

## Press Release

### Visakhapatnam Port Logistics Park Limited

23 November, 2017

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 125.00 Cr
<b>Long Term Rating</b>	SMERA BBB/Stable (Assigned)

*\*Refer Annexure for details*

### Draft Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB' (read as SMERA triple B)** on the Rs. 125.00 crore proposed bank facilities of Visakhapatnam Port Logistics Park Limited (VPLPL). The outlook is '**Stable**'. VPLPL is a subsidiary of Balmer Lawrie & Company Limited.

VPLPL, incorporated in July, 2014, is a 60:40 joint venture of Balmer Lawrie & Company Limited (BLCL) and Visakhapatnam Port Trust (VPT). VPLPL is developing a Multi-Modal Logistics Hub (MMLH) at Visakhapatnam which will include container freight station (CFS) (EXIM & Domestic), warehouse facility, temperature control warehouse, rail siding, truck terminal and commercial space. The project is expected to be spread over two phases with Phase 1 expected to commence operations from April, 2018.

**Analytical approach:** SMERA has considered the standalone financial and business risk profile of VPLPL. The rating has been notched up for parent support from Balmer Lawrie & Company Limited.

### List of key rating drivers and their detailed description

#### Strengths:

**Established track record of promoters in the logistics industry:** VPLPL is a joint venture subsidiary of Balmer Lawrie & Company Limited (BLCL) (60 per cent stake) and Visakhapatnam Port Trust (VPT) (40 per cent stake). BLCL is a Mini Ratna public sector company under the administrative control of Ministry of Petroleum & Natural Gas. Balmer Lawrie Investment Ltd (BLIL) hold 61.80 % stake in BLCL and Government of India in turn holds 59.67% in BLIL. BLCL, a company started in 1867, has established presence of operations in industrial packaging, greases and lubricants, leather chemicals, travel and vacations, logistics and refinery and oil field services. BLCL reported profit after tax (PAT) of Rs. 170.08 crore on operating income of Rs. 1782.20 crore in FY17. As a part of its logistical vertical it operates Container Freight Stations (CFS) in Chennai, Kolkata and Navi Mumbai. BLCL will expose leverage on its existing relationships with players in shipping lines to generate business for VPLPL. The project will contribute to BLCL's existing CFS segment and cater to the logistical needs of units in and around Vizag port. The project has railway siding facility which is its USP for garnering incremental market share and is expected to be a key driver of volume growth.

The Board comprises three nominees from BLCL and two from VPT. The continued ownership and management of the company by BLCL will be a key rating sensitivity.

SMERA expects VPLPL to benefit from the established presence of BLCL in the logistics sector and the presence of VPT as an equity partner in the project.

**Healthy demand for logistical services:** The Visakhapatnam port is expected to cater largely to Andhra Pradesh and Orissa which has a number of chemical, fertilizer and aluminium manufacturing units. The states also have trade potential for commodities such as ferrous and non-ferrous metals, machinery, industrial equipments and sea food. Besides export & import trade, the project will also cater to domestic logistic requirement.

SMERA expects VPLPL to benefit from the demand for logistical services both domestic and overseas.

**Weaknesses:**

**Project execution risk and offtake risk:** VPLPL is setting up an MMLH (Phase 1) at an estimated cost of Rs. 260.0 crore to be funded through equity of Rs. 135 crore (Rs. 81.00 crore by Balmer Lawrie and Rs. 54.00 crore by Visakhapatnam Port Trust by way of lease of land) and term loan of Rs. 125.00 crore. As on October 27, 2017, Rs. 135 crore has been infused by way of equity. The company is at an advanced stage of negotiations with bankers for the term loan, the sanction of which is expected shortly. The civil work and installation of machinery is expected to be completed by March, 2018. Operations are likely to commence from April, 2018. The project is exposed to moderate execution risk which is significantly mitigated by BLCL's presence. From an offtake stand point, VPLPL will be exposed to offtake risk in the initial stages as it will face competitive pressures from other existing well entrenched players operating in the region like Sical Logistics Limited, Container Corporation of India Limited and Gateway Logistics. The revenue pick up of the project is expected to be gradual. Since the operating cash flows will stabilize over a period of time, the repayment schedule is expected to be ballooning in nature in order to align operational cash flows to the debt service commitments.

SMERA believes that VPLPL's credit performance over the medium term will be exposed to the moderate execution risk and its ability to generate cash flows commensurate with its debt servicing obligations will be critical.

**Susceptibility of demand to level of economic activity:** The demand for logistical service is directly linked to the level of economic activity in the domestic market and overseas trade. Higher import and export would translate to higher demand for logistical solutions. Similarly, a higher than expected growth in GDP and manufacturing activity would result in buoyancy in demand for services of logistics players. This will augur well for players like VPLPL. On the contrary, slowdown in economic activity may impact the movement of goods and services, which in turn may affect the revenue profiles of players like VPLPL.

SMERA believes that the credit profiles of players like VPLPL will be linked to the movement in the level of economic activity. The regulatory environment and competitive landscape will be key rating sensitivity.

**Applicable Criteria**

- Entities in services - <https://www.smera.in/criteria-services.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

**Outlook: Stable**

SMERA believes that the VPLPL will maintain a credit profile over the medium term on the back of support from Balmer Lawrie & Company Limited. The outlook may be revised to 'Positive' if the company stabilises operations as scheduled and exhibits an ability to generate cash flows commensurate as per its debt. Conversely, the outlook may be revised to 'Negative' in case of delay in commencement of commercial operations and slower than expected pick up in revenues affecting its debt servicing ability.

**Status of non-cooperation with previous CRA (if applicable):** Not Applicable

**Any other information:** Not Applicable

**Rating History for the last three years:** Not Applicable

**\*Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Proposed Term Loan	N.A	N.A	N.A.	125.00	SMERA BBB/Stable (Assigned)

**Note on complexity levels of the rated instrument:**
<https://www.smera.in/criteria-complexity-levels.htm>
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**ABOUT SMERA**

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