INDSEC

JSW Infrastructure Ltd

IPO Meet Note

Price Band	Recommend
113-119	SUBSCRIBE

The Issue	
Type of Issue	**Issue size Rs. Mn**
Fresh Issue	28000
Offer for Sale	-
Total	**28000**
Post issue mkt cap (Rs. bn)*	**249.90**
Lot size	**126**

***At Upper Price Band**

Issue Break-Up	
Reservation for	**% of Issue**
QIB	75%
NIB	15%
Retail	10%
Total	**100%**

Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	25-09-2023
Bid/Offer Closing Date	27-09-2023
Finalization of the Basis of Allotment	03-10-2023
Initiation of refunds	04-10-2023
Credit of shares	05-10-2023
Listing Date	06-10-2023

Use of Proceeds
Repayment of debt .
Financing of capex in JSW Jaigarh port (LPG terminal,
Financing of capex in JSW Mangalore container terminal

Manager:	JM Financial, Axis Capital, Credit Suisse, DAM Capital, HSBC, ICICI, Kotak , SBICAPS
Registrar	KFin Technologies Limited

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Leading port operator with robust parentage

Company Overview:

- JSW Infrastructure is the second largest commercial port operator in the country in terms of cargo handling capacity in Fiscal 2022
- Company provides maritime related services including, cargo handling, storage solutions, logistics services and other value-added services to their customers, and are evolving into an end-to-end logistics solutions provider
- Company operations have expanded from one Port Concession at Mormugao, Goa that was acquired by the JSW Group in 2002 and commenced operations in 2004, to nine Port Concessions as of June 30, 2023 across India
- Company ports and port terminals typically have long concession periods ranging between 30 to 50 years, providing them with long-term visibility of revenue streams.
- Company's installed cargo handling capacity in India was at 158.43 MTPA as of March 31, 2023. During the same period, their cargo volumes handled in India was at 92.83 MMT.
- 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.
- Their Port Concessions are strategically located near their JSW Group Customers (Related Parties) and are well connected to cargo origination and consumption points.
- In addition, company benefit from strong evacuation infrastructure at their ports and port terminals that comprises of multi-modal evacuation techniques, such as coastal movement through a dedicated fleet of mini -bulk carriers, rail, road network and conveyor systems.
- In FY23, the cargo handled by company for JSW group customers stood at ~66.6% and ~33.3% of the third party customers.

Valuation and outlook: JSW infrastructure is the second largest port commercial port operator, with cargo handling capacity of 158.4 MT, in FY23 company handled cargo of 92.8 mt. In FY23 ,66.6% of the total cargo handled was of JSW group customers, this is good for the company as the even when market faces headwinds the company will still have its group customers on its back. **At an upper price band of 119, the IPO is valued at EV/EBITDA of 19.9x which at a 9% premium to its peer (Adani ports), however higher ROE and lower leverage ratio to its peers are the positives that makes the IPO an attractive proposition.** In addition, the company group customers, JSW steel is going to take its steelmaking capacity to 50 MT and JSW energy is also going to increase the power capacity this will help JSW Infrastructure going forward. In addition, the company with the proceeds is going to expand its capacity in LPG terminal and container business. Also, the company plans to expand its brownfield Capacity and going to make green field investment. **"We thus give a Subscribe recommendation on the issue."**

JSW Infrastructure Ltd

Key financial summary

Financial summary (Rs. mn)	FY 2021	FY 2022	FY 2023	3MFY22	3MFY23
Revenue	16036	22731	31947	8197	8781
Ebitda	8164	11094	16202	4310	4513
Ebitda margin	**50.9%**	**48.8%**	**50.7%**	**52.6%**	**51.4%**
PAT	2914	3279	7398	1898	3209
PAT Margin	**18.2%**	**14.4%**	**23.2%**	**23.2%**	**36.5%**
ROE	10.1%	10.0%	18.5%	5.6%	7.5%

Pre-issue and post-issue holding structure

	Pre-issue	Post-issue*
Shareholding pattern	Holding (%)	Holding (%)
Promoter & Promoter Group	96.4%	85.6%
Public	3.6%	14.4%
Total	100%	100%

* At upper price band

Key Risks:

Port concession risk: Company operates and manage the ports and port terminals under nine concession and license agreements, and lease deeds with state maritime boards and/or major port trusts/authorities in India, and under two O&M agreements in the UAE. These concessions are granted by the relevant government agencies and concessioning authorities ,any breach of the terms could lead to termination, which could materially adversely affect the company's business, results of operations, financial condition and cash flows.

Concentrated Cargo handling: A substantial portion of the total volume of cargo handled by them comprises of coal and iron ore. Coal comprises of (i) thermal coal; and (ii) other than thermal coal (which includes coking coal, steam coal and others). **In FY23 the iron ore handled was 32.22% , whereas the thermal coal and other coal types was 54.39%.**

Related party risk: Company have entered into and may continue to enter into a substantial amount of related party transactions with entities in the JSW Group**. In FY23 the company related party transactions amounted to 89.36% of the total income**.

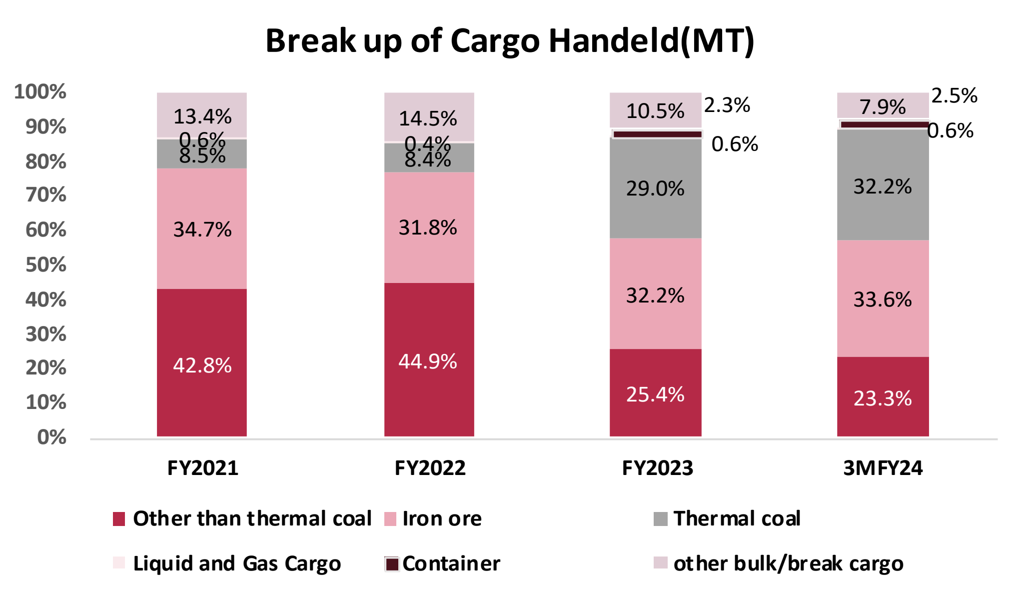
Concession period: Concession and license agreements are entered into for limited periods ranging from 30 to 50 years and do not provide for renewals. O&M agreements are granted for limited periods of up to five years and may not be renewed on equally favourable terms or at all. **Inability to renew these arrangements could adversely affect their business, results of operations, financial condition, and cash flows.**

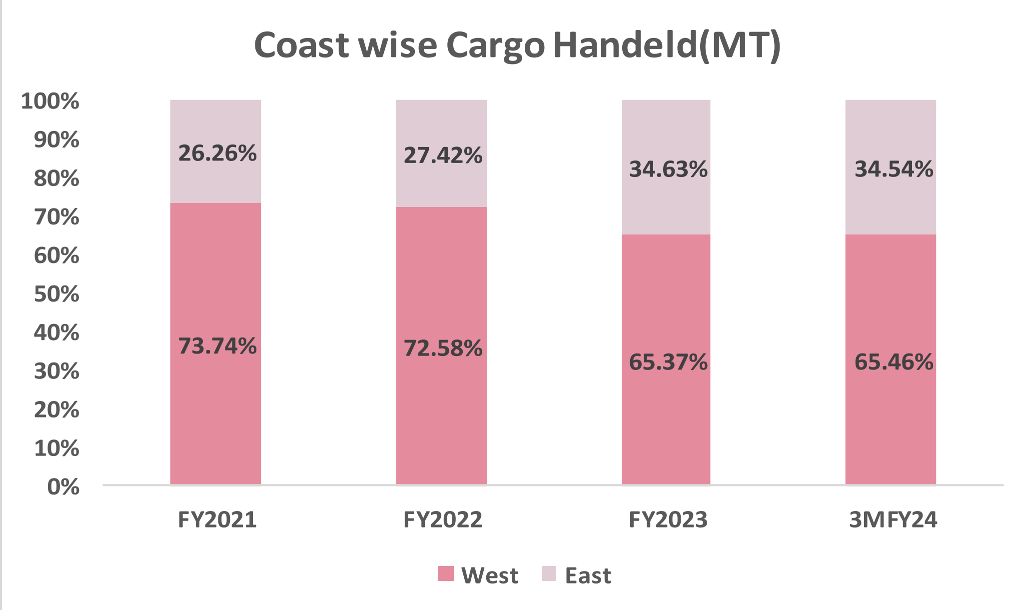
Regional concentration: Most of the company's cargo is handled along the west coast of India particularly at their Jaigarh Port and Dharamtar Port, that are both located in Maharashtra. **In fy23 the cargo handled by west cost was 60.68 mt (65.37% of the total cargo handled).**

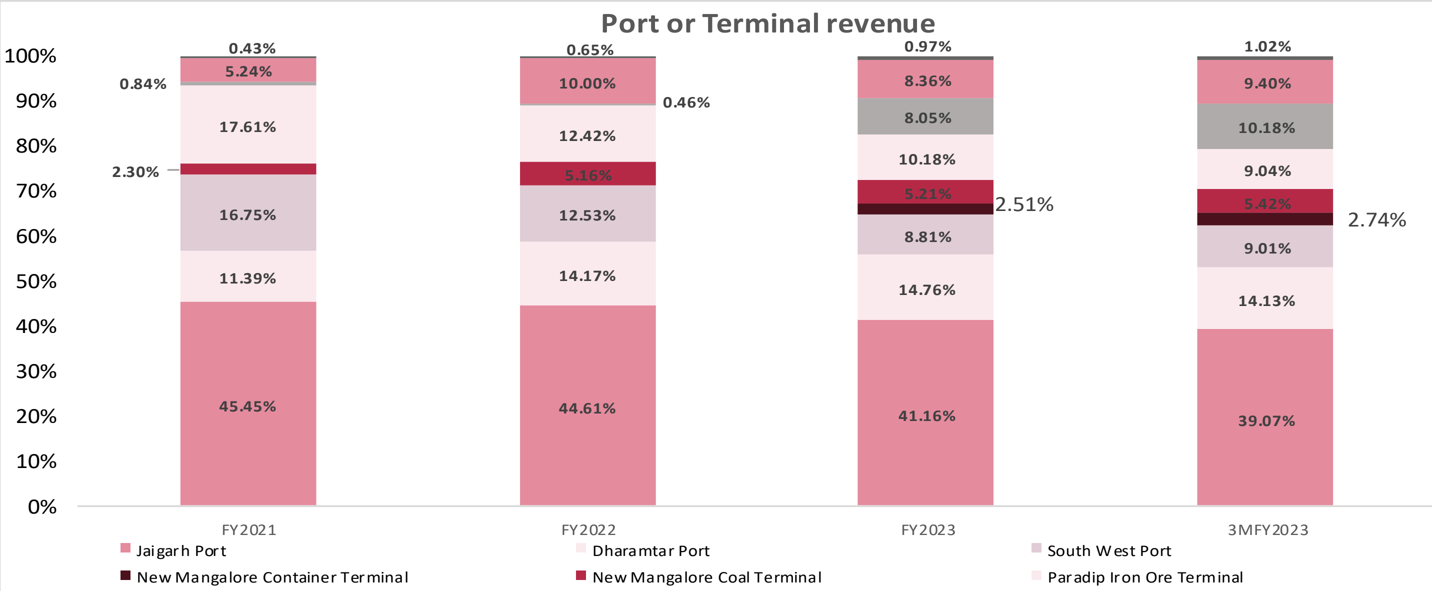
Source: RHP

JSW Infrastructure Ltd

Key performance indicators







Source: RHP

JSW Infrastructure Ltd

Growth strategies going forward:

Continue to pursue greenfield and brownfield expansions with a focus on Non-Major Ports:

Company strives to increase market share in India’s port and logistics infrastructure market and aim to achieve expanded operational capacities of up to 300 MTPA across their ports and terminals by 2030. Cargo volumes at Non-Major ports in India increased from 577 MMT in Fiscal 2021 to 604 MMT in Fiscal 2022, and traffic at Non-Major ports in India is expected to grow at a CAGR of 3% to 6% between Fiscals 2024 and 2028. Company intend to focus on expansion in Non-Major Ports where they can broaden their operations to provide fully integrated logistics solutions with an optimum cargo mix of bulk, container, liquid and gases while continuing to expand their presence across Major Ports

Brownfield expansion

- Company intends to increase capacity at the Jaigarh Port by developing a terminal with a proposed capacity of up to 2 MTPA for handling LPG, propane, butane and similar products.
- Undertaking expansion at container terminal at New Mangalore terminal

Greenfield expansion:

- Development of non major port Jatandhar (Odisha) with capacity up to 52 MTPA to cater to JSW Steel’s upcoming steel facility in Odisha.
- Company have also submitted a bid for developing an all-weather deep water greenfield port at Keni district in Karnataka

Pursue acquisition opportunities in similar businesses

Company plans to further expand their asset portfolio and grow their operations by evaluating acquisition opportunities to strengthen their presence in handling container and liquid cargo, with a focus on increasing their third-party customer base.

Increasing third-party customer base

Company aims to widen their mix of their customers to achieve a balanced customer base and have been focusing on strengthening their relationships with third-party customers. We seek to derive diversification benefits by expanding their base of third-party customers while also maintaining their JSW Group Customers (Related Parties) relationships that lend greater stability and predictability to their operations. Company aims to achieve this by participating and bidding for new port concessions

Source: RHP

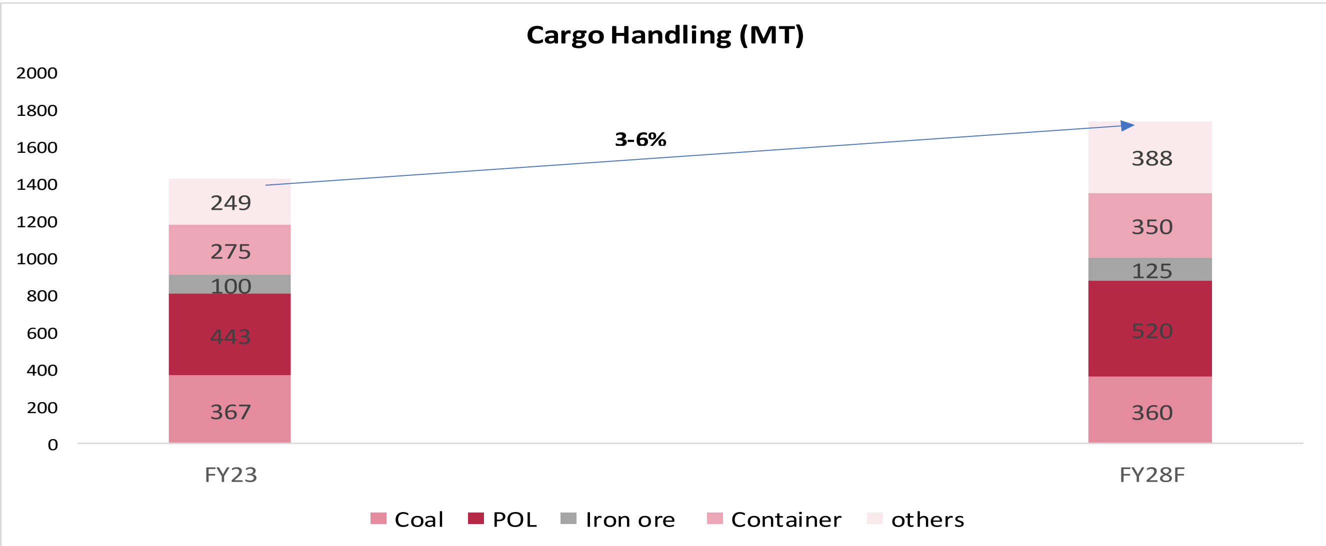
Industry overview

As per a report in 2021, **India's logistics cost as a % of GDP stood at around 14% compared to 10-11% for BRICS countries and 8-9% for developed countries**. Going forward, the logistics cost as a % of GDP for India is expected to decline driven by initiatives such as GST, investments in road infrastructure, development of inland waterways and coastal shipping, thrust towards dedicated freight corridors among others. **The Sagarmala initiative was rolled out in April 2016 by the GoI to reduce logistics costs for both domestic and export-import cargo with optimized infrastructure investment. The Sagarmala programme aims at enhancing India's port capacity to over 3,300 MTPA by 2025.** Ports in India handle 90% by volume and 70% by value of India's external trade.

Cargo at Indian 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 Fiscal 2024 due to the low base, higher imports, and cheaper container prices. Iron ore traffic is expected to register 10-15% growth in FY24

Over FY24 to FY28, growth at Indian ports is expected to be at 3-6%. Share of Major ports has been reducing as non-major ports are able to provide better efficiencies and lower turnaround time ("TAT") with competitive rates.



Coastal shipping is cheaper

As per a **PIB** release, pre-tax freight rates for road and rail are Rs 2.50/t km and Rs 1.36/t km, respectively. Moving raw materials and finished products using coastal shipping and inland waterways is 60-80% cheaper than road or rail transport. As a thumb rule, road is cost-competitive for 250-300 km, railways for 250-800 km, and ocean transportation is cheapest for distances greater than 800 km.

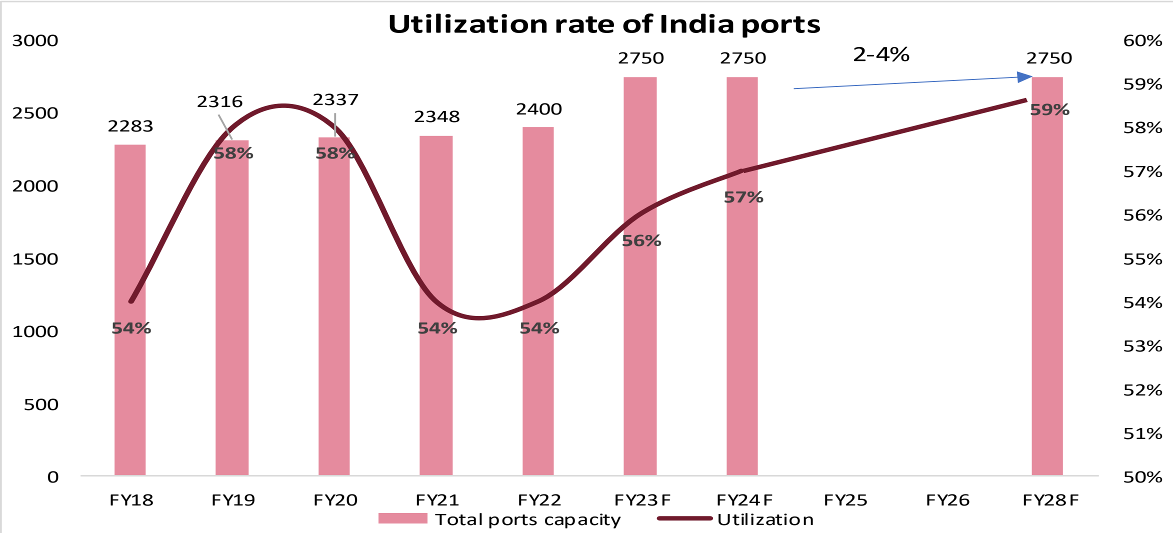
Outlook of Key commodities

Coal	In FY23, coal traffic at ports increased sharply by 26%. This is primarily attributable to the higher thermal coal imports due to higher power demand and lower domestic coal availability. **Coal traffic is expected to go up by 2-7% in FY24** on the back of higher coastal traffic
POL	POL traffic grew by an estimated 5% in FY23 due to economic activity and consumption returning to pre-COVID levels**. In FY24, the growth in POL traffic is expected to moderate to 2-5% in line with the moderation expected in economic activity and fuel demand**.
Iron ore	Iron ore traffic is estimated to have grown by 7% in Fiscal 2023 due to the 50% and 45% duties that were levied on the export of iron ore and iron pellets respectively during the Fiscal**. On the low base of Fiscal 2023, iron ore traffic is expected to witness a growth of 10 -15% in Fiscal 2024 as export volumes witness a sharp recovery and grow by 25-35%.**
Containers	Container traffic is also expected to be slightly higher at 4-7% in Fiscal 2024 due to the low base, higher imports, and cheaper container prices. **Container traffic is expected to grow at 4-7% in Fiscal 2024 due to the low base, higher imports, and cheaper container prices**.
Cement	Cement demand is estimated to witness growth rate of 8-10% in Fiscal 2024, led by pre-election infra push. CRISIL MI&A expects cement demand to register a CAGR between 5% to 6% over Fiscal 2024 to Fiscal 2028, driven by a raft of infrastructure investments and a healthy revival in housing demand.
Steel	Robust demand from allied sectors and a capex push by the government will drive domestic demand by 7-9% in FY24. **Between FY24 to FY28, demand is expected to increase at 5 to 6%.**
Power	Power demand grew 9.6% in FY23 on the back of strong economic recovery and is likely to increase by 4-5% in Fiscal 2024. **Power demand is projected to clock a CAGR of 5.0-5.5% between FY24 and FY28, supported by economic growth recovery and improved reach and quality of power supply.**

Source: RHP

Capacity additions and utilization for ports in India

As per reports expects utilization levels to be stable at approximately 56% levels in Fiscal 2024 following a growth of 3-6% in overall port traffic. Reports expects to witness a capacity addition to the extent of 2-4% over the next five years. Over the next five years, CRISIL anticipates utilization to remain range -bound at approximately 54-58% as capacity additions would be like traffic growth. CRISIL MI&A further expects ports to add capacity of **500-550 million ton at a CAGR of 2-4% over the next five years.** Capacity additions are expected to be driven by the POL (including LNG and LPG) followed by the coal and container segments.**Over FY24 to FY28, 65-70% of capacity addition is expected to come from major ports, especially Visakhapatnam, Paradip, Kandla, Ennore, Mumbai, Tuticorin and JNPT. The rest would be contributed by non-major ports in Odisha, Karnataka, Andhra Pradesh, and Kerala.**



Containers and LNG among the most investment-intensive across commodities

Among commodities, LNG (liquefied natural gas) terminals are highly capital-intensive owing to associated infrastructure such as the floating storage re-gassification unit to handle the commodity. As a result, despite the small share in overall capacity in terms of tonnage, POL (petroleum, oil and lubricants) occupies a higher share in terms of investment. In case of POL, investments in LNG, especially by Mumbai Port Trust and Dhamra, are expected to drive investments.

Type of terminal	Indicative capex (Rs .bn)	Capacity
Coal	6-8bn	10 MTPA
Container	10-15bn	1 mn TEU
LNG	40-50bn	5 MTPA

Source: RHP

JSW Infrastructure Ltd

Company	Capacity (FY23)	Revenue (bn)	Traffic	Key Commodity
Adani ports	602 MT	208.52	339 MT	Containers, Dry Bulk and Liquid and gas cargo
JSW	153 MT	31.95	92.8 MT	Coal, Iron Ore, Others
JM Baxi	42 MT	23.16	21.3 MT	Containers and Dry Bulk
Gppl	1.35 MTEU,5 MT(BULK),2 MT (Liquid)	9.16	11.4 MT	Containers, Dry bulk, Liquid cargo
DP world	5.7 MTEU	N.A.	~3.6 MTEU	Containers
PSA	4.2 MTEU	9.68	~ 2.5 MTEU	Containers

Company Name	Cargo Handled (mt)	Installed Capacity (mt)	Ebitda margin	ROE	Net debt to Ebitda	EV/EBITDA	P/E
Adani ports & SEZ **(as stated)**	339.20	562	61.55%	11.49%	3.12	17.99	35.95
JSW Infrastructure	92.8	158.4	50.70%	18.33%	1.81	19.47	33.78

Source: RHP

INDSEC Rating Distribution

BUY : Expected total return of over 15% within the next 12-18 months.

HOLD : Expected total return between 0% to 15% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

Note: Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

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