Visakha Container Terminal Private Limited

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	781.01 (Reduced from 853.74)	CARE A+ (RWD)	Placed on Rating Watch with Developing Implications
Long-term / Short-term bank facilities	63.35	CARE A+ / CARE A1 (RWD)	Placed on Rating Watch with Developing Implications
Short-term bank facilities	101.00	CARE A1 (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) placed ratings of Visakha Container Terminal Private Limited (VCTPL) on "Credit watch with developing implications" considering a filing of composite scheme of demerger ("**Scheme**") with National Company Law Tribunal, Mumbai ("**NCLT**") by its parent entity J M Baxi Ports and Logistics Private Limited (JMBPL; rated CARE A+ (RWD) / CARE A1 (RWD)) dated August 22, 2024. The transaction is subject to completion of certain corporate and regulatory approvals applicable for respective assets. The scheme has been filed in furtherance to certain transaction documents that JMBPL has executed with Hapag Lloyd Terminal Holding B.V. ("**HLTH**") (part of Hapag Lloyd Group (HLTH group)) for consummating a series of steps pursuant to which, HLTH becomes a shareholder of JMBPL.

Per the scheme, JMBPL proposes to demerge its container businesses (comprising container terminals, container train operations, inland container depot (ICD), container freight station (CFS) and related services) into a new entity J M Baxi Container Holdings Private Limited (JM Baxi Container, Resulting Company 1) and its corporate services division into another entity J M Baxi Port Services Private Limited (JM Baxi Port Services, Resulting Company 2) while retaining its other non-container businesses (comprising bulk terminal, cold chain, cruise terminal and services) into JMBPL. HLTH acquired 40% shareholding in JMBPL in FY24. Pursuant to the scheme and the transaction documents executed between JMBPL and HLTH, it is intended that (a) the Kotak Family (Promoters) and HLTH will hold 51% and 49% shareholding in JMBPL, (b) Promoters and HLTH will hold 50% shareholding, each in JM Baxi Port Services, and (c) Promoters and HLTH will hold 49% and 51% shareholding in JM Baxi Container.

The scheme also proposes continued extension of support structures by JMBPL and support to be extended by in JM Baxi Container towards the existing lending arrangements of the group entities for three years from its date of effectiveness. Specific implications of this scheme on risk profiles and financials of JMBPL and the demerged entities (including VCTPL) remain unclear. CARE Ratings shall be monitoring developments and take a view once more clarity emerges.

Reaffirmation of ratings assigned to bank facilities of VCTPL continue to factor in the strong promoter group with extensive experience and track record in maritime sector, and operational and financial linkages derived from JMBPL. The group including VCTPL is expected to derive business synergies from HLTH, one of the largest global container shipping companies, which acquired a significant stake in JMBPL in April 2023.

Ratings also derive strength from the operational track record of Visakha Container Terminal 1 (VCT-1) and a concession agreement (CA) entered with Visakhapatnam Port Authority (VPA) for 30 years. The company has also operationalised its Visakha Container Terminal 2 (VCT-2) in March 2022 by doubling its existing capacity with long tenor of debt and tail period, which suitably support debt coverage indicators.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Post moderation in FY23 due to higher ocean freights, container volume ramped-up in FY24. Utilisation improved from 50% in FY23 to 66% in FY24. This has led to revenue growth of 27% from FY23 levels, which with shift in cargos to VCT2 lower royalty payment, improving PBILDT Margin from 43% in FY23 to 56% in FY24. The terminal also derives benefit from favourable location and existing infrastructure of Visakhapatnam port (Major port) and favourable industry outlook.

However, rating strengths are tempered by leveraged capital structure due to debt-funded expansion, revenue volatility risk and presence of minimum guaranteed throughput (MGT) clauses with VPA, tariff regulation by Boards of Port Authority, high susceptibility to economic cycles, and competition from existing nearby ports on the eastern coast. However, risk is partly offset by strong track record of the promoter group, operational track record of VCT-1, and synergies expected from Hapag Llyod post the demerger, which is likely to sustain ramp-up of cargo volumes.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Achievement of envisaged cargo volumes and scale of operations thereby leading to improvement of debt coverage indicators.

Negative factors

- Reduction in throughput volume to below 60% in consistent basis.
- Any significant deterioration in the credit profile of the parent company, i.e., JMBPL.

Analytical approach: Standalone, factoring in financial and operational linkages with the parent company, JMBPL.

Outlook: Not applicable

Detailed description of key rating drivers:

Key strengths

Strong promoter group with business synergies

JMBPL is part of the J.M Baxi group, which has an established presence in the Indian maritime sector with over 100 years of experience and a diversified business profile with interests in shipping agency services, supply chain storage & offshore services, project logistics, freight forwarding, port infrastructure, including container & cargo terminal business and digital technologies. The group has demonstrated strong execution capabilities of port infrastructure assets and established track record of operations across the maritime industry. Promoters Krishna Kotak and Dhruv Kotak have vast experience of over three decades in the industry and have spearheaded the group's diversification and expansion from shipping agency service in early 1900s to one of India's largest maritime conglomerates.

In April 2023, HLTH acquired a 40% stake in JMBPL. HLTH is one of the leading global container shipping companies and this strategic acquisition is expected to result in operational synergies for JMBPL's existing terminals and newly awarded terminals. HLTH's comfortable financial and credit profile also strengthened financial flexibility for the group. For CY23, revenue and profit after taxes (PAT) of HLTH was €17,929 million and €2,951 million respectively with net worth of €18,767 million as on December 31, 2023.

Operational track record of VCT-1 and long-term concession, loan tenor supporting debt coverage

VCTPL entered a CA with VPA on September 11, 2002, to undertake the establishment, operation, maintenance and transfer of container terminal at Visakhapatnam Port. The CA is for 30 years commencing operations from June 26, 2003. In March 2022, VCTPL completed its expansion for VCT-2 with addition of capacity by 0.54 million twenty-foot equivalent (MTEUs) at a cost of ₹916 crore comprising debt of ₹687 crore and equity of ₹229 crore. The CA for VCT-2 is for 30 years with date of award of concession March 02, 2019, and operations commenced from March 08, 2022. Royalty payable under VCT-2 will be 11.06% of gross revenue against current fixed payment of ₹1100/TEU under VCT-1 terminal. This will entail a saving of approx. ₹500/TEU.

It has resulted in improved PBILDT margins in FY24. This long-term concession has been complemented by long-tenor debt financing of 15 years and ballooning repayment structure for VCT-2, which provides support to cash flows and debt coverage indicators.

Ramping-up of volume and performance in FY24

The terminal capacity utilisation until FY22 continued to remain healthy over 80%, dominated by export-import (EXIM) cargo. However, due to higher ocean freights in FY23 cargo growth remained flat with utilisation at ~50%. With easing rates in FY24 (driven by addition of containers by shipping liners), the terminal witnessed healthy growth in terms of EXIM, and costal and transhipment cargo, which resulted in utilisation of 66% for FY24. Income from cargo handling has also reported significant growth with Y-o-Y growth of 27% in FY24 against 9% growth in FY23. With shift in cargos to VCT2, which has lower royalty payment, improved rates and increased capacity, PBILDT margin improved drastically to around 56% in FY24 from 43% in FY23. Capacity utilisation further improved to 75% in Q1FY25 with company reporting revenue of ₹100 crore and PBILDT of ₹50 crore. VCTPL has the highest container capacity for JMBPL group at present and contributes ~18% of the consolidated revenue (for FY24) and 40% of earnings before interest, taxation, depreciation, and amortisation (EBITDA) of the JMBPL group.

Benefit of existing infrastructure of major port

VCTPL operates a sole Container Terminal at Visakhapatnam Port (major port), which is an all-weather port on the east coast of India. It has strategic location advantage of being midway of two other major ports, Chennai port with distance of around 800 km and Paradip port with distance of around 550 km. It is well-connected to its hinterland via a network of roadways and railways. Railway network at the port is one of the largest among Indian Ports with over 200 km rail length, over 30 Sidings and around 60% rail coefficient. It has also a well-established road connectivity to majority hinterland via road as Visakhapatnam falls on the golden quadrilateral. The port road connects to the NH16, which has direct connectivity from Kolkata to Chennai.

Favourable industry outlook

Overall cargo throughput at Indian ports is at its all-time peak at 1539 MMT for the financial year ended March 31, 2024, representing ~7% growth over FY23. With revival in economic activity, increasing demand and consumption of major commodities and declining shipping freights, traffic re-gained from FY22 and reported healthy compound annual growth rate (CAGR) of 7% for FY21-24.

Container volumes grew at healthy CAGR of 6% in India from FY20-22 indicating strong economic indicator despite COVID-19-related challenges. Container volumes grew at flat 3% in FY23 and witnessed healthy growth of 10% in FY24 due to strong recovery in EXIM trade despite the Red Sea crisis since November 2023. Rising disruption in the Red Sea region necessitated shipping liners to consider the alternative, longer route past the Cape of Good Hope. This has elongated transit time by 15-20 days and increased freight cost. However, capacity liners' willingness to increase capacity by earlier fleet renewal orders, which will be arriving in FY25 and cascading capacity from other areas will reduce transit time to a minimum. CARE Ratings expects container volume to grow at rate of 8% in FY25 despite risk of prolonged Red Sea turmoil. Going forward, growth in exports volume and stability on geopolitical conditions shall be a key monitorable.

Key weaknesses

Leveraged capital structure

With VCTPL funding VCT-2 with debt of ₹687 crore, capital structure remained high. Total debt to remained high at 3.52x in FY24 and overall gearing as on March 31, 2024, stood at 2.48x. Going forward, with the ramp-up of volumes, CARE Ratings expects the capital structure to improve and satisfactory servicing of debt obligations.

Revenue volatility risk and susceptibility to economic cycles

Visakhapatnam being a major port, revenues of terminal operators are susceptible to competitive tariffs as these are capped and governed by Major Port Adjudicatory Board (earlier Tariff Authority for Major Ports). Per the CA, VCTPL has also fixed payments in terms of royalty per TEU under VCT-1 and 11.04% of gross revenue under VCT-2 to VPA. With presence of MGT clauses in the CA, unprecedented slowdown in the economy, may challenge VCTPL in volatility of volumes. The risk can be partially offset by the fact that VCT-1 has an operational track of ~20 years with fulfilment of MGT clauses. VCTPL has short-term agreements with esteemed shipping lines such as Maersk and CMA CGM. Port/shipping sector is susceptible to the downturn in the economy and local government policies regulating trade. In the absence of long-term contracts with shipping lines, VCTPL remain exposed to risks arising out of macroeconomic headwinds and variations in EXIM trade, which may impact the overall revenue profile and the company's profitability.

Competition from other ports at eastern coast

In terms of container terminals, VCTPL is the sole container terminal operator at Visakhapatnam port and mitigates intra terminal competition. Primary competitive container terminals in the vicinity of Visakhapatnam port includes Kolkata Port in West Bengal, Paradip Port in Orissa, Krishnapatnam and Gangavaram Port in Andhra Pradesh.

Gangavaram Port, owing to its close proximity to Visakhapatnam port, would likely be the largest competition to VCTPL. Adani-owned Gangavaram Port has recently operationalised a container terminal in August 2022 with a capacity of 0.6 million TEUs. Going forward, CARE Ratings will continue to monitor ramping-up of projected cargo remains.

Liquidity: Adequate

The company's liquidity remains adequate. It has overdraft limits of ₹5 crore, which remained unutilised. The company had free cash and bank balance of ₹103 crore as on March 31, 2024. VCTPL is also maintaining debt service reserve account (DSRA) for one quarter of debt servicing obligations for VCT-1 and VCT-2 term debt. Overall DSRA as on March 31, 2024, is ₹35 crore including both terminals. VCTPL's liquidity derives comfort from strong parentage, JMBPL.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Port & Port services
Financial Ratios – Non financial Sector
Factoring Linkages Parent Sub JV Group
Infrastructure Sector Ratings
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Services	Services	Transport infrastructure	Port & port services

VCTPL was incorporated on April 11, 2002, as a special purpose vehicle (SPV) of JMBPL (rated 'CARE A+; Stable/ CARE A1') to undertake establishment, operation, maintenance and transfer of container terminal at Visakhapatnam Port. The CA between VPA and VCTPL was signed on September 11, 2002, for 30 years and received the date of award of concession as June 26, 2003. The berth has a handling capacity of 0.55 MTEUs. In March 2022, VCTPL has completed its expansion for VCT-2 terminal with addition of capacity by 0.54 million TEUs at a cost of ₹916 crore comprising debt of ₹687 crore and equity of ₹229 crore. The CA for VCT-2 is for 30 years, with date of award of concession is March 02, 2019, and operations commenced from March 08, 2022. VCTPL also operates a container freight station near the port with an annual capacity of 85000 TEUs.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	341	406	101
PBILDT	168	227	50
PAT	2	78	-
Overall gearing (times)	-1.05	-1.16	-
Interest coverage (times)	1.77	2.17	-

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	30-6-2034	781.01	CARE A+ (RWD)
Fund-based - LT/ ST-Bank Overdraft		-	-	-	5.00	CARE A+ / CARE A1 (RWD)
Fund-based/Non-fund-based-LT/ST		-	-	-	5.35	CARE A+ / CARE A1 (RWD)
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	53.00	CARE A+ / CARE A1 (RWD)
Non-fund-based - ST-Loan Equivalent Risk		-	-	-	101.00	CARE A1 (RWD)

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	781.01	CARE A+ (RWD)	-	1)CARE A+; Stable (05-Oct-23)	-	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	53.00	CARE A+ / CARE A1 (RWD)	-	1)CARE A+; Stable / CARE A1 (05-Oct-23)	-	-
3	Non-fund-based - ST-Loan Equivalent Risk	ST	101.00	CARE A1 (RWD)	-	1)CARE A1 (05-Oct-23)	-	-
4	Fund-based/Non-fund-based-LT/ST	LT/ST	5.35	CARE A+ / CARE A1 (RWD)	-	1)CARE A+; Stable / CARE A1 (05-Oct-23)	-	-
5	Fund-based - LT/ ST-Bank Overdraft	LT/ST	5.00	CARE A+ / CARE A1 (RWD)	-	1)CARE A+; Stable / CARE A1 (05-Oct-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Bank Overdraft	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple
5	Non-fund-based - ST-Loan Equivalent Risk	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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