JSW Dharamtar Port Private Limited

September 20, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	92.71 (Reduced from 260.05)	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Short-term bank facilities	25.00 (Reduced from 30.00)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**117.71 (₹ One hundred seventeen crore and seventy-one lakh only)**		

Detailed rationale and key rating drivers

To arrive at the ratings of JSW Dharamtar Port Private Limited (JSW Dharamtar), a combined view of JSW Jaigarh Port Limited (JSW Jaigarh) and JSW Dharamtar has been considered.

The revision in the ratings assigned to the long-term bank facilities and the reaffirmation of the ratings assigned to the short-term bank facilities of JSW Dharamtar factors in the strong ramp-up of combined cargo volumes of JSW Jaigarh and JSW Dharamtar, leading to robust growth in its scale of operations and improvement in its profitability during FY22 (refers to the period from April 1 to March 31) and Q1FY23 (refers to the period from April 1 to June 30), thereby improving its leverage marked by net debt to PBILDT improving from 4.23x as on March 31, 2021, to 2.53x as on March 31, 2022. The completion of the expansion at the Dolvi plant (Maharashtra) of JSW Steel Ltd (JSWSL; rated CARE AA; Stable/CARE A1+) has aided in the ramp-up of cargo volumes at the Jaigarh and Dharamtar ports while resolving the issues of the moderate berth occupancy rate of JSW Jaigarh. In addition to the above, with no significant capex planned in the medium term and expansion in the PBILDT through sustained cargo ramp-up, the net debt/PBILDT is also expected to further improve in the medium term.

The ratings continue to derive strength from the demonstrated ability of the JSW group to execute large projects in diversified sectors, the strong parentage of JSW Infrastructure Limited (JSWIL; rated CARE A1+) and the strategic importance of the Jaigarh and Dharamtar ports to the JSW group due to the port locations in the vicinity of the JSW group companies. The long operational track record of the ports, the improved cargo performance at Dharamtar port, and the assured revenue stream from firm take or pay agreements (TPA), coupled with flexibility in tariff rates on the non-major ports, are other rating strengths.

The rating strengths are, however, tempered on account of the limited hinterland prospects for third-party cargo and the large reliance on coastal and road transportation for evacuation at the Jaigarh port. The concentrated cargo mix profile to iron ore and coal along with the lower share from third-party cargo, amid competition faced from other ports located on the Western coast are other credit weaknesses. The large proportion of the group cargo exposes the companies to inherent risks related to a decline in cargo handling rates through renegotiation of contracts or bulk discounts. Nevertheless, savings in freight cost for JSWSL owing to its proximity to port locations and comparable cargo handling rates with other minor ports mitigate this risk. Moreover, there has not been any downward revision in the cargo handling rates of JSW Jaigarh and JSW Dharmtar in the last 10 years, as articulated by management. Going forward, the significant downward revision in the cargo handling rates and its impact on profitability will be key rating monitorable.

Rating sensitivities

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

- Significant increase in third-party cargo throughput at its ports, resulting in reduced revenue concentration risk towards group companies and significant improvement in the cargo mix.

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 combined net debt/PBILDT) of more than 3x on a sustained basis.
- Deterioration in the business linkages and financial profile of the JSW group companies, impacting the cargo performance of JSW Dharamtar and JSW Jaigarh.
- Significant decline in the 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

Significant ramp-up in cargo volumes along with robust growth in revenue and improved profitability: The Jaigarh and Dharamtar ports showed healthy growth in volumes handled owing to the completion of the expansion of the nearby Dolvi plant of JSWSL. The cargo volume (including transhipment) at Jaigarh port increased from 13.71 MMT) during FY21 to 21.89 MMT during FY22 and further to 8.95 MMT during Q1FY23, thereby registering healthy y-o-y growth in the cargo volumes. The cargo volumes of Dharamtar port also increased from 12.90 MMT during FY21 to 17.21 MMT during FY22 and further to 5.81 MMT during Q1FY23. The combined cargo volumes, including transhipment, witnessed a healthy growth of around 47% during FY22. The increase in transhipment volumes for Dharmtar port has also improved the berth occupancy rate for Jaigarh port. Going forward, the berth occupancy rate is expected to improve further due to the ramp-up in transhipment volumes for JSW Dharmtar owing to the increase in captive cargo for JSWSL.

The combined total operating income (TOI) grew by around 45% to ₹1,213 crore during FY22 (FY21: ₹831 crore) along with an improvement in its PBILDT margin to 54.30% during FY22 as against 49.71% in FY21. It also reported a healthy profit-after-tax (PAT) margin of 23.16% during FY22 (FY21: 18.67%) and strong gross cash accruals (GCA) of ₹603 crore (FY21: ₹359 crore). The combined return on capital employed (ROCE) also improved from 8.47% during FY21 to 15.42% during FY22 on account of healthy growth in cargo volumes.

In the medium term, the ramp-up in the production volumes of JSWSL owing to the benefit of the completed capex augurs well for the cargo visibility prospects of JSW Jaigarh and JSW Dharamtar.

Improvement in the leverage: The combined capital structure remained comfortable, marked by an overall gearing (based on net debt) of 0.83x as on March 31, 2022. In January 2022, the parent, ie, JSWIL raised US$ 400 million in foreign currency sustainability-linked bonds at 4.95% for a tenor of seven years, the proceeds of which were utilised towards refinancing of its existing term debt at the subsidiary and holdco level along with the funding of capex requirements. This has resulted in the rationalisation of its external term debt through inter-corporate deposits (ICDs) received from JSWIL, leading to an improvement in the overall debt maturity profile of both entities. The net debt/PBILDT on a combined basis has improved from 4.23x in FY21 to 2.53x in FY22. Furthermore, with no significant capex planned in the near term and expansion in the PBIDLT levels through cargo ramp-up, the net debt/PBILDT is expected to improve further to below 2x as of FY23 end. Furthermore, the ICDs from the parent does not have any fixed repayment schedule and are payable upon sufficient accruals, which provides added comfort. On a combined level, JSW Dharamtar and JSW Jaigarh have outstanding foreign currency debt, however, the ports earn marine income, which is US Dollar denominated, providing a natural hedge to the foreign currency outflow.

Port locations in the vicinity of JSW group companies and multi-modal connectivity of Dharamtar port, resulting in improved cargo throughput at JSW Dharamtar: Due to the proximity of Dharamtar port to the Dolvi plant of JSWSL – the flagship entity of the group, and of Jaigarh port to the Ratnagiri plant of JSW Energy Limited (JSWEL), they have strategic importance to the JSW group.

JSW Dharamtar is located 22 km down from the mouth of the Amba river at Dharamtar, Mumbai, and serves as a captive port for JSWSL for the import of coal and coke and iron ore due to its proximity to the Dolvi plant. However, Dharamtar port is a river jetty, and hence, cannot handle large vessels; so, most of the cargo at Dharamtar are transshipments from Jaigarh port, transported in smaller barges and mini-bulk carriers. Nonetheless, JSW Dharamtar has handled a cargo volume of 17.21 MMT during FY22 as against a cargo volume of 12-13 MMTPA in the past years, rendering growth of above 30% on account of the increased capacity of the JSWSL Dolvi plant from 5 MMTPA to 10 MMTPA.

JSW Jaigarh is located between Mumbai (356 km) and Goa (250 km) in Dhamankul Bay, Jaigarh, Ratnagiri district, on the West coast, 42 km off the NH-17. The port is located in the protected lee of Jaigarh head with a 512-m-long breakwater and the siltation levels are low owing to the geographical location of the port. The port has a draft of around 18-19 m and the maintenance dredging cost is envisaged to be low, resulting in lower operating costs for JSW Jaigarh. The port is adjacent to JSWEL's Ratnagiri power plant (1.2 GW) and the entire coal for the plant is imported through the port.

Take or pay arrangement with JSW group companies: JSW Dharamtar and JSW Jaigarh have entered into TPA with JSWSL and JSWEL, providing assured revenue streams. While the TPAs are entered for minimal cargo, the overall actual cargo handled for JSWSL and JSWEL is higher as the transportation of cargo through Jaigarh and Dharamtar ports results in cost savings for JSWSL and JSWEL.

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 team. 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 the 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, along with the development of the Mangalore Container Terminal. The ratings derive comfort from the group's demonstrated ability to execute large infrastructure projects and the financial resourcefulness of the promoters.

Key rating weaknesses

Competition from other ports and terminals and risk of concentration of cargo: JSW Dharamtar and JSW Jaigarh face competition from Mundra, Kandla, Hazira, Dighi, and Mumbai ports located on the Western coast. Besides, third-party cargo stood at around 12.5% of the combined cargo of FY22. Moreover, the cargo profile, on a combined basis, is largely concentrated in coal and iron ore, constituting more than 90% of the cargo handled for FY22, exposing it to the inherent cyclicity of the steel industry and energy demand from thermal plants. Jaigarh port has limited hinterland prospects for third-party cargo along with the reliance on coastal and road transportation for cargo evacuation, which leads to higher reliance on the JSW group for cargo volumes. Moreover, the share of third-party cargo is less likely to improve in the near term on account of the large capacity addition by JSWSL. The large proportion of group cargo also exposes the port companies to inherent risks related to a decline in the cargo handling rates through the renegotiation of contracts or bulk discounts. Nevertheless, the savings in freight costs for JSWSL owing to its proximity to port 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 the management. Going forward, the significant downward revision in cargo handling rates and its impact on profitability will be key rating monitorable.

Liquidity: Strong

JSW Jaigarh has strong liquidity, marked by free cash and bank balances of ₹198 crore as on March 31, 2022, besides unutilised working capital limits against term debt repayment obligations of ₹104 crore during the period April 2022 to March 2023. As on June 30, 2022, it has free cash and bank balances of ₹231 crore.
JSW Dharamtar has also strong liquidity, marked by free cash and bank balances of ₹123 crore as on March 31, 2022, besides unutilised working capital limits against term debt repayment obligations of ₹35 crore during the period April 2022 to March 2023. As on June 30, 2022, it has free cash and bank balances of ₹172 crore.

Analytical approach: Combined (JSW Jaigarh and JSW Dharamtar)

JSW Jaigarh and JSW Dharamtar are fully-owned subsidiaries of JSWIL. Furthermore, JSW Jaigarh and JSW Dharamtar work as twin ports to meet the cargo handling requirements of the Dolvi plant of JSWSL, the flagship company of the JSW group. JSWSL imports materials at JSW Jaigarh and Mumbai anchorage for its raw material requirements and the same is transported to the Dharamtar port and finally transported to the Dolvi plant in barges. Considering JSW Dharamtar has expanded its capacity in line with the expansion of the Dolvi plant of JSWSL, going forward, larger vessels are expected at JSW Jaigarh and planned to be transported to the Dolvi plant of JSWSL in barges.

Applicable criteria

Policy on Default Recognition
Consolidation
Factoring linkages parent sub JV group
Financial ratios – Non-financial sector
Investment holding companies
Liquidity analysis of non-financial sector entities
Ports project
Rating outlook and credit watch
Short-term instruments
Policy on Withdrawal of Ratings

About the company

JSW Dharamtar, a wholly-owned subsidiary of JSWIL, was incorporated in September 24, 2012. It was set-up as an 'all weather' port (draft of 1.5 M) in Dolvi, located in the Raigad district of Maharashtra, to act as a captive facility for catering to the raw material requirements of the Dolvi steel plant of JSWSL adjacent to the port. The port is located at the South-east of Mumbai Harbour in the Dharamtar Creek in the estuary of the Amba River, extending to about 12 nautical miles upstream of the river. The Dolvi steel plant of JSWSL currently brings its raw materials through Supramax vessels up to Mumbai, and from the high sea brings the cargo to the Jetty through 2,000-3,500 tonne barges. The company has expanded its facilities in JSW Dharamtar, so that it can utilise JSW's Jaigarh port, from where transhipment can directly take place to JSW Dharamtar. The same will cater to JSWSL's (Dolvi plant) import requirements of coal and ore; considering the Dolvi plant's capacity has increased from 5-10 MMTPA. JSW Dharamtar has a cargo handling capacity of 34 MMTPA.

Brief Combined Financials of JSW Jaigarh and JSW Dharamtar (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY2023 (UA)
TOI	831	1,213	442
PBILDT	413	413	658
PAT	155	281	177
Overall gearing (times)	1.09	0.99	0.93
Interest coverage (times)	4.51	4.66	8.22

A: Audited; UA: Unaudited.

Brief Standalone Financials of JSW Dharamtar (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY2023 (UA)
TOI	166	292	101
PBILDT	85	165	62
PAT	67	120	49
Overall gearing (times)	1.07	0.72	0.66
Interest coverage (times)	4.54	6.50	11.19

A: Audited; UA: Unaudited.

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 the 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 - LT-Term loan		-	-	March 2027	92.71	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	5.00	CARE A1+
Fund-based - ST-Bank overdraft		-	-	-	20.00	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.	Fund-based - LT-Term loan	LT	92.71	CARE AA; Stable	-	1)CARE AA-; Stable (September 02, 2021)	1)CARE A+; Stable (January 06, 2021) 2)CARE A+ (CWD) (November 17, 2020)	1)CARE A+; Stable (January 28, 2020)
2.	Non-fund-based - ST-BG/LC	ST	5.00	CARE A1+	-	1)CARE A1+ (September 02, 2021)	1)CARE A1+ (January 06, 2021) 2)CARE A1+ (CWD) (November 17, 2020)	1)CARE A1+ (January 28, 2020)
3.	Fund-based - LT-Subordinated bank loan	LT	-	-	-	-	1)Withdrawn (January 06, 2021) 2)CARE A (CWD) (November 17, 2020)	1)CARE A; Stable (January 28, 2020)
4.	Non-fund-based - LT-BG/LC	LT	-	-	-	-	1)Withdrawn (January 06, 2021) 2)CARE A+ (CWD) (November 17, 2020)	1)CARE A+; Stable (January 28, 2020)
5.	Fund-based - ST-Bank overdraft	ST	20.00	CARE A1+	-	1)CARE A1+ (September 02, 2021)	1)CARE A1+ (January 06, 2021) 2)CARE A1+ (CWD) (November 17, 2020)	1)CARE A1+ (January 28, 2020)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Term debt/equity	Less than or equal to 3:1
Ii. Debt service coverage ratio (DSCR)	To be greater than 1.1x during first year and 1.2x from second year onwards
Iii. Fixed asset coverage ratio (FACR)	To be greater than 1.1x
B. Non-financial covenants	
I. Sponsor undertaking	Sponsor to unconditionally and irrevocably arrange to meet any shortfall in debt servicing throughout the tenor of the facility and retain management control.

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

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

Annexure-5: Bank lender details for this company

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

Note on complexity levels of the rated instruments: CARE Ratings Limited (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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