JSW Infrastructure Limited

December 09, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Short-term bank facilities	330.00 (Enhanced from 280.00)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**330.00** **(₹ Three hundred thirty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the rating assigned to the short-term bank facilities of JSW Infrastructure Limited (JSWIL) due to the strategic and geographic importance to the JSW group with take-or-pay(TPA) arrangements and the management's ability to execute large projects.

The rating derives strength from the increase in the consolidated cargo volumes, which was primarily driven by growth at Jaigarh and Dharamtar along with completion of capex and commencement of operations at the Paradip East Quay Coal Terminal and Mangalore Container Terminal. In the medium term, the ramp-up in production volumes of JSWSL owing to benefit of completed capex augur well for the cargo visibility prospects of JSWIL. The rating also takes cognisance of the improvement in the debt coverage indicators marked by consolidated net debt to PBILDT at 3.29x (as on March 31, 2022) along with improvement in its debt maturity profile with raising of long-term foreign currency sustainability-linked bonds for refinancing of its existing debt at subsidiary and parent level. Furthermore, net debt/PBILDT is expected to strengthen further to below two times by end of March 2023. The rating further derives strength from robust growth in its scale of operations and cash accruals with strengthening of liquidity.

The rating strengths, are, however, tempered on account of limited hinterland prospects for third-party cargo and large reliance on coastal and road transportation for evacuation at the Jaigarh port. Concentrated cargo profile of JSWIL mainly in handling of coal and iron ore with lower share from third-party cargo continue to remain credit weakness. Furthermore, large proportion of group cargo exposes JSWIL to the inherent risk related to decline in cargo handling rates through renegotiation of contract or bulk discount. Nevertheless, savings in freight cost for JSWSL owing to its proximity to ports locations and comparable cargo handling rates with other minor ports mitigate this risk. Moreover, there has not been any downward revision in cargo handling rates of JSW Jaigarh and JSW Dharmtar in the last 10 years as articulated by management. Going forward, significant downward revision in cargo handling rate and its impact on profitability shall be key rating monitorable.

The continued restrictions on the operations of the southwest port, revenue sharing arrangement with limited pricing flexibility at terminals located on major ports and any potential acquisition risk are other credit weaknesses. There is also foreign currency risk w.r.t to the unhedged principal portion of the foreign currency bonds. However, the coupon interest is naturally hedged.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant scale-up of operations with substantial improvement in the third-party cargo along with diversification in cargo categories, alleviating revenue concentration risk towards group companies.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant debt-funded capex/inorganic acquisition resulting in net debt/PBILDT beyond 3x on a sustained basis.
- Overall gearing surpassing 1.75x level.
- Deterioration in the business linkages and financial profile of counterparties-JSW group companies impacting the revenue visibility of JSWIL.
- Significant decline in cargo handling rate impacting profitability

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating strengths

Strategic importance to the JSW group and favourable outlook for industry:

Due to its presence on major ports, such as Paradip, Mangalore, Kamarajar and Mormugao, along with ownership of Jaigarh and Dharamtar ports, JSWIL has strategic importance to JSWSL, the flagship entity of the JSW group, as well as to JSW Energy Limited (JSWEL). The various port special purpose vehicles (SPVs) cater to the cargo needs of the Dolvi, Vijaynagar and Salem plants of JSWSL and the energy plant of JSWEL. JSWSL has recently completed expansion at the Dolvi plant with capacity from 5 MMTPA to 10 MMTPA and undertaking brownfield expansion at the Vijaynagar plant by 5 MMTPA. In the medium term, ramp-up in production volumes of JSWSL owing benefit of completed capex augur well for the cargo visibility prospects of JSWIL.
The ports under JSWIL, i.e., Jaigarh Port, Dharamtar Port and Ennore Terminals have TPAs with JSWSL and JSWEL. Though some of these ports have TPAs for lower quantity, the overall actual cargo volumes handled at the ports is higher. The TPAs were around 40% of the cargo handled during FY22. However, JSWSL has historically been sourcing almost its entire cargo requirements from JSWIL and intends to continue to do so on account of the competitive charges and lower logistics costs due to proximity to its plants in Maharashtra and Karnataka, which provides good cargo visibility for JSWIL.

Healthy growth in cargo volumes and completion of under-construction projects:

The overall consolidated cargo volumes (excluding transhipment) has increased from 45.54 MMT in FY21 to 61.94 MMT in FY22 on the back of increase in cargo volumes at Jaigarh, Dharamtar and Ennore coal terminal. Transhipment cargo handled at the Jaigarh port for JSWSL was 7.88 MMT, leading to the total cargo volumes in FY22 at 69.82 MMT. The Jaigarh port and the Dharamtar port showed healthy growth in volumes handled owing to operationalisation of the nearby Dolvi plant of JSWSL. There has been a cargo growth of 45% in the three acquired terminals at Ennore and Mangalore. Besides, during FY22, JSWIL has commissioned its under-construction projects at Paradip East Quay Terminal with cargo handling capacity of 30 MMTPA from September 2022 and Mangalore Container Terminal with cargo handling capacity of 4.2 MMTPA from March 2022, which shall further aid cargo volumes going forward.

During H1FY23 (provisional; refers to the period April 01 to September 30), JSWIL handled a consolidated cargo of 42.40 MMT (excluding transhipment). The impact of export duty levied on iron ore, pellets and few steel products on cargo volume of JSWIL is partly mitigated due to increase in production volumes by JSWSL and higher fossil-based energy demand.

Geographically-diversified port locations:

JSWIL has two minor ports (Jaigarh and Dharamtar) on the western coast, while it has seven operational terminals on the major ports as on March 31, 2022. Amongst the seven port terminals, two are located on the eastern coast (Paradip Iron Ore and Coal Terminals), two on the south-eastern coast (Ennore Coal and Bulk Terminals), two on the south-west coast (Mangalore Coal and Container Terminals) and one on the western coast (Mormugao), leading to geographically-diverse presence for JSWIL. Furthermore, all port terminals have the benefit of ready infrastructure of major port trust for the cargo evacuation ably supported by the dredging and coordinating requirements fulfilled by the port authorities.

Besides, the ports are favourably located in the vicinity of the JSW group companies, with Paradip terminal located near the coal and iron ore mines in Orissa and the Ennore, Mormugao and Mangalore terminals near the plants of JSWSL in Vijaynagar and Salem and the Nandyal plant of JSW Cement.

The Dharamtar port is strategically located in the proximity of the JSWSL Dolvi plant and acts as a captive port for the plant for import of coal/coke and iron ore. However, since the Dharamtar port is a river jetty and cannot handle large vessels, most of the cargo at Dharamtar is transhipment from the Jaigarh port, transported in smaller barges and mini bulk carriers, both Jaigarh and Dharamtar acting as twin ports. The Jaigarh port is also adjacent to the JSWEL Ratnagiri plant and the entire coal requirement for the plant is imported through this port.

Growth in operations with healthy profitability at consolidated level:

Owing to ramp-up in cargo during FY22, JSWIL reported a healthy growth in its total operating income (TOI), which grew by around 42% to ₹2,294 crore during FY22 (FY21: ₹1,616 crore). JSWIL also reported a healthy profitability with a PBILDT margin of 49.27% during FY22 as against 51.30% in FY21. However, owing to increase in the interest cost (due to foreign exchange rate loss along with interest of the two recently completed capex plans), JSIWL reported a decline in the profit after tax (PAT) margin to 13.99% during FY22 (FY21: 17.61%). However, it reported a strong gross cash accruals (GCA) of ₹728 crore (FY21: ₹600 crore).

During H1FY23, JSWIL reported a TOI of ₹1,489 crore with a PBILDT margin of 51.90%. Going forward, PBILDT margins are envisaged to remain healthy due to the ramp-up in cargo volumes at the Paradip East Quay terminal apart from captive requirements for JSWSL.

Comfortable capital structure with improvement in debt coverage indicators:
JSWIL has a comfortable capital structure marked by an overall gearing (based on net debt) of 1.07x as on March 31, 2022. During January 2022, JSWIL raised USD 400 million foreign currency sustainability linked bonds at 4.95% for a tenor of seven years, proceeds of which were utilised towards refinance of its existing term debt at subsidiary and holding company (holdco) level along with funding of capex requirements. This has resulted in improvement in the overall debt maturity profile of JSIWL with around 76% of the total debt outstanding as on March 31, 2022, having a maturity after five years.

JSWIL also earns marine income, which is USD denominated, providing a natural hedge to the interest coupon foreign currency outflow. However, the principal repayment of bond, which falls due in FY29 is unhedged, exposing JSWIL to the inherent forex risk.

Net debt/PBILDT has also improved from 4.68x in FY21 to 3.29x in FY22 and further to 2.18x during Q1FY23 due to expansion of PBILDT and benefit of completed capex. With no significant capex planned in the near term and expansion in the PBIDLT levels through cargo ramp-up on account of operations of the recently-completed projects, net debt/PBILDT is expected to improve further and remain below 2x. However, JSWIL remains exposed to any event-based large-sized acquisition or green field project execution risk which shall remain key rating monitorable.

Experienced management and the JSW group's ability to execute large projects in diversified sectors:
JSWIL is a part of the Sajjan Jindal group and is led by an experienced and resourceful management. JSWIL is committed to the development of infrastructure and operations for ports for the JSW group. It has successfully executed large infrastructure projects such as commissioning of the port terminals at the Mormugao Port, setting up a green-field port at Jaigarh, Ratnagiri, construction of an Iron Ore and Coal terminal at Paradip along with development of Mangalore Container Terminal. The rating derives comfort from the group's demonstrated ability to execute large infrastructure projects and financial resourcefulness of the promoters.

Key rating weaknesses
Competition from other ports and terminals and risk of concentration of cargo:
JSWIL faces competition from the minor ports on the eastern and western cost. Furthermore, terminals of major ports also face some competition from other terminals located on the same port. Besides, third-party cargo stood at around 27% of the consolidated cargo of FY22. Moreover, cargo profile of JSWIL which was concentrated to largely coal and iron ore constituting 90% of the total cargo handled for FY22, exposing it to the inherent cyclicity of the steel industry and energy demand from thermal plants. Moreover, share of the group cargo is less likely to improve in the near term on account of large capacity addition by JSWSL. Furthermore, large proportion of the group cargo exposes JSWIL to the inherent risk related to decline in cargo handling rates through renegotiation of contract or bulk discount. Nevertheless, savings in freight cost for JSWSL owing its proximity to ports locations and comparable cargo handling rates with other minor ports mitigate this risk. Moreover, there has not been any downward revision in cargo handling rates of JSW Jaigarh and JSW Dharmtar in the last 10 years as articulated by management. Going forward, significant downward revision in cargo handling rate and its impact on profitability shall be key rating monitorable.

Limited hinterland prospects at Jaigarh port:
Even though cargo volumes have witnessed healthy growth during FY22 and H1FY23 driven by volumes from the Dolvi plant of JSWSL, yet the Jaigarh port has limited hinterland prospects for third-party cargo along with reliance on coastal and road transportation for cargo evacuation which leads to higher reliance on the JSW group for cargo volumes. The cargo volume (including transhipment) witnessed a movement for the Jaigarh port from around 13.71 MMT in FY21 to 21.89 MMT in FY22 as against capacity of 50 MMTPA, pegging the berth occupancy rate at 43% for FY22. However, considering pricing flexibility at the Jaigarh port being a non-major port, it has resulted in strong profitability with ROCE of the Jaigarh port improving from 6.99% during FY21 to 13.75% during FY22.

Relatively higher revenue sharing with limited pricing flexibility for terminals at major ports:
As per their concession agreements, the terminals at major ports are required to pay a revenue sharing of around 21%-31% barring 1 Terminal where the revenue share is 52.52% to major port trusts. Furthermore, some of these terminals are required to pay as per minimum guaranteed tonnage in case of under achievement of cargo performance. Furthermore, pricing at these

terminals are governed by Tariff Authority of Major Port (TAMP) leading to limited pricing flexibility, however, the corporatised rate structure at the Ennore Coal and the Ennore Bulk terminals provides pricing flexibility despite the high revenue share. Hence, considerable revenue sharing with limited pricing flexibility increases market risk for these terminals especially for Paradip East Quay where large capacity is to be tied up with the third party. However, during H1FY23, Paradip East quay reported a cargo volume of 4.78 MMT. Going forward, the ramp-up of cargo volumes at Paradip as envisaged is key rating monitorable. The operations of South West Port Limited (SWPL), Mormugao were also impacted due to pollution-related issues in the past although some relief in cargo handling capacity has been granted subsequently.

Liquidity: Strong

JSWIL has a strong liquidity position on a consolidated level marked by sufficient cushion in accruals vis-à-vis repayment obligations and sufficient liquid investments (including unencumbered cash and bank balance) to the tune of ₹1,026 crore as on March 31, 2022, besides unutilised working capital limits.
The receivable period also improved from 104 days during FY21 to 81 days in FY22. Receivables more than six months stood at ₹109 crore as on March 31, 2022; however, those are largely from the group companies, diluting credit risk to an extent.

Analytical approach

Consolidated approach is considered on account of the operational and financial linkages with its subsidiaries. JSW Dharamtar Port Private Limited, JSW Jaigarh Port Limited, South West Ports Limited, JSW Paradip Terminal Private Limited, Paradip East Quay Coal Terminal Ltd, Ennore Bulk Terminal Private Limited, Ennore Coal Terminal Private Limited, Mangalore Coal Terminal Private Limited, JSW Mangalore Container Terminal Private Limited and other subsidiaries have been consolidated. The cargo handled of the JSW group comprises 73% of cargo handled by JSWIL on a consolidated basis for FY22. Furthermore, Jaigarh, Dharamtar and SWPL ports have strategic importance for raw material procurement by JSW Steel Ltd, and hence, the rating of JSWIL also factors linkages with JSW Steel. The list of entities consolidated is annexed as Annexure-6.

Applicable criteria

Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Investment holding companies
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Ports Project
Policy on default recognition
Policy on Withdrawal of Ratings

About the company

JSWIL, incorporated in the year 2006, is a part of the JSW group and is engaged in the business of developing infrastructure and operations for ports across India. JSWIL through its subsidiaries has two minor ports, namely, Jaigarh and Dharamtar in Maharashtra, seven operational terminals at major ports (one at Mormugao and two at Mangalore, on the South west coast, and four on eastern coast [two each at Paradip and Ennore]).

JSWIL has successfully commissioned under-construction terminals at major ports, namely, Paradip East Quay Terminal and Mangalore Container Terminal. JSWIL provides project management services to the SPVs formed for the specific projects during the implementation of the project and also provides cargo handling services at ports after commissioning.

As on March 31, 2022, JSWIL has total operational capacity of around 157.4 MMTPA. JSWIL has also entered into an agreement with Port of Fujairah (POF) for operation and maintenance of bulk handling system of cargo at two berths at the Fujairah Port. JSWIL also holds 100% stake in two companies, namely, Masad Marine Services Private Ltd. and JSW Salav Port Private Ltd., that are involved in providing consultancy services in developing ports in Maharashtra, at Masad and Salav, respectively.

Brief Consolidated Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1,616	2,294	1,489
PBILDT	829	1,130	773
PAT	285	321	179
Overall gearing (times)	1.36	1.37	NA
Interest coverage (times)	4.75	3.55	5.33

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-Bank overdraft	-	-	-	-	10.00	CARE A1+
Fund-based - ST-Term loan	-	-	-	February 2023	150.00	CARE A1+
Non-fund-based - ST-Bank guarantee	-	-	-	-	170.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-Bank guarantee	ST	170.00	CARE A1+	1)CARE A1+ (20-Sep-22) 2)CARE A1+ (26-Jul-22)	1)CARE A1+ (16-Aug-21)	1)CARE A1+ (06-Jan-21) 2)CARE A1+ (CWD) (17-Nov-20)	1)CARE A1+ (28-Jan-20)
2	Fund-based - LT-Term loan	LT	-	-	-	-	-	1)Withdrawn (28-Jan-20)
3	Fund-based - ST-Term loan	ST	150.00	CARE A1+	1)CARE A1+ (20-Sep-22) 2)CARE A1+ (26-Jul-22)	-	-	-
4	Fund-based - ST-Bank overdraft	ST	10.00	CARE A1+	1)CARE A1+ (20-Sep-22) 2)CARE A1+ (26-Jul-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - ST-Bank overdraft	Simple
2	Fund-based - ST-Term loan	Simple
3	Non-fund-based - ST-Bank guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please click here

Annexure-6: List of Entities Consolidated

Name of the Company	% holding as on March 31, 2022 (either directly or through subsidiaries)
JSW Jaigarh Port Limited	100%
South West Port Limited	74%
JSW Shipyard Private Limited	100%
JSW Nandgaon Port Private Limited	100%
JSW Dharamtar Port Private Limited	100%
JSW Mangalore Container Terminal Private Limited	100%
Masad Marine Services Private Limited	100%
Jaigarh Digni Rail Limited	63%
JSW Salav Port Private Limited	100%
JSW Paradip Terminal Private Limited	93.24%
Paradip East Quay Coal Terminal Pvt. Ltd.	93.24%
Ennore Coal Terminal Private Limited	100%
Ennore Bulk Terminal Private Limited	90%
Mangalore Coal Terminal Private Limited	100%
Southern Bulk Terminals Private Limited	100%
JSW Terminal Middle East FZE	100%

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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