JSW Infrastructure Limited

July 26, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Short-term bank facilities	230.00 (Enhanced from ₹70.00)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**230.00 (₹ Two hundred thirty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the short-term bank facilities of JSW Infrastructure Limited (JSWIL) continues to remain underpinned by experienced management with demonstrated ability to execute large projects in diversified sectors, strategic importance of the ports to the JSW group along with geographically diversified port locations in vicinity of the JSW group companies.

The rating further derives comfort from gradual ramp up in the consolidated cargo volumes driven by growth at Dharamtar and Ennore Coal locations, completion of capex and commencement of operations at the Paradip East Quay Coal Terminal and Mangalore Container Terminal. Furthermore, completion of expansion at Dolvi plant (Maharashtra) of JSW Steel Ltd (rated 'CARE AA; Stable/ CARE A1+') has also aided in the ramp-up of cargo volumes at the Dharamtar port.

The rating further derives strength from robust growth in its scale of operations with healthy profitability during FY22 (refers to the period April 1 to March 31), improvement in its capital structure, improvement in its debt maturity profile along with strong liquidity position. JSWIL has raised long-term foreign currency sustainability linked bonds of USD 400 million for refinancing of its existing debt at subsidiary and parent level, which has significantly improved its debt maturity profile. Furthermore, with no significant capex planned in medium-term expansion in PBILDT through sustained cargo ramp up and gradual debt rationalisation is expected to improve the total debt/PBILDT in the medium term.

The rating strengths, are, however, tempered on account of 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. The 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, the share of third-party cargo is expected to grow going forward on account of commencement of operations of under-construction projects at diverse locations.

Rating sensitivities

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

- Improvement in the total debt/PBILDT to less than 2x on a 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 3.50x on a 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 and operations for ports 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 along with development of Mangalore Container Terminal. 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 favourable outlook for the steel industry rendering strong cargo visibility: 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 JSW Steel Limited (JSWSL, rated 'CARE AA; Stable/CARE A1+'), 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 the expansion of Dolvi plant with capacity from 5 MMTPA to 10 MMTPA, which resulted in ramp

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

up of cargo at Dharamtar port for FY22. The Vijaynagar plant of JSWSL is also expected to expand their capacity by 5 MMTPA, resulting in increased cargo requirement for JSWIL.
The ports under JSWIL, i.e., Jaigarh Port, Dharamtar Port and Ennore Terminals have take-or-pay agreements (TPAs) with JSWSL and JSWEL. Though some of these ports have TPAs for lower quantity, the actual cargo volumes handled at the ports is higher. 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 the JSWIL.

Healthy growth in cargo volumes with completion of under-construction projects: Overall consolidated cargo volumes has increased from 45.54 MMT in FY21 to 61.94 MMT in FY22 on the back of increase in cargo volumes at Dharamtar and Ennore coal terminal. Transhipment cargo handled at Jaigarh Port for JSWSL was 7.88 MMT leading to the total cargo volumes in FY22 at 69.82 MMT. Dharamtar port showed a healthy growth in its volume handled owing to operationalisation of the nearby Dolvi Plant of JSWSL. Furthermore, there has been a cargo growth of 45% in the three acquired terminals at Ennore and Mangalore, further aiding the overall growth in cargo volumes. Furthermore, 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. Going forward, the impact of export duty levied on iron ore, pellets and few steel products on cargo volume of JSWIL shall be key monitorable.

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 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.
Furthermore, they are favourably located in the vicinity of 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.
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, since Dharamtar port is a river jetty and cannot handle large vessels, most of the cargo at Dharamtar is transshipment from Jaigarh port, transported in smaller barges and mini bulk carriers, both Jaigarh and Dharamtar acting 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, and group company, JSW Steel Ltd. The existence of the through-put agreements provides steady revenue visibility for JSWIL.

Growth in its scale of operations with stable profitability along with improvement in its leverage: 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 stable profitability with a PBILDT margin of 49.27% during FY22 as against 51.30%. However, owing to increase in the interest cost (due to foreign exchange rate loss along with interest of 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 January 2022, JSWIL has raised USD 400 million foreign currency sustainability linked bonds at 4.95% for a tenor of 7 years, proceed of which were utilised towards refinance of its existing term debt at subsidiary and parent 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. Net debt/PBILDT has also improved from 4.68x in FY21 to 3.29x in FY22 as envisaged earlier. Furthermore, with no significant capex planned in the near term and expansion in the PBIDLT levels through cargo ramp up on account of operations of recently completed projects, net debt/PBILDT is expected to improve further.

Key rating weaknesses

Relatively lower berth occupancy rate of Jaigarh port albeit with pricing flexibility being non-major port: Cargo volume (including transhipment) witnessed a movement for Jaigarh port from around 20.12 MMT in FY19 to 21.89 MMT in FY22 as against capacity of 50 MMTPA pegging the berth occupancy rate at 43% for FY22. 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 for cargo evacuation 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 return on capital employed (ROCE) of JSWIL. Going forward, ramp up in the cargo volume of Jaigarh port will be a key rating monitorable.

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 6.92 MMT in FY22. 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. The 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, 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 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 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 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 improvement in the availability of domestic coal. However, share of third-party cargo is expected to improve with addition of capacity and commencement of operations at diverse locations, i.e., Paradip Coal Terminal and Mangalore Container Terminal.

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.
However, as on March 31, 2022, trade receivables within the credit period stood at ₹67 crore, less than six months at ₹397 crore and more than 181 days stood at ₹109 crore. As a result, a significant portion of the receivables is beyond the credit period and above 181 days, impacting the liquidity of JSWIL. However, as per the management, the receivables are largely from group companies, as the transactions were carried out on an arm's-length basis and the overall receivables days are also improved in FY22 to 81 days from 104 days in FY21. During FY22, JSWIL reported cash flow of ₹1,175 crore from operations as against ₹990 crore in FY21.

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

Rating Outlook and Credit Watch
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
Short Term Instruments
Ports Project

About the company

JSW Infrastructure Limited (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 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 Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	1,616.33	2,293.88	NA
PBILDT	829.20	1,130.25	NA
PAT	284.62	320.88	NA
Overall gearing (times)	1.36	1.37	NA
Interest coverage (times)	4.75	2.91	NA

A: Audited; UAL 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
Non-fund-based - ST-Bank Guarantee		-	-	-	70.00	CARE A1+
Fund-based - ST-Term loan		-	-	-	150.00	CARE A1+
Fund-based - ST-Bank Overdraft		-	-	-	10.00	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	70.00	CARE A1+	-	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+				
4	Fund-based - ST-Bank Overdraft	ST	10.00	CARE A1+				

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	Non-fund-based - ST-Bank Guarantee	Simple
3	Fund-based - ST-Term loan	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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