JSW Infrastructure Limited

December 14, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long term Bank Facilities	26.57 (reduced from Rs 85 crore)	**CARE AA-; Stable (Double A Minus Outlook: Stable)**	**Reaffirmed and Removed from Credit Watch**
Short term Bank Facilities	76.39 (reduced from Rs 80 crore)	**CARE A1+ (Single A one Plus)**	**Reaffirmed and Removed from Credit Watch**
Total facilities	**102.96 (Rupees One Hundred Two Crore and Ninety Six lacs only)**		

Detailed Rationale & Key Rating Drivers

CARE had placed the ratings assigned to the various facilities of JSW Infrastructure group 'under Credit Watch with developing implications' following the Goa state pollution control board's (GSPCB) order revoking the consent to operate granted to South West Port Ltd (SWPL) for excess handling of coal at Mormugoa Port Trust (MPT) and causing air pollution in Vasco. In July 2018 SWPL received approval of around 4.8 million tonne per annum of coal and coke throughput per month at the port till March 31, 2019 alongwith 1MTPA of limestone and steel respectively. CARE has removed the ratings from 'credit watch with developing implication' on account of clarity of operations at South west ports, though it is expected to reduce cargo handling capacity of the port. However, shortfall of cargo at SWPL is expected to be supported by healthy performance of other operating ports and addition of coal and iron ore terminal at Paradip port.

The ratings continue to derive strength from the JSW group's demonstrated ability to execute large projects in diversified sectors, significant growth in cargo throughput and revenue exhibited by the company on a consolidated basis over the past four years coupled with the improved profitability, cargo visibility for the ports under the subsidiaries viz, JSW Jaigarh Port Ltd (Jaigarh port) and JSW Dharamtar Port Pvt Ltd (Dolvi port) as well as favourable location of all the ports with strategic importance for the JSW group companies.

The ratings are, however, constrained by the project execution risk on account of the planned brownfield expansion undertaken at various ports , expected increase in financial leverage in the medium–term due to the debt-funded nature of the projects and uncertainty with regard to cargo handling at SWPL.

JSWIL's ability to successfully execute the ongoing projects in a timely and cost effective manner with the envisaged capital structure are the key rating sensitivities. Furthermore, ability to achieve the increase in cargo (third party) throughput at the ports is the other rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management and JSW Group's capability to execute projects in diversified sectors

JSW Infrastructure Limited (JSWIL) is a part of the Sajjan Jindal group. The company is led by an experienced and resourceful management. The company is committed to the development of infrastructure for ports, air ports, shipyard, etc. for the JSW Group. The company has successfully executed large infrastructure projects such as commissioning of the port terminals at Mormugao Port and setting up a greenfield port at Jaigarh, Ratnagiri. The ratings derive comfort from the group's demonstrated ability to execute large infrastructure projects and ability to infuse equity.

Health growth in cargo throughput at operating ports

JSWIL has successfully developed an 'all weather' deep water greenfield port through its wholly owned subsidiary JSW Jaigarh Port Ltd. (Jaigarh port) in Jaigarh, located in Ratnagiri district, Maharashtra to cater largely to the coal requirements of JSW Energy Ltd's (JSWEL, *rated CARE AA-; Stable/A1+*) 1.2GW power plant adjacent to the port. The port started operations during FY11 and presently has six bulk berths with a total capacity of 45MTPA.

During FY18, the cargo throughput increased by 11% at 9.3 MMT compared to 8.4 MMT in FY17 in Jaigarh Port. Increase in cargo throughput was backed by increase in cargo handled for JSWEL and JSW Steel Limited (JSWSL). During FY18, cargo handled for a JSWEL showed an increase of around 16% (i.e. from 2.7MT in FY17 to 3.1MT in FY18). During FY18, the cargo handled for JSWSL increased to 4.6MT (4.2MT in FY17). However, cargo handled for third party showed a

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

marginal increase to 1.65 MMT in FY18 compared to 1.55 MMT in FY17. Operations of Jaigarh Port are heavily dependent upon the requirement of Coke/Coal and steel requirement by JSW's group companies.

JSWIL is in midst of the capacity expansion of Dharamtar Port in phase wise manner, on completion of phase 1 Dharamtar ports cargo handling capacity would increase from 8 MTPA to 16 MTPA and on completion of phase II Dharamtar Port would be having total cargo handling capacity of 34 MTPA. Cargo throughput at JSWDPPL showed an increase of 14% to 11.62 MT in FY18 from 10.60 MT in FY17.JSWSL in currently undergoing an capacity expansion plan of increasing its capacity at dolvi plant from 5 MTPA to 10 MTPA, the capacity would be operational by FY21.

JSWIL is currently developing a mechanized iron ore berth at Paradip Port having capacity of handling cargo of 18 MTPA at Paradip Port Trust on BOT basis, the project will be commissioned by March 2019. JSWPTPL is expecting cargo throughput of 18 MTPA from FY19 onwards

JSWIL is also developing a coal terminal at Paradip Port, the terminal is expected to be constructed at a cost of Rs. 1255 crore, post the completion of commissioning of the terminal PEQCTPL would be able to handle capacity of 30 MTPA of coal and coke. The port is expected to commission by Dec.2019.

Favourable location of the ports with strategic importance for JSW group companies

SWPL operates two berths in Mormugao Port, Goa and is suitably located on the western coast, at a distance of around 360 km from Mangalore port and 600 km from Mumbai port. The port is well connected to hinterland districts of Belgaum, Dharwad, Bellary and Uttarkannad in Karnataka State through rail network. These regions are major producers of iron ore and consumers of coal and coke. South west port is strategically important for JSW Steel Ltd. (JSWSL, *rated CARE AA; Stable/A1+*) as it serves as a captive port for import of coal/coke and export of steel products of JSWSL plant at Vijaynagar, Bellary, Karnataka. The port is located around 370 km from Bellary and has better infrastructure as compared to other minor ports in south-west Maharashtra and north-west Karnataka.

Jaigarh port is favourably 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 company has draft of around 18 m-19 m. The maintenance dredging cost of the company is envisaged to be low resulting in lower operating cost. The port is adjacent to JSWEL's Ratnagiri power plant and entire coal for the plant is imported through the port.

Dharmatar Port (Dolvi port) is located 22 km down from the mouth of Amba river at Dharamtar, Mumbai and was setup by Ispat Industries to handle raw materials for its steel manufacturing plant at Dolvi. Dolvi port serves as a captive port for JSW Steel Ltd. for import of coal/coke and iron ore.

Paradip port is located 210 nautical miles South of Kolkata Port and 260 nautical miles North of Visakhapatnam Port, both ports are currently operating at full capacity leading to diversion of large hinterland traffic to far-off west coast ports and long waiting time for the ships. The port is located strategically near the coal mines in Orissa with coal reserves of 76 billion tons accounting for 25% of total coal reserves in India. It is the nearest port from these mines. The port serves a vast hinterland spreading over the states of Odisha, Jharkhand, Chhattisgarh, Madhya Pradesh, Uttar Pradesh, Bihar and West Bengal. The port is well connected via road with Cuttack by a 2 lane state highway SH-12. Paradip port rail network is a part of the East Coast Railway System and is connected to the mines via Cuttack by a double line broad-gauge rail link. The port has excellent connectivity by rail and road with the coal mines. New railway line between Paradip-Haridaspur to bypass the congested Cuttack line is being implemented to improve connectivity. Further a heavy haul rail corridor from Salegaon has been planned to strengthen the supply-side connects from mine to port.

Cargo visibility for the ports

While there is no take or pay agreement of South West Ports with JSW Steel Limited (JSWSL), JSWSL sources majority of the cargo through SWPL mainly on account of competitive berth charges. The presence of dedicated infrastructure to transport bulk cargo (in terms of rakes) also aids SWPL. Further, JSWSL also uses the port for export of finished steel products. However, as per order of Goa State Pollution Control Board revoking the consent to operate granted to South West Port Ltd (SWPL) for excess handling of coal at Mormugoa Port Trust (MPT) and causing air pollution in Vasco. The company received the interim stay order from Goa high court against the order of GSPCB and was asked to receive the approval from National Green Tribunal for continuing the handling of coke/coal cargo at port from FY19. The company is currently contesting the order; SWPL has received permission to operate 4.8 MTPA of coal and coke till March 31, 2019.

During FY18, JSWSL imported around 10.92 MMT through South west port. Currently, SWPL derives 100% revenue from JSWSL. However the restriction on operations of SWPL would impact the revenue visibility and the same remains key rating sensitivity.

Jaigarh port has entered into a take or pay agreement with JSWEL whereby JSWEL would pay cargo handling charges @ Rs.250 per MT in FY10, with a 3% escalation every year. In case the actual cargo handled falls short of the guaranteed cargo quantity in any financial year, JSWEL would pay Jaigarh port cargo handling charges for the shortfall @ Rs.150 per MT. The TPA provides an assured revenue stream and stable cash flows to the company. JPL also entered into an agreement for 4 MTPA with JSWSL for a period of 15 years from July 2015 to June 2030, whereby JSWSL would pay cargo handling charges @ Rs.200 per MT as the construction of Berth 6 is completed. JSWJPL handled 4.6 MTPA cargo for JSWSL in FY18.. During FY18, JSWJPL handled 9.3 MMT of cargo (out of which cargo handled for JSWEL was 3.1 MMT) vs 8.4

MMT cargo handled during FY16. The increase in cargo handled by JSWJPL was primarily on account of increase in trans-shipment cargo of JSW Steel's Dolvi complex to 4.6 MT in FY18 from 4.2 MT in FY17. Further, JSWSL is undertaking capital expenditure at Dolvi plant to increase the capacities from 5MTPA to 10 MTPA which is expected to be completed in FY21 which shall increase the cargo traffic at JSWJPL. Further, JPL also entered into agreement with H-Energy Gateway Pvt. Ltd. for cargo handling of 5 MTPA @Rs.75 per MT with escalation of 5% in FY20. The LNG terminal is expected to be commissioned by March 2019.
JSWDPPL has entered into a take or pay agreement with JSWSL for 10 MTPA whereby JSWSL would pay cargo handling charges @120 per MT for a period of 15 years effective from July 01, 2015. Currently, JSWDPPL derives 100% revenue from JSWSL. These agreements provide assured and stable cargo handling revenues to JSWIL and its subsidiaries. Further, the counterparties (JSWEL and JSWSL) have strong credit profiles.

Through-put agreements with its subsidiaries for cargo handling services
The company provides cargo handling and project management services to its group entities. The company has entered into cargo handling agreements with its subsidiaries, Jaigarh port and JSW Steel Ltd. As per the revised agreement entered for a period between April 01, 2014 to March 31, 2019, the cargo handling charges are fixed for various cargo with an escalation of 5% every year. Existence of the throughput agreements provides steady revenue visibility for JSWIL.

Equity infusion leading to comfortable capital structure
With the ongoing capex programe by JSWIL as well as its subsidiaries being funded through an average debt to equity ratio of 3.68:1, the overall gearing level of JSWIL is expected to deteriorate in the medium term as it has started availing the debt. However, the promoters have infused Rs.492 crore in December 2017 which will lead to improvement in capital structure. Also, post completion of the expansion projects and stabilization thereof, incremental operating cashflows are expected to accrue to JSWIL and its subsidiaries, which would further help the company in improving its financial leverage.

Key Ratings Weaknesses
Project execution risk on account of expansion plan for Jaigarh Port, JSW Dharamtar (Dolvi) and JSW Paradip Port
JSWJPL's capacity enhancement has been successfully completed at the cost of Rs. 1939 crore which was funded by the debt: equity ratio of 2.5:1. The project was completed was less than expected time and cost, further the project was completed by utilizing more equity and internal accruals. The capacity enhancement would further provide boost to cargo throughput. The expansion would enable cargo handling capacity of 80 MTPA.
The expansion of the Dharamtar port is currently under process and is expected to be completed in March 2019. The total cost for the expansion is expected to be Rs. 440 crore which is to be funded through a mix of debt and equity in the ration of 3:1. Till October 31, 2018 DPPL has incurred capex of Rs 368 crore. Post completion of the expansion, Dharmantar Port would be having capacity of handling cargo of 34 MTPA.
JSWIL has won rights of Iron ore terminal in Paradip. The capital expenditure for the developing the berth is Rs 582 crore (as against Rs.496.2 crore earlier) which would be funded by debt: equity ratio of 3.09:1. As on October 31, 2018, JSWIL has already incurred the project cost of Rs. 427 crore. Post completion of the expansion the terminal would be having cargo handling capacity of 18 MTPA of iron ore and pellets.
JSWIL is also developing coal terminal in Paradip Port having capacity of handling cargo of 30 MTPA. The capital expenditure is expected to be Rs.1255 crore against which the company has incurred project cost of Rs. 240 crore as on October 31, 2018.
The company remains exposed to the execution risk with three projects going on in the separate subsidiaries. Incremental Equity commitment from JSWIL towards these projects is ~ Rs 318 crore.

Restrictions on operations of South West Port - Mormugao, Goa impacting cargo requirement for group companies
In July 2018 SWPL received approval of around 4.8 million tonne per annum of coal and coke throughput per month at the port till March 31, 2019 alongwith 1MTPA of limestone and steel respectively. CARE has removed the ratings from 'credit watch with developing implication' on account of clarity of operations at South west ports, though it is expected to reduce cargo handling capacity of the port. JSW Infra group is contesting the order.

Expected increase in leverage
With the ongoing capex programe by JSWIL as well as its subsidiaries being funded through an average debt to equity ratio of 3.68:1, the overall gearing level of JSWIL is expected to deteriorate in the medium term as it has started availing the debt. However, post completion of the expansion projects and stabilization thereof, incremental operating cashflows are expected to accrue to JSWIL and its subsidiaries, which would help the company in gradually improving its financial leverage.

Analytical approach:
Consolidated approach is considered on account of operational and financial linkages with subsidiaries. The subsidiaries viz. JSW Dharamtar, Jaigarh Port, South West Ports, JSW Paradip Terminal Private Limited, JSW Paradip EQ Coal Terminal Ltd. and JSW Middle East Terminals FZE have been consolidated.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Infrastructure Sector Ratings]
[Financial ratios – Non-Financial Sector]
[CARE's methodology for Ports sector]
[Rating Methodology: Factoring Linkages in Ratings]

Liquidity Analysis
JSWIL is in business of providing services of execution and operations of ports. JSWIL derives its major share of income from cargo handling charges and various other services provided in along with the cargo handling services. JSWIL is currently derives income from its three operational ports Dharmantar Port, Jaigarh Port and South West Port. JSWIL is having cargo throughput agreements with its group companies (JSWSL and JSWEL) providing greater revenue stability. JSWIL extends credit to its customers ranging from 0 to 180 days depending on terms of the agreement. As in March 31, 2018, JSWIL was having receivables of Rs. 294.13 crore and receivables cycle of 91 days.
JSWIL is having comfortable liquidity position as on March 31, 2018. JSWIL is having Cash and Bank Balance of Rs. 328.43 crore as on March 31, 2018. JSWIL is also a having liquid investments of Rs. 28.37 crore against which company in having principal repayments of Rs. 131 crores.

About the Company – JSW Infrastructure Limited
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 has three operating ports viz. South West Ports Ltd *(rated CARE A1+* (Under credit watch with developing implications) in Goa, JSW Jaigarh Port Ltd *(rated AA-/A1+* (Under credit watch with developing implications) in Maharashtra and JSW Dharamtar Port Private Ltd. *(rated AA-/A1+* (Under credit watch with developing implications). JSWIL provides project management services to the SPVs formed for the specific projects during the implementation of the project and also provides cargo handling at ports after commissioning. JSWIL has entered into agreements with South West Port Ltd. and JSW Jaigarh port for cargo handling and maintenance of handling equipment.

Brief Financials (Rs. crore) (JSWIL Consolidated)	FY17 (A)	FY18 (A)
Total operating income	934.18	1046.29
PBILDT	627.57	708.32
PAT	310.32	280.76
Overall gearing (times)	1.07	0.76
Interest coverage (times)	6.94	5.45

Status of non-cooperation with previous CRA:
NA

Any other information:
NA

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

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

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For detailed Rationale Report and subscription information, please contact us at www.careratings.com

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	76.39	CARE A1+
Fund-based - LT-Term Loan	-	-	March 2019	26.57	CARE AA-; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-Bank Guarantees	ST	76.39	CARE A1+	-	1)CARE A1+ (Under Credit watch with Developing Implications) (18-Jan-18) 2)CARE A1+ (02-Jan-18)	1)CARE A1 (10-Jan-17) 2)CARE A1 (12-Oct-16)	1)CARE A1 (16-Oct-15)
2.	Fund-based - LT-Term Loan	LT	26.57	CARE AA-; Stable	-	1)CARE AA- (Under Credit watch with Developing Implications) (18-Jan-18) 2)CARE AA-; Stable (02-Jan-18)	1)CARE A+; Stable (10-Jan-17) 2)CARE A+ (12-Oct-16)	1)CARE A+ (16-Oct-15)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (15-Apr-15)
4.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (20-Jul-18)	1)CARE AA- (Under Credit watch with Developing Implications) (18-Jan-18) 2)CARE AA-; Stable (02-Jan-18)	1)CARE A+; Stable (10-Jan-17) 2)CARE A+ (12-Oct-16)	1)CARE A+ (16-Oct-15)

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