J M Baxi Ports & Logistics Private Limited

September 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	611.98 (Reduced from 633.76)	CARE A+ (RWD)	Placed on Rating Watch with Developing Implications
Long Term / Short-term bank facilities	120.00	CARE A+ / CARE A1 (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed ratings of J M Baxi Ports and Logistics Private Limited (JMBPL) on 'rating watch with developing implications' following filing of a composite scheme of demerger ("**Scheme**") with National Company Law Tribunal Mumbai ("**NCLT**") dated August 22, 2024. The transaction is subject to completion of certain corporate and regulatory approvals applicable for respective assets. The Scheme has been filed in furtherance to certain transaction documents that JMBPL has executed with Hapag Lloyd Terminal Holding B.V. ("**HLTH**") (part of Hapag Lloyd Group (HLTH group)) for consummating a series of steps pursuant to which HLTH becomes a shareholder of JMBPL.

As per the scheme, JMBPL proposes to demerge its container businesses (comprising container terminals, container train operations, Inland container depot [ICD], Container Freight Station [CFS] and related services) into a new entity i.e. J M Baxi Container Holdings Private Limited (JM Baxi Container, Resulting Company 1) and its corporate services division into another entity i.e. J M Baxi Port Services Private Limited (JM Baxi Port Services, Resulting Company 2) while retaining its other non-container businesses (comprising bulk terminal, cold chain, cruise terminal and services) into JMBPL itself. HLTH had acquired 40% shareholding in JMBPL during FY24. Pursuant to the Scheme and the transaction documents executed amongst JMBPL and HLTH, it is intended that (a) the Kotak Family (Promoters) and HLTH will hold 51 percent and 49 percent shareholding in JMBPL, (b) Promoters and HLTH will hold 50 percent shareholding, each in JM Baxi Port Services, and (c) Promoters and HLTH will hold 49 percent and 51 percent shareholding in JM Baxi Container.

The scheme also proposes the continued extension of support structures by JMBPL along with support to be extended by in JM Baxi Container towards the existing lending arrangements of the group entities for a duration of three years from its date of effectiveness. The exact implications of the above scheme on the risk profile and financial position of JMBPL and the demerged entities remains unclear. CARE Ratings shall be monitoring the developments in this regard and take a view once more clarity emerges.

The ratings continue to derive strength from strong promoter group with extensive experience in maritime sector, diversified revenue stream, and presence in the entire value chain of logistics and port infrastructure with operations in container handling, bulk cargo, CFS, ICD and container train operations, and demonstrated ability to successfully execute brownfield and greenfield projects at various ports. The ratings also factor in the company's heathy operating income along with improvement in operating margins in FY24 (refers to April 01 to March 31) continued adequate liquidity, debt coverage metrics and favourable industry outlook. The ratings also take into consideration for the growth in overall volumes for container terminal operations (including ICDs and CFS) post induction of HLTH as a partner and the resultant increase in capacity utilisation to 60% in FY24 (PY: 54%). The bulk cargo terminal operations, however, continue to be rangebound at 55%. Furthermore, the brownfield under construction terminals have shown ramping up of cargo as envisaged. Additionally, with infusion of primary equity by HLTH, the leverage and debt coverage indicators of the company have also improved in FY24.

The above ratings strengths, however, are tempered by inherent project execution risk for its underlying capex including multiple terminals, high susceptibility to economic cycles including red sea crisis, and intense competition from existing terminals and nearby ports on the eastern and western coast of India. Nevertheless, JMBPL has strong execution track record with successful execution of multiple projects at Kandla, Paradip and expansion at Vizag terminal. Going forward, timely completion of these project without any cost overrun and subsequent ramping up of cargo will be key rating sensitivity.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Scaling cargo volume post completion of projects with sustained increase in profit before interest, lease rentals, depreciation, and tax (PBILDT) margin.
- Improvement in net debt/PBILDT to less than 3.25x on sustained basis.

Negative factors

- Weakening of financial profile with net debt/PBILDT exceeding 4.5x on sustained basis
- Significant cost and/or time overrun in the new terminal projects
- Dilution of strategic importance of HLTH for JMBPL

Analytical approach: Consolidated

The credit assessment of JMBPL is based on consolidated business and financial risk profile of the company and its subsidiaries and JVs as most entities are linked through a parent-subsidiary relationship and collectively have management, business and financial linkages. Entities have integrated business operations and are engaged handling port infrastructure assets. JMBPL has extended corporate guarantees to its few of its subsidiaries. Companies consolidated in JMBPL as on March 31, 2024, are listed in Annexure-6.

Outlook: Not applicable

Detailed description of the key rating drivers:

Key strengths

Strong promoter group and synergies from HLTH

JMBPL is part of J M Baxi group, which has diversified business profile across the in entire value chain of logistics and port infrastructure. The group has demonstrated strong execution capabilities of port infrastructure assets and established track record of operations in various fields of maritime industry.

In April 2023, HLTH became a shareholder of JMBPL. HLTH is one of the leading global container shipping company and which is resulting in operational synergies for JMBPL's existing terminals as well as newly awarded terminals. The synergies have been witnessed with ramping up of cargo at Vizag terminal during FY24. The credit profile of HLTH also strengthens the financial flexibility for the group. For CY23, revenue and profit after taxes (PAT) of HLTH was €17,929 million and €2,951 million respectively with net worth of €18,767 million as on December 31, 2023.

Improvement in cargo volumes in FY24

In FY24, with HLTH coming in as partner, overall volumes witnessed improvement primary driven by Vishaka Container Terminal Private Limited with growth of 27%. For the container terminal operations (including ICDs and CFS) utilisation improved to 60% in FY24 against 54% in FY23. However, bulk cargo terminal operations continue to be rangebound at 55%. The brownfield under construction terminals at JNPT namely Nhava Sheva Freeport Terminal Private Limited (NSFT) and Nhava Sheva Distribution Terminal Private Limited (NSDT) have also shown ramping up of cargo as envisaged. However, cargo growth remains flattish in Paradip International Cargo Terminal Private Limited (PICT) and Kandla terminal under Kandla International Container Terminal Private Limited (KICT) due to economic factors and change in cargo composition. Ramp up of cargo volumes across terminals continues to be crucial from a credit perspective.

Robust operating income and profitability

On a consolidated level, JMBPL's operating income improved in FY24 at ₹2085 crore (excluding service concession revenue) registering a growth of ~11% over FY23. Growth is led by increased cargo volumes and rail operations. In FY24, the margins have improved to 28% (PY: 23%) considering improved profitability in operations of VCTPL, KICTPL and JM Baxi Heavy Private Limited (JMBHPL). In Q1FY25, JMBPL reported operating income of ₹547 crore with an PBILDT margin of 24%.

In FY24, the container business contributed 65% and 77% of the consolidated revenue and PBILDT respectively while non-container business (excluding port service income) contributed 32% and 22% of the consolidated revenue and PBILDT respectively. With the proposed demerger scheme, it is likely to result in scaling down of JMBPL's business in the near term. However, businesses of JMBPL are expected to ramp up in the medium-term considering completion of ongoing capex in non-container business.

Comfortable capital structure

In FY24, with infusion of primary equity by HLTH, leverage and debt coverage indicators improved significantly marked by overall gearing at 1.11x as on March 31, 2024, as compared to 2.47x as on March 31, 2023. The net debt/PBILDT has been improved to 2.50x at FY24 end as compared to 4.45x in FY23.

However, debt coverage metrics are likely to moderate momentarily in the interim period of FY25-26 due to large portion of capex and borrowings likely to undertaken for operationalization of new terminals. Nevertheless, with the new terminals post commissioning are likely to support PBILDT growth and absorption of increased leverage. Furthermore, two of the new projects at JNPT are having brownfield expansion and have partially commenced operations thereby generating cashflow. With presence of strategic JV partner in two of five new projects and business synergies received thereon, CARE Ratings expect volumes to pick up in new terminals contributing to PBILDT from FY25-26 onwards. Furthermore, the management philosophy expects the net debt/PBILDT to remain 4-4.5x post demerger in both the entities with long term sustainable net debt/PBILDT targeted around 3x.

Favourable Industry outlook

Overall cargo throughput at Indian ports is at its an all-time peak at 1539 MMT for financial year ended March 31, 2024, representing ~7% growth over FY23. With the revival in economic activity, increasing demand and consumption of major commodities and declining shipping freights, traffic re-gained from FY22 and reported healthy CAGR of 7% for FY21-FY24.

Container volumes grew at healthy CAGR of 6% in India from FY20-FY22 indicating strong economic indicator despite COVID-19-related challenges. Container volumes grew at flat 3% in FY23 and witness healthy growth of 10% in FY24 due to strong recovery in EXIM trade despite Red Sea crisis since November 2023. Rising disruption in the Red Sea region have necessitated shipping liners to consider the alternative, longer route past the Cape of Good Hope. This has elongated transit time by 15-20 days and increased the freight cost. However, capacity liners' willingness to increase capacity by earlier fleet renewal orders, which will be arriving in FY25 and cascading capacity from other areas, will reduce transit time to a minimum. CARE Ratings expects container volume to grow at rate of 8% in FY25 despite risk of prolonged Red Sea turmoil. Going forward, growth in exports volume and stability on geopolitical conditions shall be key monitorable.

Key weaknesses

Project execution risk for underlying capex

JMBPL has planned consolidated capex (including of JVs) put together at ₹2700 crore – ₹2900 crore over the next two to three years with construction period of new terminals ranging between 18 months to 36 months. This results in high project execution risk. However, the comfort is derived from completion of financial closure for all the projects, receipt of date of award of concession in majority of the projects and presence of strategic joint venture partner in two of the newly awarded terminals thereby mitigating the cargo throughput risk. All the newly awarded terminals will have the tariff autonomy to the concessionaire. The new terminals are expected to contribute towards scaling up of operations going forward in light of longer concessions.

All the projects are progressing in line with their planned schedule except NSFTPL which has witnessed delayed progress due to delay in receipt of approvals of Environmental Clearance (EC) which was in scope of Authority as per Concession Agreement. NSFT is awaiting port's approval for extension in COD on account of the said delay. Nevertheless, no major overrun is expected in its projects. JMBPL has partially infused the equity commitment required in the new terminals and arranged the funds for the balance portion on consolidated basis.

JMBPL, through its subsidiary Ballard Pier Private Limited, is also developing an international cruise terminal at Indira Dock, Mumbai. All the project's financing documents stipulates conditions for sponsor support undertaking for any cost overrun as well as shortfall funding in case of termination.

As per conditions stipulated in demerger scheme, corporate guarantees/shortfall undertaking extended by JMBPL will be grandfathered and extended to all SPVs by both demerged container entity and JMBPL for a period of 3 years from the effective date, thereby making both verticals liable for present and all accepted obligations towards SPVs. Further to that JMBPL has strong execution track record with successful execution of multiple projects at Kandla, Paradip and expansion at Vizag terminal. Hence, any significant cost or time overrun in the project will be a key rating sensitivity. Both the above points will help to mitigate the above risks.

High competition from existing terminals and other ports coupled with presence of MGT clause

Due to presence of many major and non-major ports on the eastern and western coast of India, JMBPL's SPVs face stiff competition. For terminals on the west coast, it will face stiff competition from existing terminals operators within the port at JNPT, while Mundra Port, Mumbai Port and Tuna Tekra from inter port terminals. For terminals in the eastern coast, it will face competition from existing terminal operators within the port at Tuticorin, while Chennai Port, Cochin Port and Gangavaram port from inter port terminals.

This apart, presence of minimum guaranteed tonnage (MGT) clauses in the concession agreement with absence of firm long-term agreements may impact the profitability in case of lower volumes. While JMBPL is fulfilling the MGT clauses at all terminals, its continuity of same remains critical.

High susceptibility to economic cycles

The performance of the port/shipping service sector is linked to cargo traffic, which in turn, is depend on the health of the economy and trade imbalance. The port/shipping service industry is mainly driven by increase in trade, rise in domestic consumption, growing exports, opening of new ports and increased government spending in infrastructure, among others. The sector is susceptible to downturn in the economy and local government policies regulating trade. Volumes handled also remain susceptible to economic downturns and cyclicality in global and domestic trade exports. Due to the ongoing Red Sea crisis, many shipping liner companies began rerouting their vessels leading to a longer journey time and rising freight cost. Lingering of the crisis will impact global transport volumes. However, the company's established relationships with top shipping lines, tie up with joint venture partner in two new terminals and strategic global container shipping investor partially mitigate the risk to a certain extent.

Liquidity: Adequate

JMBPL's liquidity is adequate, with the company generating sufficient accruals against debt servicing requirement. At standalone level, the company had cash and bank balance of ₹482 crore as on March 31, 2024 (₹120 crore as on March 31, 2023). At consolidated level, the balance was ₹773 crore as on March 31, 2024 (₹298 crore as on March 31, 2023). JMBPL (at standalone level) has sanctioned fund-based limit of ₹56 crore and utilisation has been low with average utilisation being below 25%.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Port & Port services
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Services	Services	Transport infrastructure	Port & port services

JMBPL is the flagship entity of the J M Baxi group and has currently business operations at eight ports in India spread equally on the eastern and western coasts, resulting in geographical diversification. JMBPL (consolidated) has an established presence in end-to-end value chain of the port infrastructure business with terminals in Visakhapatnam, Paradip, Kandla, JNPT, Tuticorin, Rozi, and Haldia.

The company has a CFS in Uran (JNPT) and Vizag, ICD and Cold store at Sonipat, Haryana, Project, and bulk logistics operation across India. The combined total capacity of these operations is about 46 MMT (of which about 40 MMT/ 26,50,000 TEUs is container) as on March 31, 2024.

The company also has container train operations with category III license to derive integration benefits at port-locations between Sonipat, Vishakhapatnam, Kandla and Pipavav. Currently, it is operating 25 rakes and has plans for expansion in line with the addition of new terminals.

Brief Financials – Consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1895	2117	NA
Adjusted TOI*	1872	2085	547
PBILDT	435	578	131
PAT	44	171	NA
Overall gearing (times)	2.47	1.11	NA
Interest coverage (times)	1.78	2.06	NA

A: Audited; UA: Unaudited; NA: Not available Note: 'the above results are latest financial results available'
*Adjusted total operating income is excluding service concession revenue.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	81.00	CARE A+ (RWD)
Fund-based - LT-Term Loan		-	-	31-12-2038	530.98	CARE A+ (RWD)
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	120.00	CARE A+ / CARE A1 (RWD)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	530.98	CARE A+ (RWD)	1)CARE A+; Stable (05-Apr-24)	1)CARE A+; Stable (07-Apr-23)	1)CARE A; Stable (06-Apr-22)	1)CARE A; Stable (21-May-21)
2	Fund-based - LT-Cash Credit	LT	81.00	CARE A+ (RWD)	1)CARE A+; Stable (05-Apr-24)	1)CARE A+; Stable (07-Apr-23)	1)CARE A; Stable (06-Apr-22)	1)CARE A1 (21-May-21)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	120.00	CARE A+ / CARE A1 (RWD)	1)CARE A+; Stable / CARE A1 (05-Apr-24)	1)CARE A+; Stable / CARE A1 (07-Apr-23)	1)CARE A; Stable / CARE A1 (06-Apr-22)	1)CARE A1 (21-May-21)

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Delhi International Cargo Terminal Private Limited	Full	Subsidiary with 100% shareholding
2	Visakha Container terminal Private Limited	Full	Subsidiary with 100% shareholding
3	Haldia International Container Terminal Private Limited	Full	Subsidiary with 100% shareholding
4	Paradip International Cargo Terminal Private Limited	Full	Subsidiary with 100% shareholding
5	Kandla International Container Terminal Private Limited	Full	Subsidiary with 100% shareholding
6	J M Baxi Heavy Private Limited	Full	Subsidiary with 100% shareholding
7	Vir varenya Shipping Singapore Pte. Limited	Full	Step-Subsidiary with 100% shareholding
8	Ballard Pier Private Limited	Full	Subsidiary with 100% shareholding
9	J M Baxi Cool Private Limited	Full	Subsidiary with 100% shareholding
10	Nhava Sheva Distribution Terminal Private Limited	Full	Subsidiary with 100% shareholding
11	Tuticorin International Container Terminal Private Limited	Full	Subsidiary with 100% shareholding
12	Nhava Sheva Freeport Terminal Private Limited	Moderate	Joint Venture with 50% Shareholding
13	Vizag Multipurpose Terminal Private Limited	Moderate	Joint Venture with 50% Shareholding
14	J M Baxi Ports Services Private Limited	Full	Subsidiary with 100% shareholding
15	J M Baxi Container Holdings Private Limited	Full	Subsidiary with 100% shareholding

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Name: Puja Jalan Director **CARE Ratings Limited** Phone: +40 4002 0131 E-mail: puja.jalan@careedge.in Name: Tej Kiran Assistant Director **CARE Ratings Limited** Phone: +40 4002 0131 E-mail: tej.kiran@careedge.in Name: Nishid Khemka Lead Analyst **CARE Ratings Limited** E-mail: nishid.khemkai@careedge.in

About us:
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