Source : www.livemint.com Date : 2021-04-13

# THE SILENT RISE OF INDIA'S PRIVATE PORTS

Relevant for: Indian Economy | Topic: Infrastructure: Ports & Waterways

**MUMBAI** : In August 2020, Karan Adani, chief executive officer of Adani Ports and Special Economic Zone (APSEZ) and scion to the Adani group, informed stock analysts on an earnings call that his flagship port—Mundra, in the gulf of Kutch—had become the busiest port in the country.

After nipping at the heels of its closest competitor for container traffic, JNPT (Jawaharlal Nehru Port Trust) at Navi Mumbai, for the last few years, Mundra finally pulled ahead in the first quarter of FY21, staging a faster recovery from the covid slump than the central government controlled JNPT could.

Since then, Mundra has repeated this feat every subsequent month, consistently widening the gap in container volumes between itself and JNPT. At the end of FY21, 7.22 million TEUs (twenty-foot equivalent units, a measure of container cargo capacity) had passed through Mundra, 16% higher than the previous year. In contrast, JNPT handled 4.68 million TEUs, a 7% year-on-year decline.

Adani's Mundra port is the starkest example of a silent shift in cargo traffic growth from government-run to private ports. This rebalancing comes at a crucial moment: India has announced a slew of production-linked incentive (PLI) schemes which are expected to give a boost to exports as well as the import of intermediate goods. The big-ticket goal of doubling India's gross domestic product (GDP) is also not possible without a significant ramp up in exports. Thus, if things go according to plan, private ports are uniquely placed to reap a windfall. And one entity stands to benefit more than anyone else: the Adani Group.

India's port ecosystem is broadly divided into 12 major ports (controlled by the central government via the ministry of ports, shipping and waterways), a handful that are run as public-private partnerships, and countless minor ports, owned privately or by state governments, which dot the country's 7,500-km long coastline. It is in these smaller, nimbler minor ports that much of the action lies. And the Adani Group has managed—in the span of just a few years—to corner nearly half of India's minor ports capacity.

The 12 major ports together handle about 55% of India's cargo every year. However, incremental traffic growth at private ports is happening twice as fast as at these traditional strongholds. Abhishek Nigam, associate director at India Ratings and Research, estimates that over the last five years, volume growth at major ports has been at 0.6 times of real GDP while private ports have grown at 1.3-1.4 times of GDP. He has forecast an 8% y-on-y growth rate in cargo volumes in FY22, led chiefly by private ports.

"Private ports are cannibalising traffic away from major ports," Nigam told Mint. "Private operators offer more mechanisation, faster turnaround times and better rail and road connectivity to the hinterland, so customers can evacuate cargo quickly. Major ports take as long as 23 hours sometimes to process imports and up to 77 hours for exports. Private port operators are able to turn around both at under 10 hours."

The slow pace of cargo movement has made India among the most expensive within its global peer group in logistics costs, which comes in at 13% of our GDP against an average of 7-8% in developed countries. This disparity is one of the reasons why India lost its historical advantage as a trading outpost. According to the World Bank's logistics performance index 2018, India ranked number 44, compared to China’s 26 and 14 for the US. While road and rail speeds for freight are comparable with global averages, the average turnaround time for freight at Indian ports is 12 times slower than world leaders like Hong Kong and Singapore. An Indian port, on average, takes 84 hours to move export/import cargo, against the global hub average of seven hours. In that difference of 77 hours lies opportunity. And private players—like Adani—have begun to diligently chase it.

**Maritime dreams**

Although current capacity utilisation at Indian ports hovers at just around the 60% mark—having been weighed down by a multi-year economic slump and a post-covid fall in demand—the government expects this trend to reverse soon. The Centre’s 1.7 trillion PLI scheme across 10 sectors is expected to boost the export competitiveness of India’s manufactured goods. When this comes to fruition, India’s ports need to be able to move cargo faster.

To this end, the ministry of shipping unveiled a 10-year blueprint for growth last November to modernize port management, lower costs for users and offer access to low-cost funding. Last month, Prime Minister Narendra Modi said India hoped to invest $82 billion ( 6 trillion) in port projects by 2035 to raise the share of clean energy in the maritime sector, develop inland waterways, and build hubs for shipbuilding and ship repair, all under an expanded Sagarmala plan.

“If India wants to be a $5 trillion economy, it can’t happen just within our geography, we need international trade," Arun Maheshwari, joint managing director and chief executive officer, JSW Infrastructure, told Mint. JSW Infra, a privately held business which is part of Sajjan Jindal’s JSW group, operates two ports (Jaigarh and Dharamtar) and eight terminals in four major ports.

While the business vertical was started to handle dry bulk shipments (iron ore, coal) for JSW’s captive steel and energy businesses, the group has expanded operations so that third-party business is now about a quarter of its turnover. By the end of 2022, JSW Infra will expand cargo capacity from 110 mt to 150 mt, introduce gas and liquid cargo handling capacities, and look for further acquisitions.

**The Adani playbook**

Private sector investment in ports has steadily increased over the last five years, touching an all-time high of $2.35 billion by 2020, according to data from Refinitiv. Adani Group’s APSEZ was single-handedly responsible for most of the large acquisitions, acquiring Krishnapatnam Port (near Nellore in Andhra Pradesh) and the bankrupt Dighi port in Maharashtra. This March, APSEZ acquired 89.6% stake in Gangavaram port near Visakhapatnam for 5,558 crore, taking its total port count to 13 locations.

Of the last three added to its stable, experts believe Krishnapatnam will be Adani’s next Mundra for the new decade. A December 2020 analysis of the acquisition by brokerage firm CLSA said: “Krishnapatnam is India’s No. 2 private port with some solid tenants. It has 6,800 acres of land, enough to grow its volume 5 times."

With the recent acquisitions, APSEZ will handle 30% of all cargo in India. The group’s capacity is so far ahead of local competitors that APSEZ now measures itself against global shipping hubs like China, Singapore and Hong Kong. “We had an imbalance between our capacities on the west and east coasts; Gangavaram’s acquisition has corrected this," said BVJK Sharma, Director-Ports, APSEZ. “We are working on logistics, warehousing, storage, connectivity through road and rail, so that we can offer door-to-door service to our customers and can charge a premium for services. Once the dedicated freight corridors are fully commissioned, logistics cost will come down considerably."

Industry watchers say that the Adani group's model to offer premium services to customers in order to shift traffic towards their ports will be mimicked by other private players too. Its strategy to enhance service quality at their own ports over neighbouring major ports (Mundra and Hazira near JNPT, Dhamra near Paradip, Kattupalli near Chennai); signing joint ventures with shipping partners (like with French shipping line CMA CGM for a box terminal at Mundra) and using their own terminals to move dry bulk for the group's captive consumption has helped shift traffic away from the old strongholds.

**Changing landscape**

Major ports, meanwhile, are struggling to keep pace with Adani's aggressive marketing strategies and to keep a lid on costs. The profitability of major ports is often weighed down by historical baggage—like wages and pensions or, in the case of the Kolkata port, annual dredging costs of around 300 crore.

Where terminals in public ports have been auctioned out to private companies, the latter are often hamstrung by stringent operating rules. "If your berth is registered for only imports, you can't handle exports even if there is excess capacity. If your licence is for thermal coal (used in power plants), you can't switch to coking coal (used to manufacture steel) if demand from the power sector falls," an officer at a privately-operated terminal inside a government-operated major port said on condition of anonymity.

The Major Port Authorities Bill, 2020, passed this February in Parliament to replace the 1963 Act, is expected to give far greater autonomy in the operations of centrally-run ports as well as public-private partnership operators, giving them full powers to enter into contracts and develop infrastructure and to set competitive tariffs.

"The resources available to major ports are significant in terms of land and waterfront availability and connectivity to the hinterland," Rajiv Agarwal, managing director and chief executive officer (CEO) Essar Ports, said. "They can act as a catalyst to private enterprise. Ports worldwide are now switching to the landlord model, where the port is run by a regulatory authority, but the terminals are run by the private sector. Eventually, you can build a holding structure for ports that can be monetised by the government or held through a sovereign wealth fund to recycle capital," Agarwal added,

"It will take about 3-4 years of continuous GDP growth to fully raise the average capacity utilisation from about 60-65% now to the global average of 75-80% in Indian ports," Jagannarayan Padmanabhan, director-transport and logistics, Crisil, said. "Meanwhile, the private sector is taking a punt on ports with its long concession cycles because once GDP growth hits the upswing, there are supernormal profits to be made here because the entry barriers are high. At the same time, marketing managers of government-owned ports will be unable to compete with solicitation strategies of say, Adani, DP World or PSA International (all of whom intend to expand further in India)."

This seems to be indeed the direction that is being taken. Five greenfield ports have been proposed over the last few years by the Centre, with the spotlight now on Vadhavan along Maharashtra's coast, which comes with a price tag of 65,000 crore. This is likely to follow the landlord model from inception. In her budget speech this year, finance minister Nirmala Sitharaman said the government will invite private partners into seven projects totalling 2,000 crore, which will be offered by major ports.

“Eventually, India will move into a model where the government builds the trunk infrastructure for ports and the private sector will bring efficiency into operations," Crisil’s Padmanabhan said.

In essence, the edifice of how India imports and exports goods is fundamentally changing and a scramble to acquire significant first-mover advantage is set to play out.

*Tanya Thomas is a journalist based in Mumbai.*



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