

Rating Rationale

January 31, 2020 | Mumbai

Jawaharlal Nehru Port Trust

Rating Reaffirmed

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)
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

* Non-convertible tax-free bond

Detailed Rationale

CRISIL 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.

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.

The ratings factor in the support expected from the Government of India (GoI). Port infrastructure is vital to economic growth and JNPT accounts for ~50% of container traffic at Indian ports. GoI holds 100% stake in JNPT and the trust is under 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 container cargo segment

JNPT is the largest container cargo port operator in India (among the 12 major ports in the country) with a market share of 50% of container cargo volume handled in the first nine months of fiscal 2020 (52% in fiscal 2019). Market leadership 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 grew by 5% in fiscal 2019 to Rs 1989 crore, driven by growth in container traffic volume by 6.2% to 5.3 million MTEUs. Growth in container traffic volume was majorly due to pick-up in traffic from phase I of Bharat Mumbai container terminal (BMCT) supported by availability of newly added capacity (started operations in February 2018) and modern technological capabilities compared to other terminals. Further, strong profitability is reflected from healthy contribution through income from BOT contracts (improved from 42% in fiscal 2018 to 48% in fiscal 2019). Though container cargo volume handled declined by 0.85% in first nine months of fiscal 2020 to 3.78 MTEUs over corresponding previous period, due to overall decline in global/domestic trade volume and marginal shift in container traffic to other ports, traffic is expected to register a moderate growth of 5-7% backed by considerable unutilised capacity at BMCT terminal and with the expected improvement in growth prospects of container cargo segment over the medium term.

* 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 operational 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) carrying out 6/8 laning of the highway connecting major cities around the port. The project is under advanced stages

construction and expected to be completed in fiscal 2021. Furthermore, the port is undergoing capital dredging to increase draft to 15 metres (m), expected to be completed by fiscal 2021, which should help in improved navigation of vessels. Additionally, JNPT is also involved in the development of port-based multi-product special economic zones, railway network 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. Second phase of BMCT terminal capacity of 2.4 MTEUs is under construction and is expected to be commissioned by fiscal 2023. Further, development of additional liquid cargo jetty with a capacity of 4.5 million tonnes 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 growth in revenue coupled with strong profitability helps the trust generate strong cash accrual year-on-year and maintain superior networth. Operating income grew by a compound annual growth rate of 8.7% over the five fiscals from fiscal 2014 to Rs 1989 crore while operating margin improved over time to around 60%, leading to steady growth in cash accrual to Rs 1034 crore in fiscal 2019. Networth stood superior at Rs 10,283 crore while debt remained moderate at Rs 2,600 crore as on September 30, 2019, resulting in low gearing of 0.26 times.

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 in increase in debt to Rs 2,839 crore as on March 31, 2019 from Rs 500 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. Financial position is also backed by strong debt protection metrics - interest coverage and net cash accruals to total debt ratio were 14.62 times and 0.36 times, respectively, in fiscal 2019.

Additionally, the trust also derives flexibility through its large unencumbered cash balances of Rs 3,956 crore as on September 30, 2019. It is taking up substantial capital expenditure (capex) to improve operational efficiency of the port over the next few years, which is expected to result in gradual reduction of cash balances over the period. Nonetheless, it will remain robust underpinning the financial flexibility of the trust.

*** Strong government linkages**

JNPT is under the direct administrative control of the MoS. The trust's board has members representing MoS, department of customs, and directorate general of shipping, which reflects strong government linkages. In the past, debt was contracted either directly from the government or on the strength of its ownership. Since ports are strategically important for economic growth and JNPT is 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. Availability of newly commissioned BMCT equipped with more updated technology and modern facilities, and ongoing capacity addition and improvement in infrastructure facilities should support the trust maintain its market position and generate healthy traffic growth at the port. However, strong competition will continue to constrain any substantial growth in cargo volume handled there impacting significant growth in revenue.

Liquidity Superior

Liquidity remains superior, supported by strong annual cash accrual and large liquid surplus. Expected annual cash accrual more than Rs 900 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 3956 crore as on September 30, 2019 (Rs 3328 crore as on March 31, 2019), 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 Government of India.

Outlook: Stable

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

Rating Sensitivity factors

Downside factors

- * Any change in policy leading to dilution in strategic importance or criticality to the government
- * Significant decline in operating performance or reduction in cash balances
- * Large debt-funded capex leading to interest coverage ratio falling below 10 times

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 1

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 trust has entered into long-term BOT contracts with private terminal operators, which stipulate revenue sharing and royalties 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 P. 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%).

Profit after tax was Rs 477 crore on total operating income of Rs 974 crore during the first half of fiscal 2020, against Rs 477 crore and Rs 975 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs crore	1989	1891
Profit after tax (PAT)	Rs crore	957	952
PAT margin	%	48.1	50.3
Adjusted gearing	Times	0.29	0.21
Interest coverage	Times	14.62	36.74

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	Issue Size (Rs. Cr)	Rating Assigned with Outlook
INE281G07053	Tax-Free Bond*	26-Mar-2013	6.82%/ 7.32%	25-Mar-2023	2000	CRISIL AAA/Stable
NA	External Commercial Borrowing#	12-Aug-2016	NA	31-Mar-2024	2680	CRISIL AAA/Stable

*Non-convertible tax-free bond

#Equivalent to USD 400 million. 1 USD=INR 67

Annexure - List of entities consolidated

Entity 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			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
-	CCR		--		--	31-01-19	Withdrawal	10-01-18	CCR AAA/Stable	31-01-17	CCR AAA/Stable	CCR AA
Tax Free Bond	LT	41.32 31-12-19	CRISIL AAA/Stable			31-01-19	CRISIL AAA/Stable	10-01-18	CRISIL AAA/Stable	31-01-17	CRISIL AAA/Stable	CRISIL AAA/Stable
Fund-based Bank Facilities	LT/ST	2680.00	CRISIL AAA/Stable			31-01-19	CRISIL AAA/Stable	10-01-18	CRISIL AAA/Stable	31-01-17	CRISIL 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 USD 400 million. 1 USD=INR 67

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[The Infrastructure Sector Its Unique Rating Drivers](#)

[CRISILs Criteria for Consolidation](#)

[Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support](#)

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