

**'Time is ripe for CEZs to propel growth'**

Now is the time for Coastal Economic Zones to take India's growth story forward, according to **Rajiv Agarwal**, MD and CEO, Essar Ports Ltd. In an interview, he said as the future prospects for the port sector seem promising, the privately held Essar Ports has chalked out a plan to invest \$500 million to expand capacity. Excerpts:

**The government is keen on more transport through the sea route. What is the outlook for the port sector?**

Prime Minister Narendra Modi's vision is to replicate the success of his ports-led development seen in Gujarat, in the past, at a national level. Exploiting India's long coastline to develop more ports will certainly see many other industries coming in and that is the genesis of government's ambitious 'Sagarmala Project'.

Developing inland waterways for transport and connecting them to coastal ports is the other major initiative of the government. This will lead to a holistic development of coastal economic zones located around ports.

Ports-led development will enable more movement of cargo, reduction in transportation cost and will benefit exporters and importers. Secondly, we will see multidimensional activities in the adjoining coastal areas such as development in terms of real estate, quality of life, setting up of new industrial units and will trigger a whole lot of other economic and social developments.

We are talking about development of coastal economic zones which are set up, not due to government incentives, like tax incentives, but come up due to the major benefits accruing from movement and transport of goods through the coastal route.

**The Centre has cleared six new major ports including three in Maharashtra. Is it feasible to have so many ports? Is corporatisation of major ports the way to go?**

There are ample growth opportunities for more ports to come up. Maharashtra has not been able to exploit its coastline to the extent that Gujarat has done. So, there is scope, as very barren and not very exciting regions in Gujarat have got developed because major ports were set up there. There is no reason why Maharashtra should not exploit its coastline's economic potential. Infrastructure has to come first and then industry will follow.

India's 12 major ports have created noteworthy assets and tremendous value. Instead of divesting its stake to private sector players, the government can create a corporate holding structure and go for an initial public issue by selling 25% stake to the public and retaining the remaining 75%.

This would bring in required funds, unlocking higher valuations and bringing in a more professional approach to managing these ports on the lines of other listed PSUs.

As Minister Nitin Gadkari said recently, these ports are making good profits and their potential market capitalisation, looking at their current valuations, could be close to Rs. 2-3 lakh crore.

**What do you have to say about socio-economic development of coastal areas?**

With 72 coastal districts hosting 18% population of India, the development of these communities has become an integral aspect of the overall socio-economic development of the country. Skilling of coastal communities, livelihood enhancement, and employment-creation opportunities are at the

core of the government's agenda.

I think corporatisation is essential for the government and this holding company structure can be used to even create a sovereign wealth fund.

We are struggling to raise funds and have to ask various small countries and multilateral agencies to invest in our infrastructure projects. We should have our own sovereign fund like Singapore and Middle-Eastern countries which are much smaller than India. Our sovereign wealth fund can be 100 times bigger.

**Major developments have taken place with regard to Essar Oil, Essar Steel and Essar Projects. What is the role of the port business within the group now?**

The group has taken a conscious decision to reduce its debt. The year 2017 and the first half of 2018 would be a transformation period for the group whereby debt will again come to a level from where further growth plans can be initiated.

The group has monetised some major assets. Also, major debt reduction programmes have been undertaken. I think, going forward Essar Group's different businesses like ports will get steady cash flows and funds to grow their businesses.

Essar Ports is already one of the largest players in India's private sector. The port business is not easy for new entrants as it takes 8-10 years for a new port to come up. From the time you identify the location, there are a lot of issues in terms of environment, relocation of people, land acquisition and [it can take a while] by the time the whole project is completed.

So, we have that head start as we have a large presence; we are the second-largest port operator in the private sector, we have captive and third-party cargoes and we have positive cash flows which can be reinvested in the business.

We also have reasonable liquidity and are well poised for further growth. We have capacity to grow in existing locations, we can also get into new locations, and we can also look at inorganic growth. In all respects, new cargoes included, I think Essar Ports is very well poised to grow in the port sector.

**After the sale of your biggest port to Rosneft for \$2 billion in the Essar Oil deal, what is your current capacity and where are you headed?**

Our current cargo handling capacity is about 82 MMTPA and we are heading towards 110 MMTPA. Further, in Mozambique we will be setting up a 20 MMTPA project for a coal terminal, where we are looking at providing credible end-to-end solutions for miners. We are planning to start work by Q1 of FY19 or thereafter.

This is Essar Ports' first overseas investment. It will take two years to develop the port. We are also looking at diversifying and increasing our presence, especially at Salaya and Hazira in Gujarat.

We could also look at some other terminals like LNG. So, there are various plans we are looking at in the coming few years and these will definitely give a big push to our future growth.

**When did you plan to get into the LNG business? What is the investment plan?**

We are doing [LNG] in a different way; we are doing it separately.

## **Financially, how viable are you? What are your profits and topline?**

In the infrastructure sector, debt is very high. EBITDA too is high at 10-11 times. EBITDA takes a long time to come in the infrastructure sector, because of many issues such as contracts, disputes and some policy issues.

But, debt has come on the books and has to be serviced. Almost all our projects are about to be completed or are already completed; so, things will certainly improve. Our real results will be seen in the next year.

## **How much has the group invested in ports so far and how much more is being planned?**

Essar Group has invested \$2 billion, of which around \$400 million in book value terms has been sold. Now, we are investing about \$500 million more for new projects.

## **How will you mobilise funds for this?**

Equity will come from the group and debt will be raised in the international markets. After the Vadinar Oil Terminal deal [the terminal, with a book value of \$400 million, was sold to Rosneft for \$2 billion], we have reduced debt by 50% or more and the debt to equity ratio is now 1:1.

***It will take 2 years after work starts to develop the port in Mozambique, our first overseas play***

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