Ratings

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Rating Rationale

January 29, 2021 | Mumbai

Jawaharlal Nehru Port Trust

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

Analytical Approach

For arriving at the rating, CRISIL Ratings has moderately consolidated JNPT with its special purpose vehicle (SPV), Mumbai JNPT Port Road Co Ltd (MJPRCL). JNPT, National Highways Authority of India (NHAI; rated 'CRISIL AAA/Stable') and City and Industrial Development Corporation (CIDCO) hold 51%, 42.95% and 6.05%, respectively, in the SPV. MJPRCL is developing 6/8 laning of an existing 4 lane road under the Port Connectivity programme of the government. JNPT has met equity requirement for funding the project construction, and going forward any kind of support to meet cash flow mismatches in the event of distress will be funded by JNPT in the ratio of its shareholding.

The rating factors in the support expected from the Government of India (GoI). Port infrastructure is vital to economic growth and the trust accounts for around 50% of container traffic at Indian ports. The government holds 100% stake in JNPT and the trust is under the direct administrative control of the ministry of shipping (MoS). The trust's board has members representing MoS, department of customs, and directorate general of shipping, which reflects strong government linkages.

Please refer Annexure - Details of consolidation, 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 the container cargo segment

JNPT is the largest container cargo port operator in India (among the 12 major ports in the country) and accounts for around 50% 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, which handle 6.2 MTEU), up from 5.3 MTEUs as of fiscal 2017.

Operating income and traffic reduced by 4% and 2%, respectively, in fiscal 2020, driven by global trade tensions, economic slowdown in the country and the Covid-19 pandemic that began in March 2020. Revenue for the first half of fiscal 2021 declined by 14% year-on-year due to the decline in container traffic by 25% in the midst of the nationwide lockdown implemented to contain the pandemic. After the decline in in the first half of fiscal 2021, container traffic had a moderate growth of 5-9% in the third quarter, supported by pent up demand with phased opening up of the economy coupled with the festive season. Container traffic is expected to grow moderately by 5-7% per fiscal over the medium term thus benefitting the trust as it has the largest market share in the container segment.

Operating profitability in fiscal 2020 remained strong at over 55% given the healthy contribution through income from BOT contracts (improved from 42% in fiscal 2018 to 54% in fiscal 2020). The operating margin slipped to 41% in the first half of fiscal 2021 due to a significant impact on traffic along with high fixed cost in the form of maintenance dredging. The margin is expected to revert to earlier levels with recovery in traffic and revenue. The port has received board approval for privatisation of one of its terminals; this is likely to be completed in the medium term. Privatisation of the terminal should improve operating efficiency and support overall profitability. The ability to maintain market share and profitability remains a rating sensitivity factor.

Well-phased infrastructure enhancement and capacity addition projects
The trust is undertaking sizeable projects to improve infrastructure in and around the port which will lead to better operating efficiency. The port has recently completed development of a centralised parking plaza to facilitate trade and improve ease of doing business. This facility has been enabling pre-gate entry formalities under one window in turn leading to smoother transport within the port.

Further, the trust has taken up initiatives to improve road and rail connectivity to cater to increasing capacity. MJPRCL is carrying out 6/8 laning of the highway connecting major cities around the port. The project is under advanced stages of construction and is expected to be completed in the first half of fiscal 2022. The project got delayed on account of the pandemic-related closures. The trust is also involved in the development of port-based multi-product special economic zones, railway networks and dry ports in and around the port, 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. The second phase of BMCT terminal of capacity of 2.4 MTEUs is under construction and is expected to be commissioned by fiscal 2023. Further, development of an additional liquid cargo jetty with a capacity of 4.5 million tonne is also under construction. Building of infrastructure is expected to improve operational efficiency while capacity addition will help sustain market position.

Robust financial risk profile
Healthy revenue coupled with strong profitability helps generate strong cash accrual and maintain a superior networth. Operating income had a compound annual growth rate of 8.7% over the five fiscals through fiscal 2019. However, revenue in fiscal 2020 and 2021 is estimated to have declined because of global trade tensions, economic slowdown in India and the pandemic. The operating margin improved to around 60% in fiscal 2019 and is expected to remain at 50-55% in the medium term. This is likely to result in steady and sizeable cash accrual of over Rs 1,000 crore per fiscal. The networth was substantial at Rs 11,143 crore while debt remained moderate at Rs 2,675 crore as on September 30, 2020, resulting in a low gearing of 0.24 time.

The trust contracted external commercial borrowings (ECB) of around Rs 2,700 crore to fund execution of the MJPRCL road project; the loan was fully drawn by fiscal 2019. This has resulted an 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 repayment from MJPRCL through its surplus cash flows, strong cash accrual would help the trust manage the repayment in the absence of surplus cash flow from MJPRCL. In September 2020, the trust had met the debt instalment payment through surplus cash flow at MJPRCL given the delay in commercial operational date (COD) of the project. Debt protection metrics were strong with interest coverage and net cash accrual to total debt ratios at 12.55 times and 0.42 time, respectively, in fiscal 2020.

The working capital cycle improved in fiscal 2020 with gross current asset (GCAs) at 370 days (389 days a year earlier) due to lower debtors. However, debtors of more than six months increased to 88% in March 2020 from 61% in March 2019. Such debtors have been increasing every fiscal mainly due to disputed debtors from private players in the tank farm business. Debtors are expected to remain high over the medium term. Nonetheless, if these debtors are adjusted against the net worth, there will be no material impact on the financials.

The trust also derives flexibility through its large unencumbered cash balance of Rs 3,954 crore as on December 31, 2020. It is taking up substantial capital expenditure (capex) of Rs 4,500 crore between fiscals 2021-23 to improve operational efficiency of the port, which is expected to result in gradual reduction of the cash balance. Nonetheless, the balance will remain robust, underpinning the financial flexibility.

Strong government linkages
GoI holds 100% stake in JNPT, which is under the direct administrative control of the MoS. The trust's board has members representing MoS, department of customs, and the directorate general of shipping, which reflect strong government linkage. 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 the trust is the largest container-handling cargo port, government support is likely to continue.

Weakness:

Competition from private ports, particularly from those on the western coast

The trust 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. The market share has been impacted in the past 4-5 years as some of the minor ports on the western coast are capturing the container traffic. Availability of the newly commissioned BMCT, equipped with more updated technology and modern facilities and expected ongoing capacity addition and improvement in infrastructure facilities, should help the trust maintain its market position and generate healthy traffic growth at the port. Further, expected privatisation of the terminal operated by JNPT should also improve operating efficiency. 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 than Rs 1,000 crore, should comfortably cover the ECB repayment obligation of Rs 400-500 crore, per fiscal over the medium term. Further, the trust had a large, unencumbered cash balance of Rs 3,954 crore as on December 31, 2020 (Rs 3,350 crore as on March 31, 2020), which should continue to support funding large capex plans or meet any exigency. Additionally, the trust will continue to benefit from its strong government linkage and any need-based support from GoI.

Outlook: Stable

JNPT should maintain its market leadership in the container cargo segment over the medium term because of its established market position, well-phased infrastructure improvement and capacity addition plans. Furthermore, the financial risk profile 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 2021 and 2022
- Significant decline in profitability
- Large, debt-funded capex, leading to significant increase in the gearing

About the Trust

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 the 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 trust has entered into long-term BOT contracts with private 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 2.4 MTEU is under construction and is expected to be commissioned by fiscal 2023.

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	2020	2019
Revenue	Rs crore	1900	1989
Profit after tax (PAT)	Rs crore	1054	957
PAT margin	%	55.5	48.1
Adjusted gearing	Times	0.25	0.29
Interest coverage	Times	12.55	14.62

PAT was Rs 307 crore on total operating income of Rs 840 core during the first half of fiscal 2021, against Rs 477 crore and Rs 974 crore, respectively, for the corresponding period of the previous fiscal.

Any other information: Not applicable

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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-2013	6.82%/ 7.32%	25-Mar-2023	Simple	2000	CRISIL AAA/Stable
NA	External Commercial Borrowing#	12-Aug-2016	NA	31-Mar-2024	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

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	2680.0	CRISIL AAA/Stable		--	31-01-20	CRISIL AAA/Stable	31-01-19	CRISIL AAA/Stable	10-01-18	CRISIL AAA/Stable	CRISIL AAA/Stable
Tax Free Bond	LT	2000.0	CRISIL AAA/Stable		--	31-01-20	CRISIL AAA/Stable	31-01-19	CRISIL AAA/Stable	10-01-18	CRISIL AAA/Stable	CRISIL AAA/Stable
Corporate Credit Rating	LT		--		--		--	31-01-19	Withdrawn	10-01-18	CCR AAA/Stable	CCR AAA/Stable

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
External Commercial Borrowings&^	**2680**	**CRISIL AAA/Stable**	**External Commercial Borrowings**	**2680**	**CRISIL AAA/Stable**
Total	**2680**	**-**	**Total**	**2680**	**-**

& - equivalent to $44mn
^ - equivalent to $308mn; (1USD ' Rs76.216)

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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