Doing business with Indian ports: perspectives and prospects

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India has a coastline of 7,500 km dotted with 13 federal and over 180 non federal ports (of which about fifty are active). Of 13 federal ports, seven ports – Chennai, Ennore, Tuticorin, Visakhapatnam, Paradip, Haldia, and Kolkatta lie on the East coast. The six ports on the West coast include Kochi, Mangalore, Mumbai, JNP (New Mumbai), Mormugao and Kandla. The non federal ports are concentrated in the coastal provinces (called states in India) of Gujarat, Maharashtra, Karnataka, Goa and Kerala on the West coast and in Tamilnadu, Andhra Pradesh, Orissa, and West Bengal on the East Coast.

All federal and non federal ports are governed by Indian Ports Act 1908 which defines inter alia port limits for each port listed therein. Federal ports are managed by the Board of Trustees constituted for each federal port (which are called major ports in Indian parlance) and are governed by Major Port Trusts Act 1963 which deals with the management of major ports.

Non federal ports are governed by the respective state government. In some states, there is a statutory maritime board which administers the ports. In other states, the department of the state government administers the ports.

Business in Indian ports – a perspective

In 2007, federal ports had a capacity of about 510 million tonnes. In general, federal ports operate at high levels of capacity utilisation sometimes going up to 90 per cent. Non federal ports had a capacity of 228 MT and they operate normally at 75 per cent of their capacity. This is not surprising as the demand for port services has been consistently growing at a compounded annual growth rate of ten per cent over the last seven years.

All federal ports are service ports. During the recently completed 2008 financial year, federal ports handled about 520 MT constituting more than 70 per cent of all India port traffic. POL is the dominant cargo with 30 per cent share followed by iron ore and containers. The federal ports have recorded an impressive growth rate of 12 per cent in aggregate cargo handling during the financial year 2008 and they expect a healthy growth in business in 2009 also.

Non Federal ports are located in the provinces/states of Gujarat, Maharashtra, Karnataka and Goa on the West Coast and in Andhra Pradesh, Tamilnadu, West Bengal and Orissa on the east coast. Gujarat has been in the forefront over the years and it has recorded the maximum traffic of about 147 MT in 2008 constituting about 75 per cent share of non federal port traffic. By and large container traffic is not significant in non federal ports.

In terms of cargo mix across Indian ports, due to abundance of coal and iron ore reserves in Eastern India dry bulk cargo is concentrated on the east coast and Visakhapatnam, Krishnapatnam & Gangavaram (new non federal ports), Paradip and Kolkatta are the dominant ports. Container cargo is concentrated on the west coast which handles about 65 per cent of the national traffic. Ports in Maharashtra (JNP), Gujarat (Pipavav, Mundhra), Tamilnadu (Chennai, Tuticorin) and Kerala (Kochi) are dominant container ports. Overall, east coast is expected to grow faster in future given the lower base and the increasing trend of bulk cargo trade.

Emerging federal port policy

All federal ports have recently prepared business plans and as part of the business plan projects which would entail private investment would be identified. A common framework for private investment in terms of bid management and concession framework has been evolved by the federal government recently for use across all federal ports. In respect of each port project for which private investment is sought, tariffs which could be levied on users would be determined upfront before inviting price proposals. The tariff would be revised based on price index from time to time.

The following are the prominent features of the bidding process being adopted for inviting private investments in federal ports.

To qualify, bidders are required to meet certain minimum financial capacity. This would mean that in the present context bidding entity/consortium should have an aggregate net worth (measured by the sum of equity and free reserves) of not less than 15 per cent of estimated capital cost of the project under bid and also meet minimum technical capacity.

Technical capacity of each applicant/consortium is measured by experience score being the aggregate weighted project cost of eligible projects **constructed or developed by it**. The minimum qualification criterion is that the applicant/consortium should secure an aggregate project cost of not less than fifty per cent of the estimated capital cost of the project under bid. For instance if the project under bid is expected to cost one billion dollars, the minimum cut-off score for qualification is 500 million dollars being the aggregate weighted project cost of eligible projects. In addition, to qualify the bidder should have derived not less than 25 per cent of the experience score from the activities in the port sector.

Each eligible project is assigned a weight based on the sector (port or core) and also based on the nature of experience (project development or construction). Other things remaining the same, experience in the port sector and in project development is assigned more weight, as defined in the Table 1.

An eligible project may be in the port or core sector and its capital cost is normally not less than 5 per cent of the capital cost of the project under bid. Where the applicant/consortium lacks requisite experience in port terminal operations they should enter into stipulated contractual arrangements with suitable firms.

'Port sector' includes marine structures, on-shore and off-shore terminals, berths, jetties, quays, cargo handling systems, container/bulk/liquid material handling systems, port based terminal facilities, container freight stations/inland container deports, storage tanks/tank farms, conveyors, warehousing and pipelines.

TABLE 1: PROJECT COST VS. EXPERIENCE

Category of experience	Weight assigned to project cost
Project Development in port sector	1.25
Project development in core sector	1.00
Construction in port sector	0.75
Construction in core sector	0.50

India – major and intermediate sea ports.

'Core sector' includes power, telecom, highways, airports, railways, industrial parks, petroleum and natural gas, pipelines, irrigation, water supply, sewerage and real estate development.

Applicants/consortia which meet the minimum financial criteria are ranked in descending order based on the technical experience score. Typically the top few (say the top five or six) bidders are invited to participate in the next and final stage of bidding, namely the price proposal. The bidders are required in the price proposal to quote the percentage of gross revenue they are willing to share with the concessioning authority (or grant they seek from the port authority). Other things remaining the same, the bidder quoting the highest revenue share payable to/minimum grant required from the concessioning authority, is selected.

Business outlook and expansion plans in Indian port industry

India expects to achieve a quantum leap in external trade in tandem with a sustained growth rate of over 7 percent and demand growth in port sector is likely to outpace infrastructure capacity creation. For instance, the National Maritime Development Program envisages an investment of US$14 billion in 276 projects in federal ports of which US$9 billion (64 per cent) is proposed through private investments. This is expected to catapult the capacity from 510 million tonnes in 2007 to 1,002 million tonnes in 2012, a jump of 100 per cent. In addition, non federal ports expect to invest close to US$9 billion in capacity expansion of which US$6 billion is proposed to be through private investments. This represents a 150 per cent increase aimed to augment the capacity from 228 MT in 2007 to 574 MT in 2012. On an aggregate basis, Indian port capacity is expected to double from 737 MT in 2007 to 1576 MT in 2012.

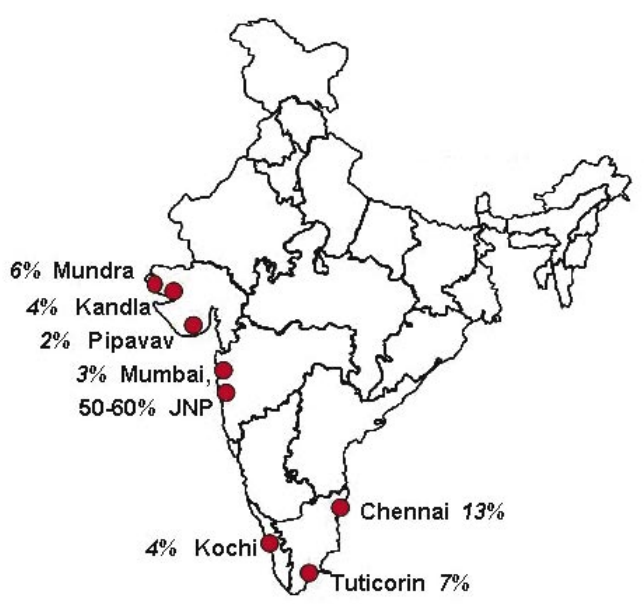
Some of the interesting port projects on the immediate horizon include large Greenfield ports such as the large container projects in non federal ports including Rewas (Maharashtra) and Vizhinjam (Kerala), and in federal ports in South India, including Ennore near Chennai and the mega container terminal of Chennai. There are also interesting opportunities emerging from proposed expansion of mega non federal bulk ports such as Dhamra (Orissa) and Gangavaram (Andhra Pradesh near Visakhapatnam). Many marine construction projects such as port approach channels, breakwaters, capital and maintenance dredging are on the anvil, in addition to many cargo jetties being conceived by industry for captive use. Connectivity and dry port projects such as inland clearance depots, container freight stations, roads, tank farms, and oil pipelines, present investment opportunities. Not to mention that port support services like pilotage, towage, lighterage and barging, stevedoring, bunkering, and minor ship repairs are on an expansion spree. Interested readers are advised to refer to the UK Trade and Investments March 2008 India Newsletter on the Ports Sector – India for details of business opportunities.

Potential opportunities for overseas investors in Indian ports

In the context of a quantum leap visualised in port capacity in India, predominantly through private investments, the following are some of the possible avenues for global port investors to participate in India:

1. Participating in bids through PPP route – This avenue is appropriate for large international contractors/project developers and large port operators with a significant track record and experience.
2. Entering into joint venture with existing Concessionaires – This avenue is worth exploring by international port investors who are keen to enter India and scale capacity through inorganic growth.
3. Obtaining construction/terminal management/dredging contracts – This avenue is suitable for overseas firms which are keen to participate in the Indian port growth story other than through long term concessions.
4. Project financing and investment banking and technical and management consultancy firms – Given the wide variety of projects under bid, established legal and financial firms would find Indian port industry an appropriate country for diversification and to establish an early lead ahead of the market.

It is pertinent to note that in June 2008 the Global Ports



Share in container traffic at Indian Ports.

Seminar 2008 was organised in London and Liverpool by the UK Trade and Investments where several countries including India, China, Vietnam and other high growth markets participated. It provided an excellent platform for exchange and dissemination of information between the international port business community and the UK maritime interests. Factors relevant for considering investments in ports in India and in other countries were deliberated at length during said seminar.

Issues in private investments in federal and non federal ports

While federal ports are the responsibility of the federal government, non federal ports are under the concurrent list of the Constitution and are administered by the respective provincial/state government. Hence the process of inviting private investments, concession structure and the general policy framework for private investments are different between the federal and non federal ports and also inter se non federal ports. For instance:

1. Only terminals are offered for PPP in federal ports while in some cases even entire ports may be offered for PPP in non federal ports.
2. Tariffs are subject to regulation only in federal ports.
3. In federal ports the maximum concession period is 30 years and may be increased up to a certain extent if traffic realised is less than projected. Also under the new framework in place, the concession period is reduced if traffic realised is more than what has been projected. In non federal ports, concession periods can be as long as fifty years.
4. Sometimes there are systems and processes in place in non federal ports to allow suo-motto proposals from interested investors.
5. In some cases, the bid process has been slow, taking up to 3 years. The bid process is expected to be expedited with standard procedures now in place in federal ports.
6. While most federal ports enjoy good hinterland connectivity, non federal ports face challenges and sometimes the private investors invest in connectivity also as part of the port project to enhance competitiveness. Connectivity issues across non federal ports are in addition being addressed in recent times through new public sector programs such as dedicated freight corridor (rail) and National Highways Development Programs.

While there are exciting business opportunities in Indian ports, some of the unique features and challenges of the Indian port industry, including those discussed above, highlight the need for overseas investors to conceive of appropriate competitive strategies in terms of partnering, financing, project structuring and development and the like, depending on the context.

The opinions expressed by the author are based on his personal observations and do not necessarily reflect the views of IDFC Ltd.

ABOUT THE AUTHOR

Mr Balasubramanian has been with IDFC since 1998 and heads the project finance and advisory division of the vertical ports market. His division finances private port projects and advises private investors and the government on port investments and PPP. He was trained in port management from University of Wales, Cardiff, UK and has intimate familiarity with the nuances of the port industry having visited over 100 terminals in the world. He is also a master of business administration and a cost & management accountant.

He has played a key role in evolving the PPP framework for ports as the advisor to the Government of India. He advised the World Bank in 2006 on India Port Strategy. He chaired the group on ports at the Five year Plans of the Government of India to strategize India's policy framework for ports. He is an active member of the port and shipping group of the Confederation of Indian industries.

ABOUT THE ORGANISATION

Infrastructure Development Finance Company Limited (IDFC) is a specialty financial institution in India, focused on financing private sector sponsored infrastructure projects including energy, transportation, telecom, commercial and industrial infrastructure.

It was established by the Government of India as a public limited company in 1997. Its shareholders include the Government of India, premier Indian banks and financial institutions and global financial institutions. Its key objectives are to lead private capital to commercially viable infrastructure projects; promote public-private partnerships and to bring innovation to private financing in Indian infrastructure and to provide policy advice to encourage private sector participation in infrastructure development. The business of IDFC consists of debt financing, principal investments, asset Management (private equity, structured project equity, listed equity), investment banking, structured finance and advisory products.

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