Deendayal Port Trust
(Erstwhile Kandla Port Trust)
April 01, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	1,200.00	**CARE AAA; Stable (Triple A; Outlook: Stable)**	Reaffirmed
Total Bank Facilities	**1,200.00 (Rupees Twelve Hundred Crore Only)**		

**Details of facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed bank facilities of Deendayal Port Trust (DPT) continue to factor in its strong linkages with the Government of India (GoI), its strong market position in bulk cargo handling amongst all the major ports in India and healthy financial risk profile marked by large cash, fixed deposits and bank balance along with comfortable leverage and debt coverage indicators. The rating continues to be further underpinned by its strong operating efficiency derived from its favourable location, connectivity through roads and railways and supportive infrastructure and logistics facility, diversified cargo profile with significant contribution from the stable petroleum, oil and lubrications (POL) cargo and stable outlook for the port sector.

The above rating strengths continue to comfortably outweigh the competition which DPT encounters from non-major ports on the western coast of India.

Key Rating Sensitivities:

Negative

- Any change in government's policy leading to reduction in the importance or criticality of DPT to the Government of India(GoI)
- Any unforeseen large sized debt funded capex/liability or crystallization of its contingent liabilities resulting in significant adverse impact on the debt coverage indicators of DPT

Detailed description of the key rating drivers

Key Rating Strengths

Strong linkages with GoI

DPT is under the direct control of Ministry of Shipping (MoS), GoI. The port plays a major role in international trade for the country and has strategic importance for GoI. It is amongst the 13 major ports governed by the Major Port Trust Act, 1963. Furthermore, the Board of Trustees of DPT includes representatives from MoS and various other departments of GoI reflecting strong linkages with GoI. Strong linkages with GoI are expected to be continued as ports are strategically important for the economic growth and Kandla is the largest major port in terms of cargo handling.

Strong business profile with market leadership in terms of cargo handling amongst all the major ports in India

DPT has strong business profile marked by leadership in terms of cargo handling amongst all the major ports in India. During FY16 (refers to the period April 1 to March 31), DPT became the first major port in India to cross cargo handling of 100 million metric tonne (MMT) in a single year and has been clocking cargo handling volumes in excess of 100 MMT/p.a. consecutively since FY16. The cargo handled at the port increased from 110.10 MMT during FY18 to 115.40 MMT during FY19, a growth of 4.81%. Apart from cargo handling & storage charges and port & dock charges, DPT also derives significant revenue by way of royalty income from leasing of one single point mooring (SPM) facility and two product jetties at Vadinar and various terminals given to private companies on build-operate and transfer (BOT) basis. Furthermore, DPT derives significant revenue in the form of rent from land.

Over the past five years, there has been significant improvement in the operational parameters of the port like average pre-berthing time (APBT), average turnaround time (ATT), average output per ship berth day driven by increasing focus of the government on improving efficiency of the major ports and deepening of draught. The avg. pre-berthing time for the port has improved from 49.20 hours during FY13 to 2.88 hours during FY18 but marginally increased to 10.08 hours on account of higher number of vessels handled. The avg. turnaround times has reduced from 4.37 days during FY13 to 2.79 days during FY19 while average output per ship berth-day has improved from 15,091 MT during FY13 to 17,383 MT during FY19.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Strong efficiency derived from favourable location, connectivity through roads and railway, supportive infrastructure and logistics facility; and its diversified cargo profile

DPT enjoys proximity to the north and north-west hinterland regions of India. It is a convenient gateway for cargo from major maritime trade routes, especially from middle-east Asia, Africa and Europe. Furthermore, the port has good connectivity with presence of highways and railway infrastructure. DPT has a diversified cargo profile with liquid bulk cargo contributing 60% and dry bulk cargo contributing 31% of the total cargo during FY18. The liquid bulk cargo primarily consists of POL, edible oil and liquid chemicals while the dry bulk cargo primarily consists of import of coal, fertilizers, iron and steel and wooden logs.

Healthy financial risk profile marked by low leverage, strong debt coverage indicators and healthy profitability

The total operating income of DPT grew by 12% on year-over-year (y-o-y) basis to Rs.1,657 crore during FY19 driven by higher revenue from cargo handling & storage and escalation in tariff charges. The PBILDT remained healthy at 27.28% on the back of revenue growth during FY19. However, a one-time impact of contribution to pension amounting to Rs.391.88 crore has been included in employee costs towards the unfunded backlog annuities of pensioners based on the actuarial valuation of the pension liabilities undertaken post the direction of Comptroller and Auditor General of India (CAG) on applicability of IND-AS 15. Nevertheless, DPT reported a PAT of Rs.243.72 crore during FY19. Furthermore, DPT continued to have a healthy financial risk profile marked by negligible debt, large cash balance and net worth as on March 31, 2019. DPT had net worth of Rs.4,958 crore as on March 31, 2019. Negligible debt levels and healthy profitability led to strong debt coverage indicators.
Furthermore, DPT had earlier envisaged a capex plan of Rs.2,731 crore over the next three to four years to increase its capacity, improve infrastructure and develop Smart Industrial Port Cities (SIPC) which was envisaged to be funded through a mix of debt and internal accruals; However, execution of the capex has lagged behind the projections and being entirely funded with internal accruals. It is mainly on account of slower progress in smart industrial port city project.

Stable outlook for port sector

During FY19, cargo throughput at major ports registered a 2.90% growth to 699 MMT as against 679 MMT recorded in FY18. The outlook for the sector is stable despite short term challenges pertaining to COVID-19. The MoS' efforts towards modernization and reducing congestion at the major ports are bearing some fruits with improvement in the operational efficiencies over the past three years. Furthermore, the execution of various projects at major ports is targeted towards reducing the infrastructure bottlenecks in terms of port draft, mechanisation, evacuation, etc. These efforts are expected to improve the competitiveness of the major ports against non-major ports. Furthermore, the Major Port Authorities Bill, 2020, if comes into force, is expected to empower the Major Ports to perform with greater efficiency on account of autonomy in decision making with respect to tariff and port development and by modernizing the institutional framework of Major Ports.

Liquidity: Strong

The liquidity position of DPT is healthy due to its large cash, fixed deposit and bank balance aggregating to Rs.2,557 crore as on March 31, 2019. Its liquidity is further bolstered by healthy generation of cash accruals, lower capex requirements and negligible term debt of Rs.16.12 crore (in the form of capital debt from GoI) consequently leading to strong liquidity even in case of part crystallization of its large contingent liabilities.

Key Rating Weaknesses

Competition from private ports on the western coast

DPT faces intense competition from other private ports on the western coast mainly from Mundra port which has efficient operations, pricing flexibility, state-of-the-art infrastructure and higher draught; and thereby the ability to handle larger vessels. Mundra port handled cargo of 137 MMT during FY19 which is similar in scale to the cargo handled by DPT. Competition from Mundra port along with congestion and low capacity addition at DPT had led to decline in its market share over the years. However, over the past few years the operating efficiency of DPT has improved and with addition of new capacities.

Analytical Approach: Standalone while factoring linkages with Government of India (GoI) for whom DPT is of strategic importance. Port infrastructure is vital to the economic growth of the country and DPT being the largest port in terms of cargo handling across all major ports of India has an important role to play in this regard. GoI holds 100% stake in DPT and the trust is under the direct administrative control of the Ministry of Shipping (MoS). The trust's board has members representing MoS, Department of Customs, Indian Railways, the Ministry of Environment and Forest (MoEF) which reflects DPT's strong government linkages.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's Rating Methodology - Port Projects]
[Rating Methodology - Factoring Linkages in Ratings]
[Financial ratios – Non-financial sector]

About DPT
DPT was formulated under the Major Port Trust Act, 1963 in February 1964. DPT is under the direct administrative control of MoS, GoI. DPT operates cargo at three locations – Kandla Creek, Vadinar and Tuna Tekra in Gujarat. Currently, Kandla port mainly handles liquid and dry (bulk and break-bulk) cargo. It has six oil jetties, 12 operational multi-purpose & 2 container berths and barge handling facilities at Kandla creek. In addition, there are four berth deep draught bulk terminals at Tuna Tekra while three SPMs and two product jetties are located at Vadinar. Apart from port services, DPT also has 2,22,591 acres of land out of which 2,175 acres is dry land which is given on lease rent for various port activities including storage facilities for dry and liquid bulk cargo.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	1,475	1,657
PBILDT	398	452
PAT	-110	244
Gross Cash Accruals (GCA)	351	341
Overall Gearing (times)	0.00	0.00
Interest coverage (times)	VL	VL

A: Audited; VL- Very Large

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-*	1200.00	CARE AAA; Stable

*- Proposed Facilities

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	1200.00	CARE AAA; Stable	-	1)CARE AAA; Stable (21-Feb-19)	1)CARE AAA; Stable (26-Sep-17)	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.