired the GoI's stake in KPL, making it a wholly-owned subsidiary. The acquisition provided operational synergies in the form of lower competition and streamlined capacity planning. Further, ChPA is within the direct administrative control of the MoS with board representation from the ministry, the Department of Customs, the Government of Tamil Nadu (GoTN) and the Mercantile Marine Department, reflecting strong government linkages. ChPA has also received moderate financial support in the form of grants from the MoS to partly fund some of the capex programmes undertaken by the authority.

Favourable location of ports with adequate draft and access to large hinterland - Both Chennai and Kamarajar ports are all-weather ports located on the southeast coast of India, in the northeastern part of Tamil Nadu. Positioned along the international shipping route, both ports operate as attractive ports of call. Further, the draft available at the ports is adequate in the range of 13 to 18 metres, enabling them to accommodate bigger vessels with higher economies of scale, resulting in significant cost advantages for end users. Both ports have access to the vast hinterland of Tamil Nadu, and parts of Karnataka and Andhra Pradesh, handling a variety of cargo comprising containers, coal, liquid and break-bulk cargo.

The Chennai Port had traditionally been a bulk port, handling coal, iron ore, liquid and dry bulk, catering to the requirements of power generators, oil refineries and steel/ aluminium plants. However, after the commissioning of the container terminals in 2001 and 2009, along with the shift of coal and iron ore cargo to the Kamarajar Port in 2012, following the High Court's orders citing pollution and hazardous risks for citizens living near the port, ChPA has become predominantly a container handling port, while KPL mainly handles coal and other break-bulk cargo.

Diversified cargo handled with strong market position in container segment – The ports handle diversified cargo such as coal, petroleum, oil and lubricants (POL), automobiles, containers among others. Coal remains the major cargo handled at KPL, while for ChPA it is POL, apart from containers handled at both ports. The container terminals at ChPA and KPL are operated by reputed global and domestic port logistics players, with revenue-sharing and minimum guaranteed volume clauses in their contracts. Together, the two ports have a strong market position in the container segment, accounting for ~24% of India's container share in FY2024. Chennai International Terminals Private Limited and Chennai Container Terminals Private Limited operate the container terminals at ChPA, whereas Adani Ennore Container Terminal Private Limited handles the container terminal at KPL.

Credit challenges

Credit profile of consolidated entity impacted by large debt-funded acquisition of KPL - In March 2020, ChPA acquired the remaining 66.7% stake in KPL for Rs. 2,380 crore. The acquisition was funded through a debt of Rs. 1,775 crore and the remaining from internal resources, including cash and large advances from its customers. The acquisition provided operational synergies to ChPA by way of reducing the common expenses, lowering competition and streamlining capacity planning in Chennai. However, the large interest and principal obligations have exerted some pressure on the capital structure and the coverage indicators of the consolidated entity.

The repayments at ChPA are supported by the dividends received from KPL as the cash accruals generated at ChPA at a standalone level are insufficient to service the debt obligations. ChPA also maintains a 3-month DSRA account during the debt period. The repayment tenure is spread over 15 years with a ballooning structure, and the dividend payments from KPL will be routed through an escrow account. The financial profile of KPL has remained strong due to healthy profitability over the years, driven by its landlord port model and high revenue share from concessionaires. KPL paid a dividend of Rs. 240 crore for FY2024.

While ChPA's capex plans are largely limited to land acquisition, rehabilitation and resettlement (LARR) for the Port-Maduravoyal elevated road project, KPL has lined up a large capital expenditure of Rs. 325 crore in FY2025. This includes dredging, new berth projects, connectivity improvements and breakwater strengthening, all of which are expected to be funded through internal accruals.

As on March 31, 2024, KPL's contingent liability stood at Rs. 1,697.18 crore, majorly due to arbitration proceedings brought by a BOT operator citing various delays and changes in law. The contingent liabilities also include the claims raised by contractors towards contract/supply work. ICRA notes that the appellate tribunal judgement for the arbitration proceedings has been unfavourable for the company. It has appealed against the same to the high court. Any adverse developments in this case would remain key monitorable.

Profitability impacted by large pension liabilities and high employee expense of ChPA – ChPA is one of the oldest operating major ports in India. At the standalone level, it has a large employee base of 2,828 and 13,426 pensioners as of March 2024. The large annual employee and pension expenses adversely impact the operating profitability of the consolidated entity. In addition, the large total deficit position of Rs. 2,039.71 crore as of March 2024 in the pension, leave encashment and gratuity funds of ChPA (compared to actuarial estimates of liabilities) necessitates regular contribution from the P&L account to these funds, which further impacts the operating profitability. However, for FY2024, the net worth position, adjusted for the deficit, has turned positive with pension liabilities declining on account of a reduction in pensioners. Nevertheless, the recent 8.5% wage increase is expected to impact the entity's profitability. Although the pension payment to retirees and the employee expenses are expected to moderate gradually in the medium to long term, ChPA's deficit position in the pension fund is likely to continue over the next 10-15 years and gradually reduce upon the regular contribution from the revenue account.

High competition and cargo volatility - ChPA and KPL face competition from other ports in the vicinity, such as the Kattupalli and Krishnapatnam ports. Nonetheless, the risk is mitigated for the consolidated entity by expected synergies, presence of captive cargo (like Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) for KPL and Chennai Petroleum Corporation Limited (CPCL) for ChPA) and the long-term contracts with reputed domestic and global container terminal operators with minimum guaranteed volumes and revenue-sharing agreements. Further, with coal accounting for ~53% of KPL's cargo, the port's performance and the consolidated entity remain susceptible to fluctuations in coal demand.

Congestion issues - ChPA faces congestion issues, which impact cargo evacuation from the ports and, in some cases have also led to cargo diversion to competing ports. However, this congestion is expected to reduce over the next few years upon the completion of road connectivity projects that are currently under construction.

Liquidity position: Adequate

At a consolidated level (including ChPA), the cash flows improved in FY2024 and are expected to improve further in FY2025 and FY2026, aided by higher volumes and the healthy profitability of KPL. The debt repayments are ~Rs. 125 crore in FY2025 and ~Rs. 139 crore in FY2026. There is a large capex requirement of ~Rs. 325 crore for KPL and minor capex requirements for ChPA in FY2025. However, the Group's liquidity profile is likely to remain adequate, supported by healthy fund flow from operations and unencumbered cash balances.

At the standalone level, KPL has a healthy track record of strong fund flow from operations, although the free cash flows were impacted by the large capex incurred and the dividend paid. The company has a large capex plan in the near term, with a large dividend payment to ChPA (Rs. 240 crore in FY2024) and moderate repayment obligation of ~Rs. 33.01 crore in FY2025 and ~Rs. 28 crore in FY2026. However, the liquidity is expected to remain adequate, supported by unencumbered cash balances and liquid investments (~Rs. 20.8-crore cash and bank balances and ~Rs.80-crore term deposits as of March 2024).

Rating sensitivities

Positive factors – KPL's rating could be upgraded if the consolidated entity can demonstrate steady cargo growth, leading to higher revenues and cash accruals on a sustained basis, while maintaining profitability and a stable working capital intensity.

Negative factors – Pressure on KPL's rating may arise if the consolidated entity's financial profile weakens due to lower cash accruals with a significant drop in volumes or margins on a sustained basis, owing to competition or adverse economic trends. A larger-than-expected debt-funded capex weakening the liquidity profile will also affect the ratings. Moreover, a reduction in the sovereign ownership of the authority or dilution in strategic importance may trigger a downward rating revision. These apart, any adverse outcome regarding contingent liabilities would also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Ports Policy On Withdrawal Of Credit Ratings
Parent/Group support	Parent: Government of India (GoI) The rating derives comfort from the sovereign ownership of ChPA and its strategic importance to the GoI.
Consolidation/Standalone	For arriving at the rating, ICRA has taken a consolidated view of Chennai Port Authority and Kamarajar Port Limited. The rating is based on the consolidated financial profile of ChPA and KPL.

About the company

Kamarajar Port Limited:

Kamarajar Port Limited (KPL; erstwhile Ennore Port Limited), incorporated in 1999, is a major port located 24km north of Chennai. It was declared a major port under the Indian Ports Act in March 1999 and was the first major port to be incorporated under the Companies Act, 1956. The port was dedicated to the nation in February 2001 and commenced operations from June 2001 with two dedicated coal berths handling thermal coal for the power stations of Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). The Ennore Port was originally conceived as a satellite port to the Chennai Port, primarily to handle thermal coal to meet the requirements of TNEB (now TANGEDCO); subsequently, its scope was expanded to enable KPL to handle other cargo. The port largely functions under the landlord concept, wherein new terminals are developed through the BOT model by private operators. Earlier, the GoI held a 66.7% stake in KPL with the remaining stake held by ChPA. However, on March 27, 2020, ChPA acquired the entire stake from the GoI, and KPL became a wholly-owned subsidiary of ChPA.

Chennai Port Authority:

Formerly known as Madras Port, Chennai Port Authority (ChPA) officially commenced operations in 1881, although maritime trade started much earlier in 1639 on the undeveloped shore. An artificial and all-weather port with wet docks, Chennai port is the third-oldest port among the 12 major ports of India and is a major hub for containers, automobiles and project cargo in the eastern coast of India. While the port had traditionally been a bulk port catering to the needs of power generators, oil refineries and the steel/aluminium plants in the primary hinterland of southern India, it handled coal, iron ore, liquid and dry bulk as majority of its overall cargo mix. However, in the last decade, following a shift of coal and iron ore cargo to the Kamarajar Port and the commissioning of container terminals, the port has predominantly become a container handling port followed by liquid and other break-bulk cargo. At present, the port has two container terminals operating under the landlord concept, run separately by DP World Pvt. Ltd. and Singapore's PSA International Pte Ltd., with a combined capacity to handle 2.5 million TEUs a year. The port trust also functions as a terminal operator for some its berths handling general cargo, including liquid, dry bulk and break-bulk.

Subsequent to the Major Ports Authority Act, the Chennai Port Trust has been renamed Chennai Port Authority and the act vests the administration, control and management upon the board of ChPA.

Key financial indicators (audited)

KPL Standalone	FY2023	FY2024	Q1 FY2025
Operating income	982.72	1,062.22	243.38
PAT	373.50	495.68	107.3
OPBDIT/OI (%)	83.3%	83.4%	79.7%
PAT/OI	38.0%	46.7%	44.1%
Total outside liabilities/Tangible net worth (times)	0.33	0.30	-
Total debt/OPBDITA (times)	0.73	0.54	-
Interest coverage (times)	13.9	14.1	16.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Chennai Port Authority Consolidated	FY2023	FY2024 (Prov.)
Operating income	1,951.49	2,113.89
PAT	259.6	371.9
OPBDIT/OI (%)	39.7%	44.0%
PAT/OI	13.3%	17.6%
Total outside liabilities/Tangible net worth (times)#	4.27	3.01
Total debt/OPBDIT (times)	2.42	1.70
Interest coverage (times)	4.7	5.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

#TNW adjusted for deficit in pension liabilities #ChPA's books are maintained under the mercantile system (accrual basis) of accounting. The trust had formed the Pension Fund Trust and Gratuity Fund Trust as separate entities and the financial statements of these trusts are excluded from the financial statements of the Chennai Port Trust. While the pension payments for employees retired before November 2002 are recognised in the Chennai Port Trust account, the pension payments of employees retired after November 2002 are made through pension and gratuity funds. ICRA has consolidated all the three accounts and has adjusted the asset-liability position considering the corpus and liabilities of the pension and gratuity funds. Further, ICRA has treated the pension expenses and contribution to pension and gratuity funds as operating expense.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Sep 18, 2024	Date	Rating	Date	Rating	Date	Rating
Bonds	Long-term	297.69	[ICRA]AA-(Stable)	Sep 19, 2023	[ICRA]AA-(Stable)	Sep 20, 2022	[ICRA]AA-(Stable)	Sep 30, 2021	[ICRA]AA-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bonds	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
INE363O07046	Bonds	Mar 2013	7.17%	Mar 2028	11.71	[ICRA]AA-(Stable)
INE363O07061	Bonds	Mar 2014	8.75%	Mar 2029	72.41	[ICRA]AA-(Stable)
INE363O07079	Bonds	Mar 2014	8.75%	Mar 2034	18.71	[ICRA]AA-(Stable)
INE363O07095	Bonds	Mar 2014	9.00%	Mar 2029	119.25	[ICRA]AA-(Stable)
INE363O07103	Bonds	Mar 2014	9.00%	Mar 2034	75.61	[ICRA]AA-(Stable)
INE363O07053	Bonds	Mar 2014	8.36%	Mar 2024	35.06	[ICRA]AA-(Stable); reaffirmed and withdrawn
INE363O07087	Bonds	Mar 2014	8.61%	Mar 2024	44.44	
Yet to be placed	Bonds	Yet to be placed	NA	NA	40.00	

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	ChPA Ownership	Consolidation Approach
Kamarajar Port Limited	100.00% (rated entity)	Full Consolidation
Chennai Port Authority	-	Full Consolidation

Source: KPL annual report

Note: ICRA has taken a consolidated view of KPL and its parent Chennai Port Authority (100% ownership)

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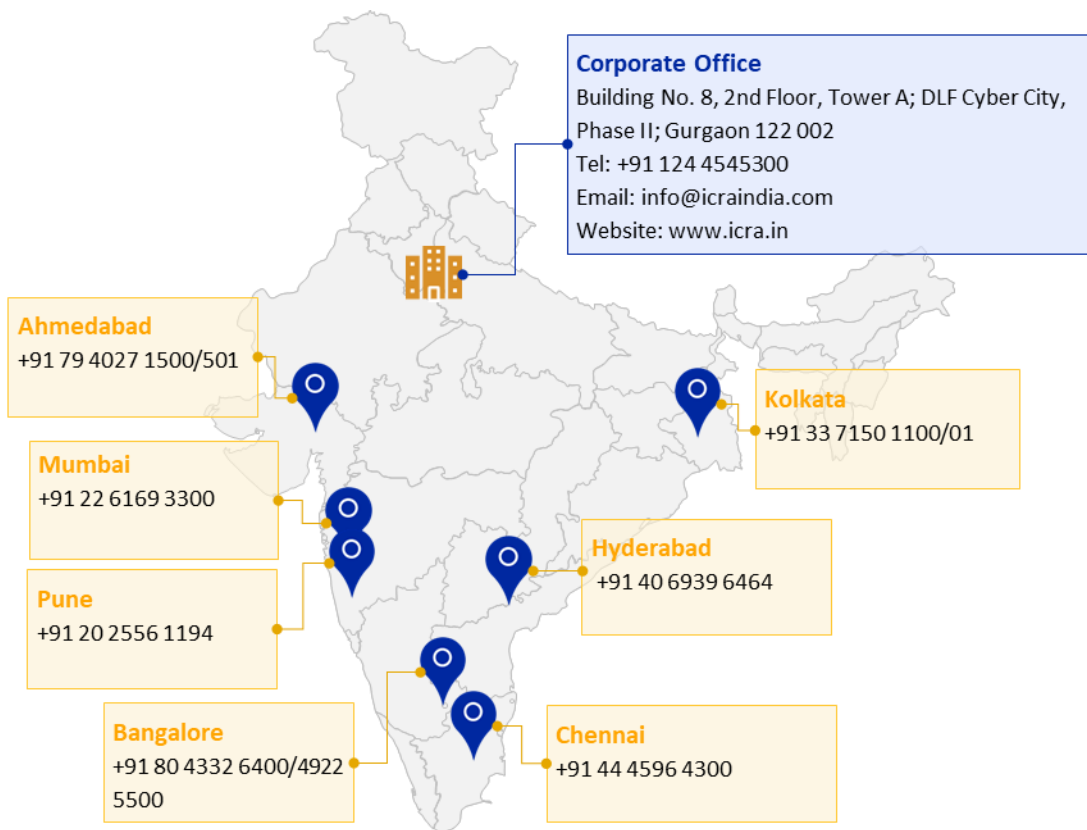
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