CRISIL
An S&P Global Company

Rating Advisory

February 28, 2017 | Mumbai

Adani Ports and Special Economic Zone Limited

Advisory as on February 28, 2017

This rating advisory is provided in relation to the rating of Adani Ports and Special Economic Zone Limited

The key rating sensitivity factors for the rating include:

- Higher than expected capex or investment plans
- Exposure to group companies
- Delay in stabilisation of recently developed assets

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Adani Port and Special Economic Zone Limited (APSEZ) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If APSEZ continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the Group

APSEZ is India's largest port operator, with 10 ports across the eastern and western seaboards. The company handled 152 million tonne (MT) of cargo in fiscal 2016. Its flagship port at Mundra is India's largest and handled 109 MT of cargo. The company also operates a multi-product port-based special economic zone (SEZ) at Mundra.

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Rating Rationale

December 23, 2016 | Mumbai

Adani Ports and Special Economic Zone Limited

Rating outlook revised to 'Stable'; short-term rating placed on 'Notice of withdrawal'

Total Bank Loan Facilities Rated	**Rs.22670.5 Million**
Long Term Rating	**CRISIL AA-/Stable (Outlook revised from 'Negative' and Rating Reaffirmed)**
Long Term Rating	**CRISIL AA-/Stable (Outlook revised from 'Negative' and Rating Withdrawal)**
Short Term Rating	**CRISIL A1+ (Notice of Withdrawal)**

(Refer to Annexure 1 for Facility-wise details)

CRISIL has revised its rating outlook on the long-term bank facilities of Adani Ports and Special Economic Zone Limited (APSEZ; part of the Adani group) to '**Stable**' from 'Negative' while reaffirming the rating at **'CRISIL AA-'**. CRISIL has reaffirmed the rating on short term bank facility at **'CRISIL A1+'**. The rating action is based on publicly available information as the company has not cooperated with CRISIL in its surveillance process. CRISIL has also placed its rating on non-fund based facility on **'Notice of Withdrawal'** for 180 days at the company's request. Additionally, CRISIL has withdrawn its rating on a term loan facility as there is no outstanding against the rated facility.

The outlook revision reflects CRISIL's expectation of continued improvement in the financial risk profile, led by higher cash accrual from subsidiary ports and reduction in related-party loans, over the medium term. The company has nine ports across India (apart from the Mundra port), out of which seven were operational as on September 30, 2016. Most of these ports have become operational in past three years and contributed around 30% of the consolidated revenue in fiscal 2016. There was significant growth in revenue and profitability of key operational subsidiary ports, which include The Dhamra Port Company Ltd, Adani Hazira Port Pvt Ltd, and Adani Petronet (Dahej) Port Pvt Ltd. Revenue from these ports increased to Rs 19 billion in fiscal 2016 from Rs 11 billion in fiscal 2014, while net profit increased to Rs 3.9 billion from a net loss of Rs 1.2 billion. Consequently, the consolidated interest coverage ratio has improved over the years to 4.5 times in fiscal 2016 from 3.9 times in fiscal 2015 and 3.7 times in fiscal 2014. Furthermore, the ratio of net debt to earnings before interest, tax, depreciation, and amortisation declined to 5.3 times as on March 31, 2016, from 5.8 times as on March 31, 2014. CRISIL expects cash flows in subsidiary ports to improve significantly led by ramp up in cargo volume over the medium term, supporting the improvement in the consolidated return on capital employed (RoCE).

Loans and advances (including business advances) to promoter companies remained high at around 12% of capital employed as on March 31, 2016. The return on these exposures has been low, affecting the RoCE. Management plans to reduce these loans and advances significantly, by March 31, 2017. Progress in reduction of related-party exposure remains a key rating sensitivity factor.

For arriving at the ratings, CRISIL has now combined the business and financial risk profiles of APSEZ and all its subsidiaries. This is because all these companies, together referred to herein as APSEZ, operate under a common management team, have operational and financial linkages with each other. Earlier, CRISIL had followed a moderate integration approach and factored in APSEZ's commitment to these subsidiaries in the form of equity, cost overruns, and guarantees. For debt calculation, CRISIL has included the USD 453 million (outstanding amount as on March 31, 2016, out of total debt of USD 800 million) guarantee provided by APSEZ for the borrowings of Mundra Ports Pty Ltd, which is owned by the same promoters. Against this guarantee, APSEZ has received a counter indemnity from Abbot Point Port Holding Pte Ltd.

The ratings continue to reflect a dominant market position, healthy operational profitability, and robust financial flexibility. These strengths are partially offset by a leveraged capital structure because of sizeable debt-funded capital expenditure, and exposure to promoter companies.

Outlook: Stable

CRISIL believes the financial risk profile of APSEZ will remain healthy over the medium term driven by higher cash accrual in subsidiary ports.

Upside scenario

* Sustained, and higher-than-expected increase in consolidated cash flows, led by further ramp up in volumes and operating profitability
* Significant reduction in debt due to lower related-party exposure

Downside scenario

* Weakening of the financial risk profile due to higher-than-expected debt-funded capital expenditure or acquisition
* Increase in exposure to related-party companies

About the Group

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In fiscal 2016, on a consolidated basis, net profit was Rs 28.3 billion (Rs 23.2 billion in fiscal 2015) on net sales of Rs 72.6 billion (Rs 61.5 billion). In the six months ended September 30, 2016, net profit was Rs 19 billion (Rs 13 billion in the corresponding period of the previous fiscal) on net sales of Rs 40 billion (Rs 35 billion).

Annexure 1 - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Million)**	**Rating**	**Facility**	**Amount (Rs.Million)**	**Rating**
Long Term Loan	USD 48.33 Million	CRISIL AA-/Stable	Long Term Loan	USD 48.58 Million	CRISIL AA-/Negative
Long Term Loan	USD 0.25 Million	Withdrawal	Long Term Loan	Euro 18.04 Million	CRISIL AA-/Negative
Long Term Loan	Euro 18.04 Million	CRISIL AA-/Stable	Long Term Loan	JPY 2880.16 Million	CRISIL AA-/Negative
Long Term Loan	JPY 2880.16 Million	CRISIL AA-/Stable	Non-Fund Based Limit	17920	CRISIL A1+
Non-Fund Based Limit	17920	CRISIL A1+(Notice of Withdrawal)	--	0	--
Total	22670.5	--	Total	22670.5	--

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
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