

Rating Action: Moody's assigns Baa3 to Adani Ports and Special Economic Zone's proposed bonds

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Singapore, June 21, 2019 -- Moody's Investors Service has assigned a Baa3 rating to the proposed senior unsecured bonds of Adani Ports and Special Economic Zone Limited (APSEZ).

The issuer rating and the rating of APSEZ's existing senior unsecured bonds remain unchanged at Baa3.

The outlook on the ratings is stable.

APSEZ will apply the proceeds of the USD bond issuance to capital expenditure, refinancing part of existing indebtedness and other permissible uses under the external commercial borrowings guidelines.

The bonds will represent a senior unsecured obligation and will rank equally with all of APSEZ's existing and future unsecured and unsubordinated indebtedness.

RATINGS RATIONALE

APSEZ's Baa3 issuer rating primarily reflects the company's strong market position as the largest port developer and operator in India by cargo volume, and the strength of its landmark Mundra Port concession in Gujarat.

The Baa3 issuer rating is also predicated on the company continuing to execute its various projects within time and cost budgets, while adhering to regulatory approval processes to minimize the risk of future difficulties.

Given that the ranking of the USD bonds are pari passu to all of APSEZ's existing and future unsecured and unsubordinated debt, the rating of these bonds follow that of its existing senior unsecured bonds issued in 2015 and 2017 respectively.

APSEZ reported a strong 13% year-on-year growth in container traffic in fiscal 2019 (the 12 months ended 31 March 2019). Such traffic contributed 41% of the total cargo handled by APSEZ during the same period.

Moody's expects that APSEZ's performance will be driven by the ramp up of capacity relating to its recently commissioned ports and terminals, and further increase of share of containers, with the addition of new terminals to its portfolio.

Moody's will unlikely upgrade the ratings in the near term, given the company's business profile and financial strategy.

Nevertheless, Moody's could upgrade the ratings over the longer term, if APSEZ continues to improve its operating performance and business mix, and undertakes permanent deleveraging, as demonstrated by funds from operations (FFO)/debt rising above 30% on a consistent basis.

However, Moody's could downgrade the ratings if cargo volumes decline, resulting in the company's financial metrics deteriorating beyond the parameters of its Baa3 ratings category. In particular, Moody's would consider downgrading the ratings if APSEZ demonstrates on a sustained basis, an FFO/debt below 15%-18% and a cash interest cover below 2.75x-3.00x. The reinstatement of related-party loans could also pressure the ratings.

The principal methodology used in this rating was Privately Managed Port Companies published in September 2016. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

Adani Ports and Special Economic Zone Limited is a major private-sector participant in India's logistics chain. It operates 10 port concessions around the country at varying stages of development.

The company's landmark concession is the Mundra Port and the Special Economic Zone (SEZ) surrounding the port in Gujarat.

APSEZ is the largest port developer and operator in India when measured by volume, with coal and other dry bulk terminals showing an annual capacity of 378 million tonnes.

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