December 22, 2022

Paradip International Cargo Terminal Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Term Loan	389.04	386.66	[ICRA]A-(Positive); reaffirmed
Long-term Non-fund based limits (Sublimit of Term loan)	(25.00)	-	-
Short-term Fund based limits – Working capital facilities	10.00	10.00	[ICRA]A2+; reaffirmed
Short-term Non-fund based limits – Working capital facilities	35.00	30.00	[ICRA]A2+; reaffirmed
Long Term/ Short-term- Unallocated limits	-	7.38	[ICRA]A-(Positive)/ [ICRA]A2+; reaffirmed
Total	**434.04**	**434.04**	

**Instrument details are provided in Annexure-I*

Rationale

To arrive at the ratings, ICRA has taken a consolidated view of J M Baxi Ports & Logistics Limited (JMBPL) and its subsidiaries on account of the management, business and financial linkages among these entities. The subsidiaries are Delhi International Cargo Terminals Private Limited (DICT), Visakha Container Terminals Private Limited (VCTPL), Haldia International Container Terminal Private Limited (HICT), Kandla International Container Terminal Private Limited (KICT), Paradip International Cargo Terminal Private Limited (PICT), JM Baxi Heavy Private Limited (JMB Heavy), Ballard Pier Private Limited (BPPL), Tuticorin International Container Terminal Private Limited (TICT) and Nhava Sheva Distribution Terminal Private Limited (NSDT). Besides the presence of cross-default clauses among these firms as per the lender's sanction, the ratings factor in the corporate guarantee extended by JMBPL to several entities and the fungibility of surplus funds among them, subject to the terms of loan agreements with respective lenders and the escrow agreement for individual concession assets. These entities form a part of the J.M. Baxi Group and are collectively referred, hereinafter, as the Group.

The rating reaffirmation continues to derive comfort from the track record of the J.M. Baxi Group as one of the leading port logistics players in the country with presence across the value chain, comprising container train operations (CTO), container freight stations (CFS)/inland container terminal (ICD), cold storage, warehousing, bulk logistics and port infrastructure comprising of container/other cargo terminals. The ratings also take note of the private equity investment by Integral Investment South East Asia VIII (Bain Capital) in FY2021 for a 39.20% stake at a total investment of Rs. 1,317 crore, of which the second tranche of Rs. 200 crore was received in FY2022. ICRA notes that there are no buyback clauses or any liability on the company to provide an exit to Bain Capital.

ICRA takes note of the financial performance in FY2022 and H1 FY2023, with healthy revenue growth of ~17.2% in FY2022, although the profit margin witnessed some moderation due to increased operating expenses, leading to only marginal OPBDITA growth of ~2.6% at Rs. 398.8 crore (OPM of 23.8% in FY2022 compared with 27.3% in FY2021). In the current fiscal, while healthy revenue and profitability growth was expected with the ramping up of operations at VCTPL terminal 2 and cargo growth at the other terminals, the performance in H1 FY2023 was subdued due to slower-than-anticipated ramp-up in the container and bulk cargo segments. Further, unfavorable regulatory decisions in segments such as iron ore, steel and food, and integration issues related to some recent acquisitions also affected performance.

Moreover, it was earlier expected that the capex would mainly be related to the setting up of a cruise terminal (under an SPV), addition of rakes, electrification at various port assets and completion of acquisitions under JMB Heavy. However, the company has won three major concessions, which includes a container terminal at JNPT (under a JV with CMA CGM), a coastal berth at

JNPT and a container terminal at Tuticorin, which will entail significantly higher capex over the next few years compared to the earlier estimates. The planned capex will be partially debt-funded, which will elevate the credit metrics in the medium term.
ICRA also notes that the company is exploring several options to raise funds, which has witnessed some delays and is now expected to happen in the next fiscal. While successful completion of the fund raising will result in deleveraging, the promoters and Bain Capital are expected to extend funding support in the interim to meet the equity commitments of the projects. The timely completion of fund raising remains a key monitorable.
ICRA notes that the new projects will support growth in the scale of operations in the medium term, provide diversification benefits, improve its competitiveness and help attract customers due to presence across multiple strategic locations and tie up with a major shipping line for one of the projects. Nonetheless, in the near to medium term, the company will be exposed to project execution risks and the completion of projects without major time and cost overruns will be a key monitorable.

The Positive outlook reflects ICRA's opinion that the credit profile of the Group is expected to improve with the ramp-up of cargo volumes at existing assets, including VCTPL T2, which would enhance the profitability and cash flows and result in some deleveraging and better credit metrics.

Key rating drivers and their description

Credit strengths

Leading player in logistics industry; significant experience in various businesses with strong executional capabilities - J.M.Baxi Group is one of the leading port logistics player in the country with presence across the value chain, comprising container train operations (CTO), container freight stations (CFS)/inland container terminals(ICD), cold storage, warehousing, bulk logistics and port infrastructure involving container/other cargo terminals. The Group has a diversified geographical presence through its own CFS and warehouse near JNPT Port and Visakhapatnam, container terminals at the Visakhapatnam, Haldia, Kandla and Paradip (Paradip Port handles both cargo and container, nevertheless dominated by cargo) ports and an inland container depot (ICD) and cold storage at Sonepat, Haryana.
The ratings also take note of the Rs. 1,117-crore private equity investment by Integral Investment South East Asia VIII (Bain Capital) for a 39.20% stake for a total investment of Rs. 1,317 crore, of which Rs. 200 crore was received in FY2022. The operations of the Group have grown quite significantly since inception with the expansion of port infrastructure, rail deployment and other related ancillary activities. Moreover, JMBPL has expanded its board with members having rich experience across logistics and shipping, business management, finance, public policy, management consulting and infrastructure development.

Positive long-term outlook for container traffic – At present, the overall containerisation levels of the cargo handled at various ports remain low in the country which makes the long-term prospects for container traffic favourable. Consequently, the Group has witnessed a healthy ramp-up of volumes in its port operations as well as its CFS and rail operations over the years.

Expected improvement in operational performance - The Group has executed a large capex programme in VCTPL to build terminal 2 with a capacity of 750,000 TEUs at a cost of Rs. 916 crore. The project has been completed in February 2022 and commercial operations started from March 2022, mitigating the execution risk. At the consolidated level, the Group's debt levels have increased in FY2022 to Rs. 1,903 crore from Rs. 1,252 crore in FY2021. The EBITDA was Rs. 399 crore, resulting in high leverage (net debt/EBITDA) of ~4.0 times in FY2022 against 2.3 times in FY2021. The new terminal has a revenue-sharing arrangement with the port authority compared to the royalty model in the case of terminal 1 along with higher berth charges, which would result in better profitability. While the financial performance in H1 FY2023 was subdued due to slower-than-expected cargo growth due to various factors, it is expected to witness some recovery in H2 FY2023 and the trend is expected to continue, going forward.
Further, while the credit metrics are expected to remain elevated in the near to medium term due to several large capex planned (at consolidated level), the expected growth in revenue and profits will improve the credit metrics. Moreover, the proposed fund-raising plans are expected to improve the credit metrics once completed and remain a key monitorable.

Credit challenges

Significant capex plan – The Group has various capex plans to increase its fleet of rakes for the CTO business, electrification at various port assets and a new cruise terminal at Mumbai port. For the recently secured contracts, the capex would be used to develop a container terminal at Tuticorin, shallow water and coastal berths at Jawaharlal Nehru Port Authority and a railway terminal at Inchchapuri, Haryana. In addition to this, a consortium of JMBPL and CMA Terminals (wholly-owned subsidiary of CMA CGM Group – a global shipping and logistics company) has secured the concession for O&M and expansion of JNPCT. The capital expenditure is estimated to be around ~Rs. 500-750 crore per year in FY2023-2025 (~Rs. 750-1000 crore including the capex under JV for container terminal at JNPT). The large capex plans will expose the company to execution risks in the near to medium term and put pressure on leverage levels and other credit metrics.

Susceptibility of revenues to economic slowdown and variations in trade volumes – The revenues of the Group remain susceptible to the economic cycles in the CFS, ICD, CTO and container terminal businesses. The variations in exim trade volumes also impact the overall sales. In H1 FY2023, the bulk cargo and container volumes were impacted by slower-than-expected ramp up in new terminal, unfavorable regulatory actions on certain bulk cargo segments and other factors. However, the favorable long-term prospects for container traffic and the Group's established relationships with all the major shipping lines along with its integrated presence in the logistics chain and port operations mitigate the risk to an extent.

Competitive pressures for volumes – KICT faces significant competition from existing container terminal operators on the west coast, resulting in lower profitability margins. The Pipavav and Mundra ports are the main competitors and any addition of container terminals at these ports poses a threat to the operations at Kandla. PICT and VCTPL faces competition from cargo and container terminal operators on the east coast such as Haldia, Dhamra, Kakinada and Visakhapatnam. However, considering the targeted hinterland, PICT is well-placed than its competitors, while VCTPL is the only container terminal operator in Visakhapatnam which provides it a competitive advantage. Going forward, the competition of new projects should strengthen the company's competitive profile and its ability to benefit from the synergies arising from presence across the logistics value chain and terminals at strategic locations.

Liquidity position: Adequate

In FY2022, the cash accruals at a consolidated level were ~Rs. 277 crore and are expected to witness some improve over FY2023 and FY2024 with the expected ramp up in volumes and profits. The Group has capex plans of ~Rs. 500-750 crore per annum over the next three years (~Rs. 750-1,000 crore, including capex under JV with CMA Group) and repayment obligation of ~Rs. 125 crore in FY2023 and ~Rs 100 crore in FY2024. However, despite the high debt levels, the long balance tenor of the loans with an average maturity of ~10 -15 years (in some case 18 years) provides comfort. Further, the Group had cash and a bank balance of Rs. 307 crore as on March 31, 2022 and access to unutilized working capital limits, which also provides liquidity support. Further, while the fund raising is planned, in the interim the promoters are expected to extend support to meet the equity commitments for new projects.

Rating sensitivities

Positive Factors – ICRA could upgrade JMBPL's ratings if there is a substantial improvement in the capital structure and the credit metrics of the Group through the infusion of additional funds. A healthy growth in revenues through a volume ramp-up and improvement in operating margins, leading to better credit metrics, may also trigger an upgrade.

Negative factors - Pressure on the ratings could emerge if there is any significant impact on volumes and realisations, which will affect the profitability and cash flow. The ratings may be under pressure if the company undertakes any large debt-funded capex or acquisition that would impact the coverage metrics. The ratings may also be revised if the DSCR (excluding short term debt) falls below 1.5 on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating approach - Consolidation](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	To arrive at the ratings, ICRA has taken a consolidated view of JM Baxi Ports & Logistics Limited (JMBPL) and nine of its subsidiaries (details in Annexure II) on account of the management, business and financial linkages among these entities along with the presence of cross-default clauses as per lender's sanction, corporate guarantee extended by JMBPL to several entities and fungibility of surplus funds between entities, subject to the terms of respective loan agreements and escrow agreements for individual concession assets. ICRA has also considered the funding support needed for the JV. Please refer to annexure II for entities consolidated

About the company

Paradip International Cargo Terminals Private Limited (PICT) is a Special Purpose Vehicle and a 100% subsidiary of JMBPL formed in February 2015. It has been formed for undertaking construction and development of a multipurpose berth at Paradip port through PPP mode on a Build, Operate and Transfer (BOT) basis. The multipurpose berth will cater to container traffic and clean cargo at Paradip Port. The Concession Agreement between Paradip Port Trust (PPT) and on behalf of Paradip Port and PICT was signed on March 07, 2016. PICT achieved commercial operations for the berths in July 2018 and has witnessed healthy cargo throughput post inception.

Key financial indicators (audited)

	FY2021	FY2022
	Standalone	
Operating income	214.5	238.5
PAT	13.3	10.4
OPBDIT/OI	46.0%	43.7%
PAT/OI	6.2%	4.3%
Total outside liabilities/Tangible net worth (times)	12.3	10.6
Total debt/OPBDIT (times)	5.3	5.1
Interest coverage (times)	1.5	1.7

Source: *Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					22-Dec-2022	20-Apr-2022	-	02-Feb-2021	29-Jun-2020	09- Dec-2019	15- Apr-2019
1	Fund-based - Term Loan	Long-term	386.66	386.66	[ICRA]A- (Positive)	[ICRA]A- (Positive)	-	[ICRA]A- (CE) (Positive)	[ICRA]BBB (CE) (Positive)	[ICRA]BBB (CE) (Positive)	[ICRA]BBB (SO) (Positive)
2	Non-Fund based Limit (Sublimit of term loan)	Long-term	-	-	-	[ICRA]A- (Positive)	-	[ICRA]A- (CE) (Positive)	[ICRA]BBB (CE) (Positive)	[ICRA]BBB (CE) (Positive)	[ICRA]BBB (SO) (Positive)
3	Fund based limit	Short-term	10.00	-	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+ (CE)	[ICRA]A3+ (CE)	[ICRA]A3+ (CE)	[ICRA]A3+ (SO)
4	Non-Fund Based Limits	Short-term	30.00		[ICRA]A2+	[ICRA]A2+		[ICRA]A2+ (CE)	[ICRA]A3+ (CE)	[ICRA]A3+ (CE)	[ICRA]A3+ (SO)
5	Unallocated limits	Long-term/ Short-term	7.38	-	[ICRA]A- (Positive)/ [ICRA]A2+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based - Term Loan	Simple
Short-term Fund based limits – Working capital facilities	Very Simple
Short-term Non-fund-based limits – Working capital facilities	Very Simple
Long Term/Short term – Unallocated limits	-

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	FY2017	Base rate+0.75%	FY2039	**386.66**	[ICRA]A-(Positive)
NA	**Bank Guarantee**	NA	NA	NA	**30.00**	[ICRA]A2+
NA	**Fund Based facility**	NA	NA	NA	**10.00**	[ICRA]A2+
NA	**Unallocated Limits**	NA	NA	NA	**7.38**	[ICRA]A-(Positive)/ [ICRA]A2+

Source: Company.

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	JMBPL	Consolidation Approach
Delhi International Cargo Terminal Private Limited	100%	Full Consolidation
Visakha Container Terminal Private Limited	100%	Full Consolidation
Haldia International Container Terminal Private Limited	100%	Full Consolidation
Kandla International Container Terminal Private Limited	100%	Full Consolidation
Paradip International Cargo Terminal Private Limited	100%	Full Consolidation
JM Baxi Heavy Private Limited	100%	Full Consolidation
Ballard Pier Private Limited	100%	Full Consolidation
Tuticorin International Container Terminal Private Limited	100%	Full Consolidation
Nhava Sheva Distribution Terminal Private Limited	100%	Full Consolidation
Nhava Sheva Freeport Terminal Private Limited	50%	Equity Method

Source: Company

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