India Ratings & Research
A Fitch Group Company

India Ratings Assigns Adani Ports and Special Economic Zone's NCDs Final 'IND AA+'/Stable; Affirms Existing Ratings

23

SEP 2020

By Aashman Sharma

India Ratings and Research (Ind-Ra) has assigned Adani Ports and Special Economic Zone Limited's (APSEZ) non-convertible debentures (NCDs) a final rating of 'IND AA+'. The Outlook is Stable. The detailed rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AA+/Stable	Affirmed
Non-convertible debentures (NCDs) #^	-	-	-	INR9	IND AA+/Stable	Assigned
NCDs #	-	-	-	INR10.52	IND AA+/Stable	Affirmed
Commercial paper	-	-	365 days	INR67	IND A1+	Affirmed

#Details in Annexure

^The final rating has been assigned following the receipt of executed financing documents by Ind-Ra.

Analytical Approach: Ind-Ra continues to take a consolidated view of APSEZ and its subsidiaries while arriving at the ratings because of close strategic and operational linkages among them.

KEY RATING DRIVERS

Robust Business Profile: APSEZ is the largest private port developer and operator in the country with operations across 10 ports (nine operational) in India. It handled around 22% of the country's cargo volumes in FY20, up from about 10% in FY10, and is well positioned to benefit from structural growth in India's EXIM trade, as a predominant portion of its cargo originates from, or is destined for, India. The company has strategically located high-quality assets, with an average remaining concession life of 25 years (except Mundra port). Its diversified presence along the Indian coastline, along with hinterland connectivity, and its ability to handle a diverse mix of cargo (bulk, container, crude), together with long-term take or pay contracts with customers, insulates the business from most economic disruptions.

Mundra remains the company's largest port asset, accounting for around 62% of the consolidated volumes as of March 2020. However, according to the management, the concentration risk is likely to decrease with the ramping up of operations at the new ports (Hazira, Dhamra, and Katupalli), as well as through the acquisition of the Krishnapatnam Port Company Limited (KPCL) in January 2020. The company is also diversifying operations through its new port under construction in Myanmar. APSEZ maintained a market share of 20% in 1QFY21, supported by resilient container throughput.

Port Operations Likely to Improve: APSEZ's acquisition of KPCL will likely improve the company's business profile, backed by an improvement in market share and geographical & revenue diversification. While the financial profile may weaken in the near term, APSEZ's ability to turnaround KPCL's margin profile and refinance its high-cost debt by FY21 should strengthen the financial profile by FY22. KPCL, with a total capacity of 64 million metric tonnes per annum (mmtpa), is the second-largest private port in India after APSEZ's Mundra port. Post the acquisition, APSEZ's market share of pan-India cargo volume will increase to 27% from 22%. APSEZ has a dominant presence in the west coast through its Mundra port. KPCL fills a gap in APSEZ's geographic spread, allowing it clear access to Andhra Pradesh, Telangana and Karnataka. Furthermore, KPCL's strong revenue generation (FY19: INR23.9 billion; FY18: INR19.6 billion) allows APSEZ to reduce its dependence on the Mundra port. The transaction would also improve overall cargo diversification through improving coal volumes, as well as increased handling of export containers from the region.

Volume Growth to Remain Steady: APSEZ's overall cargo volumes grew 7.3% yoy to 223 million metric tonnes (mmt) in FY20 (FY19: 208mmt), led by stable growth in coal, container and crude volumes. The commencement of operations at the Ennore port, coupled with strong growth at the Dhamra port, boosted overall volumes. Additionally, APSEZ recorded strong traffic in coal and crude on account of higher volumes from long-term contracts.

Ind-Ra expects robust coal demand and increased containerisation of cargo to support APSEZ's volumes in the medium term. Historically, APSEZ's volumes have grown faster than India's overall port volumes. Over FY15-FY20, APSEZ's volume grew at a CAGR of 9%, as against the overall port volume CAGR of 5%.

Due to COVID-19-led disruptions and the consequent constraints in the supply chain, cargo volumes fell roughly 28% yoy to 41mmt in 1QFY21. Furthermore, logistical challenges in relation to road evacuation could lead to issues in smooth cargo handling. However, the company has diverted much of its cargo towards railway evacuation; consequently, rail volumes grew 37% yoy in 1QFY21. Ind-Ra expects APSEZ's port volumes (excluding KPCL) and margins to remain flat year-on-year amidst the COVID-19 outbreak.

Net Leverage within Acceptable Parameters: Net leverage (debt less cash/operating EBITDA) remained stable at 2.9x in FY20 (FY19: 2.9x) even as net debt increased to INR221 billion (INR207 billion), as EBITDA increased to INR76 billion (INR71 billion). The slight increase in the net debt position was largely on account of forex mark-to-market movement in FY20. The company is looking to conserve liquidity in the short term on account of the COVID-19 crisis by reducing capex from INR40 billion to INR20 billion and taking cost optimization initiatives in FY21, while also carrying a high amount of cash on the balance sheet. The agency expects the net leverage to remain stable in the medium term, despite reduced capex, on KPCL's acquisition. APSEZ will continue to generate strong cash flows as well as monetise assets, should the opportunity arise, leading to stable credit metrics.

Free Cash Flow to Remain Positive: APSEZ incurred capex of INR36.2 billion in FY20 (FY19: INR29.4 billion), expanding capacities across all major ports, building up its liquefied petroleum gas and liquefied natural gas capabilities at the Mundra terminal, and expanding the logistics operations. APSEZ's free cash flows improved to INR66.5 billion in FY20 (FY19: INR34.4 billion), owing to robust operating cash flows. The company plans to incur lower-than-expected capex of INR20 billion in FY21 on account of the COVID-19 crisis. APSEZ will look to develop its Myanmar and Vizhinjam port capacities and expand its logistics offerings, curtailing capex that was expected to grow its existing port capacities. APSEZ's strong operational cash flows and internal accruals, coupled with an established track record of timely project completion, will mitigate some portion of the greenfield expansion risk in Myanmar; consequently, the company will continue to record positive free cash flow.

Liquidity Indicator - Adequate: APSEZ's comfortable liquidity is driven by the cash-generative nature of its operations, as reflected in positive cash flow from operations since FY13, along with cash, cash equivalents and liquid investments of roughly INR73 billion at FYE20. Ind-Ra believes APSEZ's strong financial flexibility in terms of its access to capital markets boosts its liquidity. The management's successful track record of refinancing its short-term debt with longer maturity debt, which is more commensurate with the asset profile of the company, lends additional comfort.

Continued Moderation in Related Party Transactions: Trade receivables from related parties were roughly INR9.2 billion in FY20. However, the bulk of receivables were from Adani Power Limited towards its coal handling charges. This amount reduced to INR3.9 billion in FY20 (FY19: INR4.2 billion). Ind-Ra derives comfort from the covenants in APSEZ's recently issued US dollar notes, which limit related-party transactions to entities that are directly involved with the company's core business. Furthermore, as of June 2020, the promoters have reduced their outstanding shares pledge to 29% of their holding as against 58% in March 2020. From FY16 to FY20, APSEZ's related-party exposure has consistently reduced. The agency notes that support to group entities remains a key rating monitorable.

Slight Moderation in Concentration Risk: The Mundra port remains the company's largest port asset, accounting for 62% of the consolidated volumes in FY20 (FY19: 66.1%), about 48% of the consolidated port revenue (60%) and 46% of consolidated port EBITDA (53%). However, the concentration risk moderated in FY20, following the ramp-up of operations at the new ports (Hazira, Dhamra, and Katupalli). Furthermore, the acquisition of KPCL should further reduce any concentration risk. The concession period of Mundra port will expire in February 2031. However, the original concession agreement dated February 2001 contains an option to extend the concession period.

Standalone Credit Profile: APSEZ recorded revenue of INR46 billion in FY20 (FY19: INR53 billion), and EBITDA of INR30 billion (FY19: INR37 billion). Its EBITDA margin fell to 65% in FY20 (FY19: 71%) due to increased operating expenses in FY20. The gross interest coverage (operating EBITDA/interest expenses) dropped to 1.7x in FY20 (FY19: 2.7x) on account of lower profitability.

RATING SENSITIVITIES

Positive: A positive rating action could result from the net leverage registering a significant improvement, and remaining at those levels over the medium term, and continued reduction in the related party exposure.

Negative: Net adjusted leverage increasing above 4.0x on a sustained basis and/or a substantial increase in the related party exposure will lead to a negative rating action.

COMPANY PROFILE

APSEZ is a part of the Adani Group, which has diversified presence across various businesses including energy, resources, logistics, agribusiness, real estate, financial services, and defence and aerospace. APSEZ is India's leading ports developer and operator with a total capacity (including joint ventures) of 410mmt at FYE20. It is also the approved developer of a multi-product special economic zone at the Mundra Port and its surrounding areas.

Apart from the Mundra Port, APSEZ has port operations at nine other locations – Dahej, Kandla, Hazira, Mormugao, Ennore, Kattupalli, Vizag, Dhamra and Vizhinjam. Furthermore, the company is expanding its presence in the logistics business, bolstering its end-to-end capabilities in the port and logistics business.

CONSOLIDATED FINANCIAL SUMMARY

Particulars (INR million)	**FY20**	**FY19**
Revenue	118,731	109,254
EBITDA	75,654	70,675
EBITDA margin (%)	63.7	64.7
Gross interest coverage (x)	4.2	5.1
Source: APSEZ, Ind-Ra		

RATING HISTORY

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Outlook**		
	Rating Type	**Rated Limits (billion)**	**Rating**	**5 June 2020**	**17 October 2019**	**11 September 2018**
Issuer rating	Long-term	-	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
Commercial paper	Short-term	INR67	IND A1+	IND A1+	IND A1+	IND A1+
NCDs	Long-term	INR19.52	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE742F07502	11 September 2020	6.5	11 September 2023	INR9	IND AA+/Stable
NCDs	INE742F07494	1 June 2020	7.25	1 June 2023	INR1	IND AA+/Stable
NCDs	INE742F07486	27 May 2020	7.25	26 May 2023	INR5	IND AA+/Stable
NCDs	INE742F07346	26 May 2016	9.35	26 May 2023	INR2	IND AA+/Stable
	INE742F07353			26 May 2026		IND AA+/Stable
NCDs	INE742F07361	4 July 2016	9.35	4 July 2026	INR2.52	IND AA+/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology
Cash Flow Measures in Corporate Analysis
Short-Term Ratings Criteria for Non-Financial Corporates

Analyst Names

Primary Analyst

Aashman Sharma

Analyst
India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block. Bandra Kurla Complex Bandra (East), Mumbai 400051
+91 22 40001783

Secondary Analyst

Abhishek Nigam

Associate Director
+91 22 40356194

Committee Chairperson

Abhishek Bhattacharya

Director and Head Large Corporates
+91 22 40001786

Media Relation

Ankur Dahiya

Manager – Corporate Communication
+91 22 40356121
