India Ratings Upgrades Adani Ports and Special Economic Zone and its NCDS to IND AAA/Stable; Affirms CP at ‘IND A1+’

Oct 18, 2024 | Port & Port services

India Ratings and Research (Ind-Ra) has upgraded Adani Ports and Special Economic Zone Limited’s (APSEZ) Long-Term Issuer Rating at ‘IND AAA’. The Outlook is Stable. The instrument-wise rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating assigned along with Outlook/Watch	Rating Action
Proposed non-convertible debentures (NCDs)#	-	-	-	INR100.00	IND AAA/Stable	Upgraded
NCDs#*	-	-	-	INR18.52	IND AAA/Stable	Upgraded
Commercial paper (CP)	-	-	365 days	INR67.00	IND A1+	Affirmed
Bank loans	-	-	-	INR10.00	IND AAA/Stable/ IND A1+	Long-term rating upgraded; Short-term rating affirmed

Out of the INR105 billion proposed NCDs rated in the last review, INR5 billion had been issued and represented as NCDs

*Details in Annexure table

Analytical Approach

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

Detailed Rationale of the Rating Action

The upgrade reflects positive developments over governance-related matters in FY24 and 1QFY25, which were the key constraining factors for the company’s ratings post the short-seller report, while the underlying business and financial profile of APSEZ was commensurate with a higher rating category. Ind-Ra believes the governance risk has been substantially mitigated given the removal of the qualified opinion by the statutory auditor in 1QFY25, among other disclosures, and a meaningful improvement in APSEZ’s financial flexibility on the back of deleveraging and the normalisation of bond-spreads. A reduction in related-party transactions and an improvement in the credit profiles of other Adani group companies, meaningfully reducing the group-specific comingling risk, further support the rating profile of the company. The residual risk, in Ind-Ra’s view, is unlikely to have an outsized impact on APSEZ’s operational and financial flexibility; however, it will remain a rating monitorable.

The ratings continue to be underpinned by APSEZ’s strong business and financial profile. Ind-Ra expects the company to maintain double-digit revenue growth in the near term, supported by an increased utilisation of its existing infrastructure, while maintaining the EBITDA margin in the range of 57%-59% (FY24: 59.4%). In FY24, the company’s net leverage improved to 2.49x (FY23: 3.39x), driven by an increase in the EBITDA to INR158.64 billion (INR128.33 billion) and the maintenance of unencumbered cash balance at around INR98.17 billion (FY23: INR97.48 billion).

List of Key Rating Drivers

Strengths:

- Minimal residual governance risk
- Better-than-Ind-Ra-expected earnings performance
- Improved credit profile, likely to sustain
- Strong business profile
- Strong operational performance over FY18-FY24

Weaknesses:

- High upcoming capital investments
- Susceptibility to trade volumes

Detailed Description of Key Rating Drivers

Minimal Residual Governance Risk: Ind-Ra has noted the following developments around the governance of the company, which resulted in a substantial mitigation of the associated risk:

1. Ind-Ra believes the removal of qualified opinion in 1QFY25 has reduced the possibility of the substantial restatement of the past financial results and enhanced financial transparency. In 1QFY25 results, APSEZ's statutory auditor has removed the 'Qualified Opinion' and converted into a 'Emphasis of Matter', based on an independent legal and accounting review. The results also disclosed that there are no pending regulatory or adjudication proceeding as on date, except those related to the show cause notices (SCN) issued by the regulator. Also, all transactions pertaining to SCNs were fully settled before 31 March 2023; there were no such transactions in FY24 and that APSEZ has not suffered any losses on them.
2. Ind-Ra believes the improvement in APSEZ's credit ratios and strong cash flow generation has reduced the company's reliance on external funding to achieve growth, along with significantly improving APSEZ's ability to absorb short-term economical, operational, or financial disruptions (if any).
3. APSEZ's share pledge has been consistently reducing to around 0.03% of the promoter holdings, at end-2QFY25 from the highs of 17.8% in FY23, aided by the promoters prepaying the share-backed debt. Furthermore, as articulated by the management, the promoter intends to discontinue availing share-backed debt.

Any negative developments around the regulatory and governance matters, which materially impedes the financial and operational flexibility of the company, will remain a key rating monitorable for Ind-Ra.

Better-than-Ind-Ra-expected Earnings Performance: The consolidated earnings performance was better than that expected by Ind-Ra with revenue growth of 28.10% yoy in FY24. The consolidated revenue increased to INR267.1 billion in FY24 (FY23: INR208.5 billion), majorly supported by domestic ports, logistics, special economic zone, Haifa port and port development, and international operations contributing 78.5%, 7.8%, 1.9%, 6.1% and 5.7%, respectively, to the overall revenue. Over the last five years, APSEZ has heavily invested in downstream logistics, which led to consistent revenue growth of 19.2% yoy and 44.3% yoy in FY24 and FY23, respectively in the logistics business. The overall revenue growth was also supported by the increased domestic port throughput and full-year operations of Haifa port. The company derives almost 30% of its revenue in foreign currency, providing a natural forex hedge for foreign currency debt repayment.

In FY24, the consolidated EBITDA margin remained strong at 59.4% (FY23: 61.5%), led primarily by the domestic port EBITDA margin of 70.1% (69.6%). Ind-Ra expects the EBITDA margin to normalise in the range of 57%-59%, with increased contribution from logistics business over the long term.

In 1QFY25, the consolidated revenue was INR69.56 billion (1QFY24: INR62.48 billion) and EBITDA was INR42.44 billion (INR37.54 billion), supported by an increased port throughput of around 109.0mmt (101.4mmt).

Improved Credit Profile, Likely to Sustain: APSEZ's credit profile improved substantially in FY24 with the net leverage (gross debt including lease liabilities less cash/EBITDA) and the gross interest coverage (EBITDA/gross interest expense) improving to 2.49x (FY23: 3.39x) and 5.80x (5.43x), respectively, supported by the absolute EBITDA growth. Ind-Ra expects the earning profile to remain strong over the next few years, which will result in the net leverage sustaining below 3.0x. The credit profile will also be supported by the adequacy of cash flow operations (net of cash interest) to cover any capital investments and dividend payouts.

Strong Business Profile: During FY21-FY24, APSEZ improved its business profile by undertaking acquisitions across the ports and logistics value chain, such as Krishnapatnam Port Company Limited, Gangavaram Port Limited, Sarguja Rail Corridor Private Limited, Dighi Port Limited, Ocean Sparkle Limited, Haifa Port Company, Karaikal Port Company Limited, Gopalpur Ports Ltd, IndianOil Adani Ventures Limited (debt rated at 'IND AA-'/Stable) and an inland container depot in Vapi, Gujarat. Ind-Ra believes these acquisitions have further strengthened the business profile of APSEZ, given it has been able to (i) improve the east-west coast parity in the ports' volume mix; (ii) access new hinterlands, and (iii) offer integrated supply chain solutions. Furthermore, APSEZ's business profile has been enhanced through its forward integration into the downstream logistics value chain vide its investments in railway racks, multi-modal logistics parks, agri silos and warehousing assets. Additionally, APSEZ's existing ports have shown a fair track record of capacity expansion and improved efficiency, backed by the development of downstream logistics and containerisation of cargo, thereby, achieving a shorter dwell time. Ind-Ra believes the full-year performance of acquired ports and increased existing ports' throughputs will lead to double-digit revenue growth in FY25.

APSEZ has maintained its dominant position in the Indian ports industry with operations across 15 ports, handling around 26.5% of the country's total cargo volumes in FY24 (FY23: 23.5%). Furthermore, most ports in APSEZ's portfolio have the flexibility to fix their own tariffs, which are generally higher than other competing ports, in consultation with the state maritime boards. Additionally, connectivity with the direct freight corridor will help APSEZ benefit from the likely structural growth in India's export-import (EXIM) trade.

Strong Operational Performance over FY18-FY24: APSEZ's overall cargo volumes grew at a 14.6% CAGR to around 419.9 million metric tonnes (mmt) over FY18-FY24 (FY23: 339.2mmt), led by the acquisitions, capacity expansion at existing ports, containerisation, and cargo/geographic diversification. The company's volume growth was sharply higher than the growth witnessed in all-India cargo throughput, which increased at a CAGR of 4.12% over the same period, leading to an increase in APSEZ's market share in FY24. Ind-Ra expects APSEZ to continue reporting robust volume growth over near-to-medium term, backed by (i) its organic volume growth amid its connectivity with a dedicated freight corridor, (ii) integrated supply-chain solutions offering through an increased presence in downstream logistics, and (iii) a volume pick-up at the recently acquired ports. In 1HFY25, the company handled around 219.8mmt of cargo, supported by growth in containers (about 18%) and liquids and gas (about 11%).

High Upcoming Capital Investment: Given the capital-intensive nature of the ports and logistics business, APSEZ is required to continually incur capex towards ports' development, expansion and mechanisation; and the development of downstream logistics infrastructure. As per the management estimate, APSEZ will be incurring a capex of around INR115 billion in FY25 and FY26 each, in addition to any acquisition-led investment. Ind-Ra believes the capital investment could affect the liquidity of the company. However, the agency takes comfort from (a) the positive cash flow operations (net of cash interest) of INR118.64 billion and INR134.02 billion in FY23 and FY24, respectively, (b) the company's ability to raise equity from international development finance institutes and global logistics players, and (c) the modularity of capex to be incurred towards logistics development and decarbonisation. Any higher-than-Ind-Ra expected cash outflow towards capex or acquisitions and thereby, stressing the liquidity of the company will remain a key rating parameter for the agency.

Susceptibility to Trade Volumes: APSEZ's business is sensitive to global trade volume, which remains highly susceptible to any recession in developed economies and the ongoing geopolitical tensions including the Red Sea crisis. A slowdown in global growth amid macro-economic headwinds, and consequently, lower EXIM volumes, coupled with a moderation in the freight rates, could impact the company's operating performance.

Liquidity

Adequate: APSEZ's liquidity is anchored on the cash-generative nature of its operations, as reflected in its positive cash flow from operations since FY13, along with significant cash, cash equivalents and liquid investments of INR98.17 billion at FYE24 (FYE23: INR98.3 billion) at the consolidated level. Ind-Ra believes APSEZ's strong financial flexibility, in terms of its access to capital markets, boosts its liquidity. The company has impending repayments of INR86.67 billion and INR61.11 billion in FY25 and FY26, respectively. However, the debt servicing risk is mitigated by the company's strong operational cash generation and its proven ability to refinance with the longer duration debt, which is more commensurate with the asset profile of the company. The liquidity management of the company is further supported by the modularity of capex to be incurred towards logistics business and decarbonisation, which can be deferred based on capital availability. Also, APSEZ's related-party exposure consistently reduced over FY16-FY24, with the gross trade receivables from related parties reducing to INR7.25 billion at FYE24 (FYE23: INR10.4 billion) and minimal investment in other Adani group companies. The outstanding related party transactions are primarily related to the coal imported by APSEZ's ports for Adani Power Limited (debt rated at 'IND AA-'/Positive) and Adani Enterprises Limited. Any higher-than-Ind-Ra expected capex or support to other Adani group companies will remain critical for the liquidity of the company.

Rating Sensitivities

Positive: Not applicable

Negative: Developments that could, collectively or individually, lead to negative rating actions are:

- aggressive capex and/or any large-scale acquisitions without a commensurate increase in the cash flows, leading to the consolidated net leverage exceeding 3.0x, on a sustained basis
- any regulatory developments which materially impede the financial and operational flexibility of the company

Any Other Information

Standalone Profile: APSEZ recorded a revenue of INR68.07 billion in FY24 (FY23: INR52.3 billion) and EBITDA (adjusted for forex adjustments) of INR39.73 billion (INR8.25 billion). Its EBITDA margin improved significantly to 58% in FY24 (FY23: 16%). With an improvement in the EBITDA, the gross interest coverage (operating EBITDA/interest expenses) and the net leverage improved to 1.44x (0.30x) and 11.6x (55.3x), respectively. The net leverage at the standalone level is higher than that at the consolidated level as APSEZ obtains funding at a standalone level and then down streams the same into its various special purpose vehicles as loans and/or equity.

ESG Issues

The group structure under governance has relevance and a moderate impact on APSEZ's ratings due to related-party transactions. Although related-party transactions substantially reduced over FY16-FY24, they remain monitorable.

Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on APSEZ, either due to their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

APSEZ is a part of the Adani group, which has a diversified presence across various businesses including energy, resources, logistics, agribusiness, real estate, financial services, cement, utilities and defence and aerospace. APSEZ is India's leading ports developer and operator comprising 15 ports and terminals with a total capacity (including joint ventures) of 627mmt at FYE24. It is also the approved developer of a multi- product special economic zone at the Mundra and Gangavaram Port and its surrounding areas. Furthermore, the company is expanding its presence in the logistics business, bolstering its end-to-end capabilities in the port and logistics business. The company is also expanding its footprint in the international market through its presence in Israel, Tanzania and Sri Lanka.

Key Financial Indicators

Particulars (INR billion)	FY24	FY23
Revenue	267.11	208.52
EBITDA	158.64	128.34
EBITDA margin (%)	59.39	61.55
Net leverage (x)	2.49	3.39
Gross interest coverage (x)	5.80	5.43
Source: Ind-Ra, APSEZ		

Status of Non-Cooperation with previous rating agency

Not applicable.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook					
	Rating Type	Rated Limits (billion)	Rating	8 January 2024	26 December 2023	23 August 2023	24 August 2022	25 August 2021	5 April 2021
Issuer rating	Long-term	-	IND AAA/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable
Non-convertible debentures	Long-term	INR118.52	IND AAA/Stable	IND AA+/Stable	IND AA+/Stable	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+	IND A1+	IND A1+	IND A1+
Bank Loan	Long-term/ Short-term	INR10	IND AAA/Stable/IND A1+	IND AA+/ Stable/ IND A1+	IND AA+/ Stable/ IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	-	-

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan	Low
Commercial paper (CP) programme (up to 365 days)	Low
Non-convertible debentures	Low

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

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE742F07510	18 October 2021	6.25	18 October 2024	INR10.00	IND AAA/Stable
NCDs	INE742F07353	27 May 2016	9.35	27 May 2026	INR1.00	IND AAA/Stable
NCDs	INE742F07361	4 July 2016	9.35	4 July 2026	INR2.52	IND AAA/Stable
NCDs	INE742F07528	9 January 2024	8.70	9 January 2029	INR2.50	IND AAA/Stable
NCDs	INE742F07536	9 January 2024	8.80	9 January 2034	INR2.50	IND AAA/Stable

Source: APSEZ

Contact

Primary Analyst
Pratik Mundhada
Associate Director
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40001724
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Divyanka Bhutada
Senior Analyst
+91 22 40356168

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is 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.

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.

APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

times. India ratings’ code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the code of conduct section of this site.