

JSW INFRASTRUCTURE LTD.

Sensex	66,024
Nifty	19,675

ISSUE HIGHLIGHTS

Issue Opens	25-Sept-23
Issue Closes	27-Sept-23
Offer Price(₹per share)	113-119
Bid Lot	126shares
Face Value(₹)	2.0
Pre-Issue Shares o/s(mn)	1,864.7
Offer for Sale(Noofsh.mn)	-
Fresh Issue(Noofsh.mn)	235.3
Post-Issue shares o/s(mn)	2,100.0
^Issue Size(₹bn)	28.0
^Issue Size(@₹119)	

Book Running Lead Manager

Axis Capital, DAM Capital, ICICI Sec., Kotak IB, SBI Caps, HSBC, Credit Suisse, JM Financial

Post Issue Details

MCAP@₹119/share(₹bn)	250.2
Shareholding pattern	
Promoters	85.5%
Non-Promoters	14.5%
Total	100%

COMPANY OVERVIEW

JSW Infrastructure Ltd., a part of JSW Group, is the fastest-growing port-related infrastructure company that provides maritime-related services including cargo handling storage solutions, logistics services, and other value-added services to its customers which is also evolving into an end-to-end logistics solutions provider. It is the 2nd largest commercial port operator in India, handling 92.8mn MT in FY23 (43% CAGR over FY21-23). 63% of volumes is derived from JSW Group customers while balance 37% is from 3rd party customers which it plans to further increase to achieve balanced customer base. The company develops and operates ports and port terminals pursuant to port concessions which typically have long concession periods ranging between 30 to 50 years. The company has a diversified presence across India with non-major ports located in Maharashtra and port terminals located at major ports across the industrial regions of Goa and Karnataka on the west coast, and Odisha and Tamil Nadu on the east coast. In addition to partnering with its JSW Group customers (related Parties), the company has a customer base that includes third-party customers across geographies. With India being positioned to be one of the fastest-growing major economies in terms of GDP between FY24-26, the company intends to capitalize on this strong growth momentum by broadening its cargo profile, expanding its geographical presence, and diversifying its revenue streams. The company proposes to achieve this by leveraging its experience in developing and acquiring assets across geographies and catering to diverse cargo types.

Focus on Revenue Diversification –JSW Infra plans to further diversify its revenue by exploring opportunities such as the development of container terminals, liquid storage terminals, container freight stations, multi-modal logistics parks and inland container depots. It recently commenced operations in New Mangalore Container Terminal in 2022. It has also obtained licenses for storage of various types of liquid cargo at its Jaigarh Port where it currently store molasses and edible oil.

Consistent financial performance –Revenue/PAT has grown robustly at 41%/62% CAGR over FY21-23 to ₹31.9bn/₹7.5bn, led by strong volume growth. The EBITDA margin on average hovers ~50% while RoE stood healthy at ~22%. Net D/E post repayment would come to -0.2x levels.

View

India is positioned to be one of the fastest growing major economies and is expected to log an annual average economic growth of 6.6% between FY24-26. A stronger domestic demand is expected to drive India's growth premium over peers in the medium term. The investment prospects in India are bright, given the government's capital expenditure push, the rapid progress of the Production linked Incentive ("PLI") scheme, healthier corporate balance sheets, and a well-capitalized banking sector with low non-performing assets. India is poised to become a US\$ 5tn economy and ports would play a significant role in the growth story. The company is involved in the business of developing and managing ports, and provides maritime-related services including cargo handling storage solutions, logistics services, and other value-added services to its customers. Being in a capital-intensive business requiring huge capital as well as years of experience, JSW Infrastructure Ltd. looks well-positioned to maintain its dominant position in the ports industry in India in terms of cargo handling capacity and cargo volumes handled. The company also enjoys a strong parentage of JSW Group which has presence in various sectors in India and offers customer stickiness in the long term. The company also has plans to undertake various greenfield and brownfield expansions in the coming years which would prove beneficial for the business performance going forward. **On the upper price band, the issue is valued at a P/E of 29.7x FY23, which we feel is fairly valued. Therefore, we recommend as "SUBSCRIBE" for the issue.**

Jayakanth Kasthuri

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Objects and Details of the Issue

- ₹28bn IPO consists of an entirely fresh issue of 235.3mn shares.
- **The Company proposes to utilise the Net Proceeds from the Fresh Issue towards:**
 1. **Prepayment or repayment**, in full or part, of all or a portion of certain outstanding borrowings through investment in WoS's, JSW Dharamtar Port Private Limited and JSW Jaigarh Port Limited;
 2. **Financing capital expenditure requirements** through investment in WOS JSW Jaigarh Port Limited, for proposed expansion works i.e.,
 3. **Expansion of LPG terminal** ("LPG Terminal Project"); ii) Setting up an electric sub-station; and iii) Purchase and installation of dredger;
 4. **Financing capital expenditure requirements** through investment in WoS, JSW Mangalore Container Terminal Private for proposed expansion at Mangalore Container Terminal.

INVESTMENT RATIONALE

- **Fastest-growing port-related infrastructure company and second-largest commercial port operator in India with assets in close proximity to JSW Group customers and industrial clusters** – Incorporated in 2006, JSW Infrastructure Limited provides maritime-related services including, cargo handling, and storage solutions and logistics services. The company develops and operates ports and port terminals under Port Concessions.

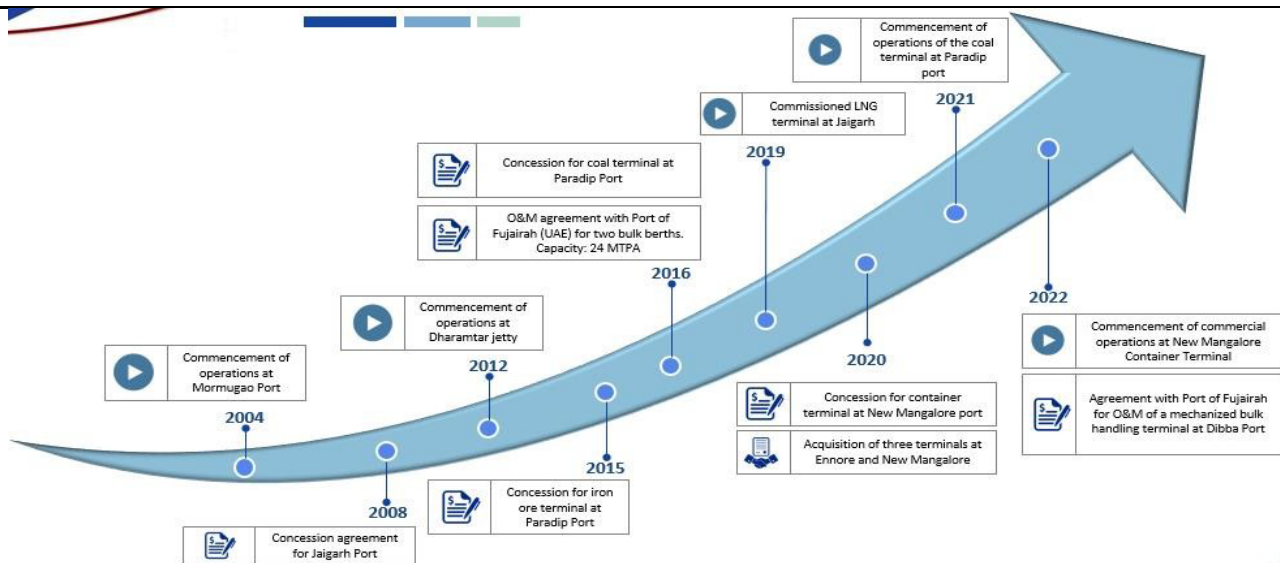
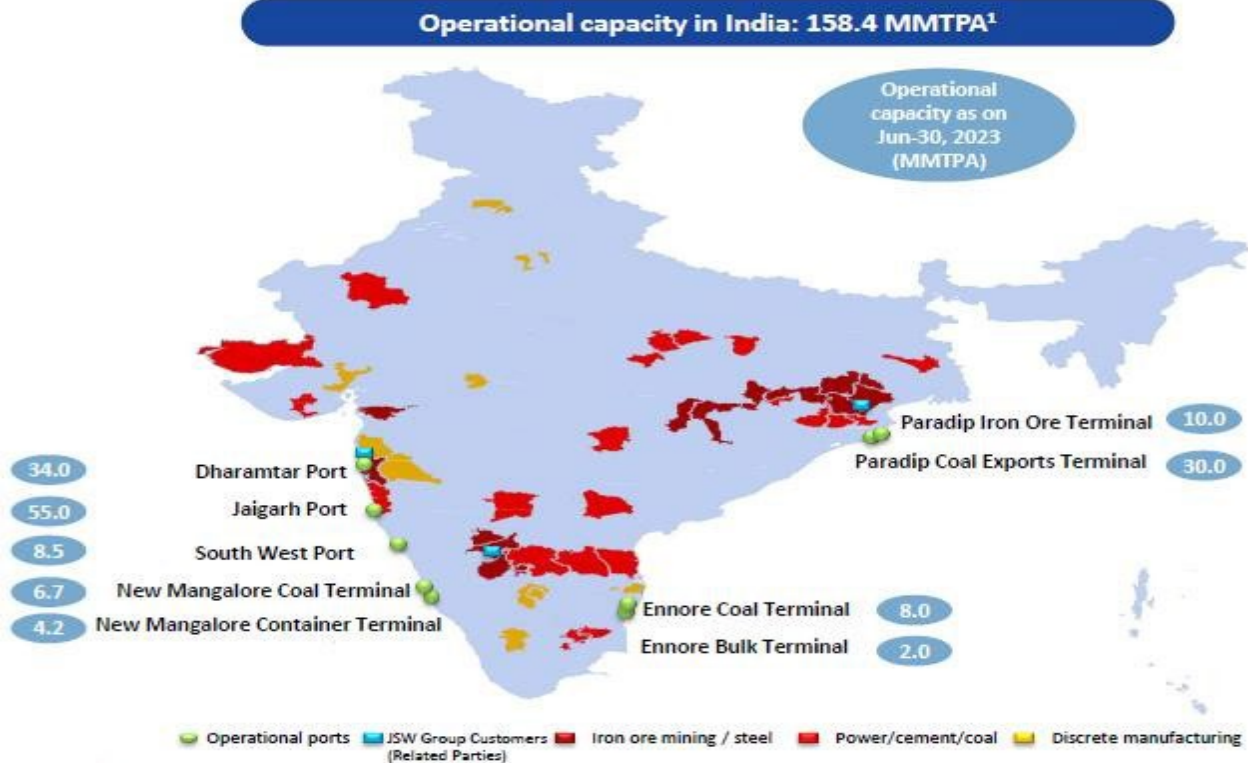
JSW Infrastructure Limited is a part of the JSW Group. The company partners with JSW Group Customers (Related Parties) to pursue growth initiatives. It is the fastest growing port-related infrastructure company in terms of growth in installed cargo handling capacity and cargo volumes handled during FY21-23, and the second largest commercial port operator in India in terms of cargo handling capacity in FY23.

The company provides maritime related services including, cargo handling, storage solutions, logistics services and other value-added services to customers. The company intends to pursue synergistic businesses such as development of container terminals, liquid storage terminals, container freight stations ("CFS"), multi-modal logistics parks ("MMLP") and inland container depots ("ICD") to provide end-to-end logistics solutions to customers.

It has developed two greenfield non-major ports, four port terminals at Major Ports including a container terminal project in New Mangalore (Karnataka), and has acquired three port terminals in India.

Location plays a major differentiator in the ports industry. Ports that are closer to major shipping routes enjoy a competitive advantage as shipping from those ports translate into cost savings for importers and exporters. The company's port concessions are strategically located on the west and east coasts of India and are well connected to its customers including JSW Group customers (related Parties) located in the industrial hinterlands of Maharashtra, Goa, Karnataka, Tamil Nadu, Andhra Pradesh, and Telangana, and mineral-rich belts of Chhattisgarh, Jharkhand and Odisha. These states manage large volumes of cargo from coastal areas and the broader hinterland. The location of the company's assets helps them to provide end-to-end logistics services as they are connected to cargo origination as well as cargo consumption points.

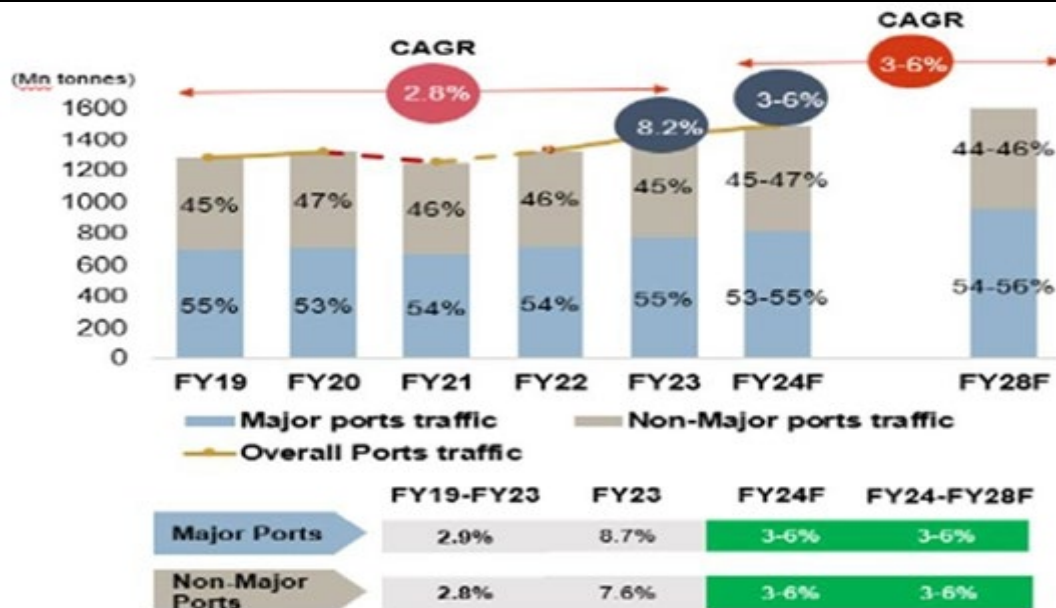
Company Ports & Terminals



Source – RHP, Way2Wealth

➤ **Overall traffic at Indian ports to grow at 3-6% CAGR (FY24-28)** – The Indian port sector is divided into two segments: major ports and non-major ports. The Indian coastline is dotted with 12 major and nearly 217 non-major ports. As per CRISIL MI&A estimates, port traffic is expected to grow by 3-6% in FY24, after growing by 8.2% in FY23. The growth in FY23 was primarily driven by the robust growth in coal cargo traffic on the back of higher domestic demand due to increased power requirements in the country. In FY24, the growth in port traffic is expected to moderate to 3-6%. Coal traffic is likely to grow by 2-7% due to flattish imports. Similarly, container traffic is also expected to be slightly higher at 4-7% in FY24 due to the low base, higher imports, and cheaper container prices. Iron ore traffic is expected to register 10-15% growth in FY24. Contrastingly, the growth in POL traffic would be subdued at 2-5%. Over FY24 to FY28, growth at Indian ports is expected to be at 3-6%.

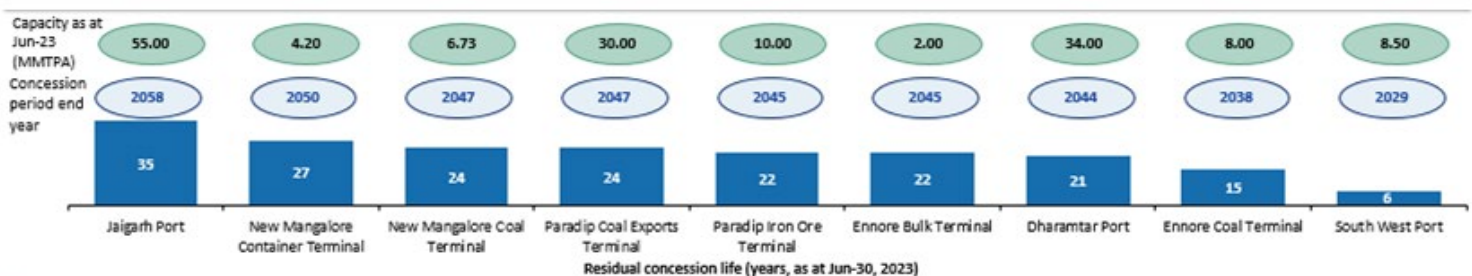
Overall traffic at Indian Ports



Source – RHP

- **Predictable revenues driven by long-term concession periods with multi-modal evacuation channels** –The ports and port terminals typically have long concession periods ranging between 30 to 50 years, providing long-term visibility of revenue streams. As of 30 June 2023, the capacity weighted average balance concession period of operational ports and terminals is approximately 25 years with Jaigarh Port, one of the largest assets, having a balance concession period of 35 years. While Dharamtar Port (Maharashtra) and each of the other port terminals located at Major Ports, were awarded concession/ license periods of 30 years, providing long-term visibility of revenue streams.

Concession period at various ports



Port concessions are long life assets with concession periods typically ranging between 30 to 50 years
As of June 30, 2023, capacity weighted average of residual concession life stood at c. 25 years, providing long term visibility of revenue streams

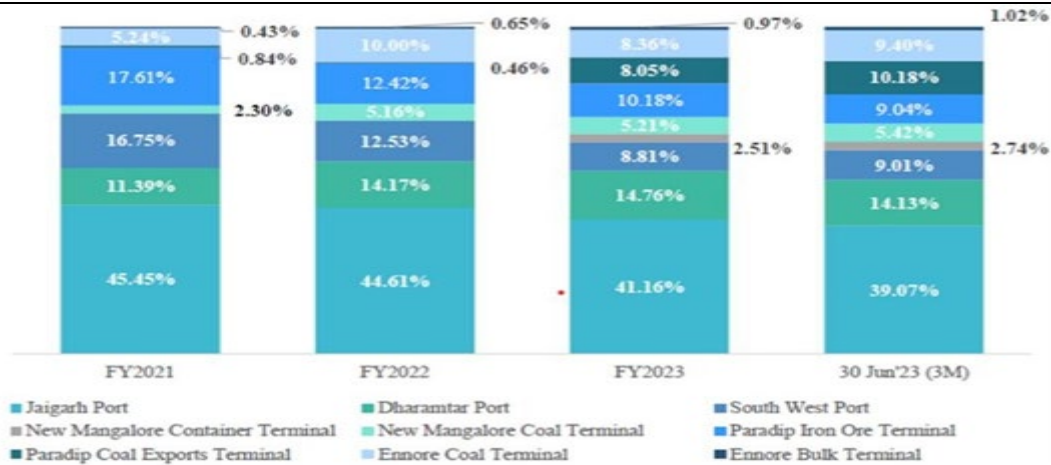
Source – RHP

The location plays a pivotal role in the ports industry. It helps to provide end-to-end logistics services as they are connected to cargo origination as well as cargo consumption points. **For ex:**

- **Jaigarh Port** on the west coast has a draft of 17.5 meters, which is one of the deepest draft ports in India. It operates as a hub-and-spoke model of cargo handling.
- **Dharamtar Port (Maharashtra)** – A conveyor system that is directly connected to JSW Steel's Dolvi facility through which almost all of the port's cargo is evacuated.

In addition to locational advantages, assets benefit from a multi-modal evacuation infrastructure comprising a network of roadways (22%), railways (34%), waterways (16%) and conveyor systems (28%), which enable to provide customized supply chain solutions to customers.

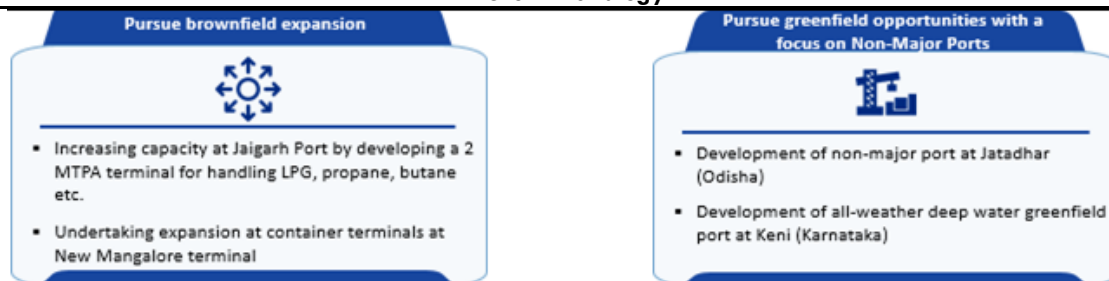
Port or Terminal Wise Revenue for 9 Port Concessions



Source – RHP

- **Inorganic growth opportunities** –Company intends to focus on expansion in Non-Major Ports where it can broaden operations to provide fully integrated logistics solutions with an optimum cargo mix of bulk, container, liquid and gases while continuing to expand presence across major Ports. It is in the process of undertaking similar Greenfield projects and is exploring selective inorganic growth opportunities to further expand the capacities, customers, service offerings and geographical footprint. To this end, it proposes to develop a port at Jatadhar (Odisha) to cater to JSW Steel Limited's ("JSW Steel") upcoming steel facility in Odisha. It has also submitted a bid for developing an all-weather deep water greenfield port at Keni district in Karnataka on a Design-Build-Finance-Operate-Transfer(DBFOT)model.

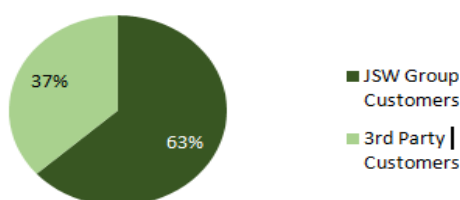
Growth Strategy



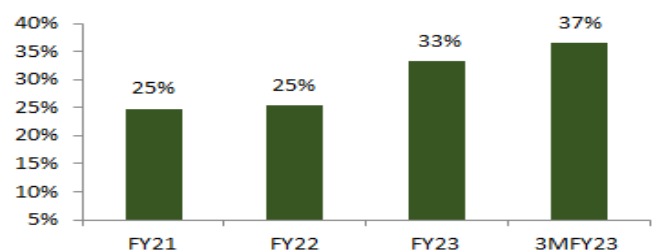
Source – RHP

- **Increasing third-party customer base** –The company has diversified customer base to include third-party customers across geographies and has expanded cargo mix by leveraging location advantage and maximizing asset utilization. The efforts to expand customer base has led to an increase in cargo handled for third-party customers in India that grew at a CAGR of 65.58% from 11.30 MMT in FY21 to 30.98 MMT in FY23. Cargo handled for third-party customers in India as a proportion of total cargo handled (by volume) in India increased from 25% inFY21 to 33%inFY23.

Cargo Volume Mix in India (3MFY23)



Volume of cargo handled for our third-party customers in India

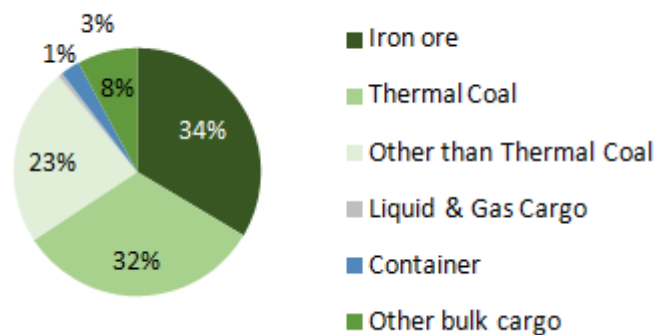


Source – RHP

RISKS & CONCERNS

- **A substantial portion of the volume of cargo handled is dependent on a few types of cargo:**
 1. A substantial portion of the total volume of cargo handled by the company comprises coal (55% of total volumes) and iron ore (34% of total volumes). Coal comprises of (i) thermal coal; and (ii) other than thermal coal (which includes coking coal, steam coal and others). The company is therefore susceptible to a significant downturn in the trade or transportation of coking coal, iron ore and thermal coal.
 2. The Government is also increasingly introducing legislations to restrict emissions and incentivize adoption of renewable energy, further reducing the demand for coal for industrial use. Any such actions involving the company’s coal handling terminals or any corresponding reduction in coal traffic at the ports will therefore have an adverse impact.

Cargo Mix (3MFY23)



Source – Company

- **Substantial amount of related party transactions with entities in the JSW Group –** Company expects to continue to engage, in significant transactions with JSW Group companies in the ordinary course of business, on an arm’s length basis. The related party transactions include purchase of goods and services, purchase of capital goods, sales of goods and services, pledge fees, interest income on loans given and interest expense on loans availed by the company. In addition, the company relies on its related parties for the land parcels owned by them and leased to the company for its ports and terminals. 63% of business comes from JSW group customers. Any default or decline in demand could impact the business.
- **The company relies on concession and license agreements from government agencies and concessioning authorities to operate and grow its business.** The company has several obligations under these government agreements and a breach of terms could lead to the termination of agreements, which could materially adversely affect the business, results of operations, financial condition, and cash flows.
- **The concession and license agreements are entered into by the company for limited periods ranging from 30 to 50 years and do not provide for renewals.** The O&M agreements are granted for limited periods of up to five years and may not be renewed on equally favorable terms or at all. The inability to renew these arrangements could adversely affect the business, results of operations, financial condition, and cash flows of the company.

Financials

(₹ mn)

Income Statement	FY21	FY22	FY23	Q1FY24
Net Sales	16,035	22,731	31,947	8,781
Change(%)	-	41.8	40.5	7.1
Total Expenditure	7,871	11,636	15,746	4,268
% of Sales	49.1	51.2	49.3	48.6
EBITDA	8,164	11,094	16,202	4,513
Margin(%)	50.9	48.8	50.7	51.4
Depreciation	2,707	3,695	3,912	947
EBIT	5,457	7,399	12,290	3,566
Int.and Finance Charges	2,279	4,196	5,961	-158
Other Income	747	1,057	1,781	401
PBT	3,926	4,260	8,110	4,125
Tax	1,080	955	615	903
Tax Rate(%)	27.5	22.4	7.6	21.9
Minority Interest	0.0	0.0	0.0	0.0
Reported PAT	2,846	3,304	7,495	3,222
Change(%)	-	16.1	126.8	67.3
Margin(%)	17.7	14.5	23.5	36.7

Balance Sheet	FY21	FY22	FY23	Q1FY24
Share Capital	599	599	3,596	3,596
Reserves	28,312	32,122	36,351	39,465
Net Worth	28,912	32,721	39,946	43,061
Debt	41,938	47,402	45,676	45,424
Total Capital Employed	74,530	84,640	87,950	90,275
Net Fixed Assets	49,240	61,339	59,746	58,915
Investments	2,955	2,830	3,070	4,726
Current Assets	16,630	25,840	27,725	29,161
Inventory	991	854	1,022	1,025
Debtors	4,818	6,013	4,024	3,901
Cash and Bank Balance	2,648	10,382	16,316	17,432
Loans and Advances &OCA	8,173	8,590	6,363	6,804
Curr.Liability& Provisions	8,015	9,654	6,557	6,041
Account Payables	2,151	2,748	3,016	2,596
Current Liabilities	1,910	3,065	2,449	2,377
Other Long Term Liab.& Provs.	3,954	3,842	1,092	1,068
Net Current Assets	8,615	16,186	21,168	23,120
Deferred Tax(Net)	2,469	3,489	3,506	2,937
Appl.of Funds	74,530	84,640	87,950	90,275

Cash Flow Statement	FY21	FY22	FY23	Q1FY24
OP/(Loss)before Tax	3,926	4,260	8,110	4,125
Depreciation	2,707	3,695	3,912	947
Finance Cost	2,279	4,196	5,961	-158
Income Taxes paid	-1,080	-955	-615	-903
(Inc)/Dec in WC	11,734	12,839	19,924	2,759
CF from Operations	19,565	24,035	37,292	6,771
Others	-9,663	-12,273	-19,320	-3,126
CF from Operating(Net)	9,902	11,762	17,972	3,645
(Pur)/Sale of FA	-15,925	-5,068	-2,690	-576
(Pur)/Sale of Investments	820	125	-197	-1,593
Interest/Dividend received	314	532	1,715	193
Bank Deposits	-1,576	-3,602	-5,035	-1,229
Others	-	-0	0	-
CF from Investments	-16,368	-8,013	-6,208	-3,205
Proceeds from borrowings	8,658	65,837	-5,647	-337
Issue of equity shares	-	-	-	-
Interest Paid	-2,249	-3,621	-2,727	-217
Dividend Paid	-	-	-	-
Others	0	-62,191	-2,492	-
CF from Fin.Activity	6,409	26	-10,866	-553
Net Inc/Dec of Cash	-57	3,775	899	-113

Source – RHP , Way2Wealth

Key Ratios	FY21	FY22	FY23	Q1FY24
EPS	1.4	1.6	3.6	1.5
Cash EPS	2.6	3.3	5.4	2.0
BV/Share	13.8	15.6	19.0	37.5
DPS	0.0	0.0	0.0	0.0
Valuation(x)				
P/E	87.9	75.7	29.7	19.4
CashP/E	45.1	35.7	21.9	15.0
P/BV	8.7	7.6	6.3	3.2
EV/Sales	18.1	12.6	8.7	6.9
EV/EBITDA	35.5	25.9	17.3	13.4
Dividend Yield(%)	0.0	0.0	0.0	0.0
Return Ratios(%)				
RoE	9.8	10.7	20.6	21.7
RoCE	6.3	8.7	15.7	12.3
Working Capital Ratios				
Asset Turnover(x)	0.2	0.3	0.4	0.3
Debtor(Days)	110	97	46	41
Creditor(Days)	49	44	34	27
Leverage Ratio(x)				
Net Debt/Equity	1.3	1.0	0.7	-0.2

Peer Comparison

	MCAP	Revenue CAGR (%)	EBITDA CAGR(%)	PAT CAGR(%)	EBITDA Margin (%)	RoE (%)	P/E(x)	D/E (x)
Company	bn	FY21-23	FY21-23	FY21-23	FY23	FY23	FY23	FY23
Adani Ports	1,784	28.9	25.3	-9.6	60.1	12.1	33.7	1.1
JSW Infrastructure	250	41.2	40.9	62.3	50.7	20.6	29.7	0.7
Gujarat Pipavav	61	15.8	8.4	18.9	54.8	13.8	18.0	-

Source:CompanyRHP,Way2wealth. Price data as on 25 Sept 2023

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Disclosure of Interest Statement: JSW Infrastructure Ltd.as on 25th September 2023

Name of the Security	JSW Infrastructure Ltd.
Name of the analyst	JayakanthKasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst:	No
Analyst's Relative: Yes / No	No
Analyst's Associate/Firm: Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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