

JSW Infrastructure Limited

August 16, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short term Bank Facilities	70.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	70.00 (Rs. Seventy crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the short-term bank facilities of JSW Infrastructure Limited (JSWIL) takes cognizance of the significant ramp up expected in the consolidated cargo volumes driven by growth at Jaigarh, Dharamtar and Paradip locations, and commencement of operations at the Paradip East Quay Coal Terminal due by November 2021. Completion of expansion at Dolvi plant (Maharashtra); planned capacity addition at Vijaynagar plant of JSW Steel Ltd (rated 'CARE AA; Stable/ CARE A1+') combined with robust demand outlook for the steel sector enhances cargo visibility for JSWIL at consolidated level. The rating also considers substantial completion of large-sized debt-funded projects/acquisition by JSWIL with no further debt-funded capex planned in the medium term. Hence, expansion in PBILDT through sustained cargo ramp up and gradual debt rationalization is expected to improve the total debt/PBILDT to around three times at the end of FY22 (refers to the period April 1 to March 31) from its peak level of 4.73 times at the end of FY21 at consolidated level.

The rating continues to derive strength from the demonstrated ability of the group to execute large projects in diversified sectors, strategic importance of the ports to the JSW group and geographically diversified port locations in vicinity of the JSW group companies.

However, the rating strengths are tempered by the lower berth occupancy rate at Jaigarh port, due to the slow developing hinterland and large reliance on coastal and road transportation for evacuation of third-party cargo from the port. Restrictions on the operations of Southwest port, revenue sharing arrangement with limited pricing flexibility at terminals located on major ports increasing market risk and concentrated cargo profile with lower share from third-party cargo, amid competition faced from other ports /terminals located on western and eastern coast are other credit weaknesses. However, share of third-party cargo has steadily increased from 10% in FY19 to 30% in FY21 and is expected to grow further with addition of capacity at diverse locations.

Rating Sensitivities

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

- Improvement in total debt/PBILDT to less than 2 times on sustained basis along with ramp up of consolidated cargo volumes
- Significant increase in the third party-cargo throughput at its ports thereby alleviating revenue concentration risk towards group companies

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

- Significant debt-funded project expansion or inability to ramp up the cargo volumes as envisaged, resulting in consolidated total debt/PBILDT beyond 3.50 times on sustained basis
- Overall gearing surpassing 1.75x levels
- Deterioration in the financial profile of counterparties-JSW group companies impacting the revenue visibility of JSWIL

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management and 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 for ports, air ports, shipyard, etc., for the JSW group. It has successfully executed large infrastructure projects such as commissioning of the port terminals at Mormugao Port, setting up a green-field port at Jaigarh, Ratnagiri, construction of an Iron Ore and Coal terminal at Paradip. The ratings derive comfort from the group's demonstrated ability to execute large infrastructure projects and financial resourcefulness of the promoters.

Strategic importance to the JSW group and favorable outlook for the steel industry rendering strong cargo visibility: Because of 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 JSW Steel Limited (JSWSL, rated 'CARE AA; Stable/CARE A1+'), the flagship entity of the JSW group and to JSW Energy Limited (JSWEL). The various port special purpose vehicles (SPVs) cater to

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

the cargo needs of the Dolvi, Vijaynagar and Salem plants of JSWSL and the Energy plant of JSWEL. The Dolvi plant and Vijaynagar plant of JSWSL are expected to expand their capacity from 5 MMTPA and 12 MMTPA, respectively, to 10 MMTPA and 19.5 MMTPA, respectively, resulting in increased cargo requirement for JSWIL. CARE Ratings expects the domestic steel demand to grow at a compounded annual growth rate (CAGR) of 7.50% till FY23-FY24 aiding volume growth for the cargo of JSWIL. Furthermore, JSWSL has recently completed the expansion of Dolvi plant which is expected to ramp up the cargo of Dharamtar and Jaigarh port for FY22.

The ports under JSWIL i.e Jaigarh Port, Dharamtar Port and South West Port have take-or-pay agreements (TPAs) with JSWSL and the Paradip Ports and the acquired terminals at Ennore and New Mangalore shall be entering into similar arrangements with JSWSL effective FY22. Though some of these ports have TPAs for lower quantity, the actual cargo volumes handled at the ports is much higher. However, JSWSL has historically been sourcing almost its entire cargo requirements from JSWIL and intends to continue to do so on account of competitive charges and lower logistics costs due to proximity to its plants in Maharashtra and Karnataka, which provides good cargo visibility for the JSWIL. Jaigarh Port has long term TPA with H-Energy for LNG Cargo assuring third party cargo/ revenue.

Envisaged improvement in leverage due to expected ramp up of cargo volumes and completion of large-sized debt-funded projects/ acquisitions: During FY19-FY21, JSWIL has incurred substantial capex for (i) establishing green-field coal terminal of 30 million metric tonne per annum (MMTPA) at Paradip; (ii) acquisition of three bulk terminals on the South east and South West coast from the Chettinad group; (iii) capacity expansion at Dharamtar and Jaigarh ports; (iv) establishing green-field iron ore terminal at Paradip; and (v) upgradation of container terminal at New Mangalore. Aggregate cash outflow towards aforementioned capex during FY19-FY21 was around Rs.2,400 crore which was funded with the debt of around Rs.2,000 crore and balance through internal accruals. Hence, debt-funded capex pending commensurate increase in the cargo volumes led to increase in total debt/PBILDT from 3.10 times in FY19 to 4.73 times in FY21. Nevertheless, JSWIL has completed all the capex by March 2021 except for coal terminal at Paradip and upgradation of container terminal at New Mangalore which are expected to commence by December 2021. Completion of substantial capex leading to capacity addition at diverse locations has resulted in growth in the consolidated cargo volumes from 30.83 MMT in FY20 to 45.55 MMT in FY21. Transshipment cargo handled at Jaigarh Port for JSWSL was 4.47 MMT leading to the total cargo volumes in FY21 at 50.02 MMT. This is expected to ramp up further in FY22 due to increase in cargo requirement for JSWSL, benefit of the full year operations for the three acquired terminals and commencement of coal terminal at Paradip from November 2021. The same has also been collaborated from ramp up of consolidated cargo volumes to 17.34 MMT in Q1FY22. Total debt/PBILDT improved to 3.33 times on consolidated basis during Q1FY22 on account of ramp up of cargo volumes while maintaining debt levels. Hence, expansion in PBILDT through cargo ramp up with gradual debt rationalization is expected to improve the total debt/PBILDT to around 3.0 times in FY22 from its peak level of 4.73 times in FY21. Going forward, JSWIL's ability to ramp up the cargo volumes as envisaged is crucial from the credit perspective. Furthermore, the rating will remain sensitive to any deterioration in debt/PBILDT beyond 3.50 on a sustained basis.

Geographically diversified port locations in vicinity of the JSW group companies with benefit of infrastructure of major ports at the terminals: JSWIL has two minor ports (Jaigarh and Dharamtar) on the western coast while it has five operational terminals and two under-construction terminals on the major ports as on March 31, 2021. Amongst the seven port terminals, 2 are located on the eastern coast (Paradip Iron Ore & Coal Terminals), 2 on the South Eastern Coast (Ennore Coal & Bulk Terminals), 2 on the South West Coast (Mangalore Coal & Container Terminals) and Mormugao on the Western Coast leading to geographically diverse presence for JSWIL. Furthermore, all port terminals have 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.

Further, they are favourably located in the vicinity of JSW group companies, with Paradip terminal located near the coal 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.

Furthermore, Dharamtar port is favourably 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, Dharamtar port is a river jetty and hence cannot handle large vessels, thus, most of the cargo at Dharamtar is transshipment from Jaigarh port, transported in smaller barges and mini bulk carriers and both Jaigarh and Dharamtar act as twin ports. Moreover, Jaigarh port is adjacent to the JSWEL Ratnagiri plant and the entire coal requirement for the plant is imported through the port.

Through-put agreements with subsidiaries for cargo handling services: JSWIL provides cargo handling and project management services to its group entities. It has entered into cargo handling agreements with its subsidiaries - South West Port (Mormugao), Jaigarh Port, Dharamtar Port, Paradip Iron Ore Terminal, Ennore Bulk Terminal, Ennore Coal Terminal and group company JSW Steel Ltd. Existence of the throughput agreements provides steady revenue visibility for JSWIL.

Key Rating Weaknesses

Relatively lower berth occupancy rate of Jaigarh port albeit with pricing flexibility being non-major port

Cargo volume witnessed a movement for Jaigarh port from ~ 20.12 MMT in FY19 to 13.71 MMT in FY21 as against capacity of 40 MMTPA pegging the berth occupancy rate at 34% for FY21. While the JSW Group cargo was available for the Dolvi plant of JSWSL, lower third-party cargo owing to moderate hinterland prospects and large reliance on marine and road transportation contributed to the moderate berth occupancy rate. Although JSWIL has pricing flexibility at Jaigarh port being non-major port, moderate berth occupancy rate pulled down consolidated ROCE of JSWIL. Going forward, JSWIL envisages ramp up in cargo volume of Jaigarh port due to imports of cargo requirement for Dolvi plant of JSWSL through capsized vessels and increase in third party cargo led by favourable outlook for sugar exports along with LNG cargo of H-Energy.

Restrictions on operations of South West port – Mormugao, Goa impacting cargo requirement for group companies: JSWIL received an interim order from Goa State Pollution Control Board in January 2018 revoking the consent to operate granted to South West Port Limited (SWPL), for allegedly handling excess coal/coke than permitted limits and purporting air pollution issues in Vasco. In April 2018, the company received the interim stay order from Goa high court against the order of GSPCB and was eventually granted a consent with revised quantities by GSPCB for continuing the handling of coke/coal cargo at port from FY19. In July 2018, the port received approval from GSPCB to handle up to 0.4 million tonne (around 4.8 million tonne per annum [MMTPA]) of coal and coke throughput per month at the port till March 2019, and the same was extended till March 2020. Furthermore, during August 2020, approval was given for handling total cargo of 8.5 MTPA (5.5 MTPA of coal, 1 MTPA of limestone and 2 MTPA of steel slab) till December 2023. On account of increase in the cargo handling capacity, the total cargo handled at South West Port increased marginally from 5.25 MMT in FY19 to 6.61 MMT in FY20 and 6.83 MMT in FY21. Furthermore, the management at SWPL anticipates the cargo volumes to increase going forward on account of pending application with the authorities to increase the cargo handling permissible limits to around 12 - 14 MTPA. Increase in cargo handled at SWPL as envisaged without any further restrictions remains a key rating monitorable.

Relatively higher revenue sharing with limited pricing flexibility for terminals at major ports increasing market risk

As per their concession agreements, terminals at major ports are required to pay a revenue sharing of ~ 21%-31% barring 1 Terminal where the revenue share is 52.52 % to major port trusts. Further, 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 corporatized rate structure at Ennore Coal and 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 coal terminal where large capacity is to be tied up with the third party. Going forward, ramp up of cargo volumes at Paradip coal terminal as envisaged is key rating monitorable.

Competition from other ports and terminals and risk of concentration of cargo: JSWIL faces competition from the minor ports on the eastern and western coast. Furthermore, terminals of major ports also face some competition from other terminals located on the same port. Besides, third-party cargo stood at around 30% of consolidated cargo of FY21. Moreover, cargo profile of JSWIL which was concentrated to largely coal and iron ore exposing it to the inherent cyclicity of the steel industry and improvement in the availability of domestic coal. However, share of third-party cargo, has steadily increased from 10% in FY19 to 30% in FY21 contributed by the acquisition of the Ennore and New Mangalore terminals and commencement of operations at Paradip iron ore terminal. This is expected to improve further with addition of capacity at diverse locations. Going forward, JSWIL plans to ramp up third party cargo at its ports to achieve a cargo mix of 60:40.

Liquidity Analysis

Liquidity: Strong

Strong liquidity on a consolidated level characterized by sufficient cushion in accruals vis-à-vis repayment obligations and sufficient liquid investments (including unencumbered cash balance) to the tune of Rs.264 crore as on March 31, 2021. The working capital limits of Rs.75 crore (total of JSWIL, JSW Dharamtar Port Private Limited (JSW Dharamtar), JSW Jaigarh Port Limited (JSW Jaigarh), South West Port Limited (SWPL) and Ennore Bulk Terminal Private Limited (EBTPL)) are fully unutilized as on May 31, 2021, providing additional liquidity comfort.

However, as on March 31, 2021, trade receivables within the credit period stood at Rs.238 crore, out of which, more than 181 days stood at Rs.31 crore. However, as per the management, the receivables are largely from group companies as the transactions were done on an arm's-length basis and the receivables are realizable on demand.

Analytical approach: Consolidated approach is considered on account of operational and financial linkages with its subsidiaries. JSW Dharamtar Port Private Limited, JSW Jaigarh Port Limited, South West Port Limited, JSW Paradip Terminal Private Limited, Paradip East Quay Coal Terminal Pvt 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. Cargo handled of the JSW group comprises 70% of the cargo handled by JSWIL on a consolidated basis. Furthermore, JSW Jaigarh, JSW Dharamtar and SWPL ports have strategic importance for raw material procurement by JSW Steel Ltd (rated 'CARE AA; Stable'), and hence the rating of JSWIL also factors linkages with JSW Steel. The list of entities consolidated is annexed as Annexure 3.

Applicable Criteria

[CARE's Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Consolidation](#)

[Rating of loans by investment holding companies](#)

[Rating Methodology - Port Projects](#)

[Rating Methodology - Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non-financial sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short Term Instruments](#)

About the Company

JSW Infrastructure Limited (JSWIL), incorporated in the year 2006, is part of the JSW group and is engaged in the business of developing infrastructure for ports, shipyard, roads and rail connectivity across India. JSWIL through its subsidiaries has two minor ports, namely, Jaigarh and Dharamtar in Maharashtra, five operational terminals at major ports (one at Mormugao and Mangalore each, on the South west coast, and one on eastern coast at Paradip and two at South eastern coast at Ennore). JSWIL also has two under-construction terminals at major ports, namely, Paradip and Mangalore. 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 July 31, 2021, JSWIL has total operational capacity of around 127.74 MMTPA and is in the process of expanding its capacity at existing ports and green-field projects, post which, the total operational capacity is expected to increase to 200 MTMPA by FY23.

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. However, these capex plans have been discarded as articulated by the management.

Brief Consolidated Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1,210	1,673
PBILDT	686	886
PAT	197	285
Overall gearing (times)	1.16	1.36
Interest coverage (times)	2.63	5.08

A: Audited; Note: Financials are classified as per CARE's criteria

Based on provisional unaudited results, JSWIL reported total operating income of Rs.572 crore and PAT of Rs.109 crore for Q1FY22.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated facility: Not Applicable

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

Annexure-1: Details of Facilities

Name of the Facility	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantees	-	-	-	70.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-Bank Guarantees	ST*	70.00	CARE A1+	-	1)CARE A1+ (06-Jan-21) 2)CARE A1+ (CWD) (17-Nov-20)	1)CARE A1+ (28-Jan-20)	1)CARE A1+ (14-Dec-18)
2.	Fund-based - LT-Term Loan	LT*	-	-	-	-	1)Withdrawn (28-Jan-20)	1)CARE AA-; Stable (14-Dec-18)
3.	Debentures-Non Convertible Debentures	LT*	-	-	-	-	-	1)Withdrawn (20-Jul-18)

*ST - Short term/LT - Long Term

Annexure 3: List of entities consolidated

Name of the Company	% holding as on March 31, 2021
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%
JSW Terminal Middle East FZE	100%

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

Sr No	Name of instrument	Complexity level
1	Non-fund-based - ST-Bank Guarantees	Simple

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

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