August 19, 2021

JSW Infrastructure Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	250.00	[ICRA]AA- (Stable); assigned
Total	**250.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of JSW Infrastructure Ltd (JSWIL) and its subsidiaries due to the significant operational and managerial linkages between them, and will henceforth be referred to as JSW Infra Group. The JSW Infra Group entities are mainly engaged in port operations and are strategically important to broader JSW Group entities, such as JSW Steel Limited (JSW Steel; rated [ICRA]AA(Stable)/A1+) and JSW Energy Limited, for handling their critical cargo (coal, iron ore and other materials) due to the favourable location near the manufacturing facilities. The assigned rating considers the healthy business risk profile of JSWIL, marked by its favourable operating characteristics, geographical footprint and contracts with JSW Group entities, with a take-or-pay provision for minimum guaranteed volumes. The rating also considers the experienced management and the benefits accruing to JSWIL as part of the diversified JSW Group, including healthy financial flexibility with lenders and expected growth in cargo volumes of JSW Steel and JSW Energy Limited, due to expansion projects undertaken. ICRA also notes the gradual increase in third-party cargo to ~30% in FY2021 from only 6% in FY2018. The same expected to increase to ~40% in the medium term with the acquisition of three terminals from the Chettinad Group in FY2021, as well as commissioning of a coal terminal at Paradip Port in November 2021. Despite FY2021 being impacted by Covid-19, the consolidated cargo volume increased to 45.55 million metric tonne (MMT) from 34.0 MMT in FY2020, driven by the commissioning of the iron ore terminal at Paradip, Odisha, which witnessed healthy ramp up and incremental cargo from acquired assets for part of the year. Moreover, Jaigarh Port also handled 4.47 MMT transshipment cargo for JSW Steel, leading to the total volumes handled of 50.02 MMT in FY2021. ICRA also notes anticipated cargo volume growth in FY2022 following expected increase in cargo requirement for JSW Steel, benefit of the full year operations for the three acquired terminals and commencement of coal terminal at Paradip from November 2021. The cargo volume has witnessed improvement in Q1 FY2022 to 17.34 MMT, on a consolidated basis. The rating also considers the healthy profitability of JSWIL, which enables it to maintain an adequate liquidity position.

The net leveraging (net debt/OPBDITA), on a consolidated basis, remained high at 4.4 times as on March 31, 2021, due to additional debt of Rs. 700 crore towards acquisition of three terminals in November 2020 along with the ongoing debt-funded capex at different ports. ICRA expects the leveraging and credit metrics to improve with realisation of operating profit from recent acquisitions, higher cash flow generation as the cargo volumes ramp up at its various ports/terminals and no major capex plans beyond FY2022. ICRA notes that ~93% of JSWIL's equity shares have been pledged against the debt raised by the promoter group entities; however, the risk is mitigated by the strong credit profile and financial flexibility of the broader JSW Group. Further, JSWIL faces risk from restrictions on specific cargo segments as well as susceptibility of performance to volatility in demand for coal and iron ore from steel and power sectors, which are the largest commodities handled by JSWIL.

The Stable outlook reflects ICRA's expectations that given the favourable long-term outlook for growth in cargo volumes and the upside potential from recently completed acquisitions and capex programmes, JSWIL's revenue and profitability growth is expected to be robust supporting its overall credit profile.

Key rating drivers and their description

Credit strengths

Experienced management and benefits of being part of JSW Group with strong financial flexibility – JSWIL is a part of the Sajjan Jindal Group, which has a presence in diversified sectors, such as steel, energy, cement, paint and infrastructure. JSWIL is promoted by the Sajjan Jindal family and managed by a team of experienced professionals with rich experience. JSWIL develops and operates ports and terminals for the JSW Group, with JSW Steel and JSW Energy remaining its largest customers providing steady revenue and limited counter-party credit risk. ICRA expects JSWIL's financial flexibility to continue to remain healthy supported by its linkages with the JSW Group, which provides it significant flexibility to raise fresh capital or refinance existing borrowings at short notice.

Healthy business profile with track record in port development and operations – ICRA derives comfort from JSWIL's demonstrated ability to execute port infrastructure projects in a timely manner. The company has witnessed healthy growth in its scale of operations over the years and is now carrying out profitable port operations at several private/major port locations along India's eastern as well as western coastlines. The rating factors in the healthy business risk profile of JSWIL, marked by its favourable operating characteristics, geographical footprint and contracts with JSW Group entities, with take-or-pay provision for minimum guaranteed volumes. Further, it enjoys flexibility in tariff determination at Jaigarh (Maharashtra) and Dharamtar (Maharashtra) being non-major ports and at the terminals of Kamarajar Port (Chennai), a major port, as they are not regulated by TAMP[1].

Strategic location of the ports and contracts with JSW Group companies – JSWIL's ports and terminals have favourable locations and are strategically located for the cargo handling requirements of JSW Group companies. Two berths at Mormugao Port (Goa) serve as a captive port for importing coal/coke and exporting steel products from JSW Steel's Vijaynagar plant (Karnataka). Jaigarh, with a draft of ~18 meters, is adjacent to JSW Energy's Ratnagiri power plant and caters to JSW Steel's Dolvi plant (Maharahstra). Dharamtar serves as a captive port for the Dolvi plant. Paradip Port is located near the iron ore and coal mines of Odisha, whereas the terminals at Ennore are favourable for JSW Steel (Salem, Tamil Nadu) and JSW Cement (Nandyal, Andhra Pradesh). JSWIL and its SPVs have long term take-or-pay agreements (TPA) with JSW Steel and JSW Energy for cargo to be handled annually. Though some of these ports have TPAs for lower quantity, the actual cargo volumes handled at the ports is higher. However, JSW Steel has historically been sourcing almost its entire cargo requirements from JSWIL and intends to continue to do so because 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. Moreover, Jaigarh Port also has long term TPA with H-Energy Pvt Ltd for LNG Cargo assuring third party cargo/ revenue as well. Further, JSWIL provides cargo handling services to its SPVs under contracts with them for annual cargo. These agreements provide assured and stable cargo handling revenues to JSWIL and its subsidiaries.

Healthy volume growth in FY2021 with increased share of third-party cargo - JSWIL has been in the midst of continuing capex plans over the years. It has concluded a capex at the Paradip iron ore terminal in FY2020 and acquired three terminals in FY2021, along with ongoing projects at Paradip and Managalore for new terminals and at Dharmatar for capacity expansion, which will boost cargo volumes in the medium term. ICRA also notes gradual increase in third-party cargo to ~30% in FY2021 from only 6% in FY2018. The same is expected to increase to ~40% in the medium term with ramp up of volumes at the new terminals. Despite FY2021 being impacted by Covid-19, the consolidated cargo volume increased to 45.55 MMT from 34.0 MMT in FY2020 with the commissioning of the iron ore terminal at Paradip, which witnessed healthy ramp up. Moreover, Jaigarh Port also handled 4.47 MMT transshipment cargo for JSW Steel, leading to the total volumes handled of 50.02 MMT in FY2021. ICRA also notes anticipated cargo volume growth in FY2022 following expected increase in cargo requirement for JSW

[1] *Tariff Authority for Major Port*

Steel, benefit of the full year operations for the three acquired terminals and commencement of coal terminal at Paradip from November 2021.

Healthy revenue growth and profitability – JSWIL, on a consolidated basis, achieved healthy operating profit margin of 51.1% in FY2021; though the same declined from ~66.6% in FY2018, because of restrictions on cargo volumes handled at South West Port in Goa as well as higher revenue share of the newly acquired port terminals. However, the corporatised rate structure at Kamarajar Port Ltd, where JSWIL has acquired two terminals, provides pricing flexibility despite the high revenue share. JSWIL's revenue has grown at a CAGR of ~17.4% over FY2016-FY2021 supported by volume growth. ICRA expects further growth in JSWIL's cargo volumes with commissioning of additional capacities of JSW Steel's Dolvi plant from October 2021, which will result in increased cargo handling at Jaigarh and Dharamtar ports as well as commissioning of the Paradip coal terminal in November 2021.

Credit challenges

High leveraging levels and moderate credit metrics – The net leveraging (net debt/OPBDITA), on a consolidated basis, remained high at 4.4 times as on FY2021-end, due to additional debt of Rs. 700 crore towards acquisition of three terminals in November 2020 along with ongoing debt-funded capex at different ports. ICRA expects leveraging and credit metrics to improve with realisation of operating profit from recent acquisitions, higher cash flow generation as the cargo volumes ramp up at its various ports/terminals along with no major capex plans. Any large debt-funded capex plan or acquisitions would remain key rating monitorable.

Risk of restriction on specific cargo segment – in January 2018, JSWIL's berths at South West Port Ltd. in Mormugao received an interim order from the Goa State Pollution Control Board (GSPCB) revoking the consent to operate, alleging excess handling of coal/coke. 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. In July 2018, it received revised approval from the GSPCB to handle up to 4.8 MMT of coal and coke, which was increased to a total cargo handling consent for 8.5 MTPA in August 2020, valid till December 2023. The additional requirement of cargo at Goa port is handled through third party berths, which has partly impacted the overall profitability of JSWIL on a consolidated basis. ICRA would continue to monitor the development in this regard and any fresh restriction at any ports or terminals would remain a key rating sensitivity.

Susceptibility to demand for coal and iron ore from power and steel sectors – Out of the total cargo handled by JSWIL, more than 80% pertains to coal/coke and iron ore/pig iron for Steel and Energy sectors. Hence, JSWIL's performance remains susceptible to volatility in the demand for coal and iron ore from the steel and power sectors in India.

Liquidity position: Adequate

The retained cash flow turned positive in FY2021 with moderation in working capital intensity as receivable days reduced; however, with significant capex, the free cash flows turned negative. JSWIL has generated net cash accruals of Rs. 640 crore in FY2021, which are expected to improve in FY2022 supported by expected cargo volume growth and first full year benefit of acquired assets. It has repayment obligations of Rs. 690 crore in FY2022, and capex obligation of Rs. 510 crore; although the capex would be mainly funded by the sanctioned debt facilities. Moreover, JSWIL, on a consolidated basis, had a surplus cash balance of Rs. 314 crore as on March 31, 2021 and has also sanctioned overdraft facilities of ~Rs. 100 crore on a consolidated basis, which remains largely unutilised.

Rating sensitivities

Positive factors – The rating could be upgraded if there is significant improvement in cargo volumes handled leading to increased scale of operations and cash accruals, while increasing third-party cargo, or if the company achieves significant de-leveraging with consolidated Net Debt/OPBITDA of less than 1.5x on a sustained basis.

Negative factors – The rating could be downgraded if there is significant reduction in cargo volume impacting revenue and profitability. The rating could also be downgraded if there is any new significant debt-funded project expansion or significant investment in group entities impacting the leverage, resulting in consolidated Net Debt/OPBITDA of above 3.5x on a sustained basis, or stretch in working capital intensity impacting the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Ports Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of JSWIL. As on March 31, 2021, the company had 16 subsidiaries, which are enlisted in Annexure-2.

About the company

Incorporated in 2006, JSWIL is part of the JSW Group. It develops infrastructure for ports and operates ports and terminals across India. JSWIL has seven operating ports and terminals owned and operated by its subsidiaries at Mormugao (Goa), Jaigarh (Maharashtra), Dharamtar (Maharahstra), Paradip (Odisha), two terminals at Ennore (Tamil Nadu) and Mangalore (Karnataka). JSWIL is also developing two projects, i.e., a coal terminal at Paradip and a container terminal at Magalore. The Paradip coal terminal is expected to become operational from November 2021. JSWIL, at a standalone basis, provides project management services to SPVs for project execution and cargo handling at ports after commissioning. JSWIL acquired three terminals from the Chettinad Group (Ennore Bulk Terminal Pvt. Ltd., Ennore Coal Terminal Pvt. Ltd. and Managalore Container Terminal Pvt. Ltd.) in November 2020, at an enterprise value of approx. Rs. 985 crore.

Key financial indicators (audited)

JSWIL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	1,164.2	1,610.3
PAT (Rs. crore)	196.5	284.0
OPBDIT/OI (%)	55.0%	51.1%
PAT/OI (%)	16.9%	17.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.6
Total Debt/OPBDIT (times)	4.9	4.8
Interest Coverage (times)	2.3	3.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					August 19, 2021	-	-	-
1	Term Loan	Long Term	250.00	250.00	[ICRA]AA- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Banker	ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
PTC India Financial Services Ltd.	NA	Term Loan	Dec 2020	10.75%	Mar 2025	250.00	[ICRA]AA- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
JSW Jaigarh Port Limited	100%	Full Consolidation
South West Port Limited	74%	Full Consolidation
JSW Shipyard Private Limited	100%	Full Consolidation
JSW Nandgaon Port Private Limited	100%	Full Consolidation
JSW Dharmatar Port Private Limited	100%	Full Consolidation
JSW Mangalore Container Terminal Private Limited	100%	Full Consolidation
Masad Marine Services Private Limited	100%	Full Consolidation
Jaigarh Digni Rail Private Limited	63%	Full Consolidation
JSW Salav Port Private Limited	100%	Full Consolidation
JSW Paradip Terminal Private Limited	93.24%	Full Consolidation
Paradip East Quay Coal Terminal Private Limited	93.24%	Full Consolidation
Ennore Coal Terminal Private Limited	100%	Full Consolidation
Ennore Bulk Terminal Private Limited	90%	Full Consolidation
Mangalore Coal Terminal Private Limited	100%	Full Consolidation
Southern Bulk Terminals Private Limited	100%	Full Consolidation
JSW Terminal Middle East FZE	100%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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