

Press Release

Visakhapatnam Port Logistics Park Limited

January 18, 2019



Rating Reaffirmed

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 125.00 Cr. |
| Long Term Rating | ACUITE BBB / Outlook: Revised from 'Stable' to 'Negative' |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) to the Rs. 125.00 crore bank facilities of Visakhapatnam Port Logistics Park Limited (VLPL). The outlook is revised from '**Stable**' to '**Negative**'.

The revision in outlook is in view of time overrun in the project resulting in delay in commissioning of the project. The project is completed to the extent of ~ 80 percent with expected commercial date of operations (COD) by 1st quarter of FY 2019-20 from previous estimated of 1st quarter of FY 2018-19. The moratorium also has been extended for a further period of 1 year with revised repayment likely to commence from March 2020. Any further delay in the commissioning of the project may result in downgrade of the rating, whereas commissioning of the project within the revised time line may lead to revision of the outlook from 'Negative' to 'Stable'.

VLPL, incorporated in July, 2014, is 60:40 joint venture of Balmer Lawrie & Company Limited (BLCL) and Visakhapatnam Port Trust (VPT). VLPL 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.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of VLPL to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of promoters in the logistics industry

VLPL is a joint venture subsidiary of Balmer Lawrie & Company Limited (BLCL) with 60 percent stake and Visakhapatnam Port Trust (VPT) with 40 per cent stake. BLCL is a Mini Ratna public sector company under the administrative control of Ministry of Petroleum & Natural Gas. BLCL, a company started in 1867, has established presence of operations in industrial packaging, grease and lubricants, leather chemicals, travel and vacations, logistics and refinery and oil field services. As a part of its logistical vertical, it operates Container Freight Stations (CFS) in Chennai, Kolkata and Navi Mumbai. BLCL will benefit from its existing relationships with players in shipping lines to generate business for VLPL. 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. Acuité expects VLPL 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 equipment and sea food. Besides export and import trade, the project will also cater to domestic logistic requirement.

Acuité expects VLPL to benefit from the demand for logistical services both domestic and overseas.

Weaknesses

Delay in commissioning of the project and offtake risk

VLPL is setting up an MMLH (Phase 1) at an estimated cost of Rs. 260.0 crore funded through equity of Rs. 135.00 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 November 30, 2018, Rs. 209.00 crore has been expended. Initially the project was expected to be completed by 1st quarter of FY 2018-19, however there has been a time overrun resulting in delay in commissioning of the project. The revised commercial date of operations (COD) is expected by 1st quarter of FY 2019-20. Once implemented, VLPL 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 such as Sical Logistics Limited, Container Corporation of India Limited and Gateway Logistics. The revenue pick up of the project is expected to be gradual.

Acuité believes that VLPL's credit performance over the medium term will be exposed to 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 VLPL. 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 such as VLPL.

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

Outlook: Negative

Acuité believes that the timely completion of the project with the revised deadline will be critical to maintain the credit risk profile. Any further delay in the commissioning of the project may result in downgrade of the rating, whereas commissioning of the project within the revised time line may lead to revision of the outlook from 'Negative' to 'Stable'.

About the Rated Entity - Key Financials

Not Applicable as the port is yet to commence commercial operations.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|-----------|------------------|--------------------------------|
| 23-Nov-2017 | Proposed Term Loan | Long Term | 125.00 | ACUITE BBB / Stable (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|---|
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 125.00 | ACUITE BBB/ Negative (Re-affirmed/ Outlook revised) |

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About Acuité Ratings & Research:

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