

Rating Rationale

January 25, 2023 | Mumbai

Jawaharlal Nehru Port Authority

Rating reaffirmed at 'CRISIL AAA/Stable'

Rating Action

| | |
|---|---------------------------------------|
| Total Bank Loan Facilities Rated | Rs.2680 Crore |
| Long Term Rating | CRISIL AAA/Stable (Reaffirmed) |

| | |
|--|---------------------------------------|
| Rs.2000 Crore Tax Free Bond^{&} | CRISIL AAA/Stable (Reaffirmed) |
|--|---------------------------------------|

& Non-convertible tax-free bond

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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 Authority (JNPA).

The revenue for the first half (H1) of fiscal 2022 was up 17% given increase in container traffic by 10% as compared to the corresponding period last fiscal. The revenue for fiscal 2022 also improved with rise in container traffic by 22% due to relaxation of pandemic-induced restrictions and resumption of normal trade. Overall, container traffic is expected to see a moderate growth of 4-5% over the medium term which would benefit JNPA as it has the largest market share in container segment.

Operating profitability, however, declined in fiscal 2022 to 41% given higher outflows towards maintenance dredging and substantial increase in employee-related expenses. Nevertheless, part of these outflows – towards retirement, gratuity and leave encashment – are one-time in nature; the trust rolled out a special voluntary retirement scheme in fiscal 2022 and 471 employees opted for the same. The operating margins have already witnessed improvement to 58% in H1 fiscal 2023 and expected to improve further and stabilise at earlier levels. Furthermore, the authority has entered into an agreement with JM Baxi Ports & Logistics and CMA-CGM for operations and management of the JNPCT terminal. Privatisation of terminal is expected to further improve operating efficiencies and support overall profitability going forward.

JNPA is expected to repay all its debt in fiscal 2024 and is expected to become a debt-free entity in the absence of any major capital expenditure (capex) plans. Given the authority's strong net worth and low leverage, financial flexibility should remain comfortable even after planned capex. Any new major capex plans and its impact on financial flexibility will remain key rating sensitivity factors.

The ratings continue to reflect JNPA'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.

Analytical Approach

CRISIL Ratings has moderately consolidated JNPA with its special purpose vehicle (SPV), Mumbai JNPA Port Road Co. Ltd (MJPRCL), to the extent of equity infusion.

The rating also factors in the support expected from the Government of India (GoI). Port infrastructure is vital to economic growth and JNPA accounts for ~50% of container traffic at major Indian ports. GoI holds 100% stake in JNPA 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 MoPSW, Department of Customs (DoC), and Directorate General of Shipping (DGS), 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: JNPA is the largest container cargo port operator in India (among the 12 major ports in the country) and it accounts for ~50% of container traffic at major 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 7.1 million twenty-foot equivalent unit (MTEU; including private terminals operating at the port), up from 5.3 MTEUs as of fiscal 2017.

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

Well-phased infrastructure enhancement and capacity addition projects: JNPA 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 JNPA, the National Highway Authority of India (NHAI, 'CRISIL AAA/Stable'), and the City and Industrial Development Corporation (CIDCO), carried out 6/8 laning of the highway connecting major cities around the port. Additionally, JNPA 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 2.4 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 million metric tonne per annum (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 (CAGR) of 8.7% over the five fiscals through fiscal 2019. However, revenue in fiscals 2020 and 2021 was lower because of global trade disruptions, economic slowdown in the country and spread of COVID-19 virus. With reversal of COVID-19 led restrictions and resumption of global trade, operating income and margin are expected to improve. This is likely to result in steady and sizeable accruals of over Rs 1,000 crore per annum over the medium term. Net worth stood at Rs 12,223 crore while debt remained moderate at Rs 2,008 crore as on March 31, 2022, resulting in low gearing of 0.2 time.

JNPA contracted external commercial borrowings (ECB) of around Rs 2,700 crore to fund execution of MJPRCL road project, which was fully drawn by fiscal 2019. This resulted in 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 cash flows, strong cash accrual would help the trust manage the repayments in the absence of surplus cash flow from MJPRCL. JNPA had met the debt instalment since September 2020 given lack of surplus cash flow at MJPRCL given delay in completion of the project. Financial position is also backed by strong debt protection metrics – interest coverage and net cash accruals to total debt ratios were 26 times and 0.35 time, respectively, in fiscal 2022.

Working capital cycle improved slightly in fiscal 2022 with decrease in debtor days. The debtors of more than 6 months have remained same on year-on-year basis mainly due to disputed debtors from private players from tank farm business and the matter is sub-judice. Nonetheless, if these debtors are adjusted against the net worth, it will not have material impact on the financials of the company.

JNPA also derives flexibility through its large unencumbered cash balances of ~Rs 3,500 crore as on September 30, 2022.

Strong government linkages: GoI holds 100% stake in JNPA and it is under the direct administrative control of the MoPSW. The port's board of trustees has members representing MoPSW, DoC, DGS, and 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 JNPA 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: JNPA 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. 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 JNPA maintain its market position and generate healthy traffic growth at the port. Further, privatisation of the terminal operated by JNPA 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 is supported by strong annual cash accrual and large liquid surplus. Expected annual cash accrual of more over Rs 1,000 crore should comfortably cover the ECB repayment obligation of ~Rs 450 crore in fiscal 2023. Further, the authority has large unencumbered cash balance of ~Rs 3,500 crore as on September 30, 2022, which should support and bullet

repayment of the ECB loan of ~Rs 1,550 crore in fiscal 2024 and fund large capex plans or meet any exigency. Additionally, it will continue to benefit from its strong government linkages and any need-based support from GoI.

Outlook: Stable

CRISIL Ratings believes JNPA 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%
- Significant decline in profitability
- Large debt-funded capex leading to significant increase in gearing

About JNPA

Formed under the Major Port Trusts Act, 1963, JNPA 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. JNPA functions based on landlord port model (port authority acts as landlord while cargo operations are handled by private operators) and its operations include providing requisite infrastructure facilities to the 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. Two of the five terminals at JNPA are Nhava Sheva International Container Terminal (NSICT) and Nhava Sheva International Gateway Terminal (NSIGT), operated by DP World Ltd, with a capacity of 1.2 MTEU and 0.8 MTEU respectively. The third terminal is Gateway Terminals India Pvt. Ltd (GTIPL), 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 fourth terminal is Phase I of BMCT terminal run by PSA Singapore with a capacity of 2.4 MTEU. The construction of second phase of the 2.4 MTEU has not started and no guidelines for the same are available. The fifth terminal is Jawaharlal Nehru Port Container Terminal (JNPCT) with a capacity of 0.9 MTEU, will be operated by consortium of JM Baxi Ports and Logistics and CMA CGM from January 26, 2023. Liquid cargo is handled at BPCL's private terminal wherein about 7.2 MTPA of liquid cargo is handled. Shallow water berth and coastal water berth with capacity 1.2 MTPA and 2.5 MTPA respectively will be operated by JM Baxi Ports and Logistics.

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 JNPA (51% stake), NHAI (43%), and CIDCO (6%).

Key Financial Indicators

| Particulars | Unit | 2022 | 2021 |
|------------------------|----------|------|-------|
| Revenue | Rs crore | 2128 | 1921 |
| Profit after tax (PAT) | Rs crore | 589 | 804 |
| PAT margin | % | 27.7 | 41.8 |
| Adjusted gearing | Times | 0.15 | 0.2 |
| Interest coverage | Times | 26.7 | 20.67 |

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs crore) | Complexity levels | Rating assigned with outlook |
|--------------|---------------------------------|-------------------|-----------------|---------------|-----------------------|-------------------|------------------------------|
| INE281G07053 | Tax-Free Bond* | 26-Mar-13 | 6.82%/ 7.32% | 25-Mar-23 | 2000 | Simple | CRISIL AAA/Stable |
| NA | External Commercial Borrowings# | 12-Aug-16 | NA | 31-Mar-24 | 1918.8 | NA | CRISIL AAA/Stable |

| | | | | | | | |
|----|--------------------|----|----|----|-------|----|-------------------|
| NA | Proposed Term Loan | NA | NA | NA | 761.2 | NA | CRISIL AAA/Stable |
|----|--------------------|----|----|----|-------|----|-------------------|

*Non-convertible tax-free bond

#Equivalent to \$234 mn; (1 USD = INR 82)

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 | Type | Current | | 2023 (History) | | 2022 | | 2021 | | 2020 | | Start of 2020 |
|-------------------------|------|--------------------|-------------------|----------------|--------|----------|-------------------|----------|-------------------|----------|-------------------|-------------------|
| | | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT | 2680.0 | CRISIL AAA/Stable | | -- | 31-01-22 | CRISIL AAA/Stable | 29-01-21 | CRISIL AAA/Stable | 31-01-20 | CRISIL AAA/Stable | CRISIL AAA/Stable |
| Corporate Credit Rating | LT | | -- | | -- | | -- | | -- | | -- | Withdrawn |
| Tax Free Bond | LT | 2000.0 | CRISIL AAA/Stable | | -- | 31-01-22 | CRISIL AAA/Stable | 29-01-21 | CRISIL AAA/Stable | 31-01-20 | CRISIL AAA/Stable | CRISIL AAA/Stable |

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Name of Lender | Rating |
|---|-------------------|---------------------|-------------------|
| External Commercial Borrowings ^{&} | 479.7 | DBS Bank Limited | CRISIL AAA/Stable |
| External Commercial Borrowings [^] | 1439.1 | State Bank of India | CRISIL AAA/Stable |
| Proposed Term Loan | 761.2 | Not Applicable | CRISIL AAA/Stable |

This Annexure has been updated on 25-Jan-2023 in line with the lender-wise facility details as on 14-Dec-2022 received from the rated entity.

& - equivalent to \$58.5mn

^ - equivalent to \$175.5mn; (1USD ' Rs 82)

Criteria Details

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| Links to related criteria |
| CRISILs Approach to Financial Ratios |
| The Infrastructure Sector Its Unique Rating Drivers |
| Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support |
| CRISILs Criteria for Consolidation |

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