# Ratings

CRISIL
An S&P Global Company



## Rating Rationale

December 23, 2016 | Mumbai

# Jawaharlal Nehru Port Trust

*Ratings Reaffirmed*

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| **Corporate Credit Rating** | **CCR AAA (Reaffirmed)** |
| **Rs.20 Billion Tax-Free Bond*** | **CRISIL AAA/Stable (Reaffirmed)** |

**Non-convertible tax-free bond*

CRISIL's rating on the bond issue of Jawaharlal Nehru Port Trust (JNPT) and its corporate credit rating on the trust continue to reflect a robust business risk profile, strong linkages with the Government of India (GoI), and a healthy financial risk profile. These rating strengths are partially offset by intense competition from private ports, particularly those on India's western coast.

The robust business risk profile is driven by market leadership in the container cargo segment and long-term build, operate, and transfer (BOT) contracts with private terminal operators. Market share was healthy at around 37% of the total container cargo traffic handled in India in fiscal 2016. Current capacity is 5.2 million twenty-foot equivalent unit (TEU; including private terminals operating at the port which handle 3.8 million TEU) and is operating at capacity utilisation of over 80% (against around 100% over the six years through fiscal 2015). Due to capacity constraints in the past, the additional traffic following the growth in the sector was diverted to other ports, which led to a gradual decline in market share. In July 2016, a 330-metre standalone container terminal having a capacity of 0.8 million TEU was commissioned by Nhava Sheva India Gateway Terminal (NSIGT). JNPT has also awarded the fourth container terminal with capacity of 4.8 million TEU to Port of Singapore Authority (PSA). About 2.4 million TEU in phase I, out of the 4.8 million TEU of the fourth container terminal, is expected to be operational in fiscal 2018; this will increase capacity to 7.6 million TEU. CRISIL believes JNPT will maintain its established market position over the medium term, primarily driven by the expectation of favourable growth in the container cargo segment and capacity addition. The trust has entered into long-term BOT contracts with private terminal operators, which stipulate revenue sharing and royalty based on volumes. Revenue from BOT contractors is expected to be largely stable over the medium term. The income from private operators provides stability to revenue and ensures strong profitability.

JNPT has strong linkages with GoI as the port is under the direct administrative control of the Ministry of Shipping (MoS). The trust's board of trustees has members representing MoS, Department of Customs, and Directorate General of Shipping, demonstrating strong government linkages. In the past, the debt raised was either directly from GoI or on the strength of GoI's ownership. This financial support demonstrates strong relationship between GoI and JNPT. Ports being a strategically important sector for economic growth and JNPT being the largest container-handling cargo port in India, CRISIL believes government support is likely to continue.

The financial risk profile is healthy because of strong debt protection metrics, and low debt of Rs 413.2 million against a large cash balance of about Rs 34.2 billion as on March 31, 2016. There are substantial capital expenditure (capex) plans of around Rs 75 billion over the medium term. These plans include widening the existing road connecting the port and the main highway to 6/8 lanes. This will enable smooth evacuation of port traffic, which is expected to increase with the commissioning of a new terminal. The trust is also undertaking dredging activity in its channel to increase the depth to 15 metre from 14 metre, which will now enable it to handle large vessels. The capex for improving infrastructure facilities will increase the operating efficiency of the port. In order to fund the capex, additional debt will be needed besides the strong internal cash accrual and large cash balance. Cash accrual is likely to be sufficient to service debt obligations.

Intense competition from nearby private ports on the west coast of India is expected to continue, as these have efficient operations, facilities for berthing larger vessels, and state-of-the-art infrastructure. As a result of the aggressive growth of private ports and capacity constraints at JNPT, market share has declined to 37% in fiscal 2016 from over 50% in fiscal 2009. However, capacity addition and improvement in infrastructure facilities will limit any further drop in market share.

***Outlook: Stable***

CRISIL believes JNPT will maintain its established market position in the container cargo segment over the medium term because of the favourable growth prospects for this segment in India. Furthermore, the trust is likely to maintain its healthy financial risk profile over this period because of healthy cash accrual and surplus liquid balance.

***Downside scenario***
* Any change in government policy, leading to dilution in strategic importance or criticality to GoI
* Significant decline in profitability, or large debt-funded capex.

***About the Trust***

Formed under the Major Port Trusts Act, 1963, JNPT commenced operations in 1989. It operates a dedicated container terminal and a multi-purpose terminal for shallow draught vessels at Navi Mumbai, across the Mumbai Port. It was planned as an alternative to Mumbai Port to decongest the latter. Operations include handling containerised cargo at its own container terminal, and providing requisite infrastructure facilities to other terminal operators.

One of the two private terminals at JNPT is NSIGT, which is operated by DP World Ltd; it has a capacity of 1.2 million TEU awarded at a pre-decided royalty with minimum guaranteed traffic of 0.6 million TEU. In July 2016, DP World also commissioned the 330-metre berth, capable of handling 0.8 million TEU, at an estimated project cost of around Rs 6 billion. JNPT's share in the revenue under the BOT contract from the terminal will be 28.09%.

The other 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. The capacity of this terminal is 1.8 million TEU and is awarded at a revenue share of 35.503% with a minimum guaranteed revenue for 1.3 million TEU.

In May 2014, JNPT signed the concession agreement for the development of a fourth container terminal with capacity of 4.8 million TEU with Bharat Mumbai Container Terminal Pvt Ltd, a special-purpose vehicle of Port of Singapore's PSA International. PSA International has offered 35.79% of the gross revenue of the project as JNPT's share for undertaking this project. The construction of the terminal started in March 2015 and is progressing as scheduled. The project will be taken up in two phases. The first phase will be completed by November 2017 and will have handling capacity of 2.4 million TEU; the second phase with similar capacity will be commissioned within eight years from the date of award.

In fiscal 2016, profit after tax (PAT) was Rs 7.2 billion on operating income of Rs 16.7 billion, against PAT of Rs 5.6 billion on operating income of Rs 15.1 billion in the previous fiscal.

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| **CRISILs Approach to Financial Ratios** |
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