February 28, 2023

J M Baxi Heavy Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Fund Based Term Loan	70.00	70.00	[ICRA]A-(Positive); Reaffirmed
Long Term- Fund Based Cash Credit	40.00	40.00	[ICRA]A-(Positive); Reaffirmed
Short Term - Bank Guarantee	20.00	20.00	[ICRA]A2+; Reaffirmed
Short Term - Derivative Limits	10.00	10.00	[ICRA]A2+; Reaffirmed
Total	**140.00**	**140.00**	

**Instrument details are provided in Annexure-I*

Rationale

To arrive at the ratings, ICRA has taken a consolidated view of J M Baxi Ports & Logistics Limited (JMBPL) and its subsidiaries on account of the management, business and financial linkages among these entities. The subsidiaries are Delhi International Cargo Terminals Private Limited (DICT), Visakha Container Terminals Private Limited (VCTPL), Haldia International Container Terminal Private Limited (HICT), Kandla International Container Terminal Private Limited (KICT), Paradip International Cargo Terminal Private Limited (PICT), JM Baxi Heavy Private Limited (JMB Heavy), Ballard Pier Private Limited (BPPL), Tuticorin International Container Terminal Private Limited (TICT) and Nhava Sheva Distribution Terminal Private Limited (NSDT). Besides the presence of cross-default clauses among these firms as per the lender's sanction, the ratings factor in the corporate guarantee extended by JMBPL to several entities and the fungibility of surplus funds among them, subject to the terms of loan agreements with the respective lenders and the escrow agreement for individual concession assets. These entities form a part of the J.M. Baxi Group and are collectively referred, hereinafter, as the Group.

ICRA takes note of the company signing a binding agreement with Hapag-Lloyd AG (HL) (rated Ba2 by Moody's) for the acquisition of stake in JMBPL. The timely completion of the transaction and fund infusion is a key monitorable. In the interim, till fund infusion by HL happens, the company is raising funds from the parent group entities and Bain Capital in the form of ICD and NCD, respectively, which will be interest bearing. These loans will be subordinate to the bank debt and interest and repayment will happen only post equity infusion.

The ratings continue to derive comfort from the track record of the J.M. Baxi Group as one of the leading port logistics players in the country with presence across the value chain, comprising container train operations (CTO), container freight stations (CFS)/inland container terminal (ICD), cold storage, warehousing, bulk logistics and port infrastructure comprising container/other cargo terminals.

ICRA takes note of the financial performance in FY2022 and 9M FY2023, with a healthy revenue growth of ~17.2% in FY2022, although the profit margin witnessed some moderation due to increased operating expenses, leading to only marginal OPBDITA growth of ~2.6% at Rs. 398.8 crore (OPM of 23.8% in FY2022 compared with 27.3% in FY2021). In the current fiscal, the performance in H1 FY2023 was impacted by the slower-than-anticipated ramp-up in container and bulk cargo operations at terminals, unfavorable regulatory decisions in segments such as iron ore, steel, food, and integration issues related to the recent acquisitions. The trend continued in Q3 FY2023 even as the volumes are expected to improve gradually, going forward. ICRA notes that the company has large capex plans in the medium term (including those under SPV/JV) which will be partially debt funded, putting some pressure on the credit metrics in the medium term, although the successful completion of the above-mentioned fund raising will mitigate the impact. ICRA notes that the new projects will support growth in the scale of operations in the medium term, provide diversification benefits, improve its competitiveness and help attract customers due to presence across multiple strategic locations and tie-up with a major shipping line for one of the projects. Nonetheless, in the near to medium term, the company will be exposed to project execution risks and the completion of projects without major time and cost overruns will be a key monitorable.

The Positive outlook reflects ICRA's opinion that the credit profile of the Group is expected to improve with the ramp-up of cargo volumes at existing assets, including VCTPL T2, which would enhance the profitability and cash flows and result in some deleveraging and better credit metrics.

Key rating drivers and their description

Credit strengths

Leading player in logistics industry with significant experience and strong executional capabilities; investment by HL expected to provide synergistic benefits - J.M.Baxi Group is one of the leading port logistics player in the country with presence across the value chain, comprising container train operations (CTO), container freight stations (CFS)/inland container terminals(ICD), cold storage, warehousing, bulk logistics and port infrastructure involving container/other cargo terminals. The Group has a diversified geographical presence through its own CFS and warehouse near JNPT Port and Visakhapatnam, container terminals at the Visakhapatnam, Haldia, Kandla and Paradip (Paradip Port handles both cargo and container, nevertheless dominated by cargo) ports and an inland container depot (ICD) and cold storage at Sonepat, Haryana.

The company has signed a binding agreement with HL for the acquisition of stake in JMBPL. The timely completion of transactions and fund infusion is a key monitorable. In recent years, JMBPL has expanded its board with members having rich experience across logistics and shipping, business management, finance, public policy, management consulting and infrastructure development.

Positive long-term outlook for container traffic – At present, the overall containerisation levels of the cargo handled at various ports remain low in the country which makes the long-term prospects for container traffic favourable. Consequently, the Group has witnessed a healthy ramp-up of volumes in its port operations as well as its CFS and rail operations over the years.

Expected improvement in operational performance - The Group has executed a large capex programme in VCTPL to build terminal 2 with a capacity of 750,000 TEUs at a cost of Rs. 916 crore. The project was completed in February 2022 and the commercial operations started from March 2022, mitigating the execution risk. At a consolidated level, the Group's debt levels have increased in FY2022 to Rs. 1,903 crore from Rs. 1,252 crore in FY2021. The EBITDA was Rs. 399 crore, resulting in high leverage (net debt/EBITDA) of ~4.0 times in FY2022 against 2.3 times in FY2021. The leverage is high as the terminal 2 of VCTPL became operational at the end of FY22 and majority of debt for the project was already availed by end of FY22. The new terminal has a revenue-sharing arrangement with the port authority compared to the royalty model in the case of terminal 1 along with higher berth charges, which would result in better profitability. While the financial performance in H1 FY2023 was subdued due to slower-than-expected cargo growth, the trend continued in Q3 FY2023 even as the volumes are expected to improve gradually, going forward.
Further, while several large capex planned (at consolidated level) in the medium term and partial debt funding will put some pressure on the credit metrics, the expected growth in revenue and profits and the announced equity infusion by HL are expected to mitigate the impact and remain the key monitorables.

Credit challenges

Significant capex plan – The Group has various capex plans to increase its fleet of rakes for the CTO business, electrification at various port assets and a new cruise terminal at Mumbai port. For the recently secured contracts, the capex would be used to develop a container terminal at Tuticorin, shallow water and coastal berths at Jawaharlal Nehru Port Authority and a railway terminal at Inchchapuri, Haryana. In addition to this, a consortium of JMBPL and CMA Terminals (wholly-owned subsidiary of

CMA CGM Group – a global shipping and logistics company) has secured the concession for O&M and expansion of JNPCT. In January 2023, consortium of JMBPL and Indian Potash Limited also won the concession for the mechanisation of EQ-7 berth at Vishakhapatnam Port. For the recently won concessions, the capital expenditure is estimated to be around ~Rs. 500-750 crore per year in FY2023-2025 (~Rs. 750-1,000 crore, including the capex under JV for container terminal at JNPT and JV for mechanisation of EQ-7 berth). The large capex plans will expose the company to execution risks in the near to medium term and put some pressure on leverage levels and other credit metrics, although the expected equity infusion will mitigate the impact.

Susceptibility of revenues to economic slowdown and variations in trade volumes – The revenues of the Group remain susceptible to the economic cycles in the CFS, ICD, CTO and container terminal businesses. The variations in exim trade volumes also impact the overall sales. In H1 FY2023, the bulk cargo and container volumes were impacted by slower-than-expected ramp-up in new terminal, unfavourable regulatory actions on certain bulk cargo segments and other factors. However, the favorable long-term prospects for container traffic and the Group's established relationships with all the major shipping lines along with its integrated presence in the logistics chain and port operations mitigate the risk to an extent.

Competitive pressures for volumes – KICT faces significant competition from existing container terminal operators on the west coast, resulting in lower profitability margins. The Pipavav and Mundra ports are the main competitors and any addition of container terminals at these ports poses a threat to the operations at Kandla. PICT and VCTPL faces competition from cargo and container terminal operators on the east coast such as Haldia, Dhamra, Kakinada and Visakhapatnam. However, considering the targeted hinterland, PICT is well-placed than its competitors, while VCTPL is the only container terminal operator in Visakhapatnam which provides it with a competitive edge. Going forward, the competition of new projects should strengthen the company's competitive profile and its ability to benefit from the synergies arising from presence across the logistics value chain and terminals at strategic locations.

Liquidity position: Adequate

In FY2022, the cash accruals at a consolidated level were ~Rs. 277 crore and are expected to improve over FY2023 and FY2024 with the expected ramp up in volumes and profits. The Group has capex plans of ~Rs. 500-750 crore per annum over the next three years (~Rs. 750-1,000 crore, including capex under JV with CMA Group and JV with Indian Potash Limited) and repayment obligation of ~Rs. 125 crore in FY2023 and ~Rs 100 crore in FY2024. However, despite the high debt levels, the long balance tenor of the loans with an average maturity of ~10-15 years (in some case 18 years) provides comfort. Further, the Group had cash and a bank balance of Rs. 307 crore as on March 31, 2022 and access to unutilised working capital limits, which also provide liquidity support. Further, while the fund raising is planned, in the interim the promoters are providing support through subordinated debt to meet the equity commitments for new projects.

Rating sensitivities

Positive Factors – ICRA could upgrade JMBPL's ratings if there is a substantial improvement in the capital structure and the credit metrics of the Group through the infusion of additional funds. A healthy growth in revenues through a volume ramp-up and improvement in operating margins, leading to better credit metrics, may also trigger an upgrade.

Negative factors - Pressure on the ratings could emerge if there is any significant impact on volumes and realisations, which will affect the profitability and cash flow. The ratings may be under pressure if the company undertakes any large debt-funded capex or acquisition that would impact the coverage metrics. The ratings may also be revised if the DSCR (excluding short term debt) falls below 1.5 on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating approach - Consolidation]
Parent/Group support	Not Applicable
Consolidation/Standalone	To arrive at the ratings, ICRA has taken a consolidated view of JM Baxi Ports & Logistics Limited (JMBPL) and nine of its subsidiaries (details in Annexure II) on account of the management, business and financial linkages among these entities along with the presence of cross-default clauses as per lender's sanction, corporate guarantee extended by JMBPL to several entities and fungibility of surplus funds between entities, subject to the terms of respective loan agreements and escrow agreements for individual concession assets. ICRA has also considered the funding support needed for the JV. Please refer to annexure II for entities consolidated

About the company

JMB Heavy, the group has transferred the project logistics business in JMB heavy. Further, JMB heavy has acquired project logistics division of Allcargo as well as List & Shift which would result in a market leadership position for JMB Heavy. J M Baxi Heavy Pvt Ltd (JMB Heavy) is a wholly owned subsidiary of J M Baxi Ports and Logistics Ltd (JMBPL) – the flagship company of J M Baxi Group. JMB Heavy transports over dimensional (ODC) and over-weight cargo requiring specialised transportation / lifting methods. It caters to logistic needs of Engineering, Capital Goods, Power & Transmission industries. The company is one of the top players in the ODC and multimodal segment Ancillary services offered include CHA activities, route surveys, building temporary structures, obtaining necessary approvals from authorities and Warehouse, inventory & site management. The business was earlier housed under Boxco Logistics India Pvt Ltd ("Boxco") as the Project Logistics Division (PLD) of the group. The PLD [including the shares of Boxco in Vir Varenya Shipping Singapore Pte Ltd (VVSSPL)] got demerged into JMB Heavy under the NCLT approved scheme of arrangement in Dec 2020; the other divisions of Boxco – Bulk and Cold chain got demerged into J M Baxi Ports & Logistics Ltd.

Key financial indicators (audited)

Standalone	FY2021	FY2022
	Standalone	
Operating income	40.4	146.2
PAT	2.6	-1.9
OPBDIT/OI	-7.2%	1.9%
PAT/OI	6.4%	-1.3%
Total outside liabilities/Tangible net worth (times)	3.1	4.2
Total debt/OPBDIT (times)	-17.9	22.2
Interest coverage (times)	-0.7	0.5

Source: *Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					February 28, 2023	Dec 22, 2022	-	-	-
1	**Term Loan**	Long-term	70.00	56.38	[ICRA]A- (Positive)	[ICRA]A- (Positive)	-	-	-
2	**Cash Credit**	Long-term	40.00	-	[ICRA]A- (Positive)	[ICRA]A- (Positive)	-	-	-
4	**Bank Guarantee**	Short-term	20.00	-	[ICRA]A2+	[ICRA]A2+	-	-	-
5	**Derivative Limits**	Short-term	10.00	-	[ICRA]A2+	[ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
Bank Guarantee	Very Simple
Derivative Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	June 2022	9.15%	June 2027	70.00	[ICRA]A- (Positive)
NA	Cash Credit	NA	NA	NA	40.00	[ICRA]A- (Positive)
NA	Bank Guarantee	NA	NA	NA	20.00	[ICRA]A2+
NA	Derivative Limits	NA	NA	NA	10.00	[ICRA]A2+

Source: Company.

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	JMBPL	Consolidation Approach
Delhi International Cargo Terminal Private Limited	100%	Full Consolidation
Visakha Container Terminal Private Limited	100%	Full Consolidation
Haldia International Container Terminal Private Limited	100%	Full Consolidation
Kandla International Container Terminal Private Limited	100%	Full Consolidation
Paradip International Cargo Terminal Private Limited	100%	Full Consolidation
JM Baxi Heavy Private Limited	100%	Full Consolidation
Ballard Pier Private Limited	100%	Full Consolidation
Tuticorin International Container Terminal Private Limited	100%	Full Consolidation
Nhava Sheva Distribution Terminal Private Limited	100%	Full Consolidation
Nhava Sheva Freeport Terminal Private Limited	50%	Equity Method

Source: Company

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