

RATING ACTION COMMENTARY

Fitch Affirms JSW Infrastructure at 'BB+'; Outlook Positive

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Fitch Ratings - Singapore - 27 Aug 2024: Fitch Ratings has affirmed India-based port operator JSW Infrastructure Limited's (JSWIL) Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB+'. The Outlook is Positive.

Fitch has also affirmed JSWIL's USD400 million senior unsecured notes due 2029 at 'BB+' with a Positive Outlook. The bondholders benefit from equity pledges and guarantees from key operating subsidiaries.

RATING RATIONALE

The Positive Outlook reflects our expectation that JSWIL's leverage (gross debt/EBITDA) will mostly remain below our upgrade sensitivity, despite the company's increased investment plan.

After its successful IPO, JSWIL has announced its plan to increase its capacity to 400 million tonnes per annum by the financial year ending March 2030 (FY30), from 170 million tonnes per annum currently. Consequently, we now forecast capex, including potential acquisition costs, at around INR130 billion from FY25 to FY27, up from INR45 billion in our last review. Nevertheless, we still expect leverage to remain under 3.5x over the next two years (FY24: 2.0x), supporting the Positive Outlook. That said, capex that exceeds our expectations could pressure leverage in the next two to three years and narrow JSWIL's rating headroom in the absence of equity issuance. This could result in the Outlook being revised to Stable.

JSWIL says the discretionary nature of certain projects should provide it with flexibility to maintain a strong financial profile. We factor in only committed capex in our forecasts and do not include certain greenfield projects, which JSWIL says are subject to additional equity raising plans. JSWIL plans to raise fresh equity, which is excluded from our forecast, to fulfill the Securities and Exchange Board of India's listing requirements of 25% by October 2026.

The Positive Outlook is also supported by our expectation that JSWIL will maintain its third-party cargo mix at the current 40% level over the medium term. India's robust internal demand and export activities will continue to bolster the ramp-up of third-party cargo at JSWIL's port assets. In addition, the acquisition of Navkar Corporation Limited, a logistics solution provider, will boost JSWIL's third-party cash flow over the medium term, while expanding the company's presence across the logistic value chain.

The rating reflects JSWIL's geographically diversified port locations, reasonable tariffs and long-term take-or-pay contracts, which account for about 30% of total revenue. The rating is moderated by its cargo's high exposure to two commodities, coal and iron ore, as well as customer concentration risk. JSW Steel Limited (BB/Stable) contributes more than half of JSWIL's cargo volume, but JSWIL's credit assessment is not linked to that of JSW Steel.

Customer concentration risk is partially offset by limited infrastructural constraints at the ports, which are linked to national highways. Hence, the group can serve third-party customers at existing ports, if required. Our analysis shows that cash flow available from third parties and existing credit facilities will be adequate to service and repay debt over the weighted-average life of the concessions.

Throughput from JSW Group has been resilient to commodity and steel price fluctuations. This cargo is unlikely to be diverted to other ports, due to the close proximity of JSWIL's captive ports to the respective industries and the ports' access to multimodal connectivity. In addition, healthy economic growth and power demand in India, and the government's infrastructure drive, will continue to support local demand for steel and coal.

KEY RATING DRIVERS

Portfolio of Geographically Diverse, Strategic Ports - Revenue Risk (Volume): Midrange

JSWIL is a large commercial port operator and developer in India. It holds concessions for 12 ports and terminal facilities that are well-diversified along India's eastern and western coasts. These ports are strategically located to meet the cargo-handling requirements of the JSW group, and support the group's entire value chain, from sourcing to logistics to manufacturing and export of finished steel. JSWIL provides operational efficiency and cost savings to the JSW group. JSWIL also owns one liquid storage terminal and operates two dry bulk terminals in Fujairah Port in the UAE.

Mix of Unregulated and Regulated Tariffs - Revenue Risk (Price): Midrange

JSWIL's JSW Jaigarh Port Ltd and JSW Dharamtar Port account for over 50% of its EBITDA. The tariffs for the two ports are unregulated and based on market pricing. The JSW group accounts for the majority of volume at these ports. The pricing for group companies is also kept at arm's length, management said. The rest of the portfolio has limited flexibility to fix tariffs, sharing about 21%-31% of revenue with port authorities, except the newly acquired terminals, Ennore Coal (53%) and Ennore Bulk (36%). Still, tariffs remain broadly competitive as regulations allow port operators a return on capital of about 16%.

Discretionary Capex Plan - Infrastructure Development and Renewal: Stronger

JSWIL has considerable experience and expertise in delivering on its port portfolio investment. The majority of its ports and terminals are operational. However, JSWIL recently obtained concessions to develop several greenfield ports, which will keep planned capex high in the medium term. Moreover, some of JSWIL's ports are close to the optimal operating level of 70%, and may require expansion to meet additional demand. JSWIL also plans to increase the contribution of third-party cargo to diversify its cargo mix.

Most of its development is discretionary, and JSWIL has complete flexibility in roll-out plans without a major impact on operations. We expect additional capex to be funded via equity funding, operating cash flow and borrowings. The group's weighted-average life of concession is about 23 years.

No Structural Subordination, Restrictive Covenants - Debt Structure: Midrange

US-dollar bonds formed about 75% of JSWIL's consolidated debt as of FY24, with the rest, largely US-dollar loans, are mainly held at the newly acquired UAE entity, where revenue is denominated in US dollars. The bonds' structural subordination is mitigated by more than 90% of EBITDA being available outside of the UAE entity - most of these entities are fully owned by JSWIL - and senior unsecured guarantees provided by the group's five key subsidiaries, which account for over 75% of group EBITDA. Bondholders also benefit from equity pledges by the five subsidiaries.

The bonds' indenture has protective features, including against additional debt and on restricted payments, which are allowed only if gross debt/tangible net worth is below 3.0x, and certain carve-outs. Restricted payments are allowed only if total restricted payments are below 50% of cumulative accrued net income, with certain exceptions. The bonds do not benefit from reserve accounts. JSWIL relies on only natural hedging, but a fifth of its revenue is in US dollars, which is likely to be enough to cover US-dollar

debt servicing. Ample liquidity and solid access to capital markets mitigate refinancing risk.

Financial Profile

Our base case assumes increased throughput, in line with JSWIL's estimates, which project about 10% annual growth from FY25 to FY27. This will be supported by contributions from newly acquired ports, which are largely operational - PNP Port and UAE Oil Terminal - or under construction - Jawaharlal Nehru Port Liquid Berths, VOC Bulk Terminal - and due to start operations gradually from FY25.

JSWIL forecasts overall utilisation of around 70% over the next five years, up from actual utilisation of 63% in FY24. This increase is supported by the continued volume ramp-up of newly operational assets, such as Paradip East Quay Terminal and New Mangalore Container Terminal (NMCT). We expect throughput growth to accelerate to about 40% in FY28, as JSWIL's greenfield captive projects and the connecting slurry pipeline commence operations.

JSWIL expects a tariff growth rate of about 2%-5% over FY25-FY29, which is below our CPI growth forecast for India. The average EBITDA margin in JSWIL's case is about 52%.

JSWIL expects its capex and acquisition expenditure to remain high, at about INR140 billion over the next three years. The company plans to start several major developments, including brownfield capacity expansion at Jaigarh, Dharamtar, South West and NMCT and the LPG terminal at Jaigarh, newly obtained concessions under the private-public partnership model, including liquid berths at Jawaharlal Nehru Port and the bulk terminal at Tuticorin Port, and greenfield developments (Jatadhar Port, including the slurry pipeline project in Odisha).

JSWIL assumes growth capex will be partially funded by equity issuance. Its forecast do not consider development capex for Murbe Port, a greenfield port on India's west coast that is pending award of development rights.

We have not considered any additional equity issuance in our base or rating case in the absence of firm plans. Our forecasts also exclude development capex for Murbe Port and projects earmarked to be equity funded. The base case assumes dividend distributions over FY25-FY29.

We expect the debt/operating EBITDA ratio in our base case to peak at about 3.1x in FY27, then drop to about 2.0x in FY28, as Jatadhar Port and the connecting slurry pipeline start contributing to revenue. Our rating case assumes a haircut of 5%-6% from the base-case throughput estimates. We also apply a 2%-4% haircut to tariff

assumptions. The rating case includes a 2pp-3pp stress on the EBITDA margin and a 5%-10% stress on capex relative to the base case, with similar dividend distribution assumptions. The rating case projects debt/operating EBITDA at a high 4.2x in FY27, before falling to below 3.0x in FY28.

PEER GROUP

JSWIL is most comparable to Adani Ports and Special Economic Zone Limited (APSEZ, BBB-/Stable), in Fitch's view. Both JSWIL and APSEZ have diverse portfolios and debt profiles with limited protective features. However, APSEZ benefits from a more diverse cargo and counterparty mix, larger scale of operations, and larger portion of cargo throughput having long-term cargo contracts than JSWIL. We therefore rate APSEZ higher than JSWIL, despite JSWIL's stronger financial profile.

JSWIL can also be compared with Port of Newcastle Investments (Financing) Pty Ltd (BBB-/Stable), the financing entity of Port of Newcastle (PON) in Australia. Both JSWIL and PON are significantly dependent on specific cargo. JSWIL is dependent on coal and iron ore, while PON is reliant on coal exports. However, PON's high coal exposure is mitigated by increasing demand for high-quality coal from Asia over the medium term and stable thermal and metallurgical coal supply in Australia's Hunter Valley.

JSWIL's customer concentration risk in combination with its high commodity exposure weighs on its volume risk assessment, resulting in a 'Midrange' assessment compared with 'High Midrange' for PON. PON has a stronger price risk assessment, benefiting from its landlord operation model, where 76% of contracted revenue is under long-term, fixed price agreements, with the majority providing inflation protection. These qualitative attributes justify rating JSWIL a notch lower than PON, despite JSWIL's lower leverage.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Leverage under our rating case sustained above 3.5x, or third-party contribution remaining below 40% of JSWIL's total cargo and revenue in our forecast, will result in the Outlook being revised to Stable

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Leverage under our rating case sustained below 3.5x, in tandem with the third-party contribution increasing sustainably above 40% of total cargo and revenue in our

forecast, will result in an upgrade.

CREDIT UPDATE

Throughput increased by 16% in FY24, while utilisation rose to 63% in FY24, from 57% in FY23. This improvement was due to the ramp-up in volume at terminals that started operating at end-FY22, specifically the Paradip East Quay Coal Terminal and Mangalore Container Terminal. The company also acquired an oil terminal in Fujairah and PNP Port in Maharashtra, India, in 3QFY24. Both terminals were operational at the time of acquisition, so their volumes were consolidated in 4QFY24. Third-party cargo contribution was around 40% in FY24.

Revenue increased by about 18% in FY24, slightly outpacing throughput growth due to higher operating and maintenance revenue from contracts signed with two dry bulk terminals in UAE - Fujairah and Dibba Port. Dibba Port was commissioned in 4QFY24 and the company took over operation and maintenance in March 2024.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
JSW Infrastructure Limited	LT IDR BB+ Rating Outlook Positive Affirmed	BB+ Rating Outlook Positive

JSW Infrastructure
Limited/Unsecured
Debt/1 LT

LT BB+ Rating Outlook Positive

Affirmed

BB+ Rating
Outlook
Positive

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APPLICABLE CRITERIA

[Infrastructure & Project Finance Rating Criteria \(pub. 18 May 2023\) \(including rating assumption sensitivity\)](#)

[Transportation Infrastructure Rating Criteria \(pub. 18 Dec 2023\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG InForM Model, v1.1.0 (1)

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JSW Infrastructure Limited

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