Vizag General Cargo Berth Private Limited

Credit rating report

December 2021

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Instruments and ratings

Total Bank Loan Facilities Rated	Rs 200 Million
Long Term Rating	CRISIL AA- (CE) /Positive (Outlook revised from 'Stable'; Rating reaffirmed)

(Refer to annexure for Details of Instruments & Bank Facilities)

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Rating history

Date	Long Term	Fixed Deposit	Short Term	Rating Watch/Outlook
October 29, 2021	CRISIL AA-(CE)	-	-	Positive
October 29, 2020	CRISIL AA-(CE)	-	-	Stable
April 03, 2020	CRISIL AA(CE)	-	-	Negative
September 07, 2019	CRISIL AA(CE)	-	-	Stable
February 22, 2019	CRISIL AA(SO)	-	-	Stable

Analytical approach and adjustments

Portfolio performance/networth/ gearing/parent or group support	Analytical treatment
Criteria on rating instruments backed by guarantees	CRISIL has applied its criteria on rating instruments backed by guarantees. The (CE) suffix reflects the payment structure that is designed to ensure full and time-bound payment to lenders.

Rationale

CRISIL Ratings has reaffirmed its '**CRISIL AA- (CE)'** rating on the long-term bank facilities of Vizag General Cargo Berth Pvt Ltd (VGCB) and revised its outlook to '**Positive**' from 'Stable''. The rating is based on the strength of the corporate guarantee received from the parent, Vedanta Ltd (Vedanta; 'CRISIL AA-/Positive/CRISIL A1+').

The rating action reflects a corresponding rating action on the bank facilities and debt programmes of the parent, Vedanta, to '**CRISIL AA-/Positive/CRISIL A1+**' from 'CRISIL AA-/Stable/A1+'.

The rating on VGCB continues to reflect the unconditional and irrevocable guarantee extended by Vedanta to its bank facilities. The rating also factors in a payment mechanism to ensure timely servicing of the rated bank facilities. The rating, thus, reflects the credit strength of the guarantor, Vedanta.

Rating drivers

Supporting factors	Constraining factors
• Unconditional and irrevocable corporate guarantee and payment mechanism	• Weak standalone financial risk profile and operating performance • Sensitive to guarantor's rating and non-adherence to payment mechanism

Outlook: Positive

The outlook is based on CRISIL's rating outlook on Vedanta's debt instruments and bank facilities. Any change in the ratings or rating outlook of Vedanta will lead to a corresponding change in the ratings or rating outlook of VGCB

Rating sensitivity factors:
Upward factors

- Change in the credit risk profile of the guarantor resulting in an upgrade by one notch in its rating

Downward factors

- Weakening in credit risk profile of guarantor, resulting in a downgrade by one notch in its rating
- Change in Vedanta's ownership and support philosophy towards VGCB

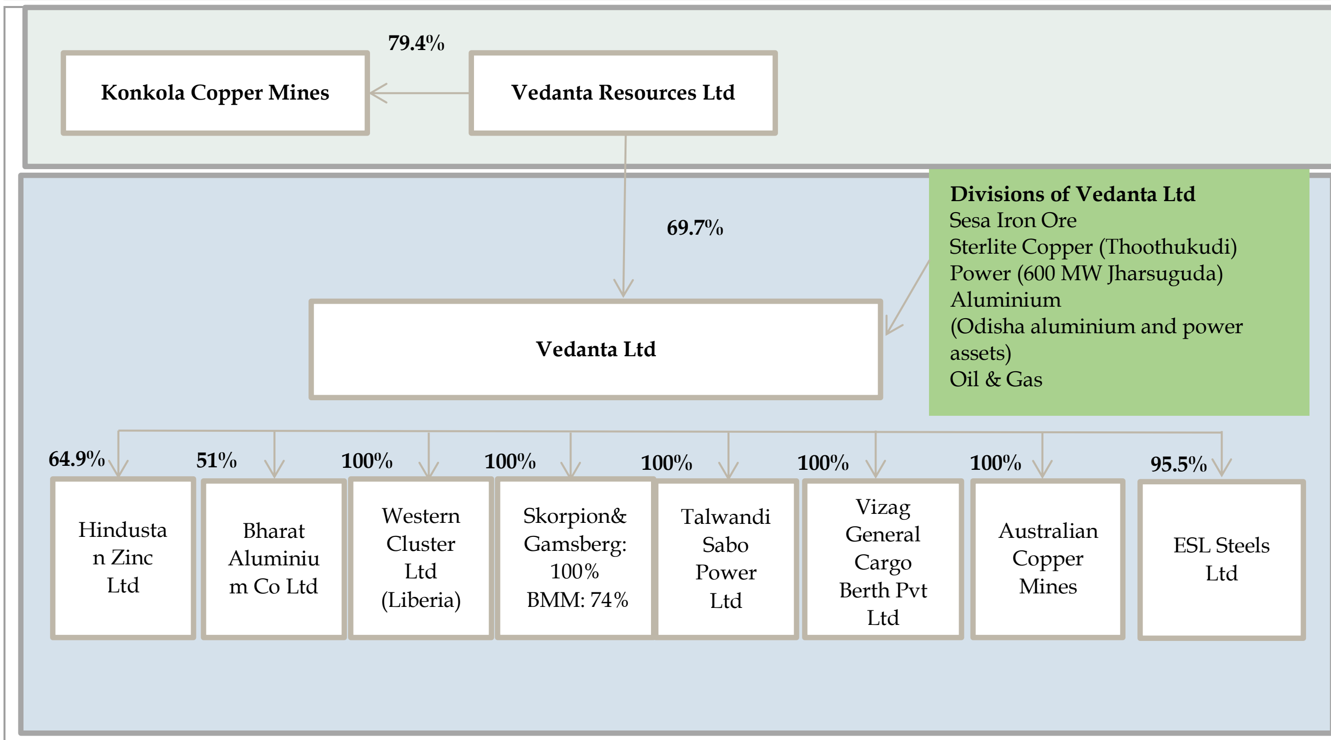
Company overview

VGCB, a 100% subsidiary of Vedanta, was incorporated in April 2010. The Visakhapatnam Port Trust awarded VGCB a 30-year concession (including two years for construction) for mechanising and modernising the coal berth at the outer harbour of the Visakhapatnam port, on a build-design-finance-operate-and-transfer basis. The project's capacity is 10.18 Million tonne per annum, and the cost was estimated at Rs 6,220 Million. Key customers include Steel Authority of India Ltd, Jindal Steel, Adani, and Vedanta (aluminium business).

About the guarantor, Vedanta

The Vedanta group is majority-owned by Vedanta Resources Ltd (Vedanta Resources). Vedanta Resources has business interests in aluminium, iron ore, zinc, lead, oil and gas, power, steel and copper in Australia, India, Ireland, Zambia, Namibia, and South Africa.

Chart 1: The Vedanta group structure



Source: Company

Vedanta Resources currently holds 69.7% stake in Vedanta. The group's copper, iron ore, oil and gas, and its aluminium assets in Jharsuguda and Lanjigarh (Odisha) along with power assets are held in Vedanta. The group also has aluminium operations through Bharat Aluminium Co Ltd. A part of the power business (1,980 megawatt) is conducted through the wholly-owned subsidiary Talwandi Sabo Pvt Ltd.

The oil and gas business was merged with Vedanta and the group operates its zinc business through HZL and Zinc International in South Africa and Namibia. The copper business comprises mining and smelting operations in India, Australia and Zambia. Vedanta has, through its wholly-owned subsidiary – Cairn India Holdings Ltd, acquired slightly over 51% equity stake in glass substrate manufacturer AvanStrate Inc in December 2017. Subsequently, in April 2018, the company emerged as the successful bidder for the acquisition of Electrosteel Steels Ltd (ESL), which was seeking insolvency under National Company Law Tribunal (NCLT). On June 04, 2018, the company had acquired management control of ESL through acquisition of a total of 90% its paid-up share capital through its wholly owned subsidiary, Vedanta Star Ltd (VSL). Effective March 25, 2020, as per NCLT-approved scheme of amalgamation, VSL merged with ESL. Post this merger, Vedanta now directly holds 95.5% shares of ESL.

Key credit factors

Credit enhancement structures for guaranteed instruments

Credit enhancement structure and payment mechanism for Rs 200 Million bank guarantee

Vedanta has provided an unconditional and irrevocable guarantee to VGCB's Rs 200 Million bank guarantee facility. The guarantee covers the entire principal and interest obligation on the facilities. Vedanta has guaranteed that it will make the necessary payments not later than 15 business days from the due date, as specified in the agreement, irrespective of the bank/s invoking the guarantee or not.

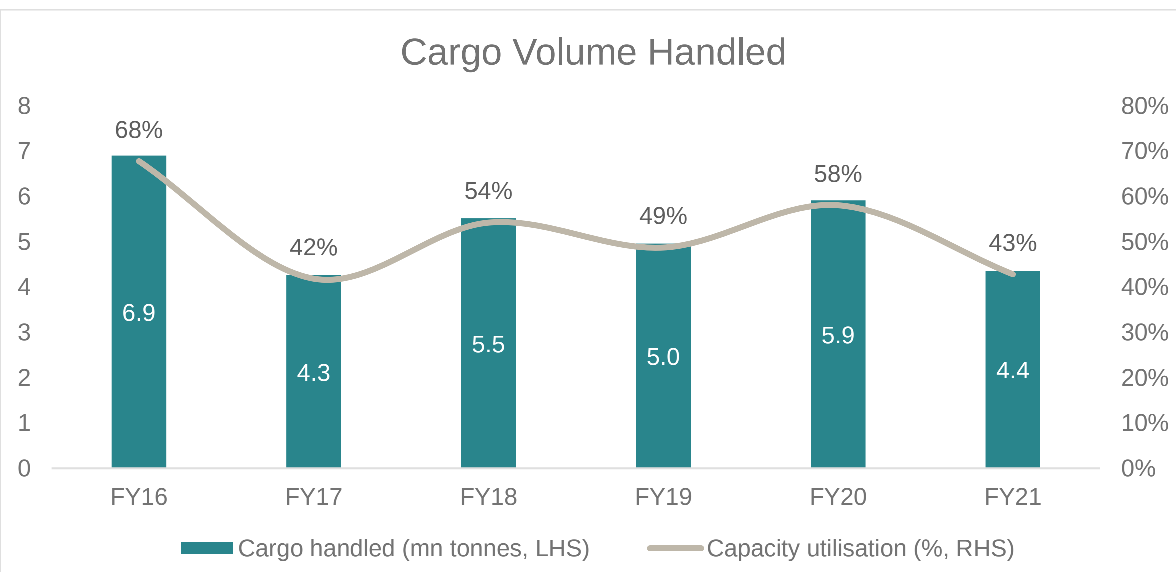
Sensitive to guarantor's rating and non-adherence to payment mechanism

The rating reflects the credit strength of the guarantor. Hence, any adverse movement in the rating on the guarantor may result in the rating action on these facilities. Also, non-adherence to payment mechanism will be a credit weakness.

Business risk profile

Low capacity utilisation resulting in weak operating performance

Operating performance has remained weak, reflected in minimal or negative cash accrual over the past four fiscals. Volume handled has been constrained (capacity utilisation of around 50-60%) by bottlenecks around evacuation of cargo, mainly due to paucity of railway rakes in the region VGCB operates, and competition from other minor ports operating in the area. VGCB had witnessed increase of around 20% in cargo volume in fiscal 2020, as compared to the previous fiscal, driven by higher availability of imported coal and railway rakes in the region during the fiscal. However, on account of lower economic activity due to Covid-19 induced disruptions, capacity utilisation was again impacted during the last fiscal, resulting in reduced earnings.



Financial risk profile

Weak standalone financial risk profile

The operating and financial performance remains weak, as reflected in minimal or negative cash accrual and suboptimal return on capital employed (RoCE) over the past five fiscals. RoCE was negative in fiscals 2017 and 2018 and was less than 5% in fiscals 2019, 2020 and 2021. The standalone financial risk profile of VGCB has been weak, driven by limited scale of operations with reported earnings before interest, taxes, depreciation, and amortization (EBITDA) of only about Rs 390 Million and net cash accruals of about Rs 170 Million in fiscal 2021. This results in reliance on parent support for meeting debt obligations. As on March 31, 2020, VGCB had outstanding term debt of Rs 4.25 billion in the form of non-convertible debentures. The same was repaid on September 30, 2020 through parent support. Financial risk profile will continue to derive support from being a subsidiary of Vedanta.

Liquidity: Strong

VGCB is dependent on Vedanta, which has strong liquidity, to cover any shortfall in meeting debt obligation. The rated instruments have strong liquidity, as the guarantee structure (unconditional and irrevocable guarantee by Vedanta), ensures timely repayment of debt.

Adequacy of credit enhancement structure

The guarantee provided by Vedanta is unconditional and irrevocable, and covers the entire rated amount. Trustee/lender monitored payment mechanism is in place to ensure timely payment of the interest and principal obligations on the rated facilities. The payment mechanism provides adequate timeline for the guarantor to make full and timely payments in case of a default by the borrower.

To assess Vedanta, CRISIL Ratings has combined the business and financial risk profiles of Vedanta and its subsidiaries, including VGCB. The instruments will have a high degree of safety regarding timely servicing of financial obligations.

Unsupported ratings: 'CRISIL A'

CRISIL Ratings has introduced the 'CE' suffix for instruments having an explicit credit enhancement feature in compliance with the Securities and Exchange Board of India's circular dated June 13, 2019.

Key drivers for unsupported ratings

For arriving at the unsupported ratings, CRISIL Ratings has considered the standalone business and financial risk profiles of VGCB. CRISIL has also factored in the support that VGCB is likely to receive from its parent, Vedanta. This is because VGCB and Vedanta have high business and operational linkages.

List of covenants

The material covenants of the instruments are as follows:

- Minimum security cover of 1.0 time at any point of time

Financial summary

(Standalone; CRISIL Ratings -adjusted numbers)				
		As on/ For the year ended March 31		
		2021 Actual	2020 Actual	2019 Actual
Net sales	Rs Million	1083	1466	1410
Operating income	Rs Million	1106	1730	1491
OPBDIT	Rs Million	390	706	405
PAT	Rs Million	-86	318*	-332
Net cash accrual	Rs Million	168	569	-82
Equity share capital	Rs Million	471	321	321
Adjusted networth	Rs Million	116	200	-115
Adjusted debt**	Rs Million	4250	4252	4252
OPBDIT margin	%	35.3	40.8	27.2
Net profit margin	%	-7.8	18.4	-22.2
RoCE	%	3.1	9.4	2.6
PBDIT / Int. & Finance charges	Times	1.05	1.03	0.92
Net cash accrual / adjusted debt	Times	0.04	0.13	-0.02
Adjusted debt / adjusted networth	Times	36.70	21.22	-37.07
Adjusted debt / PBDIT	Times	10.55	9.75	10.86
Current ratio	Times	0.06	0.16	0.83
TOL/ ANW	Times	44.61	30.37	-55.06
Operating income/gross block	Times	0.16	0.25	0.22
Gross current assets	Days	30	58	62
Debtor	Days	14	47	39
Inventory	Days	18	8	7
Creditor	Days	4502	6715	3801

Above reflects analytical adjustments made by CRISIL Ratings.

**Includes non-cash deferred tax of Rs 557 Million. Excluding the deferred tax, PAT was negative Rs 239 Million.*

*** Company had outstanding debt in the form of non-convertible debentures (NCDs) in fiscal 2020, the same was replaced by inter-company loan from the parent, Vedanta, in fiscal 2021*

Annexure 1: Details of facility

1. Bank guarantee

#	Bank Facility	Amount (Rs Million)	Outstanding Rating
a.	YES Bank Ltd	200.0	CRISIL AA-(CE)/Positive
	Total	200.0	-

** Guaranteed by Vedanta Ltd*

Criteria details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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