

# Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



## Rating Rationale

January 31, 2022 | Mumbai

### Jawaharlal Nehru Port Trust

Rating Reaffirmed

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.2680 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL AAA/Stable (Reaffirmed)</b>

<b>Rs.2000 Crore Tax Free Bond<sup>&amp;</sup></b>	<b>CRISIL AAA/Stable (Reaffirmed)</b>
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<sup>&</sup> Non-convertible tax-free bond

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable' rating on the long-term bank facilities and tax-free bonds of Jawaharlal Nehru Port Trust (JNPT).

The ratings continue to reflect JNPT's strong business risk profile backed by market leadership in container cargo segment, strong government linkages, and robust financial risk profile because of low gearing and large cash balances. These strengths are partially offset by exposure to intense competition from private ports, particularly those on the western coast.

The revenue for H1 FY22 improved by 22% driven by improvement in container traffic by 40% in H1 FY22 compared to H1 FY21 due to relaxation of restrictions of COVID-19. Overall, container traffic is expected to see a moderate growth of 4-5% over the medium term which would benefit JNPT as it has the largest market share in container segment. Operating income in fiscal 2021 has remained in line with previous fiscal. However, traffic had reported a decline of ~7% in fiscal 2021 driven by COVID-19 impact and consequent economic slowdown in country.

Operating profitability declined in FY21 due to with high fixed cost in the form of maintenance dredging, increase in COVID related expenditure as well as increase in employee costs, however, remained strong at over 47% given healthy contribution through income from BOT contracts (improved from 42% in fiscal 2018 to 56% in fiscal 2021). The margins are expected to stabilise to earlier levels with recovery in traffic and topline. The port has received Board approval for privatisation of one of the terminal which it operates, which is likely to be completed by fiscal 2023. Privatisation of terminal is expected to improve operating efficiencies and support overall profitability going forward.

CRISIL Ratings expects JNPT to take up substantial capital expenditure (capex) of Rs 4000 crore between FY23-FY25, to improve operational efficiency of the port, which may result in gradual reduction of cash balances over the period. Nonetheless, it will remain robust underpinning the financial flexibility of the trust.

#### Analytical Approach

For arriving at its ratings, CRISIL has moderately consolidated JNPT with its special purpose vehicle (SPV), Mumbai JNPT Port Road Co Ltd (MJPRCL), to the extent of equity infusion and any cost overrun during construction stage and cash flow mismatches during operational stage.

The ratings factor in the support expected from the Government of India (GoI). Port infrastructure is vital to economic growth and JNPT accounts for ~48% of container traffic at Indian ports. GoI holds 100% stake in JNPT and the trust is under the direct administrative control of the Ministry of Ports, Shipping and Waterways (MoPSW). The trust's board has members representing MoS, department of customs, and directorate general of shipping, which reflects strong government linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- **Strong business risk profile backed by market leadership in container cargo segment**

JNPT is the largest container cargo port operator in India (among the 12 major ports in the country) and it accounts for

~49% of container traffic at Indian ports. Market leadership is backed by favourable port location and long-term Build, Operate, and Transfer (BOT) contracts with private terminal operators. Total container cargo capacity as on date stands at 7.7 million twenty-foot equivalent unit (MTEU; including private terminals operating at the port), up from 5.3 MTEUs as of fiscal 2017.

Ability of the trust to maintain its market share and profitability remains rating sensitivity factor.

- **Well-phased infrastructure enhancement and capacity addition projects**

JNPT is undertaking sizeable projects to improve infrastructure in and around the port which will improve its operating efficiency. The port has taken up initiative to improve road and rail connectivity to cater to increasing capacity. MJPRCL formed by JNPT, the National Highway Authority of India (NHAI), and the City and Industrial Development Corporation (CIDCO), is carrying out 6/8 laning of the highway connecting major cities around the port. The project is under advanced stages of construction and expected to be completed in H1'FY23. The project got delayed on account of land acquisition issues which is in progress. Additionally, JNPT is also involved in the development of a Coastal Berth, port-based multi-product special economic zones, railway networks, development of western dedicated freight corridor and dry ports in the hinterland, which should result in operational synergies over the next few years.

Private terminal operators are also adding capacity in the port in a phased manner. Second phase of BMCT terminal of capacity of 2.5 MTEUs is under construction and is expected to be commissioned by fiscal 2025. There is continuous upgradation in the development of tank farms that provide storage facilities for liquid cargo. Further, development of additional liquid cargo jetty with a capacity of 4.5 MMTPA is also under construction. Building of infrastructure is expected to improve the operational efficiency while capacity addition will help sustain market position.

- **Robust financial risk profile**

Healthy revenue coupled with strong profitability helps the Port generate strong cash accrual year-on-year and maintain superior net worth. Operating income grew by a compound annual growth rate of 8.7% over the five fiscals through fiscal 2019. However, revenue in fiscal 2020 and 2021 were lower because of global trade tensions, economic slowdown in country and spread of COVID-19 virus. Operating margin decreased to ~47% in FY21, however, is expected to remain around 50-55% in the medium term. This is likely to result in steady and sizeable accruals of over Rs 1000 cr. Net worth stood superior at Rs 11,639 crore while debt remained moderate at Rs 2,270 crore as on March 31, 2021, resulting in low gearing of 0.2 time.

JNPT contracted external commercial borrowings (ECB) of around Rs 2700 crore to fund execution of MJPRCL road project, which was fully drawn by fiscal 2019. This has resulted increase in debt to Rs 2,720 crore as on March 31, 2020 from Rs 557 crore as on March 31, 2017. Though repayment of this debt is backed by repayments from MJPRCL through its surplus cashflows, strong cash accrual would help the trust manage the repayments in the absence of surplus cashflow from MJPRCL. JNPT had met the debt instalment since September 2020 given lack of surplus cash flow at MJPRCL given delay in COD of the project. Financial position is also backed by strong debt protection metrics - interest coverage and net cash accruals to total debt ratios were 15.1 times and 0.4 time, respectively, in fiscal 2021.

Working capital cycle increased slightly in fiscal 2021 due to increase in debtor days. The debtors of more than 6 months have been increasing on year on year basis mainly due to disputed debtors from private players from tank farm business and the matter is sub-judice. Going forward, these debtors are expected to remain at higher level. Nonetheless, if these debtors are adjusted against the net worth, it will not have material impact on the financials of the company.

JNPT also derives flexibility through its large unencumbered cash balances of Rs 3573 crore as on March 31, 2021.

- **Strong government linkages**

Gol holds 100% stake in JNPT and it is under the direct administrative control of the MoPSW. The Port's Board of Trustees has members representing MoPSW, department of customs, and directorate general of shipping, Managing Director CIDCO, which reflects strong government linkages. In the past, debt contracted was either directly from the government or on the strength of its ownership. Since ports are strategically important for economic growth and JNPT is one of the largest container-handling cargo port, government support is likely to continue.

#### **Weakness:**

- **Competition from private ports, particularly from the ports on western coast**

JNPT faces strong competition from nearby private ports and increasing container cargo capacities on the western coast, which have efficient operations, facilities for berthing larger vessels, and state-of-the-art infrastructure. JNPT's market share has been impacted in last 4-5 years with some of the private ports in western coast capturing the container traffic. Availability of newly commissioned BMCT equipped with more updated technology, modern facilities, world-wide network of own terminals and expected ongoing capacity addition and improvement in infrastructure facilities should support JNPT maintain its market position and generate healthy traffic growth at the port. Further, expected privatisation of the terminal operated by JNPT should also add to operating efficiencies. However, strong competition will continue to constrain any substantial growth in cargo volume handled thereby impacting significant growth in revenue.

**Liquidity: Superior**

Liquidity remains superior, supported by strong annual cash accrual and large liquid surplus. Expected annual cash accrual of more than Rs 1000 crore should comfortably cover the ECB repayment obligation of Rs 400-500 crore over the medium term. Further, the trust has large unencumbered cash balance of Rs 3573 crore as on Mar 31, 2021, which should continue to support funding large capex plans or meet any exigency. Additionally, it will continue to benefit from its strong government linkages and any need-based support from Gol.

**Outlook: Stable**

CRISIL believes JNPT will maintain its market leadership in the container cargo segment over the medium term because of its established market position and well-phased infrastructure improvement and capacity addition plans. Furthermore, the financial risk profile of the trust is expected to remain robust driven by strong cash accrual and surplus liquidity.

**Rating Sensitivity factors****Downward factors**

- Any change in policy leading to dilution in strategic importance or criticality to the government
- Sustained decline in revenue by over 10% per fiscal in fiscals 2022 and 2023
- Significant decline in profitability
- Large debt-funded capex leading to significant increase in gearing

**About JNPT**

Formed under the Major Port Trusts Act, 1963, JNPT commenced operations in 1989. It operates a dedicated container terminal and a dedicated multi-purpose container terminal for shallow draught vessels at Navi Mumbai situated across the Mumbai port. JNPT functions largely based on landlord port model (port authority acts as landlord while cargo operations are handled by private operators) and its operations include handling containerised cargo at its own container terminal and providing requisite infrastructure facilities to other terminal operators.

The Port has entered into long-term BOT contracts with private container terminal operators, which stipulate revenue sharing and royalty based on cargo volumes handled. One of the three private terminals at JNPT is Nhava Sheva International Container Terminal, operated by DP World Ltd, with a capacity of 1.2 MTEU. In July 2016, DP World Ltd also commissioned the 330-metre berth, capable of handling 0.8 MTEU, at an estimated project cost of around Rs 600 crore. The second private terminal is Gateway Terminals India Pvt Ltd, which is run by a consortium comprising APM Terminals Management BV and state-owned Container Corporation of India Ltd, with capacity of 1.8 MTEU. The third private terminal is Phase I of BMCT terminal run by PSA Singapore with a capacity of 2.4 MTEU. The second phase of the 2.5 MTEU is expected to start construction in April 2022 and is expected to be commissioned by fiscal 2026. Liquid cargo is handled at BPCL's private terminal wherein about 6.5 MMTPA of liquid cargo is handled.

MJPRCL was formed for 6/8 laning of the highway connecting the port to major cities such as Mumbai, Pune, Navi Mumbai, Nashik, Ahmedabad and Goa. The SPV is held by JNPT (51% stake), NHAI (43%), and CIDCO (6%).

**Key Financial Indicators**

Particulars	Unit	2021	2020
Revenue	Rs crore	1921	1900
Profit after tax (PAT)	Rs crore	804	1054
PAT margin	%	41.8	55.5
Adjusted gearing	Times	0.2	0.25
Interest coverage	Times	20.67	12.55

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

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**Annexure - Details of Instrument(s)**

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Complexity level	Issue Size (Rs. Cr)	Rating Assigned with Outlook
INE281G07053	Tax-Free Bond*	26-Mar-13	6.82%/7.32%	25-Mar-23	Simple	2000	CRISIL AAA/Stable
-	External Commercial Borrowing#	12-Aug-16	NA	31-Mar-24	NA	2680	CRISIL AAA/Stable

\*Non-convertible tax-free bond

#Equivalent to USD 352 million. 1 USD=INR 76.2

### Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
MJPRCL	Moderate	Support to the extent of equity, cost overrun and cash flow mismatches

### Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	2680.0	CRISIL AAA/Stable		--	29-01-21	CRISIL AAA/Stable	31-01-20	CRISIL AAA/Stable	31-01-19	CRISIL AAA/Stable	CRISIL AAA/Stable
Corporate Credit Rating	LT		--		--		--		--	31-01-19	Withdrawn	CCR AAA/Stable
Tax Free Bond	LT	2000.0	CRISIL AAA/Stable		--	29-01-21	CRISIL AAA/Stable	31-01-20	CRISIL AAA/Stable	31-01-19	CRISIL AAA/Stable	CRISIL AAA/Stable

All amounts are in Rs.Cr.

### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
External Commercial Borrowings <sup>&amp;</sup>	335	CRISIL AAA/Stable
External Commercial Borrowings <sup>^</sup>	2345	CRISIL AAA/Stable

& - equivalent to \$44mn

<sup>^</sup> - equivalent to \$308mn; (1USD ' Rs76.216)

### Criteria Details

Links to related criteria
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">The Infrastructure Sector Its Unique Rating Drivers</a>
<a href="#">Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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